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MANWAH

MAN WAH HOLDINGS LIMITED

敏華控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 01999)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012**

INTERIM RESULTS

The board of directors (the “Board”) of Man Wah Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 September 2012 (“1H FY2013” or the “Review Period”). These interim results have been reviewed by the Company’s audit committee (“Audit Committee”) and its auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Six months ended	
		30 September	
		2012	2011
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	2,401,498	2,126,378
Cost of goods sold		(1,544,912)	(1,391,044)
Gross profit		856,586	735,334
Other income		39,414	33,374
Other gains and losses		(3,639)	9,590
Selling and distribution expenses		(505,998)	(462,037)
Administrative expenses		(143,388)	(145,702)
Share of profit of jointly controlled entities		4,460	1,593
Finance costs		(8,888)	(1,694)
Profit before income tax		238,547	170,458
Income tax expense	4	(21,811)	(28,034)
Profit for the period	5	216,736	142,424
Other comprehensive income			
Exchange difference arising on translation		(18,652)	43,314
Total comprehensive income for the period		198,084	185,738
Profit for the period attributable to:			
Owners of the Company		219,281	142,749
Non-controlling interests		(2,545)	(325)
		216,736	142,424
Total comprehensive income for the period attributable to:			
Owners of the Company		200,989	185,549
Non-controlling interests		(2,905)	189
		198,084	185,738
EARNINGS PER SHARE	7		
Basic (HK cents)		23.90	14.71
Diluted (HK cents)		23.89	14.70

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2012

		30 September 2012	31 March 2012
	<i>NOTES</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		1,497,755	1,371,095
Investment properties		29,840	29,974
Lease premium for land		438,490	362,570
Intangible assets		1,170	1,293
Interests in jointly controlled entities		9,307	4,847
Available-for-sale investment		3,668	–
Deferred tax assets		453	453
Deposit paid for an equity investment		9,522	3,701
Deposits paid for acquisition of property, plant and equipment		5,927	20,062
Deposit paid for acquisition of lease premium for land		–	11,281
Refundable earnest money paid for lease premium for land		29,026	13,247
		2,025,158	1,818,523
Current assets			
Inventories		608,776	545,902
Trade receivables	8	383,808	390,714
Other receivables and prepayments		200,098	206,946
Lease premium for land		9,201	7,619
Tax recoverable		2,246	12,604
Pledged bank deposits		308,144	310,881
Bank balances and cash		1,045,754	1,190,072
		2,558,027	2,664,738
Current liabilities			
Trade payables	9	291,163	294,759
Other payables and accruals		305,939	225,196
Tax payable		9,522	6,029
Bank borrowings		565,074	582,800
		1,171,698	1,108,784
Net current assets		1,386,329	1,555,954
Total assets less current liabilities		3,411,487	3,374,477

	30 September 2012 <i>HK\$'000</i> (Unaudited)	31 March 2012 <i>HK\$'000</i> (Audited)
Non-current liabilities		
Deferred tax liabilities	4,669	4,669
Government grant receipt in advance	248,194	180,890
	<u>252,863</u>	<u>185,559</u>
	<u>3,158,624</u>	<u>3,188,918</u>
Capital and reserves		
Share capital	360,158	379,097
Reserves	2,760,579	2,779,372
	<u>3,120,737</u>	<u>3,158,469</u>
Equity attributable to owners of the Company	37,887	30,449
Non-controlling interests	<u>3,158,624</u>	<u>3,188,918</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012 except for the accounting policy for available-for-sale equity investments newly adopted by the Group which has been disclosed below.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Adoption of new and revised IFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the IASB:

- Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

The application of these new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

IFRSs issued but not yet effective

The Group has not early applied new or revised standards, amendments and interpretations that have been issued but are not yet effective. Except as described as below, these new or revised standards, amendments and interpretations have been disclosed in the consolidated financial statements for the year ended 31 March 2012.

Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ²

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of the new or revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the Company's executive directors, for the purposes of resource allocation and performance assessment are as follows:

Sofa (export sales)	– manufacture and sale of sofa for customers located outside Mainland China
Sofa (retail and wholesale in Mainland China)	– manufacture and distribution of sofa in Mainland China through self-owned shops and distributors
Sofa (retail and wholesale in Hong Kong)	– distribution of sofa in Hong Kong through wholesale and self-owned shops
Bedding products	– manufacture and distribution of mattress and bedding products in Mainland China

Information regarding the above segments is reported below.

For the six months ended 30 September 2012

	Sofa (export sales) HK\$'000	Sofa (retail and wholesale in Mainland China) HK\$'000	Sofa (retail and wholesale in Hong Kong) HK\$'000	Bedding Products HK\$'000	Total segments HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE							
External sales	1,763,367	497,998	41,405	98,728	2,401,498	–	2,401,498
Inter-segment sales	21,624	32,059	–	–	53,683	(53,683)	–
	<u>1,784,991</u>	<u>530,057</u>	<u>41,405</u>	<u>98,728</u>	<u>2,455,181</u>	<u>(53,683)</u>	<u>2,401,498</u>
RESULTS							
Segment results	<u>184,243</u>	<u>65,400</u>	<u>4,968</u>	<u>10,509</u>	<u>265,120</u>	<u>(5,361)</u>	259,759
Interest income							1,547
Finance income from investment in short-term deposits							23,455
Rental income							1,483
Exchange loss – net							(3,683)
Finance costs							(8,888)
Central administrative costs and directors' remunerations							(39,586)
Share of profit of jointly controlled entities							<u>4,460</u>
Profit before income tax							<u>238,547</u>

For the six months ended 30 September 2011

	Sofa (export sales) HK\$'000	Sofa (retail and wholesale in Mainland China) HK\$'000	Sofa (retail and wholesale in Hong Kong) HK\$'000	Bedding Products HK\$'000	Total segments HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE							
External sales	1,495,504	466,142	48,782	115,950	2,126,378	–	2,126,378
Inter-segment sales	<u>27,584</u>	<u>16,929</u>	<u>–</u>	<u>19,181</u>	<u>63,694</u>	<u>(63,694)</u>	<u>–</u>
	<u>1,523,088</u>	<u>483,071</u>	<u>48,782</u>	<u>135,131</u>	<u>2,190,072</u>	<u>(63,694)</u>	<u>2,126,378</u>
RESULTS							
Segment results	<u>124,619</u>	<u>51,278</u>	<u>2,587</u>	<u>7,875</u>	<u>186,359</u>	<u>(5,981)</u>	180,378
Interest income							2,045
Finance income from investment in short-term deposits							21,270
Rental income							412
Exchange gain – net							8,045
Gain on changes in fair value of derivative financial instruments							1,712
Finance costs							(1,694)
Central administrative costs and directors' remunerations							(43,303)
Share of profit of jointly controlled entities							<u>1,593</u>
Profit before income tax							<u>170,458</u>

Inter-segment sales are charged at prevailing market price.

Segment results represent profit before income tax earned by each segment without allocation of interest income, finance income from investment in short-term deposits, finance costs, rental income, net exchange gain/loss, central administrative costs and directors' remunerations, share of profit of jointly controlled entities and changes in fair value of derivative financial instruments.

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Current tax:		
PRC Enterprise income tax	20,413	22,461
United States of America ("U.S.")	1,074	2,627
	<u>21,487</u>	<u>25,088</u>
Underprovision in prior years:		
PRC Enterprise income tax	324	2,011
U.S.	–	935
	<u>324</u>	<u>2,946</u>
	<u>21,811</u>	<u>28,034</u>

No Hong Kong Profits Tax has been provided for as the Group had no assessable profits arising in Hong Kong for both periods.

Under the Laws of the PRC on Enterprise Income Tax (the "EIT Laws") and Implementation Regulation of the EIT Laws, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions pursuant to the relevant laws and regulations of local government.

As stated on Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Group's Macau subsidiary is exempted from Macao Complementary Tax.

The U.S. income tax charge comprises federal income tax calculated at 34% and state income tax calculated from 0 to 9.8% on the estimated assessable profits of the subsidiary of the Company which was incorporated in the U.S..

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Staff costs	264,171	219,370
Rents and rates	64,182	62,690
Release of lease premium for land	1,704	1,167
Amortisation of intangible assets (recognised in selling and distribution expenses)	112	109
Depreciation	58,588	39,193
Impairment loss on inventories	6,029	–
Interest income	(1,547)	(2,045)
Finance income from investment in short-term deposits included in other income	<u>(23,455)</u>	<u>(21,270)</u>

6. DIVIDENDS

During the period, the Company recognised the following dividends as distribution:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Final dividend for the year ended 31 March 2012 of HK\$0.07 per share (2011: HK\$0.13 per share for the year ended 31 March 2011)	63,027	126,248

Subsequent to the end of the current period, the directors of the Company have determined that an interim dividend of HK\$0.10 per share (six months ended 30 September 2011: HK\$0.06 per share) will be paid to the shareholders of the Company whose names appear in the Company's Register of Members on 29 November 2012.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	219,281	142,749
	Number of shares '000	Number of shares '000
Number of shares		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings per share	917,547	970,636
Effect of dilutive potential ordinary shares		
– Unvested awarded shares	307	368
Weighted average number of ordinary shares in issue during the period for the purpose of diluted earnings per share	917,854	971,004

The computation of diluted earnings per share for both periods does not assume the exercise of the Company's outstanding share options because the exercise price of these options was higher than the average market price for shares for both periods.

8. TRADE RECEIVABLES

Other than cash and credit card sales for retail business, the Group generally allows a credit period of 30 to 90 days for export customers and 180 days for high speed train manufacturers which are state-owned enterprises. The aged analysis of the Group's trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period is as follows:

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
0 – 30 days	245,320	247,670
31 – 60 days	106,702	100,832
61 – 90 days	11,018	9,364
Over 90 days	20,768	32,848
	383,808	390,714

9. TRADE PAYABLES

The aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
0 – 30 days	253,228	259,362
31 – 60 days	27,214	27,461
61 – 90 days	9,318	358
Over 90 days	1,403	7,578
	291,163	294,759

10. CAPITAL COMMITMENTS

	30 September 2012 HK\$'000	31 March 2012 HK\$'000
Capital expenditure contracted but not provided in the condensed consolidated financial statements in respect of		
– acquisition of property, plant and equipment	4,819	45,079
– construction of production plant	3,905	56,209
– lease premium for land	–	69,400
	8,724	170,688
Capital expenditure authorised but not contracted for in the condensed consolidated financial statements in respect of lease premium for land	64,838	81,452

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

For the six months ended 30 September, 2012, in response to the changes in the external market environment, the Group revised its product mix to better serve customers' needs and thereby achieve stable revenue growth.

Great growth potential of the PRC market

In view of China's slackened GDP growth, the Central Government has taken measures to stimulate economic growth, most notably a looser monetary policy and two rounds of lowering bank reserve ratios, and the effects are starting to be seen. According to the data issued by China Index Academy in August this year, on average primary market housing prices of 100 cities in China have increased for three consecutive months and land transaction value has reached to a high of the year at RMB96.4 billion, indicating a modest comeback of the housing market in China. Potential demand for furniture items will be further boosted with the delivery of more Social Security Housing Units.

According to the "Blue Book of Cities – City Development Report" issued recently by the Institute for Urban and Environmental Studies under the Chinese Academy of Social Sciences in 2011, the urbanisation rate of the nation has the first time exceeded the 50% threshold, with the total population of cities and towns reaching 691 million. Millions of residences have been moving into second- and third-tier cities in China, a situation that bodes well for housing demand. In addition, the per capita income of urban residents grew at 9.7% for the first half of 2012, significantly higher than that for 2010 and 2011, which translated into greater purchasing power. Urban retail sales have accounted for more than 85% of total retail sales value of consumer products, indicating huge development potential of the furniture market in cities and towns.

Steady recovery of the economy in the European and the US markets

With the help of QE3, the unemployment rate of the US decreased to 7.8% in September 2012. The Conference Board, a global business membership and research association, reported that the consumer confidence index of the US rose to 70.3 in September 2012, the highest recorded since February 2012. The business growth of the furniture industry will be underpinned by the improvement in the labour market and consumer sentiment. On top of this, the US Department of Commerce announced that new residential construction starts increased 2.3% over the previous month and 29% from the same period last year. Housing starts for standalone houses rose to the highest level in more than two years. All those reflected a gradual recovery of the housing market in the US, with the furniture industry well-positioned to be a direct beneficiary.

According to a Euromonitor International ("Euromonitor") market survey done in May 2012, the total market of reclining sofas will be increased by 4.8% in 2012 and is poised to exceed US\$8.35 billion. In 2011, the Group accounted for 8.5% of the recliner sofa market in the US, up from 7.3% in 2010, ranking fourth among the top ten recliner sofa brands. This position illustrates the widespread acceptance of the Group's products in the US.

On the other side of the globe, consumers in Europe were very cautious as the economy was still in the doldrums amidst the European debt crises. The Group viewed the situation as a chance and introduced reclining sofas of high quality at competitive prices that suited the local consumption pattern. While the European debt crisis has yet to be fully resolved, positive developments began to emerge following the concerted efforts of the governments on economic reforms. According to a report issued by the British Chambers of Commerce, the UK economy is recovering and is forecasted to reverse the recession to post a 0.5% growth in the third quarter. German Central Bank also indicated in its September report that the German economy would register a mild growth. This news augured well for the revival of the consumer market and the Group is closely monitoring demand from those markets, planning to offer the appropriate products and extend its market share.

Business review

During the Review Period, the Group's revenue continued to record a steady year-over-year growth. Raw materials prices have been generally stabilised and the gross profit margin has been steadily rising in the recent months. The Group has tightened the control of operating expenses so that selling and administrative expenses represented a smaller percentage of revenue.

Brand promotion

This year, the Group has strengthened the promotion for the "Cheers" brand through national media channels in the PRC market such as advertisements on CCTV and internet medias. This enhances the acceptance of reclining sofas among consumers in China and the awareness of the "Cheers" brand. At the same time, more than 700 on-site promotional activities were held in retail outlets during the Review Period. Free sitting-trial activities were organised in large furniture malls, especially on public holidays, to offer more consumers the opportunity to experience the special comfort of relaxing on "Cheers" sofas.

As for overseas markets, the Group participated in large furniture exhibitions to promote new products and invited large retailers to visit the Company. The Group expects those arrangements to fortify trust between large overseas retailers and the Group that is conducive to long term co-operation.

Product mix

During the Review Period, the Group continued to invest in product research, design and innovation and launched more competitive products in response to changes in market conditions and demand. For the six months ended 30 September 2012, the Group developed more than 200 new products, more than half of them have contributed to the Group's revenue, including high quality fabric reclining sofas and products with new structural designs that facilitate transportation.

Sales channels

During the Review Period, the Company continued its twin-pronged strategy: building a prominent retail network in Mainland China and Hong Kong as well as direct sales to local furniture retailers in overseas markets.

Retail sales

As at 30 September 2012, the Group operated 176 “Cheers” and 77 “Enlanda” specialty stores in 21 first- and second-tier cities across Mainland China, including Shanghai, Guangzhou and Shenzhen, and eight “Cheers”, “Enlanda” and “Morewell” retail stores in Hong Kong.

As at 30 September 2012, distributors of the Group operated 369 “Cheers” and 170 “Enlanda” specialty stores in 27 provinces throughout Mainland China including second- and third-tier cities such as Guilin, Qingdao and Nanjing.

Overseas exports

The Group directly exports the “Cheers” reclining sofas to overseas retailers in the US and Europe. In the US, the Group is continuing to strengthen its collaboration with major furniture retailers, including Room To Go Furniture Corporation, Harvertys Furniture Co. Inc, Macy’s Inc, to expand our customer base. During the Review Period, the Group secured 37 new export customers with recognised sales orders.

In the European market, the development strategy of utilising localised sales teams enables us to better understand the latest market developments and strengthen the partnerships with medium and large-size furniture retailers such as Steinhoff International Holdings Ltd. The Group successfully obtained more than 10 new European customers in the Shanghai International Furniture Expo at the end of September this year. As a large number of European customers now know more about our products, we expect the European market to contribute an increased sales revenue in the future.

Online sales

In July 2011, the Group formally established the “Cheers” official flagship store on TMALL.COM, the largest online sales platform in China, which contributed a sales revenue of HK\$12.1 million, making us the chairs sales champion in TMALL. In particular, our sales have increased steadily in the most recent three months. Purchase orders received during the four-day special promotional campaign in early September 2012 totaled HK\$14.8 million. The Group planned to develop more online sales channels in the near term, including setting up flagship stores in other major online sales platforms in Mainland China, and develop more products targeted for online sales channels which complement its physical retail store networks. In this regard, the Group expects online sales to open up extensive development potential.

Internal operation

With the introduction of the SAP system, the Group improved its internal operation procedures on an on-going basis, thus realising higher working efficiency. As a result, operating costs were effectively controlled in the Review Period.

Expansion of capacity

The new production base of the Group in Wujiang, Jiangsu was completed and put into operation during July this year. The annual production capacity (as calculated with the floor area of factory buildings) of the new production base is 300,000 sets of reclining sofas increasing the total annual production capacity of the Group to 1,116,000 sets of sofas. The new production base in Wujiang is focused on the supply of sofas to the markets in central and northern China, and therefore lowering the transportation costs of the Group’s products.

Financial Review

Revenue and gross profit margin breakdown by export and the PRC sales

	Revenue			As a percentage of sales (%)		Gross profit margin (%)	
	1HFY2013 (HK\$'000)	1HFY2012 (HK\$'000)	Change	1HFY2013	1HFY2012	1HFY2013	1HFY2012
Sofa export sales	1,763,367	1,495,504	17.9%	73.4%	70.3%	31.2%	30.8%
Mainland China Sofa sales	497,998	466,142	6.8%	20.8%	21.9%	46.8%	42.1%
Bedding sales	98,728	115,950	-14.9%	4.1%	5.5%	52.7%	48.3%
HK retail & wholesale sales	41,405	48,782	-15.1%	1.7%	2.3%	49.2%	47.2%
Total	<u>2,401,498</u>	<u>2,126,378</u>	<u>12.9%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>35.7%</u>	<u>34.6%</u>

For the six months ended 30 September 2012 (“1HFY2013”), the total revenue of the Group increased by approximately 12.9% to approximately HK\$2,401.5 million (For the six months ended 30 September 2011 (“1HFY2012” or “Last Corresponding Period”): approximately HK\$2,126.4 million). The increase in revenue was mainly attributable to the increase in export sales. During the Review Period, sales revenue from the US market increased by approximately 20.8%. Sales revenue from Europe increased by approximately 26.0%. Gross profit margin of the Group was approximately 35.7% for 1HFY2013, representing an increase of approximately 1.1% as compared with the Last Corresponding Period. The increase in gross profit margin was mainly attributable to the marginal overall decrease in the price of raw materials as compared with the Last Corresponding Period. At the same time, the Group increased the wholesale and retail prices of sofa by 5% in the Mainland China market in early June 2012. Since July 2012, the selling price in the overseas market began to increase gradually with average adjustment ranging from 2% to 5%. In addition, it is expected that the adjustment of price will have positive effect on the gross profit margin in the second half of the year.

Sales Revenue Analysis (by region)

	Mainland China	US	Europe	Canada	Hong Kong	Other areas
1HFY2013 (HK\$'000)	596,726	1,314,774	218,892	104,063	41,405	125,638
1HFY2012 (HK\$'000)	582,092	1,088,567	173,687	123,640	48,782	109,610
Change (%)	2.5%	20.8%	26.0%	-15.8%	-15.1%	14.6%
Percentage of total revenue (%)	24.9%	54.8%	9.1%	4.3%	1.7%	5.2%

Sales Volume and Average Selling Price of “Cheers” Sofa Analysis

	1HFY2013	1HFY2012	Change
Sales volume (sets)	298,627	262,828	13.6%
Average selling price of each set of sofa (HK\$)	7,285	7,193	1.3%
Sales revenue of sofa products (HK\$'000)	2,175,347	1,890,635	15.1%

Note: In calculating the selling price, some business customers' products and accessories which are not applicable for calculating comparable average price were excluded.

During the Review Period, revenue from sofa products increased by approximately 15.1% to approximately HK\$2,175.3 million (approximately HK\$1,890.6 million for the Last Corresponding Period), accounting for approximately 90.6% of the total revenue of the Group. The increase in sales was mainly due to the increase in the average selling price of each sofa set and the increase in sales volume. The average selling price of each set of sofa increased by approximately 1.3% to approximately HK\$7,285 (approximately HK\$7,193 for the Last Corresponding Period), from which the average selling price of each sofa set in Mainland China (including wholesale and retail) increased by approximately 1.7% from approximately HK\$12,922 in the Last Corresponding Period to approximately HK\$13,146 during the Review Period. The average selling price from export (wholesale price) increased approximately 2.4% from approximately HK\$6,447 in the Last Corresponding Period to approximately by HK\$6,599. Total sales volume of sofa was 298,627 sets during the Review Period, which increased by approximately 13.6% from 262,828 sets in the Last Corresponding Period.

Sales Revenue of “Cheers” Sofa and related products in Mainland China

During the Review Period, the sales revenue of “Cheers” Sofa and related products in Mainland China from self-owned retail store increased by approximately 9.4% to approximately HK\$240.30 million (approximately HK\$219.6 million for the Last Corresponding Period) with same-store-sales decreased by approximately 8.7%. The sales revenue from distributor-operated retail stores was approximately HK\$230.2 million (approximately HK\$208.6 million for the Last Corresponding Period), representing a growth of approximately 10.4%. During the Review Period, the growth of retail sales of sofa in Mainland China slowed down, which was mainly attributable to the effect of lower house sales volume on the first- and second-tier cities during the Review Period as the first- and second-tier cities were the main markets of self-owned stores. In light of the market conditions, the Group exercised greater caution when opening stores during the Review Period. Taking account of the weaker demand of the first- and second-tier cities and the more business opportunities in third- and fourth-tier cities, the Group has shifted the focus to the openings of distributor-operated retail stores in the third- and fourth-tier cities of Mainland China.

The Group set up brand stores in furniture shopping malls and independent flagship stores. The number of brand stores and independent flagship stores are as follows:

	1HFY2013	1HFY2012	Change
Self-owned retail stores	176	172	2.3%
Distributor-operated retail stores	369	290	27.2%
Total	545	462	18.0%

**Sales revenue of
sofa in Mainland China's stores**

	1HFY2013 HK\$'000	1HFY2012 HK\$'000	Change
Self-owned retail stores	240,261	219,585	9.4%
Distributor-operated retail stores	230,193	208,589	10.4%
Total	470,454	428,174	9.9%

Note: The amounts stated above include sales of complementary products but exclude sales to business customers.

Internet sales business

During the Review Period, internet sales revenue was approximately HK\$12.1 million, representing a significant growth as compared with the Last Corresponding Period. Currently all internet sales were attributable to our “CHEERS” flagship store in TMALL web site. Our primary products were single reclining chairs specially designed for internet sales. The Group ranked number one on sales of single chair on TMALL web site.

Sales to Business Customers

During the Review Period, the sales revenue to high speed train manufacturers of the Group was approximately HK\$15.4 million, representing a significant decline as compared with approximately HK\$38.0 million in the Last Corresponding Period. The decrease in sales is mainly attributable to the substantial reduction of high speed train deliveries by high speed train manufacturers during the Review Period. To strive for better sales growth in the future, the Group is actively conducting research and development of inter-city express train related furniture products with larger scope of market.

Sales Revenue from Enlanda Products in Mainland China

During the Review Period, the sales revenue from Enlanda products in Mainland China was approximately HK\$98.7 million, representing a decrease of approximately 14.9% as compared with approximately HK\$116.0 million in the Last Corresponding Period, from which the sales revenue from self-owned retail stores was approximately HK\$58.5 million, representing a decrease of approximately 14.4% as compared with approximately HK\$68.4 million in the Last Corresponding Period, same-store-sales decreased by approximately 0.5%, and the sales revenue from distributor-operated retail stores was approximately HK\$40.2 million, representing a decrease of approximately 15.5% as compared with approximately HK\$47.6 million in the Last Corresponding Period.

REVIEW ON EXPORT BUSINESS

The sales revenue from export was approximately HK\$1,763.4 million during the Review Period, representing an increase of approximately 17.9% as compared with approximately HK\$1,495.5 million in the Last Corresponding Period.

The US, our largest export market, continued to maintain a sustained and steady growth during the Review Period. Sales to the US increased by approximately 20.8% as compared with the Last Corresponding Period. In addition, in European market which was worse affected by European debt crisis, the Group achieved by approximately 26.0% growth.

During the Review Period, the Group acquired 37 new export customers with recognized sales contribution. During the Review Period, the Group achieved major breakthrough in the research and development of new products and further reinforced the leading position of the Group in the design and cost control of function sofas, widening the distance from competitors and gradually enhancing the bargaining power with overseas customers.

Cost of sales breakdown

	1H FY2013 HK\$'000	1H FY2012 HK\$'000	Change
Costs of raw materials	1,357,242	1,262,745	7.5%
Labour costs	138,380	100,170	38.1%
Others	49,290	28,129	75.2%
Total	<u>1,544,912</u>	<u>1,391,044</u>	<u>11.1%</u>

Major raw materials	Year-on-year percentage change for Average unit cost (%)	% of total cost
Leather	-0.5%	33.8%
Metal	-2.5%	19.9%
PVC	3.6%	3.0%
Wood	-0.2%	8.5%
Fabric	-4.0%	7.2%
Chemicals	-1.3%	11.3%

Costs of goods sold increased by approximately 11.1% to approximately HK\$1,544.9 million in 1H FY2013, such increase was slightly lower than the increase in sales, therefore resulted in an increase of approximately 1.1% in gross profit margin improvement from the Last Corresponding Period. Labour costs accounted for approximately 9.0% of the total costs of good sold, which was higher than that of approximately 7.2% in 1H FY2012. This was mainly due to the increase in wages of workers during the Review Period. In addition, raw material costs consumed accounted for approximately 87.9% of the total costs of good sold (and that of 1H FY2012 was approximately 90.8%). Main raw materials consuming include leather, metal, wood, fabric, chemicals and PVC.

OTHER INCOME, OTHER GAINS AND LOSSES

Other income, other gains and losses for 1HFY2013 decreased by approximately 16.7% to approximately HK\$35.8 million from approximately HK\$43.0 million in 1HFY2012. Such decrease was mainly due to the effect of exchange gains and losses.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 9.5% to approximately HK\$506.0 million in 1HFY2013 from approximately HK\$462.0 million in 1HFY2012. However, selling and distribution expenses decreased as a percentage of revenues from approximately 21.7% in 1HFY2012 to approximately 21.1% in 1HFY2013. The increase was mainly due to the increase in related distribution expense associated with the increase in sales, including:

- (a) offshore transportation and port charges increased by approximately 6.9% from approximately HK\$202.2 million to approximately HK\$216.2 million. As the export ocean shipping rate per container of the Group decreased as compared with the Last Corresponding Period, offshore transportation and port charges as a percentage of sales revenue decreased from 9.5% in last year to 9.0%;
- (b) rent, property management fee and utility increased by approximately 8.6% from approximately HK\$82.4 million to approximately HK\$89.5 million;
- (c) advertising, promotion and brand building expenses increased by approximately 9.6% from approximately HK\$44.1 million to approximately HK\$48.3 million;
- (d) salaries, allowance of sales staff and commission increased by approximately 20.6% from approximately HK\$52.1 million to approximately HK\$62.8 million;
- (e) depreciation and amortization expenses increased by approximately 30.0% from approximately HK\$13.4 million to approximately HK\$17.4 million; and
- (f) domestic transportation expense decreased by approximately 6.7% from approximately HK\$29.6 million to approximately HK\$27.6 million.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 1.6% from approximately HK\$145.7 million in 1HFY2012 to approximately HK\$143.4 million in 1HFY2013. As a percentage of revenue, administrative expenses decreased from approximately 6.9% in 1HFY2012 to approximately 6.0% in 1HFY2013. Among others:

- (a) salaries and allowance of employees decreased by approximately 2.0% from approximately HK\$65.5 million to approximately HK\$64.2 million;
- (b) depreciation expenses increased by approximately 14.6% from approximately HK\$16.1 million to approximately HK\$18.4 million; and
- (c) research and development cost increased by approximately 15.2% from approximately HK\$3.4 million to approximately HK\$3.9 million.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

Share of gain of jointly controlled entities for the Review Period increased by approximately 180.0% to approximately HK\$4.5 million in 1HFY2013 from approximately HK\$1.6 million in 1HFY2012.

FINANCE COSTS

In 1HFY2013, the finance costs was approximately HK\$8.9 million, representing an increase of approximately 424.7% from approximately HK\$1.7 million in 1HFY2012, such increase was mainly due to the optimization of financial structure where the Group strategically increased its HK\$ loans. Short term loan increased by approximately HK\$435.1 million to approximately HK\$565.1 million at the end of the Review Period as compared with the Last Corresponding Period. Loan balance decreased approximately HK\$17.7 million as compared with that of 31 March 2012.

INCOME TAX EXPENSE

Income tax expense decreased by approximately 22.2% from approximately HK\$28.0 million in 1HFY2012 to approximately HK\$21.8 million in 1HFY2013. The decrease in income tax expense was mainly due to the increased proportion of profits in relatively low tax rate areas.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY AND NET PROFIT MARGIN

Profit attributable to owners of the Company during the Review Period increased by approximately 53.6% from approximately HK\$142.7 million in 1HFY2012 to approximately HK\$219.3 million in 1HFY2013. The net profit margin of 1HFY2013 was approximately 9.1% and it was higher compared to approximately 6.7% in 1HFY2012. The increase in net profit was partially attributed to increase of approximately 12.9% in sales and increase in gross profit margin from approximately 34.6% in the Last Corresponding Period to approximately 35.7% during the Review Period. In addition, the proportion of selling and distribution expenses and administration expenses as percentage of revenue decreased from approximately 28.6% in 1HFY2012 to approximately 27.0% for the Review Period.

WORKING CAPITAL

As at 30 September 2012, bank balance and cash was approximately HK\$1,045.8 million.

During the Review Period, the Group operated with healthy liquidity indicators, timely collection of sales proceeds and sufficient working capital.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2012, the Group's bank borrowings amounted to approximately HK\$565.1 million and are repayable within twelve months from 30 September 2012. The loans bore interest at variable rates.

The Group's primary source of operating funds are cash flow from operating activities, cash and bank balances. As at 30 September 2012, the Group's current ratio was 2.2 (31 March 2012: 2.4). The Group maintained a net cash position, reflecting its healthy financial position. As at 30 September 2012, the Group's gearing ratio was 17.9% (31 March 2012: 18.3%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group.

IMPAIRMENT LOSS ON INVENTORY

During the Review Period, the Group provided impairment loss on inventory of approximately HK\$6.0 million (31 March 2012: approximately HK\$1.5 million).

IMPAIRMENT LOSS ON TRADE RECEIVABLES

During the Review Period, the Group had impairment loss on trade receivables of approximately HK\$0.8 million (31 March 2012: approximately HK\$0.7 million).

PLEDGE OF ASSETS

As at 30 September 2012, bank deposits with balance of approximately HK\$308.1 million (31 March 2012: approximately HK\$310.9 million) were pledged to banks for banking facilities granted to the Group.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Save as disclosed in note 10 to the condensed consolidated financial statements, the Group did not have any material capital commitment. As at 30 September 2012, the Group did not have any contingent liabilities.

FOREIGN CURRENCY RISKS

The Group's exposure to currency risk attributable to the trade and other receivables, bank balances, trade and other payables and bank borrowings, which are dominated in currencies other than the functional currency of the entity to which they related. The Group currently does not have a foreign currency hedging policy. However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments or acquisitions or sales of subsidiaries during the Review Period.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We have received gross proceeds from the listing of the Company's shares on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") of approximately HK\$1,681.8 million. With reference to the supplemental prospectus of the Company dated 29 March 2010, the proceeds will be used for, among other things, (i) establishing 25 independent furniture outlets in the PRC, (ii) establishing a production and distribution centre in northern China, (iii) construction of new production and distribution facility in Wujiang, Jiangsu, (iv) expansion of "CHEERS" and "ENLANDA" specialty stores, (v) construction of phase 3 of our Daya Bay, Huizhou facility, (vi) promotion and brand building and (vii) daily operation.

As at 30 September 2012, we have spent part of the proceeds on the above projects: (i) approximately HK\$326.0 million on construction of phase 3 in Daya Bay, Huizhou, (ii) approximately HK\$493.6 million on construction of new production and distribution facility in Wujiang, Jiangsu, (iii) approximately HK\$119.0 million on expansion of "CHEERS" and "ENLANDA" specialty stores, (iv) approximately HK\$190.0 million on the promotion and brand building and (v) approximately HK\$98.3 million on establishing a new production and distribution centre in northern China.

HUMAN RESOURCES

As at 30 September 2012, the Group had 7,866 employees (31 March 2012: 8,267 employees).

The Group provides introductory orientation programs and continuous training to its employees that cover industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimisation of the development of its organisation structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

INTERIM DIVIDEND

Considering the profitability of the Review Period and the solid financial position of the Group, the Board declared an interim dividend of 41.8% of profit attributable to owners of the Company for the six months ended 30 September 2012.

The Board has resolved to declare an interim dividend of HK10.0 cents per Share for the six months ended 30 September 2012 (six months ended 30 September 2011: HK6.0 cents per Share) payable to those Shareholders whose names appear on the Company's register of members on Thursday, 29 November 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Review Period, the Company repurchased a total of 52,117,200 ordinary shares of the Company at an aggregate purchase price of HK\$179,334,526 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share		Aggregate purchase price (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
June 2012	31,752,800	3.81	3.13	113,701,194
July 2012	11,000,000	3.35	3.13	35,339,366
August 2012	6,974,400	3.29	2.78	21,195,493
September 2012	2,390,000	3.87	3.61	9,098,473
Total	52,117,200			179,334,526
Total expenses on shares repurchased				372,960
Total				179,707,486

Out of the 52,117,200 repurchased ordinary shares, 42,752,800 repurchased ordinary shares were cancelled during the Review Period, and the remaining 9,364,400 repurchased ordinary shares were cancelled subsequent to the period end date. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders of the Company ("Shareholders"), with a view to benefiting Shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Review Period.

MARKET SHARE REPURCHASE PLAN

The Board authorized, at its meeting held on 31 May 2012, among other things, the repurchase of ordinary Shares by the Company up to 97,113,560 Shares in on-market transactions pursuant to the Repurchase Mandate commencing from the date after 1 June 2012 (being the end of the black-out period in relation to the release of the Company's 2012 interim results) and ending on the earlier on which the Repurchase Mandate is revoked by Shareholders in general meeting or when it lapses at the next annual general meeting ("Share Repurchase Plan"). Pursuant to such board authorization, Mr. Wong Man Li has been designated to decide, in his discretion, the timing of actual repurchases after taking into account market conditions. Any such Shares so repurchased will be cancelled.

A general mandate to repurchase Shares was granted to the Board at the annual general meeting of the Company held on 19 July 2012 (the "Repurchase Mandate"), authorizing the Directors to repurchase up to 91,139,440 Shares. For details of the Repurchase Mandate, please refer to the circular of the Company dated 18 June 2012.

The Company will finance the repurchases (if any) from the Company's existing available cash reserves. The Share Repurchase Plan will be carried out subject to compliance with the Repurchase Mandate and applicable provisions of the Company's Bye-Laws, the Listing Rules, Hong Kong and Bermuda law.

Should the Company repurchase any Shares pursuant to the exercise of the Repurchase Mandate and the Share Repurchase Plan, the Company will comply with the relevant reporting requirements under the Listing Rules. The Company will also comply with all relevant regulatory requirements in connection with any share repurchases under the Company's Bye-Laws, the laws of Bermuda, as well as all applicable laws and provisions of the Listing Rules and the Hong Kong Code on Share Repurchases.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on Thursday, 29 November 2012, will be eligible for the interim dividend. The transfer books and the register of members of the Company will be closed from Tuesday, 27 November 2012 to Thursday, 29 November 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 November 2012. The interim dividend is to be payable on or after Friday, 7 December 2012 to the Shareholders whose names appear on the register of members of the Company on Thursday, 29 November 2012.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange, except for the deviation on Code Provisions A.2.1 and A.6.7 of the CG Code.

According to the Code Provision A.6.7 of the CG Code which came to effect on 1 April 2012, independent non-executive Directors and other non-executive Directors should attend general meetings in order to develop a balanced understanding of the views of the Shareholders.

Ms. Chan Wah Man, Carman, an independent non-executive Director who resigned on 19 July 2012 and Mr. Lee Teck Leng, Robson, an independent non-executive Director who was overseas on 19 July 2012, did not attend the annual general meeting of the Company held on 19 July 2012 (“AGM”). Other than the above independent non-executive Directors, all the other Directors of the Company were present at the AGM to enable the Board to develop a balanced understanding of the views of the Shareholders.

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Man Li currently holds both positions. The Board believes that with the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Save for the above deviations, none of the Directors is aware of any information which would reasonably indicate that the Company is not, or, was not during the six months ended 30 September 2012 in compliance with the code provisions of the CG Code.

With respect to the recent changes to the Listing Rules on corporate governance, the Board has updated or established various policies and procedures and the committees have updated their terms of reference in compliance with the new applicable code provisions of the CG Code. The Company has also made enhancement in the following major areas which is in line with applicable code provisions of the CG Code: the Board shall perform the corporate governance duties for the Group; a Nomination Committee was set up with a majority of its members being independent non-executive Directors; and a shareholders’ communication policy was adopted by which the Shareholders can communicate with the Company and the Board.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 September 2012.

By the order of the Board
Man Wah Holdings Limited
Wong Man Li
Chairman

Hong Kong, 13 November 2012

As at the date of this announcement, the executive Directors are Mr. Wong Man Li, Ms. Hui Wai Hing, Mr. Stephen Allen Barr, Mr. Wang Guisheng, Mr. Alan Marnie and Mr. Dai Quanfa; the independent non-executive Directors are Mr. Chau Shing Yim, David, Mr. Lee Teck Leng, Robson and Mr. Ong Chor Wei.