MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

- Revenue decreased by approximately 33.5% to approximately RMB499.6 million for the six months ended 30 June 2019 (2018: approximately RMB751.6 million)
- Gross profit decreased by approximately 69.0% to approximately RMB71.1 million for the six months ended 30 June 2019 (2018: approximately RMB229.3 million)
- The Group recorded a loss of approximately RMB79.1 million for the six months ended 30 June 2019 (2018: profit of approximately RMB73.4 million)
- Basic loss per share was approximately RMB7.91 cents for the six months ended 30 June 2019 (2018: earnings per share approximately RMB7.34 cents)
- The Board has proposed not to declare interim dividend for the six months ended 30 June 2019 (2018: HK1.8 cents)

UNAUDITED INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Morris Holdings Limited (the "**Company**") announced its unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2018. This condensed consolidated interim financial information for the six months ended 30 June 2019 was unaudited, but has been reviewed by the audit committee (the "**Audit Committee**") of the Company.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
			(Restated)
REVENUE	*4*	**499,599**	751,598
Cost of sales		**(428,503)**	(522,249)
Gross profit		**71,096**	229,349
Other net income and gains		**21,032**	33,272
Selling and distribution expenses		**(94,781)**	(86,172)
Administrative expenses		**(64,680)**	(68,830)
Other expenses and losses		**(78)**	(365)
Finance costs		**(12,798)**	(11,986)
(LOSS)/PROFIT BEFORE TAX	*5*	**(80,209)**	95,268
Income tax credit/(expense)	*6*	**1,142**	(21,823)
(LOSS)/PROFIT FOR THE PERIOD		**(79,067)**	73,445
OTHER COMPREHENSIVE LOSS			
Item may be reclassified to profit or loss			
Exchange differences on translation of financial statements		**(2,290)**	(2,766)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(81,357)**	70,679
(Loss)/profit attributable to owners of the Company		**(79,067)**	73,445
Total comprehensive (loss)/income attributable to owners of the Company		**(81,357)**	70,679
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
Basic (Unaudited)		**RMB(7.91) cents**	RMB7.34 cents
Diluted (Unaudited)		**RMB(7.91) cents**	RMB6.72 cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**76,705**	59,096
Prepaid land lease payments		**—**	8,074
Right-of-use assets		**226,551**	—
Contingent consideration receivables		**230,022**	226,318
Deferred tax assets		**6,220**	6,866
Total non-current assets		**539,498**	300,354
CURRENT ASSETS			
Inventories		**146,612**	217,291
Trade and bills receivables	*9*	**526,749**	634,521
Prepayments, deposits and other receivables		**64,725**	62,082
Pledged deposits		**96,799**	93,976
Cash and cash equivalents		**38,017**	123,928
Total current assets		**872,902**	1,131,798
CURRENT LIABILITIES			
Trade and bills payables	*10*	**443,583**	416,766
Contract liabilities		**18,027**	17,967
Other payables and accruals		**63,783**	126,331
Amount due to a shareholder		**9,955**	9,978
Amount due to a related company		**79,662**	81,959
Interest-bearing bank borrowings		**76,029**	142,197
Warranty provision		**3,459**	4,943
Derivative financial instruments	*11*	**123**	2,521
Convertible loan	*11*	**145,557**	181,372
Lease liabilities		**41,287**	—
Income tax payables		**68,585**	68,923
Total current liabilities		**950,050**	1,052,957
NET CURRENT (LIABILITIES)/ASSETS		**(77,148)**	78,841
TOTAL ASSETS LESS CURRENT LIABILITIES		**462,350**	379,195

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,853**	5,845
Lease liabilities		**163,643**	—
Accruals		**—**	6,029
Deferred revenue		**15,560**	—
Total non-current liabilities		**182,056**	11,874
Net assets		**280,294**	367,321
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**6,914**	6,914
Reserves		**273,380**	360,407
Total equity		**280,294**	367,321

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements (the "**unaudited interim results**") is prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Hong Kong Companies Ordinance. These unaudited interim results do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited interim results are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

This unaudited condensed consolidated interim financial statements is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated. This unaudited condensed consolidated interim financial statements has not been audited or reviewed by the Company's external auditors, but has been reviewed by the Company's Audit Committee.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim results are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's unaudited interim results.

HKFRS 16 Lease

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into on or after 1 January 2019, the Group applies the definition of a lease in accordance which requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities and other payables. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 Impairment of Assets on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- Applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

(a) *The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:*

	Increase/ (decrease) *RMB'000* (Unaudited)
Assets	
Increase in right-of-use assets	209,183
Decrease in current portion of prepaid land lease payments	(180)
Decrease in non-current portion of prepaid land lease payments	(8,074)
Increase in total assets	200,929
Liabilities	
Increase in lease liabilities	212,627
Decrease in accruals	(6,029)
Increase in total liabilities	206,598
Equity	
Decrease in retained earnings	5,669

(b) *Nature of the effect of adoption of HKFRS 16*

The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	249,266
Weighted average incremental borrowing rate as at 1 January 2019	5.18%
Discounted operating lease commitments as at 1 January 2019	214,422
Less: commitments relating to short-term leases	(1,795)
Lease liabilities as at 1 January 2019	212,627

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(c) *Amounts recognised in the statement of financial position and profit or loss*

	Right-of-use assets *RMB'000* (Unaudited)	**Lease liabilities** *RMB'000* (Unaudited)
As at 1 January 2019	209,183	212,627
Additions	40,309	12,949
Depreciation charge	(22,748)	—
Interest expense	—	5,317
Payments	—	(25,963)
Exchange realignment	(193)	—
As at 30 June 2019	226,551	204,930
Right-of-use assets analysis by class		
Building	226,551	

3. **SEGMENT INFORMATION**

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and managed.

Specifically, the Group's reportable segments under HKFRS 8 Operating Segments are as follows:

a. Retail segment

b. Manufacturing segment

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Retail segment		**Manufacturing segment**		**Elimination of intersegment sales**		**Total**	
	Six months ended 30 June 2019 ***RMB'000*** **(Unaudited)**	Six months ended 30 June 2018 *RMB'000* (Unaudited) (Restated)	**Six months ended 30 June 2019** ***RMB'000*** **(Unaudited)**	Six months ended 30 June 2018 *RMB'000* (Unaudited) (Restated)	**Six months ended 30 June 2019** ***RMB'000*** **(Unaudited)**	Six months ended 30 June 2018 *RMB'000* (Unaudited) (Restated)	**Six months ended 30 June 2019** ***RMB'000*** **(Unaudited)**	Six months ended 30 June 2018 *RMB'000* (Unaudited) (Restated)
Segment revenues								
— External sales	**105,575**	98,210	**394,024**	653,388	**—**	—	**499,599**	751,598
— Internal sales	**—**	—	**21,977**	2,659	**(21,977)**	(2,659)	**—**	—
	105,575	98,210	**416,001**	656,047	**(21,977)**	(2,659)	**499,599**	751,598
Segment (loss)/profit	**(34,013)**	(17,349)	**(39,642)**	119,378	**39**	(13)	**(73,616)**	102,016
Interest income							**587**	1,566
Fair value change on derivative component convertible loan							**2,356**	8,389
Fair value change on contingent consideration receivables							**4,168**	—
Unallocated corporate expenses							**(8,752)**	(16,309)
Unallocated finance costs							**(4,952)**	(394)
(Loss)/profit before taxation							**(80,209)**	95,268

Segment (loss)/profit represents the (loss from)/profit earned by each segment without allocation of interests income, fair value change on derivative component of convertible loan, fair value change on contingent consideration receivables, unallocated corporate expenses, and unallocated finance costs. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

	Retail segment		Manufacturing segment		Consolidated	
	30 June 2019	31 December 2018	**30 June 2019**	31 December 2018	**30 June 2019**	31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**258,382**	91,490	**887,241**	1,098,492	**1,145,623**	1,189,982
Unallocated corporate assets					**266,777**	242,170
Consolidated assets					**1,412,400**	1,432,152
Segment liabilities	**272,276**	60,527	**608,246**	714,994	**880,522**	775,521
Unallocated corporate liabilities					**251,584**	289,310
Consolidated liabilities					**1,132,106**	1,064,831

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated corporate assets (mainly comprising contingent consideration receivables and other unallocated corporate assets); and
- all liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising amount due to a related company, amount due to a shareholder, derivative financial instruments, convertible loan and other unallocated corporate liabilities).

Other segment information

	Retail segment		Manufacturing segment		Unallocated		Total	
	30 June 2019	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(Unaudited) (Restated)		(Unaudited) (Restated)		(Unaudited) (Restated)		(Unaudited) (Restated)
Addition of property, plant and equipment	**743**	2,408	**23,879**	5,700	**—**	—	**24,622**	8,108
Addition of right-of-use assets	**—**	—	**40,309**	—	**—**	—	**40,309**	—
Depreciation of property, plant and equipment	**1,713**	1,002	**2,891**	1,926	**—**	—	**4,604**	2,928
Depreciation of right-of-use assets	**2,628**	—	**20,120**	—	**—**	—	**22,748**	—
Impairment loss on trade and bills receivables	**—**	—	**1,184**	3,336	**—**	—	**1,184**	3,336
Finance costs	**—**	—	**2,529**	4,245	**10,269**	7,741	**12,798**	11,986

Geographical information

(a) Revenue from external customers

	30 June 2019 RMB'000 (Unaudited)	30 June 2018 RMB'000 (Unaudited) (Restated)
The People's Republic of China (including Hong Kong)	**71,395**	261,678
U.S.	**428,204**	489,920
	499,599	751,598

(b) Non-current assets

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
The People's Republic of China (including Hong Kong)	**82,143**	21,073
Cambodia	**42,710**	42,345
U.S.	**178,403**	3,752
	303,256	67,170

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and contingent consideration receivables.

Information about major customers

Revenue from major customers which did not consist any related parties of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Customer 1	**N/A***	234,821
Customer 2	**66,345**	N/A*
Customer 3	**66,261**	N/A*

* Revenue from the customer is less than 10% of the total revenue of the Group.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and value-added tax.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Revenue		
Recognised at point of time:		
Manufacturing and sales of sofas, sofa cover and other furniture products	**499,599**	751,598

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Cost of inventories sold	**407,111**	521,309
Depreciation of property, plant and equipment	**4,604**	2,928
Depreciation of right-of-use assets	**22,748**	—
Recognition of prepaid land lease payments	**—**	21
Salaries, wages and benefits in kind	**88,254**	89,213
Pension scheme contributions	**4,173**	8,353
Provision against obsolete and slow-moving inventories	**1,176**	940
Write-down of inventories to net realisable value	**1,491**	—
Impairment of trade and bills receivables, net	**1,184**	3,336
Reversal of product warranty	**(1,484)**	(1,421)
Interest for convertible loan	**4,880**	7,347
Interest for lease liabilities	**5,317**	—

6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2018: 16.5%).

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the period (2018: 25%). Pursuant to the relevant laws and regulations in the PRC, Zhejiang Morris Fashion Home Co., Ltd. ("Fashion Home") and Zhejiang Apollo Leather Products Co., Ltd. ("Apollo"), which qualified as High and New Technology Enterprises ("HNTE") on 30 November 2018, were entitled to a reduced enterprise income tax rate of 15%. During the period ended 30 June 2019, Fashion Home and Apollo applied the qualification of HNTE and are entitled to the reduced tax rate of 15% until the period ended 30 November 2021.

The U.S. corporate income tax rate is 21% for the period ended 30 June 2019 in accordance to the Tax Cuts and Jobs Act.

The U.S. corporate income tax includes (a) federal income tax calculated at a fixed rate of 21% on the estimated federal taxable income and (b) state income tax calculated at various state income tax rates for both periods on the estimated state taxable income for the respective states. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

Taxes on profit assessable in elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Current — PRC	**—**	15,981
Current — Hong Kong	**1,139**	2,262
Current — U.S.	**65**	50
Deferred tax	**(2,346)**	3,530
Tax (credit)/charge for the period	**(1,142)**	21,823

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amount for the period ended 30 June 2019 was based on the loss for the period attributable to ordinary equity holders of the Company of RMB79,067,000 (2018: profit of RMB73,445,000), and the weighted average number of ordinary shares of 1,000,000,000 (2018: 1,000,000,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the period ended 30 June 2019 as the Group had anti-dilutive ordinary shares in issue during period ended 30 June 2019 (2018: Diluted earnings per share amounts for the six months ended 30 June 2018 are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Convertible Loan is assumed to have been converted into ordinary shares, and the profit for the six months ended 30 June 2018 is adjusted to exclude the interest expense on the Convertible Loan and fair value gain on the derivative component of the Convertible Loan less tax effect, if any).

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
(Loss)/earnings for the purpose calculating basic (loss)/earnings per share ((loss)/profit for the period attributable to the owners of the Company)	**(79,067)**	73,445
Interest on the convertible loan	**—**	7,347
Fair value gain on derivative component of convertible loan	**—**	(8,389)
(Loss)/profit attributable to the shareholders of the Company, used in the diluted (loss)/earnings per share calculation	**(79,067)**	72,403

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue, used in the basic earnings per share calculation	**1,000,000,000**	1,000,000,000
Effect of dilutive — weighted average number of ordinary shares: convertible loan	**—**	76,153,501
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,000,000,000**	1,076,153,501

8. DIVIDENDS

During the Reporting Period, the Company recognised the following dividends as distribution:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend paid of nil cents per ordinary share for the year ended 31 December 2018 (2017: HK3.8 cents)	**—**	31,118

The Board has proposed not to declare interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1.8 cents per ordinary share).

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables from third parties	**530,186**	633,409
Less: Impairment of trade receivables	**(3,437)**	(2,253)
Trade receivables, net	**526,749**	631,156
Bills receivable arising from intra-group sales	**—**	3,365
	526,749	634,521

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months, extending up to three to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Group does not hold any collateral over its trade and bills receivable balances. Trade and bills receivables are non- interest-bearing.

An ageing analysis of trade and bills receivables as at the end of the Reporting Period, based on the invoice date and net of provision, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**247,731**	596,928
4 to 6 months	**205,546**	36,983
7 to 12 months	**73,472**	610
	526,749	634,521

10. TRADE AND BILLS PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables to third parties	**181,125**	209,275
Bills payable		
— arising from intra-group purchases	**42,803**	19,173
— arising from third party purchases	**219,655**	188,318
	443,583	416,766

An ageing analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**204,980**	143,706
2 to 3 months	**76,320**	80,087
4 to 6 months	**120,816**	148,617
Over 6 months	**41,467**	44,356
	443,583	416,766

The trade and bills payables are non-interest-bearing. Trade payables are normally settled on terms of 30 to 180 days while bills payable are settled on a term of 90 to 180 days.

11. CONVERTIBLE LOAN

	As at 30 June 2019	As at 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Liability component of the Convertible loan	**145,557**	181,372
Derivative component of the Convertible loan	**123**	2,521

On 5 January 2018, the Company entered into a convertible loan (the "**Convertible Loan**") agreement (the "**Convertible Loan Agreement**") with International Finance Corporation ("**IFC**"), pursuant to which IFC agreed to lend, and the Company agreed to borrow, the Convertible Loan in an aggregate principal amount of HK$200,000,000. IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan into shares of the Company at an initial conversion price of HK$2.22 per conversion share (subject to adjustments as set out in the Convertible Loan Agreement). The outstanding principal of the Convertible Loan bears interest at a rate of 1.25% per annum above 6 months HIBOR. Interest period of the Convertible Loan shall be a period of six months in each case beginning on an interest payment date and ending on the day immediately before the next following interest payment date.

Unless previously converted, the Company shall repay 50% of the non-converted portion of the Convertible Loan outstanding as at fourth anniversary of the date of the Convertible Loan (the "**First Repayment Instalment Date**").

Subject to any repayment to be made on the First Repayment Instalment Date as set out above, the outstanding amount of the non-converted portion of the Convertible Loan shall be repaid on the fifth anniversary of the date of the Convertible Loan (the "**Maturity Date**") together with a redemption premium (the "**Redemption Premium**") which is an amount equal to 3.25% per annum of such portion of the principal amount of the Convertible Loan to be repaid or prepaid in respect of the period beginning on the date of the disbursement and ending on the day immediately before the date of repayment or prepayment. Any amount of the Convertible Loan which is redeemed by the Company will forthwith be cancelled.

As a result of the suspension in trading in the shares of the Company, the carrying amount of liability of the convertible loan to the principal amount was adjusted and the same was reallocated from non-current liabilities to current liabilities in order to reflect such continuance. On 20 April 2019, 23 May 2019 and 12 June 2019, the Company entered into three amendment agreements respectively with the lender of the convertible loan for the agreed schedule of certain permitted prepayments of the convertible loan. As at 12 June 2019, the outstanding principal of the convertible loan was HK$171,949,905.70. Under the agreed schedule as provided in the abovementioned amendment agreements, for the period from 15 June 2019 to 30 September 2019, the Company agrees to pay the following permitted prepayments:

a) an amount of HK$7,500,000 on or prior to 15 June 2019;

b) an amount of HK$7,500,000 on or prior to 30 June 2019;

c) an amount of HK$6,000,000 on or prior to 15 July 2019;

d) an amount of HK$6,000,000 on or prior to 30 July 2019;

e) an amount of HK$6,000,000 on or prior to 15 August 2019;

f) an amount of HK$6,000,000 on or prior to 30 August 2019;

g) an amount of HK$6,000,000 on or prior to 15 September 2019; and

h) an amount of HK$6,000,000 on or prior to 30 September 2019.

For the remaining outstanding amount payable under the convertible loan agreement after 30 September 2019, the Company will publish further announcement, if the remaining outstanding amount is not paid according to the repayment term as disclosed in the Company's announcement date 5 January 2018.

The Convertible Loan recognised in the unaudited condensed consolidated statement of financial position of the Group is bifurcated into two components for accounting purpose, namely the liability component and the derivative component, and the movements of these components during the Reporting Period are as follows:

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 2019 (Audited)	**181,372**	**2,521**	**183,893**
Repayment of the Convertible Loan	**(37,381)**	**—**	**(37,381)**
Amortisation of liability component of the Convertible Loan	**4,880**	**—**	**4,880**
Fair value gain on derivative component of the Convertible Loan	**—**	**(2,356)**	**(2,356)**
Accrued Interest	**(2,665)**	**—**	**(2,665)**
Exchange difference	**(649)**	**(42)**	**(691)**
At 30 June 2019 (Unaudited)	**145,557***	**123**	**145,680**

* On 28 March 2019, the Group had suspended from trading the shares, as a result the convertible loan become repayable on demand of the holder due to breach of cross default term in the convertible loan agreement. The outstanding principal amount of the convertible loan was reclassified to current liabilities and remeasured to the amount repayable on demand plus redemption premium.

12. SHARE CAPITAL

	30 June 2019		31 December 2018	
	US$'000	***RMB'000 equivalent***	*US$'000*	*RMB'000 equivalent*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Authorised:				
10,000,000,000 ordinary shares of US$0.001 each	**10,000**		10,000	
Issued and fully paid:				
1,000,000,000 ordinary shares of US$0.001 each	**1,000**	**6,914**	1,000	6,914

The movements in the Company's issued share capital during the year are as follow:

	Number of ordinary shares in issue	Issued capital
		RMB'000
		(Unaudited)
As at 31 December 2018 and 30 June 2019	1,000,000,000	6,914

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Impacted by the Sino-US trade war, the results of the Group for the first half of 2019 significantly decreased as compared to the same period of last year. The revenue of the Group decreased by approximately 33.5% from approximately RMB751.6 million for the six months ended 30 June 2018 to approximately RMB499.6 million for the six months ended 30 June 2019.

Business development in North America

As our revenue was mainly derived from the U.S., the Sino-US trade friction had material impacts on the Group, leading to a significant decrease in our results in North America as compared to the same period of last year. Due to the share of partial tariffs, the profit margin of our exported products was also affected. However, facing this relatively difficult business environment, the management of the Group overcame challenges by consolidating relationship with existing larger clients, and selecting some small quality clients and adjusting client profile in response to the effects from the Sino-US trade war. Furthermore, the Group continued to integrate with Jennifer Convertibles Inc. ("**Jennifer Convertibles**"), a company acquired by us in August 2018, in order to smooth the retail channels of furniture in the U.S., laying a good foundation for our further development in the North America.

Retail business development in China and Hong Kong

As of August 2019, the Group had a total of 2 self-operated retail stores and 8 franchise stores across different provinces in Mainland China. In March 2019, the Group took its brand "Morrisofa" to the 34th Shenzhen International Furniture Fair, showcasing its comfortable, charming and high quality products in front of customers.

The Group has been expanding its scale of business in Hong Kong since its first flagship retail store opened up in September 2017. As of August 2019, the Group opened 3 self-operated retail stores in Wan Chai, Sha Tin and Tsuen Wan, respectively. It also opened a store-within-a-store in Ma On Shan, and 3 points of consignment sales in Kowloon Bay and Yuen Long. In some of its branch stores, the Group also introduced auxiliary decoration services to establish one-stop services including decoration and furniture setting, instilling its stylish home design concept into Hong Kong market.

FINANCIAL REVIEW

For the six months ended 30 June 2019, the principal business activities of Group comprise the manufacturing and sales of sofas, sofa covers and other furniture products.

During the Reporting Period, the revenue of the Group amounted to RMB499.6 million (2018: RMB751.6 million), representing a decrease of approximately 33.5% as compared with last period, which was mainly attributed to the decrease in revenue generated from sale of sofas, sofa covers and other furniture products.

The Group's gross profit for the Reporting Period was RMB71.1 million (2018: RMB229.3 million), representing a decrease of approximately 69.0% as compared with the same period of last year, with gross profit margin decreased from approximately 30.5% to approximately 14.2%. The decrease in gross profit margin was primarily due to the the U.S. imposed tariffs on furniture from Mainland China.

The net loss of the Group amounted to RMB79.1 million during the Reporting Period as compared with the net profit of RMB73.4 million in the same period of last year. The increase in net loss was mainly attributable to a decrease in sales volume and impact from the Sino-US trade war.

The Company's basic loss per ordinary share was RMB7.91 cents for the six months ended 30 June 2019 (basic earnings per share in 2018: RMB7.34 cents) based on the loss for the period attributable to ordinary equity holders of the Company of approximately RMB79.1 million (profit for the period in 2018: approximately RMB73.4 million), and the weighted average number of ordinary shares of 1,000,000,000 for the six months ended 30 June 2019 (2018: 1,000,000,000).

Cost of sales

The cost of sales of the Group decreased by approximately 17.9% from approximately RMB522.2 million for the six months ended 30 June 2018 to approximately RMB428.5 million for the six months ended 30 June 2019, which was primarily due to the decrease in sales.

Other net income and gains

The other net income and gains of the Group decreased from approximately RMB33.3 million for the six months ended 30 June 2018 to approximately RMB21.0 million for the six months ended 30 June 2019. Such decrease was mainly due to the decrease in net income of selling unused raw material (2019: RMB0.6 million; 2018: RMB9.2 million) and decrease in interest income (2019: RMB0.6 million; 2018: RMB1.5 million).

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 10.0% from approximately RMB86.2 million for the six months ended 30 June 2018 to approximately RMB94.8 million for the six months ended 30 June 2019. Such increase was primarily due to the increase in salaries and rental of the new retail stores located in Hong Kong and the U.S..

Administrative expenses

The administrative expenses of the Group slightly decreased by approximately 6.0% from approximately RMB68.8 million for the six months ended 30 June 2018 to approximately RMB64.7 million for the six months ended 30 June 2019. Such decrease was primarily due to an one-off legal and professional expenses for the acquisition of Jennifer Convertibles in 2018.

Finance costs

The finance costs of the Group slightly increased by approximately 6.7% from approximately RMB12.0 million for the six months ended 30 June 2018 to approximately RMB12.8 million for the six months ended 30 June 2019. The increase in finance costs was mainly due to the increase in interest for lease liabilities.

Income tax credit/expense

The income tax expense decreased by approximately 105.0% from approximately RMB21.8 million for the six months ended 30 June 2018 to income tax credit approximately RMB1.1 million for the six months ended 30 June 2019 as the major subsidiaries in PRC suffered in loss as at the end of the Reporting Period which was mainly due to the decrease in sales volume and the impact from the Sino-US trade war. Currently, our principal subsidiaries in Mainland China are subject to an enterprise income tax rate of 15%.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

For the six months ended 30 June 2019, cash and cash equivalents of the Group decreased by approximately RMB85.9 million, which was comprised of the net cash flows generated from operating activities of approximately RMB90.6 million, net cash flows used in investing activities of approximately RMB40.9 million, and net cash flows used in financing activities of approximately RMB134.7 million, while approximately RMB0.9 million was the net exchange loss of foreign exchange rate changes.

Borrowing and pledge of assets

As at 30 June 2019, the Group's interest-bearing bank borrowings amounted to approximately RMB76.0 million (31 December 2018: approximately RMB142.2 million), all of which were repayable within 12 months from 30 June 2019. The bank loans' interest rates ranged from 4.3% to 6.5% (31 December 2018: 2.7% to 6.5%) per annum.

As at 30 June 2019, approximately RMB96.8 million (31 December 2018: approximately RMB94.0 million) restricted bank balances were pledged for bank borrowings and bills payables. Increase in restricted bank balance was mainly due to the increase in bills payables during the Reporting Period.

Gearing ratio

The gearing ratio of the Group, which is total interest-bearing bank borrowings divided by total equity as at the end of the year/period and multiplied by 100%, decreased from approximately 38.7% as at 31 December 2018 to approximately 27.1% as at 30 June 2019, which was primarily due to the decrease in interest-bearing bank borrowings as at 30 June 2019.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019.

Trade and bills receivables

The trade and bills receivables of the Group decreased to approximately RMB526.7 million as at 30 June 2019 (31 December 2018: approximately RMB634.5 million), primarily due to the decrease in sales to our customers in the second quarter in 2019 as compared to the fourth quarter in 2018.

Trade and bills payables

The trade and bills payables of the Group increased to approximately RMB443.6 million as at 30 June 2019 (31 December 2018: approximately RMB416.8 million), primarily due to the slow down payment to the suppliers for third party purchases to maintain the sufficient cash flow.

Foreign exchange exposure

Revenue from major customers is mainly from the U.S. while the production facilities of the Group are mainly located in the PRC. Accordingly, most of the sales are denominated in U.S. dollar while the costs arising from the Group's operations are generally settled in RMB. As a result, fluctuations in the value of U.S. dollar against RMB could adversely affect the financial results of the Group. During the six months ended 30 June 2019, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation. The Group did not use any financial instruments for hedging purposes during the six months ended 30 June 2019 and there was no hedging instruments outstanding as at 30 June 2019. The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in the future. The Group will further implement the necessary hedging arrangement to mitigate any significant foreign exchange risk when and if appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Group had no other significant investments, nor had it made any material acquisition or disposal of the Group's subsidiaries or associated companies during the Reporting Period.

HUMAN RESOURCES MANAGEMENT

Quality and dedicated staff are indispensable assets to the Group's success in the competitive market. By providing comprehensive training and corporate culture education periodically, the employees are able to obtain on-going training and development in the sofa manufacturing industry. Furthermore, the Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees. The Group reviews its human resources and remuneration policies periodically to ensure that they are in line with market practice and regulatory requirements. As at 30 June 2019, the Group employed a work force of 2,159 (31 December 2018: 2,499). The total salaries and related costs including the directors' remuneration for the six months ended 30 June 2019 amounted to approximately RMB88.3 million (for the six months ended 30 June 2018: approximately RMB89.2 million).

OUTLOOK

Broadening sources of income and cutting expenditure

The Group will take measures on broadening sources of income and cutting expenditure to cope with the continuing Sino-US trade war. In terms of broadening sources of income, the Group will actively seek for methods in reducing reliance on the U.S. market, and leverage on its mature and effective production capacity to focus on the expansion in the furniture market in Europe. In terms of cutting expenditure, the management will continue to optimize human resources, enhance production management and improve production and operating efficiency, in order to minimize the impacts of the trade war on the Group.

Branding strategy

In the future, the Group will uphold its strategies in developing self-owned brands, exploring retail channels, and carefully creating a young and fashionable sofa and furniture brand in the mid-market.

In the U.S., the Group will take initiatives in using the retail network of Jennifer Convertibles Inc. for expanding the retail market in the U.S.. Meanwhile, it will integrate the two brands, namely "Morris" and Jennifer Convertibles, for creating synergies. In China, in order to explore the domestic sofa and furniture market, the Group will continue to take part in large furniture fairs in China for promoting the brand "Morris", and will launch a new series of sofa and furniture products integrating modern and traditional styles in the fourth quarter of 2019. In Hong Kong, with its solid development foundation, the Group will continue to penetrate the Hong Kong market for gaining a foothold for "Morris" in Hong Kong.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2019.

CHANGE OF DIRECTORS AND COMPOSITION OF BOARD COMMITTEES

The changes in information of the Directors since 31 December 2018 are set out below:

Independent non-executive Directors

The independent non-executive Director Mr. Shao Shaomin was appointed on 10 December 2016 and resigned on 29 March 2019. Mr. Pang Wing Hong was appointed as an independent non-executive Director on 12 April 2019, replacing Mr. Shao Shaomin's directorship in the Company.

The independent non-executive Director Mr. Huang Wenli was appointed on 10 December 2016 and resigned on 28 May 2019. Mr. Chu Guodi was appointed as an independent non-executive Director on 28 May 2019, replacing Mr. Huang Wenli's directorship in the Company.

For further details, please refer to the announcements of the Company dated 29 March 2019, 12 April 2019 and 28 May 2019, respectively.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as a code of conduct of the Company for Directors' securities transactions. The Company has made specific enquiry with all Directors and the relevant employees regarding any non-compliance with the Model Code for the Reporting Period, and they all confirmed that they had fully complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions for the Reporting Period.

CORPORATE GOVERNANCE CODE

The Company is committed to maintain high standards of corporate governance to protect the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions ("**Code Provisions**") and, where applicable, the recommended best practices of the Corporate Governance Code ("**Corporate Governance Code**") set out in Appendix 14 of the Listing Rules. Save for the disclosed below, the Company has applied and complied with the relevant provisions of the Code Provisions throughout the six months ended 30 June 2019.

According to Code Provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual. The Company has appointed Mr. Zou Gebing as both the chairman and the CEO. The Board believes that vesting the roles of the chairman and CEO in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive Directors (including Mr. Zou Gebing) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. The Board will nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, in order to maintain a high standard of corporate governance practices of the Company.

Code provision C.1.2 of the Corporate Governance Code provides that management should provide members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient details to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. Although the management of the Company did not provide a regular monthly update to the members of the Board, the management keeps providing information and updates to the members of the Board as and when appropriate.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Pang Wing Hong, Mr. Liu Haifeng and Mr. Chu Guodi. The Audit Committee has reviewed with the management of the Company the unaudited interim results and interim report of the Group for the six months ended 30 June 2019 and is of the opinion that it complies with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (2018: HK1.8 cents).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that the Company had maintained sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules as of the date of this announcement.

PUBLICATION OF UNAUDITED INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This unaudited interim results announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.morrisholdings.com.hk. The unaudited interim report of the Company for the Reporting Period will be despatched to the shareholders of the Company and published on the aforesaid websites in due course on or before 30 September 2019.

APPRECIATION

The Board would like to express our heartfelt gratitude towards the management team and staff for their commitment and diligence, and would like to thank our shareholders and business associates for their strong support to the Group.

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 30 August 2019

As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Zeng Jin, Mr. Shen Zhidong and Mr. Wu Yueming; and the independent non-executive Directors are Mr. Liu Haifeng, Mr. Pang Wing Hong and Mr. Chu Guodi.