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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)

**ESTABLISHMENT OF A STRATEGIC ALLIANCE
AND
DISCLOSEABLE TRANSACTION**

Reference is made to the announcement of the Company dated 16 November 2016 in relation to the memorandum of understanding signed by a wholly-owned subsidiary of the Company and Home Group Ltd.

On 20 November 2016, MW Group, a wholly-owned subsidiary of the Company, entered into the Shareholders' Agreement with HG International and Home Group Ltd in relation to the formation and management of Home Group Ltd. Home Group Ltd and its subsidiaries will be engaged in the production and sale of upholstered furniture, beds and mattresses in Europe and the production and sale of stationary sofas in Europe and China.

As one or more of the applicable percentage ratios is more than 5% but less than 25%, the Shareholders' Agreement relating to the establishment and management of Home Group Ltd constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to this announcement but is exempt from shareholder approval.

INTRODUCTION

On 20 November 2016, MW Group, a wholly-owned subsidiary of the Company, entered into the Shareholders' Agreement with HG International and Home Group Ltd in relation to the formation and management of Home Group Ltd. The principal terms of the Shareholders' Agreement are set out below.

THE SHAREHOLDERS' AGREEMENT

Date

20 November 2016

Parties

- (i) MW Group;
- (ii) HG International; and
- (iii) Home Group Ltd.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, HG International and Home Group Ltd and their ultimate beneficial owner(s) are Independent Third Parties.

As at the date of this announcement, Home Group Ltd is wholly-owned by the HG International and HG international has undertaken to procure the transfer of most of Home Group's operating companies in Poland, the Baltic States and Ukraine to a subsidiary of Home Group Ltd.

Capital Contribution

On or before 31 December 2016, HG International shall procure the transfer of 75% of the equity interest in most of Home Group's operating companies in Poland, the Baltic States and Ukraine to a subsidiary of Home Group Ltd. In turn, MW Group will subscribe for a 50% shareholding interest in Home Group Ltd for a maximum consideration of Euro 50,692,890 (about HK\$416.2 million).

At the time that the transfer of the equity interests mentioned above takes place, MW Group will subscribe for a 50% shareholding interest in Home Group Ltd in return for an initial cash payment to Home Group Ltd of Euro 14 million (about HK\$114.9 million) and additional cash consideration payable in three further instalments and adjustments. The amount of such instalments depend on the profitability of Home Group Ltd for the calendar years 2017, 2018 and 2019 and will be calculated by reference to agreed price to earnings multiples and adjustments. The remaining consideration and adjustments (either in cash or equity), as per the terms of the Shareholders' Agreement, will be made in 2018, 2019 and 2020.

When such companies are transferred to Home Group Ltd, MW Group will also purchase from HG International an additional 2.5% direct equity interest in certain of the subsidiaries of the Home Group for an aggregate cash consideration of US\$1.375 million (about HK\$10.7 million), payable as and when each such interest is transferred to MW Group.

As part of the transaction, MW Group will provide a US\$2 million loan (about HK\$15.6 million) on a senior guaranteed basis to Home Group Ltd with a maturity of one year from the date of issue. The loan will carry an interest and is guaranteed by the shareholders of HG International. However, MW Group will have the right to set-off the amount of the loan against its equity funding commitment.

Notwithstanding that Home Group Ltd will be owned only as to 50% by MW Group, Home Group Ltd expects to be consolidated in the financial statements of the Company as a result of agreed governance terms in the Shareholders' Agreement.

The terms of cash contributions and basis of investment in Home Group Ltd were determined after arms' length negotiations based on agreed price to earnings multiples of current and future performance of Home Group. The Directors are of the view that the terms of the Shareholders' Agreement are normal commercial terms, fair and reasonable and in the interests of the Company's shareholders as a whole.

Purpose of the Strategic Alliance

Home Group has been producing upholstered furniture for the last twenty years in Eastern Europe and currently operates five factories in Poland, the Baltic States and Ukraine. Home Group employs more than 2200 employees and its sales for the first nine months of 2016, based on unaudited information provided to the Company, were about 60 million Euros (about HK\$493 million). The Home Group sells to a number of well-known European furniture retailers, including IKEA, Steinhoff and XXXL Group and most of its sales are in Western Europe.

This strategic alliance will allow the Group to have access to existing production bases in Europe currently owned, managed and operated by Home Group and its affiliates and also give the Group access to Home Group's sales networks in Europe. The Group intends to leverage Home Group's experience and manufacturing bases in Europe to strengthen the Group's presence in Europe and to further expand its sales of sofas in China by launching a European collection of affordable products. In return, Home Group will expand its production capacity in Europe and gain access to the Group's manufacturing bases, sourcing and sales networks in China.

Currently all of the Group's European sales of the sofa products are made in China. From a global perspective, the Group is facing increasing competition from Eastern European sofa manufacturers that can produce commissioned orders or small order volumes and deliver them in Europe much faster than Chinese manufacturers who export to Europe. The products currently sold by Home Group in Europe could also appeal to Chinese consumers as they would retail for a lower price point than the recliner sofas that currently constitute the majority of the Group's sales in China, thereby increasing the Group's product offering in China and offering consumers more choice in terms of sofa products at different price points.

The Company believes that there are a lot of potential synergies between the Group and the Home Group in product development, sourcing and manufacturing. This strategic alliance is expected to be mutually beneficial. Not only will the Group have access to already operational sofa production bases in Eastern Europe but it can also leverage such existing manufacturing premises to relatively quickly establish production lines for reclining sofas in Eastern Europe. Home Group, in turn, will benefit from its cooperation with the Group in the production and sale of stationary, European-style sofa products in China.

Board Composition and senior management

The New Board will consist of five directors, three of whom will be appointed by MW Group, and the remaining two directors will be appointed by HG International. Mr. Wong Man Li, the executive Director, is designated as the chairman of Home Group Ltd, and one of Home Group's founders will be designated as the deputy chairman of Home Group Ltd. The management of the business and affairs of Home Group Ltd will rest with the New Board. Key management of Home Group have also executed non-compete agreements in favour of Home Group.

Restrictions on share transfers and encumbrances

The shareholders agreement contains terms relating to usual rights of first refusal and restrictions on the transfer or charging of shares in Home Group Ltd.

Distribution of dividends

MW Group and HG International agree that, subject to there being available funds for Home Group's requirements, about 50% of net profits of Home Group arising on or after 1 January 2017 will be distributed to Home Group Ltd's shareholders.

Termination of the Shareholders' Agreement

The Shareholders' Agreement shall automatically terminate as soon as one of the shareholders of Home Group Ltd becomes the sole shareholder of Home Group Ltd. The Shareholders' Agreement may also be terminated in certain circumstances where there are material breaches of the Shareholders' Agreement by a Shareholder.

INFORMATION ABOUT THE PARTIES TO THE SHAREHOLDERS' AGREEMENT

The Company and MW Group

The Company principally engages in research, development, production and sale of recliner sofas, mattresses, panel furniture and furniture accessories in China, North America and Europe.

MW Group is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. The principal business of MW Group is investment holding.

HG International and Home Group

HG International is incorporated in the Cayman Islands and is wholly-owned by the founders of Home Group. It is principally engaged in the production and sale of upholstered furniture in the European market. In addition to the founders of Home Group having a 50% equity interest in Home Group Ltd, they will continue to have minority equity interests in the operating companies which form Home Group.

Further details of Home Group are set out above under the heading "Purpose of the Strategic Alliance".

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios is more than 5% but less than 25%, the Shareholders' Agreement relating to the establishment and management of Home Group Ltd constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and and is therefore subject to this announcement but is exempt from shareholder approval.

DEFINITIONS

In this announcement, unless the context otherwise required, the following terms have the following meanings:

"Board"	the board of directors of the Company
"Company"	Man Wah Holdings Limited (敏華控股有限公司), a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 1999)
"Directors"	the directors of the Company
"Euro"	the lawful currency of the European Union
"Group"	the Company and its subsidiaries (other than the Home Group)
"HG International"	Home Group International Ltd., a company incorporated in the Cayman Islands and which is wholly-owned by the founders of Home Group

“Home Group”	Home Group Ltd and those companies to be transferred to it pursuant to the Shareholders’ Agreement
“Independent Third Party(ies)”	party(ies) which is/are independent of Man Wah Group and the connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MW Group”	Man Wah Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“New Board”	the board of directors of Home Group Ltd
“Home Group Ltd”	Home Group Ltd., a company incorporated in the Cayman Islands and wholly-owned by HG International as at the date of this announcement
“Shareholders’ Agreement”	the shareholders’ agreement dated 20 November 2016 entered into between MW Group, HG International, and Home Group Ltd in relation to the formation and management of Home Group Ltd
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	the lawful currency of the United States of America
“%”	per cent

For illustration purposes only, Euro has been translated at Euro 1 to HK\$8.21 and US\$1 to HK\$7.8.

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

Hong Kong, 20 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.