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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 2016

AND

CLOSURE OF REGISTER OF MEMBERS

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 (collectively referred to as the “**Group**”) for the six months ended 30 September 2016 (“**1HFY2017**” or the “**Review Period**”). These interim results have been reviewed by the Company’s audit committee (“**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

		Six months ended 30 September	
	NOTES	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	3,593,018	3,683,915
Cost of goods sold		(2,059,467)	(2,320,273)
Gross profit		1,533,551	1,363,642
Other income		71,312	98,779
Other gains and losses		83,922	8,367
Selling and distribution expenses		(516,503)	(602,573)
Administrative expenses		(168,795)	(168,025)
Share of loss of a joint venture		–	(221)
Finance costs		(2,116)	(9,661)
Profit before income tax		1,001,371	690,308
Income tax expense	4	(114,125)	(63,253)
Profit for the period	5	887,246	627,055
Other comprehensive (expense) income:			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		(157,085)	(124,574)
<i>Item that will not be subsequently reclassified to profit or loss:</i>			
Increase in fair value of property, plant and equipment		28,218	–
Total comprehensive income for the period		758,379	502,481
Profit for the period attributable to:			
Owners of the Company		883,585	613,870
Non-controlling interest		3,661	13,185
		887,246	627,055
Total comprehensive income for the period attributable to:			
Owners of the Company		754,975	490,199
Non-controlling interest		3,404	12,282
		758,379	502,481
Earnings per share	7		
Basic (HK cents) (restated)		22.95	15.80
Diluted (HK cents) (restated)		22.82	15.66

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2016

		30 September 2016	31 March 2016
	<i>NOTES</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		2,020,595	2,033,774
Investment properties		112,553	52,156
Lease premium for land		414,762	318,598
Intangible assets		265	382
Interest in a joint venture		–	–
Available-for-sale investment		1,742	1,794
Deferred tax assets		974	1,246
Properties under development		408,760	304,043
Refundable earnest money paid for lease premium for land		3,929	4,045
Deposits paid for acquisition of property, plant and equipment		40,874	52,059
Deposit paid for a land lease		–	38,489
		3,004,454	2,806,586
Current assets			
Inventories		631,846	607,199
Trade receivables	8	545,150	590,609
Other receivables and prepayments	8	189,219	153,530
Lease premium for land		9,935	7,386
Held for trading investments		52,471	–
Tax recoverable		5,463	5,102
Structured deposits		–	26,313
Restricted bank balances		10,998	875
Bank balances and cash		1,882,430	1,447,508
		3,327,512	2,838,522
Current liabilities			
Trade payables	9	313,349	266,529
Other payables and accruals	9	411,948	374,912
Unsecured bank borrowings		400,000	250,000
Tax payable		67,472	40,034
		1,192,769	931,475
Net current assets		2,134,743	1,907,047
Total assets less current liabilities		5,139,197	4,713,633

	30 September 2016 <i>HK\$'000</i> (Unaudited)	31 March 2016 <i>HK\$'000</i> (Audited)
Non-current liability		
Deferred tax liabilities	<u>3,276</u>	<u>3,280</u>
	<u>5,135,921</u>	<u>4,710,353</u>
Capital and reserves		
Share capital	1,541,200	774,745
Reserves	<u>3,571,979</u>	<u>3,937,591</u>
Equity attributable to owners of the Company	5,113,179	4,712,336
Non-controlling interest	<u>22,742</u>	<u>(1,983)</u>
	<u>5,135,921</u>	<u>4,710,353</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and held for trading investments which are measured at fair values at the end of each reporting period.

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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

(i) Adoption of new and revised International Financial Reporting Standards (“IFRSs”) effective in the current period

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle
Amendments to IAS 27	Equity Method in Separate Financial Statements

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

(ii) Adoption of new accounting policy in respect of held for trading investments

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of an identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Held for trading investments at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in net income and gains from investments.

3. SEGMENT INFORMATION

The Group's operating and reportable segments, based on information reported to the Company's executive directors, being the chief operating decision makers of the Group, in respect of the Group's performance of different products via different distribution channel, are as follows:

Sofa and ancillary products (wholesale)	–	manufacture and distribution of sofas and ancillary products through wholesale and distributors
Sofa and ancillary products (retail)	–	manufacture and sale of sofas and ancillary products through self-operated shops including online shops
Other products	–	manufacture and distribution of other products

The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit before income tax earned by each segment without allocation of other income (which mainly includes government grant, interest income, income on structured deposits and rental income), net exchange gain, finance costs, loss from changes in fair value of held for trading investments, central expenses and directors' emoluments and share of loss of a joint venture. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

Information of segment revenue and segment results is as follows:

Six months ended 30 September 2016

	Sofa and ancillary products (wholesale) HK\$'000	Sofa and ancillary products (retail) HK\$'000	Other products HK\$'000	Total HK\$'000
REVENUE				
External sales	<u>2,980,059</u>	<u>353,942</u>	<u>259,017</u>	<u>3,593,018</u>
RESULTS				
Segment results	<u>897,024</u>	<u>103,621</u>	<u>55,407</u>	1,056,052
Other income				45,183
Exchange gain – net				84,099
Finance costs				(2,116)
Loss from changes in fair value of held for trading investments				(167)
Central expenses and directors' remunerations				<u>(181,680)</u>
Profit before income tax				<u>1,001,371</u>

Six months ended 30 September 2015

	Sofa and ancillary products (wholesale) <i>HK\$'000</i>	Sofa and ancillary products (retail) <i>HK\$'000</i>	Other products <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE				
External sales	<u>3,145,420</u>	<u>310,391</u>	<u>228,104</u>	<u>3,683,915</u>
RESULTS				
Segment results	<u>664,209</u>	<u>70,801</u>	<u>47,857</u>	782,867
Other income				73,589
Exchange gain – net				8,219
Finance costs				(9,661)
Central expenses and directors' remunerations				(164,485)
Share of loss of a joint venture				<u>(221)</u>
Profit before income tax				<u>690,308</u>

There were no inter-segment sales during both periods.

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
People's Republic of China ("PRC") Enterprise income tax	112,870	78,584
United States of America ("U.S.")	<u>828</u>	<u>675</u>
	113,698	79,259
Net underprovision (overprovision) in prior years:		
PRC Enterprise income tax	159	(16,124)
U.S.	<u>27</u>	<u>–</u>
	186	(16,124)
Deferred tax	<u>241</u>	118
	114,125	63,253

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax had been made in both periods as the Group had no assessable profits arising in Hong Kong.

Under the Laws of the PRC on Enterprise Income Tax (the "EIT Laws") and Implementation Regulation of the EIT Laws, the general tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The EIT Laws generally impose a 10% withholding tax upon the distribution of the profits earned by the Company's PRC subsidiaries on or after 1 January 2008 to their non-resident shareholders, while for some PRC subsidiaries held by companies incorporated in certain places, including Hong Kong, preferential tax rate of 5% will be applied according to the PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC subsidiaries.

A PRC subsidiary of the Group has obtained the qualification of being a high technology enterprise and is approved to enjoy the preferential tax rate of 15%.

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..

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.

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Staff costs	439,054	454,198
Rents and rates	37,324	42,191
Release of lease premium for land	4,721	6,434
Amortisation of intangible assets (recognised in selling and distribution expenses)	107	113
Depreciation	76,189	78,354
Reversal of allowance for inventories (recognised in cost of goods sold)	(1,651)	(616)
Interest income	(8,007)	(620)
Income from structured deposits included in other income	(1,661)	(47,381)
Government grant included in other income	(32,910)	(24,159)
	<u>366,009</u>	<u>252,572</u>

6. DIVIDENDS

During the current interim period, the Company recognised the following dividend as distribution:

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Final dividend for the year ended 31 March 2016 of HK\$0.19 per share (2015: HK\$0.13 per share for the year ended 31 March 2015)	<u>366,009</u>	<u>252,572</u>

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK\$0.14 per share (six months ended 30 September 2015: HK\$0.16 per share) will be paid to the shareholders of the Company whose names appear in the Company's register of members on Monday, 5 December 2016.

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	
	2016	2015
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	883,585	613,870
	2016	2015
	'000	'000
		(restated)
<u>Number of shares</u>		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings per share	3,850,628	3,885,728
Effect of dilutive potential ordinary shares:		
– Share options	22,135	33,522
Weighted average number of ordinary shares in issue during the period for the purpose of diluted earnings per share	3,872,763	3,919,250

During the current interim period, the Company issued 1,926,362,000 bonus shares in August 2016, the weighted average number of shares for the purpose of basic and diluted earnings per share for both periods have been adjusted accordingly.

The weighted average number of shares for both periods has been arrived at after eliminating the treasury shares held by the Company.

8. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 September	31 March
	2016	2016
	HK\$'000	HK\$'000
Trade receivables		
Trade and bills receivables	545,150	590,609
Other receivables and prepayments		
Valued added taxes recoverable	41,852	27,789
Deposits	26,447	23,704
Sundry receivables	30,617	30,630
Prepayments to suppliers	90,303	71,407
	189,219	153,530

Other than cash and credit card revenue for retail transactions, 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 2016 HK\$'000	31 March 2016 HK\$'000
0 – 30 days	311,432	387,013
31 – 60 days	184,195	108,275
61 – 90 days	24,822	74,548
Over 90 days	24,701	20,773
	545,150	590,609

9. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Trade payables		
Trade and bills payables	313,349	266,529
Other payables and accruals		
Trade deposits received from customers	182,760	130,649
Accruals	182,458	185,086
Payables for acquisition of property, plant and equipment	12,734	20,121
Others	33,996	39,056
	411,948	374,912

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

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
0 – 30 days	288,763	260,648
31 – 60 days	19,786	5,624
61 – 90 days	3,306	199
Over 90 days	1,494	58
	313,349	266,529

10. CAPITAL COMMITMENTS

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of		
– acquisition of property, plant and equipment	36,522	39,375
– construction of production plant	83,182	94,645
– construction of properties under development for sale	338,710	340,739
– acquisition of lease premium for land	–	22,644
	458,414	497,403

11. EVENT AFTER THE REPORTING PERIOD

On 16 November 2016, a direct wholly-owned subsidiary of the Company entered into a memorandum of understanding (“MOU”) with an independent third party of the Group. Pursuant to the MOU, the Group and the independent third party intended to establish a new company (“Newco”) that the Group and the independent third party will each hold 50% equity interest and for which the Group will be entitled to appoint a majority of the board members. The Newco and its subsidiaries will be principally engaged in production and sales of sofas in Europe and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During the 1HFY2017, the Group fully anticipated challenges from overseas markets and continued to challenge itself and set higher goals by tapping into its internal potential. During the Review Period, the Group's internal operating efficiency was further improved, the gross profit margin of products continued to grow, selling and administrative expenses as a percentage of revenue continued to decline, leading to a high record in profitability of the Group.

China market

During the Review Period, the Group continued to face the challenge of slowdown in economic growth. According to data released by the National Bureau of Statistics, the national GDP growth reached 6.7% in the third quarter of 2016, down from 6.9% in 2015. Total retail sales of consumer goods of the PRC rose by 10.3% year-on-year in the first eight months of 2016, down from 10.7% in 2015, reflecting the slowdown in consumption growth. In the overall unfavorable economic environment, the Group continued to expand its store network, and focused more on sales performance of its existing stores, online sales platform, promotion and service, and has achieved a satisfactory revenue growth.

North America market

As announced by the US Bureau of Economic Analysis previously, the real GDP growth of the US reached 1.4% year-on-year in the second quarter of this year, up from 0.8% in the first quarter, but still at a relatively low level. At the same time, the real gross domestic income declined by 0.2% year-on-year in the second quarter, while the real gross domestic income grew by 0.8% year-on-year in the first quarter, reflecting the slowdown in US economic growth. The relatively weak economy has made a negative impact on the Group's sales in the US.

Europe and other overseas markets

According to the data from the Eurostat Home, the GDP of 28 countries in the Eurozone in the second quarter grew by only approximately 1.6% year-on-year, reflecting that the overall economic growth in Europe was weak. On 23 June 2016, Britain decided to leave the European Union after referendum, which brought greater pressure on the growth prospects in Europe. In the UK market, as the most important market of the Group in Europe, the exchange rate of Sterling against the US dollar declined by about 12% since the beginning of the year, and the GDP in UK in the second quarter fell by about 5.7% year-on-year, further impacting the revenue of the Group in the region.

BUSINESS REVIEW

During the 1HFY2017, the Group reduced the impact of external environment by making appropriate adjustment to its product mix and strengthening its sales management in the face of a number of uncertainties in major markets. During the Review Period, the China market has witnessed encouraging growth, while the overall revenue from the US market declined as a result of the slowdown in the US market. During the Review Period, the Group has effectively offset the impact of the decline in revenue through continuous improvement in its internal operating efficiency and vigorous control of its costs, thus recorded a new high in profit.

1 Wholesale business of sofa and ancillary products

The Group sells sofa products, most of which are reclining sofas, to retailers and distributors in the North America, Europe and other overseas markets, and sells sofas and relevant ancillary products to sofa distributors in the China market. During the Review Period, such business achieved revenue of approximately HK\$2,980,059,000 in aggregate, representing a decrease of approximately 5.3% as compared with approximately HK\$3,145,420,000 recorded in the six months ended 30 September 2015 (“**1HFY2016**” or “**Last Corresponding Period**”).

1.1 North America market

In the North America market, the economic data was weak during the Review Period, and inventories of some furniture retailers increased since the beginning of the year. At the same time, owing to the devaluation of Renminbi against US dollar and that raw material prices of Chinese suppliers were generally at a low level, a number of furniture manufacturers from China lowered their selling prices, resulting in a short-term pressure on the sales of the Group.

During the Review Period, the Group made appropriate adjustment to its product mix according to changes of the market. In view of the demand for rapid delivery from some small and medium-sized new customers, the Group recently launched a “Rapid Delivery Plan”. In the case where the overall profit margin level was not affected, the Group has appropriately lowered the selling prices of some price-sensitive products from August 2016. These initiatives are expected to have a positive impact on revenue in the second half of the fiscal year.

During the Review Period, revenue in the North America market decreased by approximately 17.7% compared with the Last Corresponding Period, among which revenue from the US market and the Canada market decreased by approximately 18.0% and 13.8% respectively.

1.2 Europe and other overseas markets

In the Europe market, as a result of weak economic growth in Europe and the impact of Brexit during the Review Period, the Group’s sales in the region still faced great pressure. During the Review Period, revenue of sofas in Europe and other overseas markets decreased by approximately 16.3%, where revenue in the UK decreased by approximately 32.5%.

1.3 China market

During the Review Period, the Group continued to enhance its brand awareness in all-round way. In addition, the Group strengthened the management of the existing stores operated by distributors, and achieved encouraging growth of the existing stores through assigning responsible people to conduct on-site guidance monthly and reinforcing standardized management according to ten modules.

During the Review Period, distributors opened 127 new “CHEERS” brand sofa retail stores in aggregate. As at 30 September 2016, the Group had a total of 1,361 “CHEERS” brand sofa retail stores operated by distributors in China (as at 31 March 2016: 1,234). The wholesale business of sofas and ancillary products from distributors in the China market grew by approximately 42.1% in the Review Period.

2 Sofa and ancillary products retail business

The Group sold sofas and relevant ancillary products through self-operated “CHEERS” and “MOREWELL” brand sofa retail stores opened in first-tier and second-tier cities in Mainland China and Hong Kong. Meanwhile, the Group also sold sofas and ancillary products directly to consumers through internet platforms such as the TMALL website (www.tmall.com).

During the Review Period, the Group continued to strengthen management of existing self-operated stores, and greatly improved the performance of these existing stores by adjusting product mix, implementing standardized and delicate management, as well as taking an effective incentive system.

As at 30 September 2016, the Group had 100 self-operated “CHEERS” and “MOREWELL” brand sofa retail stores, which was the same as the number of self-operated retail stores as at 31 March 2016. During the Review Period, the Group’s revenue in respect of sofa retail business grew by approximately 14.0%.

3 Other products businesses

Apart from focusing on sofa production and sales, the Group also produced and sold bedding products and sold chairs and other products to high-speed railways, cinemas, hotels and other business customers. Moreover, the Group also produced and sold reclining sofa parts and other products. The Group sold its bedding products mainly by setting up “CHEERS Five-star Mattress” brand retail stores in Mainland China. As at 30 September 2016, the Group had 292 “CHEERS Five-star Mattress” brand retail stores operated by distributors (as at 31 March 2016: 286) and 24 self-operated “CHEERS Five-star Mattress” brand retail stores (as at 31 March 2016: 25).

During the Review Period, the Group’s revenue from other product businesses grew by approximately 13.6% as compared with the Last Corresponding Period.

Product Research and Development

During the Review Period, the Group continued to commit on strengthening its research and development advantage in the reclining sofa field. During the Review Period, the Group has introduced more than 130 new sofa models. The sales volume of non-leather sofas and leather sofas in the overseas markets accounted for approximately 70.2% and 29.8%, respectively, and those in the China market accounted for approximately 44.1% and 55.9%, respectively.

PROSPECTS

In the future, the Group will make further efforts to enhance the competitiveness of its products and give full play to the craftsmanship spirit, so as to create value for consumers in all aspects of product design, production, sales and service. The Group has set up the Intelligent Manufacturing Department, which is dedicated to improving the level of intelligence and automation in manufacturing.

In China, the Group is committed to building the “CHEERS” brand into a well-known consumer brand, and continues to expand its distribution channels, enrich its product lines and upgrade its service levels, with a view to making the Chinese market to be the most promising region. During the “Double 11” promotion organized by TMALL (TMALL.COM) on 11 November 2016, the Group received over RMB90 million orders, increased by approximately 26% as compared with the same day of last year, which fully reflects the high recognition of our products among the customers.

The United States market is one of the most important markets of the Group. Over years, the Group has established a good reputation in this market. Although we are facing some pressure in a short time, we have full confidence in the prospects of this market. We will adjust product mix, strengthen the sales team and tap the market potential in a timely manner in response to the market changes, so as to maintain our market leadership.

The European market is still a market with both opportunities and challenges. The Group will conduct in-depth study on the market and further explore the needs of more customers, so as to provide more targeted products for different countries and different types of customers. We believe that the European market will bring more development opportunities for the Group in the future.

FINANCIAL REVIEW

Revenue and gross profit margin

	Revenue (HK\$'000)			As a percentage of revenue (%)		Gross profit margin (%)	
	1HFY2017	1HFY2016	Change (%)	1HFY2017	1HFY2016	1HFY2017	1HFY2016
Sofa and ancillary products wholesale business	2,980,059	3,145,420	-5.3%	82.9%	85.4%	41.0%	35.0%
Sofa and ancillary products retail business	353,942	310,391	14.0%	9.9%	8.4%	61.9%	59.8%
Other products	259,017	228,104	13.6%	7.2%	6.2%	35.4%	34.4%
Total	<u>3,593,018</u>	<u>3,683,915</u>	<u>-2.5%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>42.7%</u>	<u>37.0%</u>

For the 1HFY2017, total revenue decreased by approximately 2.5% to approximately HK\$3,593,018,000 (1HFY2016: approximately HK\$3,683,915,000), whereas the overall gross profit margin increased to approximately 42.7% from approximately 37.0% when compared to that for the Last Corresponding Period. The increase in gross profit margin was mainly due to relatively lower price of major raw materials, further decrease in RMB exchange rate against US dollar, as well as the continual improvement of internal operating efficiency by the Group during the current financial year.

During the 1HFY2017, cost of goods sold dropped by approximately 11.2% as compared to that for the Last Corresponding Period.

During the Review Period, the selling price of comparable products maintained relatively stable. During the Review Period, the Group produced approximately 458,000 sets of sofa products in total (1HFY2016: approximately 465,000 sets), representing a decrease by approximately 1.5% (one set equals to six seats, in calculating sofa sets, excluding chairs and other products which were sold to commercial clients).

1 Wholesale business of sofa and ancillary products

During the Review Period, wholesale business of sofa and ancillary products achieved revenue of approximately HK\$2,980,059,000 in aggregate, representing a decrease of approximately 5.3% as compared with approximately HK\$3,145,420,000 recorded in the Last Corresponding Period.

1.1 North America market

During the Review Period, revenue from the North America market reached approximately HK\$1,719,094,000, down by approximately 17.7% compared with approximately HK\$2,088,947,000 in the Last Corresponding Period. Of this, revenue from the US reached approximately HK\$1,612,034,000, down by approximately 18.0% compared with approximately HK\$1,966,274,000 in the Last Corresponding Period, and revenue from Canada reached approximately HK\$101,613,000, down by approximately 13.8% compared with approximately HK\$117,933,000 in the Last Corresponding Period.

1.2 Europe and other overseas markets

During the Review Period, revenue from Europe and other overseas markets was approximately HK\$344,588,000, down by approximately 16.3% compared with approximately HK\$411,728,000 in the Last Corresponding Period. Of this, revenue from Europe reached approximately HK\$208,902,000, down by approximately 13.3% compared with approximately HK\$241,008,000 in the Last Corresponding Period, and revenue from other overseas markets reached approximately HK\$135,686,000, down by approximately 20.5% compared with approximately HK\$170,720,000 in the Last Corresponding Period.

1.3 China market

During the Review Period, revenue from the China market reached approximately HK\$916,377,000, up by approximately 42.1% from approximately HK\$644,745,000 in the Last Corresponding Period.

During the Review Period, the Group continued to expand its store network according to its established store opening plan. Stores operated by distributors rose to 1,361 as of 30 September 2016 from 1,234 as of 31 March 2016, representing a growth of approximately 10.3%.

During the Review Period, the average sales per distributor store under CHEERS brand increased by approximately 16.9% from the Last Corresponding Period (average sales per store is calculated as sales of all stores during the Review Period divided by average number of stores; and average number of stores is calculated as the arithmetic mean of stores at the beginning of the Review Period and those at the end of the Review Period respectively).

2 Retail business of sofas and ancillary products

- 2.1** Revenue from CHEERS brand sofa self-operated retail stores reached approximately HK\$276,933,000, down by approximately 1.0% compared with approximately HK\$279,782,000 in the Last Corresponding Period.

As at 30 September 2016, the Group had 100 self-operated retail stores, which was the same as the number of self-operated retail stores as at 31 March 2016.

During the Review Period, average sales per self-operated store increased by approximately 17.3% from the Last Corresponding Period (average sales per store is calculated as sales of all stores during the Review Period divided by average number of stores; and average number of stores is calculated as the arithmetic mean of stores at the beginning of the Review Period and those at the end of the Review Period respectively).

- 2.2** Revenue from the internet and television platform reached approximately HK\$77,009,000, up by approximately 151.6% from approximately HK\$30,609,000 in the Last Corresponding Period.

3 Sales of other products

During the Review Period, the Group's revenue from other products reached approximately HK\$259,017,000, representing an increase of approximately 13.6% as compared to approximately HK\$228,104,000 in the Last Corresponding Period.

- 3.1** Retail revenue from bedding self-operated retail stores reached approximately HK\$16,699,000, down by approximately 34.2% compared with approximately HK\$25,374,000 in the Last Corresponding Period.

During the Review Period, the number of "CHEERS Five-star Mattress" brand self-operated retail stores was adjusted to 24 as of 30 September 2016 from 25 as of 31 March 2016, down by approximately 4.0%. During the Review Period, average sales per self-operated bedding products store decreased by approximately 16.7% from the Last Corresponding Period.

- 3.2** Wholesale revenue from bedding retail stores operated by distributors under "CHEERS Five-star Mattress" brand reached approximately HK\$87,005,000, up by approximately 26.4% compared with approximately HK\$68,821,000 in the Last Corresponding Period.

During the Review Period, the number of bedding brand stores operated by distributors went up from 286 as of 31 March 2016 to 292 as of 30 September 2016, up by approximately 2.1%; and the average sales per bedding store operated by distributors increased by approximately 28.2% from the Last Corresponding Period.

- 3.3** During the Review Period, revenue from other furniture products sold to commercial clients reached approximately HK\$22,957,000, up by approximately 29.8% from approximately HK\$17,688,000 in the Last Corresponding Period.

- 3.4** Revenue from furniture components reached approximately HK\$132,356,000, up by approximately 13.9% from approximately HK\$116,221,000 in the Last Corresponding Period.

Cost of goods sold

Cost of goods sold breakdown

	1HFY2017 HK\$'000	1HFY2016 HK\$'000	Change (%)
Cost of raw materials	1,697,898	1,946,490	-12.8%
Labour costs	282,039	281,618	0.1%
Manufacturing overhead	79,530	92,165	-13.7%
Total	<u>2,059,467</u>	<u>2,320,273</u>	<u>-11.2%</u>

Major raw materials for production of sofas	Average unit cost year-on-year change (%)	% of total cost of sales (%)
Leather	-12.0%	22.7%
Steel	9.6%	16.9%
PVC	-17.9%	1.3%
Wood	-6.4%	9.2%
Fabric	-8.2%	12.1%
Chemicals	-10.7%	8.0%

OTHER INCOME

During the 1HFY2017, other income of the Group decreased by approximately 27.8% from approximately HK\$98,779,000 in the Last Corresponding Period to approximately HK\$71,312,000. The decrease was mainly due to the significant decrease in structured deposits. Since the exchange rate of RMB against US dollar showed a declining trend during the Review Period, the Group reduced the size of structured deposits in the Mainland China.

	1HFY2017 HK\$'000	1HFY2016 HK\$'000	Change (%)
Income from sale of industrial waste*	19,538	20,765	-5.9%
Government subsidies**	32,910	24,159	36.2%
Income on structured deposits and interest income***	9,668	48,001	-79.9%
Others	9,196	5,854	57.1%
Total	<u>71,312</u>	<u>98,779</u>	<u>-27.8%</u>

Notes:

- * Income from sale of industrial waste is revenue from the sale of leather scrap, cotton, wood etc generated in the normal production process of the Company's sofas and bedding products. During the 1HFY2017, such income accounted for approximately 0.5% of total revenue (income from sales of industrial waste accounted for approximately 0.6% of total revenue in the Last Corresponding Period).
- ** Government subsidies mainly consist of financial subsidies from local governments to subsidiaries in China.
- *** Income from structured deposits originated from the use of unutilized funds by the Group to invest in wealth management products of major commercial banks in the mainland China. The banks have provided guarantee for principal and gains for all products. The investment period is not more than six months. As at 30 September 2016, the principal and gains of such investments have been fully recovered.

OTHER GAINS AND LOSSES

During the 1HFY2017, other gains and losses of the Group amounted to approximately HK\$83,922,000, up by approximately 903.0% compared with approximately HK\$8,367,000 in the Last Corresponding Period. During the Review Period, other gains and losses were mainly attributable to the exchange gain of approximately HK\$84,099,000 (the Last Corresponding Period: approximately HK\$8,219,000).

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 14.3% from approximately HK\$602,573,000 in the 1HFY2016 to approximately HK\$516,503,000 in the 1HFY2017. Selling and distribution expenses as a percentage of revenue decreased from approximately 16.4% in the 1HFY2016 to approximately 14.4% in the 1HFY2017, including:

- (a) Overseas transportation expense and port fees decreased by approximately 32.0% from approximately HK\$282,775,000 to approximately HK\$192,414,000. Overseas transportation expense and port fees as a percentage of revenue decreased from approximately 7.7% to approximately 5.4%;
- (b) Rent, property management fees and utility decreased by approximately 13.0% from approximately HK\$65,415,000 to approximately HK\$56,940,000. Rent, property management fees and utility as a percentage of revenue decreased from approximately 1.8% to approximately 1.6%;
- (c) Advertising, promotion and brand building expenses decreased by approximately 4.3% from approximately HK\$61,436,000 to approximately HK\$58,792,000. Advertising, promotion and brand building expenses as a percentage of revenue decreased from approximately 1.7% to approximately 1.6%; and
- (d) Salaries, welfare and commissions of sales staff increased by approximately 4.1% from approximately HK\$89,017,000 to approximately HK\$92,647,000. Salaries, welfare and commissions of sales staff as a percentage of revenue increased from approximately 2.4% to approximately 2.6%.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 0.5% from approximately HK\$168,025,000 in the 1HFY2016 to approximately HK\$168,795,000 in the 1HFY2017. As a percentage of revenue, administrative expenses increased from approximately 4.6% in the 1HFY2016 to approximately 4.7% in the 1HFY2017. Among them:

- (a) Salaries and welfare of employees decreased by approximately 5.6% from approximately HK\$70,288,000 to approximately HK\$66,373,000. Salaries and welfare of employees as a percentage of revenue decreased from approximately 1.9% to approximately 1.8%;
- (b) Depreciation and amortization expenses decreased by approximately 5.7% from approximately HK\$36,923,000 to approximately HK\$34,816,000. Depreciation and amortization expenses as a percentage of revenue was approximately 1.0%, approximately the same with the Last Corresponding Period; and
- (c) Donation increased by 31.4% from approximately HK\$7,131,000 in the Last Corresponding Period to approximately HK\$9,371,000. During the Review Period, donation as a percentage of revenue increased from approximately 0.2% in the Last Corresponding Period to approximately 0.3%.

SHARE OF RESULT OF A JOINT VENTURE

During the Review Period, no profit or loss was shared from joint ventures (1HFY2016: loss of approximately HK\$221,000).

FINANCE COSTS

The finance costs decreased by approximately 78.1% from approximately HK\$9,661,000 in 1HFY2016 to approximately HK\$2,116,000 in 1HFY2017, all of which was interest expense of short term loan.

INCOME TAX EXPENSE

Income tax expense increased by approximately 80.4% from approximately HK\$63,253,000 in 1HFY2016 to approximately HK\$114,125,000 in 1HFY2017. Income tax as a percentage of profit before tax increased from approximately 9.2% in 1HFY2016 to approximately 11.4% in the 1HFY2017.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY AND NET PROFIT MARGIN

The profit attributable to owners of the Company increased by approximately 43.9% from approximately HK\$613,870,000 in 1HFY2016 to approximately HK\$883,585,000 in 1HFY2017. The net profit margin of the Group was approximately 24.6% during the Review Period (approximately 16.7% in 1HFY2016). The increase in profit attributable to owners of the Company during the Review Period was mainly due to the increase in earnings generated from our core business (calculated by gross profits plus income from sales of industrial waste net of selling expenses and administrative expenses). During the Review Period, profit before income tax generated from our core business was approximately HK\$867,791,000, representing an increase of approximately 41.4% compared with approximately HK\$613,809,000 in the Last Corresponding Period.

WORKING CAPITAL

As at 30 September 2016, the Group's bank balances and cash were approximately HK\$1,882,430,000.

During the Review Period, turnover of the Group's working capital was good and account receivable and inventory turnover days kept at a relatively low level. We seek to effectively manage our cash flow and capital commitments to ensure that we have sufficient funds to meet our existing and future cash requirements. We have not experienced and do not expect any difficulties meeting our obligations as they become due.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 September 2016, the Group's short-term bank borrowings amounted to approximately HK\$400,000,000, all of which were repayable within twelve months from 30 September 2016. All of the borrowings bore floating interest rates.

The Group's primary source of working capital is cash flow from operating activities and bank deposits. As at 30 September 2016, the Group's current ratio was approximately 2.8 (31 March 2016: approximately 3.0). The Group maintained a net cash position, reflecting its healthy financial position, paving the way for future development. As at 30 September 2016, the Group's gearing ratio was approximately 7.8% (31 March 2016: approximately 5.3%), which is defined as total borrowings divided by total equity attributable to owners of the Group.

ALLOWANCE FOR INVENTORIES

For the 1HFY2017, the Group reversed allowance for inventories of approximately HK\$1,651,000 (1HFY2016: reversed allowance for inventories of approximately HK\$616,000).

IMPAIRMENT LOSS ON TRADE RECEIVABLES

For the 1HFY2017, the Group did not have any impairment loss on trade receivables (1HFY2016: approximately HK\$879,000).

PLEDGE OF ASSETS

As at 30 September 2016, except for approximately HK\$10,998,000 restricted bank balances, the Group did not have any pledged assets.

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 commitments.

As at 30 September 2016, the Group did not have any contingent liabilities.

FOREIGN CURRENCY RISKS

The Group's exposure to currency risks is mainly attributable to trade and other receivables, bank balances, trade and other payables and bank borrowings, which are denominated in currencies other than USD, the functional currency of the Company. The Group's revenue from overseas market is substantially denominated in USD while revenue from Mainland China and Hong Kong is denominated in RMB and HKD, respectively. The Group's costs and expenses are substantially denominated in RMB and USD. In the future, the Group will put greater effort in increasing the proportion of revenue from China market out of the Group's total revenue to achieve natural hedge against foreign exchange risks.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments or acquisitions or sales of subsidiaries, associates or joint ventures during the 1H FY2017. The Group continues to seek opportunities to acquire furniture companies to accelerate the development of the Group.

HUMAN RESOURCES

As at 30 September 2016, the Group had 9,578 employees (31 March 2016: 10,985 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 its human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and optimization of its organization structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

During the 1H FY2017, the total staff cost for the Group amounted to approximately HK\$439,054,000 (1H FY2016: approximately HK\$454,198,000), of which approximately HK\$8,409,000 (1H FY2016: approximately HK\$9,552,000) was directors' emoluments. The Group endeavours to keep the remuneration packages of its employees competitive and reward employees on a performance and merit basis with reference to the profitability of the Group and prevailing market conditions. As part of the Group's remuneration system and policy, we have adopted a share option scheme and a share award scheme, both of which enable the Group to reward employees and incentivise them to perform better.

INTERIM DIVIDEND

The results of Group for the Review Period are set out in the unaudited condensed consolidated statement of profit or loss and other comprehensive income on page 2 of this interim result.

The Board has resolved to declare an interim dividend of HK14.0 cents per share (six months ended 30 September 2015: an interim dividend of HK16.0 cents per share) payable to those shareholders of the Company ("**Shareholders**") whose names appear on the Company's register of members on Monday, 5 December 2016.

As if the bonus shares issued on 22 July 2016, on the basis of one bonus share for every one existing share, happened on or before 30 September 2015, the interim dividend declared on 17 November 2015 would be HK8.0 cents per share.

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

During the Review Period, the Company repurchased a total of 2,000,000 ordinary shares of the Company at an aggregate purchase price of HK\$19,810,156 (before brokerage and expenses) on the Hong Kong Stock Exchange. Details of the repurchase 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\$)	
April 2016	2,000,000	9.93	9.87	19,810,156
Total	2,000,000			19,810,156

The 2,000,000 repurchased ordinary shares were cancelled during the Review Period. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchase was effected by the Directors pursuant to the mandate approved by shareholders of the Company, with a view to benefiting shareholders as a whole in enhancing the return on 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.

AUDIT COMMITTEE

The Company has engaged Deloitte Touche Tohmatsu, the auditor of the Company (“**Auditor**”) to assist the Audit Committee to review the report of the Group for the six months ended 30 September 2016. A meeting of the Audit Committee was held with the Auditor and the management of the Company for, amongst other things, reviewing the unaudited interim report of the Group for the six months ended 30 September 2016.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on Monday, 5 December 2016, will be eligible for the interim dividend. The transfer books and the register of members of the Company will be closed from Thursday, 1 December 2016 to Monday, 5 December 2016, 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 Wednesday, 30 November 2016. The interim dividend is expected to be payable on or after Monday, 19 December 2016 to the Shareholders whose names appear on the register of members of the Company on Monday, 5 December 2016.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 September 2016, 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 Listing Rules, except for the deviations on Code Provisions A.2.1 and A.6.7 of the CG Code.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. Mr. Wong Man Li, who acts as the Chairman and Managing Director of the Company, is also responsible for overseeing the general operations of the Group. The Board meets regularly to consider major matters concerning the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and consistent leadership enabling the Group to operate efficiently.

Under the Code Provision A.6.7, independent non-executive directors and non-executive director should attend general meetings of the Company. Mr. Xie Fang, a non-executive director (resigned on 14 July 2016) could not attend the annual general meeting of the Company held on 13 July 2016 due to other business commitments.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (“MODEL CODE”)

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 2016.

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

Hong Kong, 16 November 2016

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