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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)

CLARIFICATION ANNOUNCEMENT

AND

RESUMPTION OF TRADING

The Muddy Waters PPT contains allegations which are groundless and contains various misrepresentations, malicious and false allegations and obvious factual errors about the Group. The Company has also instructed its legal advisers to make a formal complaint to the Securities and Futures Commission of Hong Kong against Muddy Waters Capital LLC. The Company also explains below where the logic employed in the Muddy Waters PPT is flawed.

The Group has no undisclosed debt. The Company stands by its Annual Report 2017.

The Company's Controlling Shareholder holds 2,434,991,200 shares in the Company as at the date of this announcement, representing approximately 63.51% of the Company's issued share capital. The Controlling Shareholder has confirmed that none of his shares in the Company has been pledged to third parties.

The Company notes the support it has received from its stakeholders, namely, investors, customers, suppliers and employees and would like to convey its appreciation for such support.

Application has been made for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 9 June 2017.

The board of directors (the "**Board**") of Man Wah Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") has noted the approximate 11.5% decrease in price of the shares of the Company on 7 June 2017, prior to the Company's application to suspend trading in its shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Board has also obtained a powerpoint presentation which they believe was used by Muddy Waters Capital LLC in its presentation relating to the Company on 7 June 2017 (the "**Muddy Waters PPT**"). The Company cannot be certain that the Muddy Waters PPT is a complete set of that which was presented. There have also been a number of media reports which have referenced information in the Muddy Waters PPT.

The Muddy Waters PPT contains allegations which are groundless and contains various misrepresentations, malicious and false allegations and obvious factual errors about the Group. The Company has also instructed its legal advisers to make a formal complaint to the Securities and Futures Commission of Hong Kong against Muddy Waters Capital LLC. The Company sets out its responses below.

Allegations – Undisclosed debt

1. Muddy Waters PPT: *“MWH has undisclosed debt*
 - *Shows company is likely much less profitable and generates much less FCF than it reports*
 - *Undisclosed borrowings can be used to fake the cash balance (defraud the auditor) and pay the dividend”*
2. Muddy Waters PPT: *“Total Debt is at least 48% Greater than Reported...It’s quite possible there are entities with undisclosed borrowings”*
3. Muddy Waters PPT: *“MWH reports HK\$1.05 bln consolidated debt as of 31-Mar 2017. Man Wah Furniture Manufacturing (Huizhou) Co Ltd alone has HK\$1.55 bln in debt (per PBOC credit report obtained in May 2017)”*
4. Muddy Waters PPT: *“The SAIC file shows “Other Payables” of HK\$1.55 bln as of 31-Dec 2017”*

The Muddy Waters PPT quoted the three loans as below:–

	Currency	Amount	Loan date	Maturity date
1.	US\$	10,000.00	19 January 2017	19 January 2018
2.	US\$	5,000.00	15 November 2016	15 November 2017
3.	US\$	5,000.00	20 October 2016	20 October 2017

Company’s responses

The Company has not verified the PBOC report referred to in the Muddy Waters PPT. However, the Company believes that loans in an amount of US\$200 million may be that which is referred.

Reference is made to note 38 “Financial Instruments” on page 140 of the annual report of the Company for the financial year ended 31 March 2017 (“**Annual Report 2017**”) for the disclosure which addresses the accounting treatment for loans in the amount of US\$200,000,000. That note refers to a financial instrument entered into between the Group and a major bank in the People’s Republic of China (“**PRC**”) pursuant to which the Group, as part of its treasury management, entered into several agreements relating to three interest-bearing loans in the amount of US\$100,000,000, US\$50,000,000 and US\$50,000,000, respectively, from the PRC bank during the financial year ended 31 March 2017 (“**FY2017**”). Such loans were then deposited at the PRC bank at agreed interest rates and, at the same time, the Group also entered into a forward exchange contract with the PRC bank and set-off agreements. The net effect of such agreements is that the loans and deposits had been set-off. Consequently, the information disclosed in the Annual Report 2017 remains correct.

As for the “SAIC file shows “Other Payables” of HK\$1.55 bln as of 31-Dec 2017(sic)”, the Company notes that information filed by Man Wah Furniture Manufacturing (Huizhou) Co., Ltd. (敏華傢具製造(惠州)有限公司) (“**MW Huizhou**”) to the State Administration for Industry & Commerce of the PRC (the “**SAIC**”) as at 31 December 2016 showed “Other Payables” of RMB1.52 billion and comprises mainly intragroup payables. However, the financial position of MW Huizhou as at 31 December 2016 is obviously not reflective of the Group’s position as at 31 March 2017. Intragroup payables are eliminated in the consolidated accounts of the Group for FY2017 in accordance with the International Financial Reporting Standards (“**IFRS**”).

The Group has no undisclosed debt.

Allegations – Undisclosed debt

5. Muddy Waters PPT: “*Evidence of Undisclosed Debt in FY 2015 (a)*”
 - *Remaco had RMB45 mln (HK\$56.8 mln) of bank debt as of 31-Mar 2015*
 - *MWH disclosed only 1 fixed-rate loan of HK\$12.5 mln from a related party, so Remaco debt should be variable-rate*
 - *But Remaco borrowed in RMB, which was highly unlikely to reference HK rates”*
6. Muddy Waters PPT: “*Evidence of Undisclosed Debt in FY 2015 (b)*”
 - *Remaco should have been consolidated in HK\$150 mln variable-rate debt denominated in the entity’s functional currency*
 - *We find it unlikely that other entity functional currency borrowings would have added to HK\$56.8 mln to produce a nice, round total of HK\$150 mln – i.e. that other borrowings exactly totalled HK\$93.2 mln”*

Company’s responses

The Company confirms that, during the financial year ended 31 March 2015 (“**FY2015**”), Remaco Machinery Technology (Wujiang) Co., Ltd. (銳邁機械科技(吳江)有限公司) (“**Remaco**”), a non-wholly owned subsidiary of the Company, had taken out a loan in the amount of RMB35 million from another PRC subsidiary of the Group (the “**PRC Subsidiary**”). However, given that PRC law prohibits companies which are not financial institutions from making loans, the PRC Subsidiary and Remaco entered into an entrustment loan with a PRC bank, in the ordinary and usual course of the PRC bank’s business and in respect of which the PRC bank charged its usual administrative fees. Given that both the PRC Subsidiary and Remaco are subsidiaries of the Group, all sums payable and receivable among the PRC Subsidiary, the bank and Remaco under the entrusted loan arrangement are eliminated in the consolidated accounts of the Group for FY2015 in accordance with IFRS. A loan of approximately RMB10 million was advanced to Remaco by its other shareholder and is reflected in note 27 of the annual report of the Company for FY2015 as follows:

“An amount of HK\$12,492,000 (2014: nil) included in the Group’s borrowing as at 31 March 2015 represents an entrusted loan by a non-controlling interest through a bank.”

The Group has no undisclosed debt.

Allegations – Inconsistencies in taxes

7. Muddy Waters PPT: *“MWH has inconsistencies in its taxes, a strong indicator of fraud”*
8. Muddy Waters PPT: *“SAIC financials shows the preference becoming effective on 1-Jan 2013, with a CY2012 tax rate of 25%. This is inconsistent with MWH’s HK filings, and likely the result of sloppy book cooking in that MWH forgot to post-facto match its SAICs with what it was saying in the HK filings”*
9. Muddy Waters PPT: *“Disclosure timing is suspicious – the preference wasn’t disclosed until the H1 2014 filing, despite highly likely having been approved at time of filing CY 2012 taxes (which would have been before the FY 2013 financials were filed)”*

Company’s responses

According to note 8 “Income Tax Expense” at page 88 of the annual report of the Company for the year ended 31 March 2014, it was disclosed that *“a PRC subsidiary of the Group has obtained the qualification of being a high technology enterprise for a consecutive three years from year 2012 to 2014. With such qualification, the subsidiary is approved to enjoy the preferential tax rate of 15% for the year 2012...”*

Applications for preferential tax treatment is subject to vetting and it is up to the regulatory authorities and approved in the timeframe by the relevant regulators and, where required, verified and registered by the tax and other bureaus before any approval is effective.

By the time the Company published its results for the financial year ended 31 March 2013 (“FY2013”), endorsement by the tax bureau was not received. The Company, for the sake of prudence, made tax provision for the relevant PRC subsidiary on the basis of a tax rate of 25%. During the financial year ended 31 March 2014 (“FY2014”), the PRC tax authorities’ assessment for the eligibility of 15% for the financial year ended 31 March 2012 was made available. The relevant PRC subsidiary then reflected the corresponding overprovision for FY2013 in FY2014.

Allegation – Inconsistencies in taxes

10. Muddy Waters PPT: *“Huizhou should not have qualified for NHTE because it does not spend at least 3% of gross revenue on R&D (MWH consolidated R&D is only ~1% of Huizhou gross revenue)”*

Company’s responses

The Company does not presume to speak for any regulatory authority in charge of vetting and approving tax filings and applications. The Company can confirm it had made proper applications and obtained approvals for tax treatments it has received.

Allegations – Transfer pricing scheme

11. Muddy Waters PPT: *“We estimate MWH generates over 50% of its net income through Macau. MWH claims a Macau preference that gives it a 0% tax rate; however, it is difficult to see how MWH could get away with a transfer pricing scheme that has booked profits in Macau greater than 10x those of the Huizhou factory. Our opinion is this is tax evasion at best, but think more likely a major component of financial fraud. Our opinion is this is tax evasion at best, but we think more likely a major component of financial fraud.”*
12. Muddy Waters PPT: *“PRC customs data shows Huizhou ships substantially all exports, but U.S. data shows Macau is almost always the consignee.”*
13. Muddy Waters PPT: *“MWH Macau appears to lack substance – upon a call to its office, our investigators were told there was no showroom, that the office “is more focused on accounting””*
14. Muddy Waters PPT: *“Particularly considering that MWH is a public company, we don’t believe MWH could get away with a transfer pricing scheme of this size for this long”*

Company’s responses

As disclosed in the Annual Report 2017, the Group has sales to the United States, Canada, PRC (including Hong Kong and Macau), Europe and other countries. The Group is respectful of laws and regulations of the jurisdictions in which it operates and would respond to any such tax concerns raised by a regulatory authority. The Group believes it has made appropriate provision for its tax liabilities.

The Muddy Waters PPT states a speculative conclusion in this regard.

Allegations – China Sales Growth

15. Muddy Waters PPT: *“MWH reported PRC sales grew in FY17 by 37% to HK\$3.4 bln”*
16. Muddy Waters PPT: *“Company-owned stores generally seem to be doing poorly, and unlikely to generate claimed revenue”*
17. Muddy Waters PPT: *“Sales to distributors similarly don’t seem to generate claimed revenue”*

Company’s responses

As disclosed in the Annual Report 2017, the revenue generated from the PRC increased from approximately HK\$2,454,011,000 in the financial year ended 31 March 2016 (“FY2016”) to approximately HK\$3,362,407,000 in FY2017. The revenue of the Group for FY2017 has been recognised in accordance with the applicable accounting standards in its audited consolidated financial statements for FY2017.

Allegations – Store performance

18. According to Muddy Waters PPT, it is alleged that site visits were done and have found closure of the following stores in various cities in the PRC:

City	SAIC – active (excluding the SAIC de-registered)	MW visited	Store closed
Shenzhen	14	14	3
Shanghai	34	34	12
Guangzhou	30	7	
Huizhou	3	2	
Chengdu	15		
Chongqing			
Total	96	57	15

19. Muddy Waters PPT: “15 of 57 MWH stores were OUT OF BUSINESS”

20. Muddy Waters PPT: “At least 15 closed but still registered stores – largely in Shanghai”

Company’s responses

It is not clear in the Muddy Waters PPT as to when the SAIC records were searched or alleged site visits were done. Throughout the year the number of retail stores of the Group varies due to closure of stores and opening of new stores. As disclosed on page 14 of the Annual Report 2017, the number of the Group’s self-operated “CHEERS” and “MOREWELL” brand sofa stores was adjusted from 100 at the beginning of the fiscal year to 99 as at 31 March 2017.

Given time required to de-register closed stores, the above table is not an accurate basis of confirming the number of stores at any one time. The basis on which the Muddy Waters PPT concludes that the Company’s disclosure about its number of stores is inaccurate, is flawed.

Allegations – Shenzhen Sales

21. Muddy Waters PPT: “Shenzhen Stores Seem to Fall Short of HK\$5.6 million”

- We estimate Shenzhen company stores generate ~HK\$4 mln in revenue
- Shenzhen: employees at two stores reported sales of ~HK\$7 mln, at nine stores sales of ~HK\$4 million”

22. Muddy Waters PPT: “Fieldwork Background

...

- conversations with former PRC employees, and U.S.-based purchasing managers from significant MWH customers”

Company's responses

The Company will not comment on the reliability of the information provided by store "employees", "former PRC employees" or "U.S.-based purchaser managers" that the Muddy Waters PPT purported to have spoken to, given that they have not been identified. As stated above, the revenue of the Group for FY2017 has been recognised in accordance with the applicable accounting standards in its audited consolidated financial statements for FY2017.

Allegations – Shanghai Sales

23. Muddy Waters PPT: *"Shanghai fieldwork gave an impression of poorly-performing stores"*
24. Muddy Waters PPT: *"KUKA Store Sales Imply Lower Shanghai Sales"*
25. Muddy Waters PPT: *"KUKA is a decent Shanghai comp, observed to have similar store sizes & locations (33 stores), but KUKA Shanghai SAICs report only HK\$4.2 mln in avg rev/store in CY 2016"*
26. Muddy Waters PPT: *"Are MWH's non-Tier 1 stores really picking up that much slack for faltering Tier 1 sales?"*
27. Muddy Waters PPT: *"Why would MWH be more successful outside of Tier 1 than inside"*

The Company is not in a position to comment on the sales performance of "KUKA" or other companies which do not form part of the Group. As stated above, the revenue of the Group for FY2017 has been recognised in accordance with the applicable accounting standards in its audited consolidated financial statements for FY2017.

Allegations – Distributor Store Sales

28. Muddy Waters PPT: *"Reported Distributor Store Sales are Highly Questionable"*
 - *MWH reports avg sales to distributors of HK\$1.5 mln/store*
 - *Beijing Classics is large distributor based in BJ, retail prices appeared ~20% lower than in Shenzhen; BJ Classics also sells competitors' sofas*
 - *SAICs reported avg COGS/store barely higher than HK\$1.0 mln*
 - *Beijing classics has ~40 stores selling Man Wah merchandise"*

Company's responses

As disclosed at page 16 of the Annual Report 2017, the average sales per store is calculated as sales of all stores during the FY2017 divided by average number of stores; and the average number of stores is calculated as the arithmetic mean of stores at the beginning of the FY2017 and those at the end of FY2017 respectively. During the FY2017, the stores operated by distributors increased from 1,234 as of 31 March 2016 to 1,504 as of 31 March 2017, and the revenue from the China market was approximately HK\$2,062,636,000 for the FY2017. Accordingly, the average sales per store is approximately HK\$1,506,673.

The Company is not aware of material discrepancies between sales prices of its products referred to in the Muddy Waters PPT in the overall markets in Shenzhen and Beijing.

Allegations – Export sales

29. Muddy Waters PPT: *“Panjiva data casts doubt on export sales”*
30. Muddy Waters PPT: *“Huizhou is located in an export zone, therefore CY SAICs support Panjiva data”*
31. Muddy Waters PPT included the table below:–

	Huizhou SAIC CY2013- 2016	Panjiva HK\$mm b=a/0.129	HK filings HK\$mm c	Diff HK\$mm d=c-b	Diff % e=d/c
FY2014	3,341	3,224	4,234	1,009	31%
FY2015	3,519	3,072	4,488	1,416	46%
FY2016	3,512	3,329	4,874	1,544	46%
FY2017	2,936	2,842	4,214	1,372	48%

Company’s responses

The Company will not comment on the veracity of the information relating to Panjiva. However, the Company believes that it is inappropriate to compare Panjiva’s data in respect of imports into the United States to the Group’s sales worldwide (other than the PRC) which approximate the figures under the column headed “HK filings” in the above table.

Allegations – Dividend or buyback

32. Muddy Waters PPT: *“Finally*
 - *Return OF capital is not a return ON capital*
 - *Including its HK IPO, MWH has raised HK\$2.8 bln and paid dividends to outside shareholders of HK\$1.5 bln*
 - *Any dividend or buyback comes is financed by undisclosed debt”*

Company’s responses

The Company raised approximately HK\$2.7 billion in its listing in 2010 and its securities’ issues since then. The Company has also paid an aggregate amount of approximately HK\$5.2 billion in respect of dividends paid and share buybacks made since its listing. The dividend payments and share buybacks have been financed by profit from operations. This represents a return on capital and not a return of capital. To highlight only dividends paid to “outside shareholders” is not representative of aggregate dividends paid and therefore misleading.

RESUMPTION OF TRADING

The Company notes Muddy Waters Capital LLC placing a “short” on its shares. The Company’s controlling shareholder (the “**Controlling Shareholder**”) holds 2,434,991,200 shares in the Company as at the date of this announcement, representing approximately 63.51% of the Company’s issued share capital. The Controlling Shareholder has confirmed that none of his shares in the Company has been pledged to third parties.

The Company notes the support it has received from its stakeholders, namely, investors, customers, suppliers and employees and would like to convey its appreciation for such support.

Trading in the shares of the Company on the Stock Exchange has been halted with effect from 2:30 p.m. on 7 June 2017 pending the release of this announcement. Application has been made for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 9 June 2017.

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

Hong Kong, 9 June 2017

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. Ong Chor Wei and Mr. Kan Chung Nin, Tony and Mr. Ding Yuan.