MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

- Revenue increased by approximately 27.4% to approximately RMB655.9 million for the six months ended 30 June 2018 (2017: approximately RMB515.0 million)
- Gross profit increased by approximately 32.2% to approximately RMB185.0 million for the six months ended 30 June 2018 (2017: approximately RMB139.9 million)
- Profit for the period increased by approximately 40.2% to approximately RMB79.3 million for the six months ended 30 June 2018 (2017: approximately RMB56.6 million)
- Basic earnings per share increased by approximately 38.2% to approximately RMB7.93 cents for the six months ended 30 June 2018 (2017: approximately RMB5.74 cents)
- The Board has resolved to declare interim dividend of HK1.8 cents per ordinary share (2017: HK1.5 cents) and no special dividend for the six months ended 30 June 2018

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Morris Holdings Limited (the "**Company**") is pleased to announce its unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2017. This condensed consolidated interim financial information for the six months ended 30 June 2018 was unaudited, but has been reviewed by the audit committee (the "**Audit Committee**") of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
REVENUE	*4*	**655,896**	515,022
Cost of sales		**(470,887)**	(375,107)
Gross profit		**185,009**	139,915
Other net income and gains		**28,368**	3,638
Selling and distribution expenses		**(45,217)**	(32,188)
Administrative expenses		**(54,750)**	(36,702)
Other expenses and losses		**(365)**	(88)
Finance costs		**(11,986)**	(6,025)
PROFIT BEFORE TAX	*5*	**101,059**	68,550
Income tax expense	*6*	**(21,773)**	(11,986)
PROFIT FOR THE PERIOD		**79,286**	56,564
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**(1,944)**	(3,142)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**77,342**	53,422
Profit attributable to owners of the Company		**79,286**	56,564
Total comprehensive income attributable to owners of the Company		**77,342**	53,422
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
Basic (unaudited)		**RMB7.93 cents**	RMB5.74 cents
Diluted (unaudited)		**RMB7.27 cents**	RMB5.74 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	**30 June 2018 RMB'000 (unaudited)**	31 December 2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**62,593**	57,638
Prepaid land lease payments		**7,073**	7,054
Deferred tax assets		**3,171**	1,941
Total non-current assets		**72,837**	66,633
CURRENT ASSETS			
Inventories		**340,429**	343,289
Trade and bills receivables	*9*	**513,550**	389,002
Prepayments, deposits and other receivables		**129,370**	88,844
Pledged deposits		**75,270**	181,861
Cash and cash equivalents		**104,426**	26,241
Total current assets		**1,163,045**	1,029,237
CURRENT LIABILITIES			
Trade and bills payables	*10*	**283,973**	438,206
Other payables and accruals		**47,302**	51,497
Interest-bearing bank borrowings		**207,946**	149,659
Derivative component of convertible loan	*11*	**21,156**	–
Warranty provision		**1,917**	3,292
Income tax payables		**82,841**	61,520
Total current liabilities		**645,135**	704,174
NET CURRENT ASSETS		**517,910**	325,063
TOTAL ASSETS LESS CURRENT LIABILITIES		**590,747**	391,696
NON-CURRENT LIABILITIES			
Convertible loan	*11*	**148,067**	–
Deferred tax liabilities		**13,702**	8,942
Net assets		**428,978**	382,754
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**6,914**	6,914
Reserves		**422,064**	375,840
Total equity		**428,978**	382,754

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial information 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 condensed consolidated interim financial statements 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 2017.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited condensed consolidated interim financial information are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2017, 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 information 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 information 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 Group has adopted the following revised HKFRSs for the first time for the unaudited condensed consolidated interim financial statements for the Reporting Period.

Amendments to HKAS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments, which nature and effect of the adoption are disclosed as below, the adoption of the above new and revised HKFRSs has had no significant financial effect on this unaudited condensed interim financial information.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group's principal activities consist of the manufacture and sale of sofas, sofa covers and other furniture products (the "Group Products") and the Group provides trade discounts or volume rebates for some of these sales contracts with customers. The Group's contracts with customers for the sale of the Group Products generally include one performance obligation. The Group has concluded that revenue from sale of the Group Products should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of allowances, trade discounts and/or volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty was resolved.

Under HKFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in the sales of the Group Products and the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amount of allowances, trade discounts and right to return as this method better predicts the amount of variable consideration to which the Group will be entitled.

The Group has assessed that the adoption of HKFRS 15 did not materially affect how the Group recognised revenue and cost of sales under HKAS 18 when the customers have a right to allowance, trade discounts and volume rebates. Accordingly, except for the reclassification effect below, the adoption of HKFRS 15 does not have material financial impact on the Group's consolidated financial statements.

Reclassifications were made as at 30 June 2018 to be consistent with the terminology used under HKFRS 15, advances received from customers of RMB1.2 million (31 December 2017: RMB0.9 million) were reclassified from "Receipt in advance" to "contract liabilities" under "Other payables and accruals".

HKFRS 9 Financial Instrument

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied HKFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of 1 January 2018. The Group has elected not to adjust the comparative information for the period beginning 1 January 2017, which the comparative information was prepared under classification and measurement requirements of HKAS 39.

Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9.

- Financial assets at FVPL comprise derivative instruments and unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

Impairment

HKFRS 9 requires an impairment on trades and bills receivables, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses that were estimated based on the present value of all cash shortfalls over the remaining life of all of its deposits and other receivables and trades receivables, respectively. The Group performed a detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective, except for the amendments to HKFRS 9 Prepayment Features with Negative Compensation which have been adopted at the same time as HKFRS 9.

3. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of sofas, sofa covers and other furniture products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods	**655,896**	515,022

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold	**469,947**	380,594
Depreciation	**2,457**	1,155
Recognition of prepaid land lease payments	**21**	83
Gain on disposal of items of property, plant and equipment, net	**–**	(6)
Minimum lease payments under operating leases	**11,326**	8,551
Salaries, wages and benefits in kind	**71,182**	69,074
Pension scheme contributions	**8,353**	3,142
Provision/(reversal of provision) against obsolete and slow-moving inventories	**940**	(5,487)
Impairment of trade receivables, net	**3,336**	–
Reversal of product warranty	**(1,421)**	(1,125)
Listing expenses	**–**	2,690
Interest for Convertible Loan	**7,347**	–

6. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong. Under the income tax law of the People's Republic of China ("**PRC**"), companies with operations in the PRC are subject to corporate income tax ("**CIT**") at a rate of 25% (six month ended 30 June 2017: 25%) on the taxable income.

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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC	**15,981**	5,619
Current – Hong Kong	**2,262**	6,516
Deferred	**3,530**	(149)
Tax charge for the period	**21,773**	11,986

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company and the weighted average number of ordinary shares in issue during the period.

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 weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2017 represented 100 ordinary shares of the Company as at 1 January 2017, 99,900 ordinary shares of the Company issued under the Share Split and 749,900,000 ordinary shares of the Company issued under the Capitalisation Issue (as defined in note 12), as if these additional shares issued under the Share Split and the Capitalisation Issue had been in issue throughout the six months ended 30 June 2017, and weighted average number of 234,806,630 ordinary shares of the Company issued upon the Listing on the Main Board of the Stock Exchange on 12 January 2017.

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to the owners of the Company)	**79,286**	56,564
Interest on the Convertible Loan	**7,347**	–
Fair value gain on derivative component of Convertible Loan	**(8,389)**	–
Profit attributable to the shareholders of the Company, used in the diluted earnings per share calculation	**78,244**	56,564

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Weighted average number of ordinary shares in issue, used in the basic earnings per share calculation	**1,000,000,000**	984,806,630
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	**1,076,153,501**	984,806,630

8. DIVIDENDS

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Final dividend of HK3.8 cents per ordinary share for the year ended 31 December 2017 (2016: HK1.8 cents)	**31,118**	15,746
Special dividend of Nil cents per ordinary share for the year ended 31 December 2017 (2016: HK8.7 cents)	**–**	76,104
	31,118	91,850

Subsequent to the end of the Reporting Period, the Board has resolved to declare interim dividend of HK1.8 cents per ordinary share (six months ended 30 June 2017: HK1.5 cents per ordinary share) and no special dividend (six months ended 30 June 2017: HK4.5 cents) for the six months ended 30 June 2018.

9. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables from third parties	**511,317**	364,339
Trade receivables from a related company	**5,569**	19,877
Impairment of trade receivables	**(3,336)**	(92)
Trade receivables, net	**513,550**	384,124
Bills receivable arising from intra-group sales	**–**	4,878
	513,550	389,002

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 four 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 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 3 months	**424,004**	366,769
4 to 6 months	**84,394**	14,187
7 to 12 months	**5,152**	8,046
	513,550	389,002

10. TRADE AND BILLS PAYABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables to third parties	**191,816**	178,126
Bills payable		
– arising from intra-group purchases	**28,462**	119,674
– arising from third party purchases	**63,695**	140,406
	283,973	438,206

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 2018	31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 1 month	**81,776**	188,508
1 to 3 months	**89,836**	101,190
3 to 6 months	**94,400**	141,327
Over 6 months	**17,961**	7,181
	283,973	438,206

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 2018 *RMB'000* **(unaudited)**	As at 31 December 2017 RMB'000 (audited)
Liability component of the Convertible loan	**148,067**	–
Derivative component of the Convertible loan	**21,156**	–

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.

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* **(unaudited)**	**Derivative component** *RMB'000* **(unaudited)**	**Total** *RMB'000* **(unaudited)**
At 1 January 2018	**–**	**–**	**–**
Issue of the Convertible Loan	**140,427**	**29,879**	**170,306**
Amortisation of liability component of the Convertible Loan	**7,740**	**–**	**7,740**
Fair value gain on derivative component of the Convertible Loan	**–**	**(8,389)**	**(8,389)**
Payment of the interest of the Convertible Loan	**(393)**	**–**	**(393)**
Exchange difference	**293**	**(334)**	**(41)**
At 30 June 2018	**148,067**	**21,156**	**169,223**

12. SHARE CAPITAL

	30 June 2018		31 December 2017	
	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)
At 1 January 2017		100,000	1
Global Offering	*(i)*	250,000,000	1,728
Capitalisation issue	*(ii)*	749,900,000	5,185
As at 31 December 2017 and 30 June 2018		1,000,000,000	6,914

Notes:

(i) In connection with the Listing of the shares of the Company on the Stock Exchange, 250,000,000 new ordinary shares of US$0.001 each of the Company were issued at a price of HK$1.05 per ordinary share for a total cash consideration, before expenses, of HK$262,500,000 (equivalent to approximately RMB234,042,000) (the "**Global Offering**"). Dealings in the shares of the Company on the Stock Exchange commenced on 12 January 2017.

(ii) Upon the creation of the Company's share premium account as a result of the Global Offering, an amount of US$749,900 (equivalent to approximately RMB5,185,000) standing to the credit of the share premium account of the Company has been capitalised on 12 January 2017 by applying such sum towards paying up in full at par a total of 749,900,000 ordinary shares for allotment and issue to the then existing shareholders (the "**Capitalisation Issue**"). Immediately following the completion of the Global Offering and the Capitalisation Issue, the total outstanding ordinary shares was 1,000,000,000 ordinary shares including the 250,000,000 ordinary shares issued upon the Global Offering.

13. EQUITY

Movements in equity are as follows:

	Share capital RMB'000 (unaudited) (note 12)	Share premium RMB'000 (unaudited)	Exchange fluctuation reserve RMB'000 (unaudited)	Reserve funds RMB'000 (unaudited)	Retained profits RMB'000 (unaudited)	Total RMB'000 (unaudited)
At 1 January 2018	**6,914**	**211,900**	**(797)**	**12,000**	**152,737**	**382,754**
Profit for the period	**–**	**–**	**–**	**–**	**79,286**	**79,286**
Other comprehensive income for the period:						
Exchange differences on translation of financial statements	**–**	**–**	**(1,944)**	**–**	**–**	**(1,944)**
Total comprehensive income for the period	**–**	**–**	**(1,944)**	**–**	**79,286**	**77,342**
Dividend paid	**–**	**–**	**–**	**–**	**(31,118)**	**(31,118)**
At 30 June 2018	**6,914**	**211,900**	**(2,741)**	**12,000**	**200,905**	**428,978**
At 1 January 2017	1	–	10,559	8,081	140,123	158,764
Profit for the period	–	–	–	–	56,564	56,564
Other comprehensive income for the period:						
Exchange differences on translation of financial statements	–	–	(3,142)	–	–	(3,142)
Total comprehensive income for the period	–	–	(3,142)	–	56,564	53,422
Issue of shares pursuant to the Listing of the Company	1,728	232,314	–	–	–	234,042
Capitalisation Issue of shares	5,185	(5,185)	–	–	–	–
Expenses incurred in connection with issue of new shares	–	(14,720)	–	–	–	(14,720)
Dividend paid	–	–	–	–	(91,850)	(91,850)
At 30 June 2017	6,914	212,409	7,417	8,081	104,837	339,658

14. EVENT AFTER THE REPORTING PERIOD

On 4 July 2018, the Company, as purchaser, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with Morris Group Co., Ltd (the "**Seller**"), as seller, and a controlling shareholder of the Company, as warrantor, pursuant to which the Company conditionally agreed to purchase and the Seller conditionally agreed to sell all issued and outstanding common stock of Jennifer Convertibles Inc., subject to adjustment in accordance with the Sale and Purchase Agreement, at cash consideration of US$35 million. The transaction was not yet completed as at the date of approval of the condensed consolidated financial statements. Further details of this transaction are set out in the Company's announcement dated 4 July 2018 and circular dated 14 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group achieved satisfactory financial results in the first half of 2018. The revenue continued to grow rapidly, as the result of the efforts by the management team and employees. The revenue of the Group increased by approximately 27.4% to approximately RMB655.9 million for the six months ended 30 June 2018 from approximately RMB515.0 million for the six months ended 30 June 2017.

Brand building

It is the Group's coherent strategy to develop its own brand and strive to build an internationally renowned furniture company. Therefore, in the first half of 2018, the Group actively engaged with brand promotion activities. In Hong Kong, the Group launched TV commercials on different TV channels during the World Cup competitions. In addition, we regularly distribute print ads in well-known furniture magazines, newspapers, electronic social media, search web platforms, buses, MTR and etc. In mainland China, the Group conducted special branding reports in traditional well-known business magazines and furniture magazines. In addition, the Group also actively promoted articles, pictures and videos on the main domestic network platforms, bringing the brand image of "young", "modern", "fresh" and "multi-functional" to mass consumers.

Building of corporate culture

The Group attaches great importance to the development of talents, and the establishment of a unique corporate culture and the use of the soft power of enterprises is an important way to attract talents. With 'Five Hearts of Morris', ambition, confidence, determination, perseverance and loyalty, as the core values of its corporate culture, the Group targeted to establish a distinctive corporate culture. After the Chinese New Year of 2018, the show up rate of workers exceeded 99%, which demonstrated the employee's adherence to the Group's cultural value.

Capacity expansion

In the first half of 2018, the Company proactively expanded its production capacity by rapidly increased the number of workers to enhance the capacity of the production lines. In addition, the capacity expansion plan of the construction of a new production facility, Morris Center, has been elected to be part of the 2018 Major Industrial Projects of Zhejiang Province in July 2018. It is expected that the construction of Morris Center will be launched within 2018.

Business development in North America

With the increasing popularity of the Group, the customer's trust in the Group also increases. The Group operated a total of four warehouses in the first half of 2018, which enhanced the pre-sales and after-sales services of the products, improved the timeliness of delivery and facilitate with the development of online shopping business. As a result, the Group received more orders from key customers in the first half of 2018. Shipments to key customers recorded a rapid growth in the first half of 2018.

Online business development

The Group has launched its online sales business in the United States (the "**U.S.**") in the second half of 2017 and is giving satisfactory progress. The Group's products are already sold on eight U.S. online platforms. In line with the development trend of online shopping, the Group will continue to vigorously develop the online business in the U.S. and seek development opportunities. In China, the Group launched its official online store on JD.com, and plans to set up more stores in other major online shopping platforms to serve the vast majority of online shopping consumers in China.

Offline business development

In the US market, the Group is committed to developing its own-brand retail business while continuing to develop its own-brand wholesale business, providing greater impetus for future growth. In the China market, we adopt two-way development mode: self-operated and agency mode. As at August 2018, the Group operates a total of four self-operated stores, two in Hong Kong, one in Shanghai and one in Hangzhou. The storefront and in-store design style of the self-operated store is fashionable and elegant, and well-scenes experience is provided to consumers so that the brand image of "Fall in Love, Fall in MorriSofa" is reflected with the impressive products. In addition, in the first half of 2018, the Group actively participated in furniture exhibitions across the country to promote brands and attract distributors across the country at the same time. In the first half of 2018, the Group has participated in furniture exhibitions in Shenzhen, Hong Kong, Shanghai and Beijing. Since the beginning of August 2018, the Group has signed formal contracts with eight franchise agents and letters of intent with four franchise agents.

FINANCIAL REVIEW

The revenue of the Group increased from approximately RMB515.0 million for the six months ended 30 June 2017 to approximately RMB655.9 million for the six months ended 30 June 2018, representing an increase of approximately 27.4%. The profit for the period increased by approximately 40.2% from approximately RMB56.6 million for the six months ended 30 June 2017 to approximately RMB79.3 million for the six months ended 30 June 2018. If excluding the fair value gain on derivative component of convertible loan and interest on the convertible loan incurred during the six months ended 30 June 2018, the profit for the period would increase by approximately 39.0% from approximately RMB56.6 million for the six months ended 30 June 2017 to approximately RMB78.6 million for the six months ended 30 June 2018. The Company's basic and diluted earnings per ordinary share was RMB7.93 cents and RMB7.27 cents for the six months ended 30 June 2018 (2017: RMB5.74 cents) based on the profit for the period attributable to ordinary equity holders of the Company of approximately RMB79.3 million (2017: approximately RMB56.6 million), and the weighted average number of ordinary shares of 1,076,153,501 for the six months ended 30 June 2018 (2017: 984,806,630).

Revenue

The revenue of the Group increased by approximately 27.4%, from approximately RMB515.0 million for the six months ended 30 June 2017 to approximately RMB655.9 million for the six months ended 30 June 2018, which was primarily attributable to the successful promotion of OBM products in the U.S., and the increased popularity of functional sofas.

Cost of sales

The cost of sales of the Group increased by approximately 25.5% from approximately RMB375.1 million for the six months ended 30 June 2017 to approximately RMB470.9 million for the six months ended 30 June 2018, which was in line with the increase in sales.

Gross profit

The gross profit of the Group increased by approximately 32.2% from approximately RMB139.9 million for the six months ended 30 June 2017 to approximately RMB185.0 million for the six months ended 30 June 2018. The gross profit margin increased from approximately 27.2% for the six months ended 30 June 2017 to approximately 28.2% for the six months ended 30 June 2018, primarily due to the higher percentage increase in revenue of the Group, which outweighed the percentage increase in labour cost and the slightly decrease in cost of leather raw material.

Other net income and gains

The other net income and gains of the Group increased from approximately RMB3.6 million for the six months ended 30 June 2017 to approximately RMB28.4 million for the six months ended 30 June 2018. Such increase was primarily due to the fair value gain on the convertible loan RMB8.4 million, net income of selling unused raw material of RMB9.2 million and exchange gain recorded for the six months ended 30 June 2018 while exchange loss was recorded in the same period of last year.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 40.5% from approximately RMB32.2 million for the six months ended 30 June 2017 to approximately RMB45.2 million for the six months ended 30 June 2018. Such increase was primarily due to the increase in marketing and promotion expenses and rental of the new retail stores located in Hangzhou, Shanghai and Hong Kong.

Administrative expenses

The administrative expenses of the Group increased by approximately 49.2% from approximately RMB36.7 million for the six months ended 30 June 2017 to approximately RMB54.8 million for the six months ended 30 June 2018, which was primarily due to the increase in legal and professional expenses, consultation fee and technical support of approximately RMB10.6 million for the acquisition of Jennifer Convertibles Inc., operating the new retail stores and issuing the convertible loan during the six months ended 30 June 2018.

Finance costs

The finance costs of the Group increased by approximately 98.9% from approximately RMB6.0 million for the six months ended 30 June 2017 to approximately RMB12.0 million for the six months ended 30 June 2018, which was primarily due to the increase in interest for convertible bond approximately RMB7.7 million.

Income tax expense

The income tax expense of the Group increased by approximately 81.7% from approximately RMB12.0 million for the six months ended 30 June 2017 to approximately RMB21.8 million for the six months ended 30 June 2018. In addition, the effective tax rate increased from approximately 17.5% for the six months ended 30 June 2017 to approximately 21.5% for the six months ended 30 June 2018. The substantial increase in both income tax expense and effective tax rate for the six months ended 30 June 2018 was mainly attributable to decrease in super-deduction of eligible research and development expenditure during the six months ended 30 June 2018 arising from the manufacturing costs incurred by the Group that qualified for an additional 50% tax deduction for PRC corporate income tax purpose in accordance with the Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses (關於完善研究開發費用稅前加計扣除政策的通知) which was promulgated by the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology of the PRC on 2 November 2015 and with effect from 1 January 2016 and there was adjustment of last year income tax in respect of over-provision of prior year income tax provision.

Profit for the period

As a result of the foregoing, the profit for the period increased by approximately 40.2% from approximately RMB56.6 million for the six months ended 30 June 2017 to approximately RMB79.3 million for the six months ended 30 June 2018. If excluding the fair value gain on derivative component of convertible loan and interest on convertible loan incurred during the six months ended 30 June 2018, the profit for the period world increase by approximately 39.0% from approximately RMB56.6 million for the six months ended 30 June 2017 to approximately RMB78.6 million for the six months ended 30 June 2018.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

For the six months ended 30 June 2018, cash and cash equivalents of the Group increased by approximately RMB78.2 million, which was comprised of the net cash flows used in operating activities of approximately RMB211.9 million, net cash flows generated from investing activities of approximately RMB101.2 million, and net cash flows generated from financing activities of approximately RMB188.2 million, while approximately RMB0.7 million was the net exchange gain of foreign exchange rate changes.

Borrowing and pledge of assets

As at 30 June 2018, the Group's interest-bearing bank borrowings amounted to approximately RMB207.9 million (31 December 2017: approximately RMB149.7 million), all of which were repayable within 12 months from 30 June 2018. The bank loans' interest rates ranged from 2.3% to 6.5% (31 December 2017: 2.1% to 6.5%) per annum.

As at 30 June 2018, approximately RMB75.3 million (31 December 2017: approximately RMB181.9 million) restricted bank balances were pledged for bank borrowings and bills payables. Decrease in balance was mainly due to the restructuring plan of subsidiaries in PRC.

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%, increased from approximately 39.1% as at 31 December 2017 to approximately 48.5% as at 30 June 2018, which was primarily due to the increase in interest-bearing bank borrowings as at 30 June 2018.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2018.

Trade and bills receivables

The trade and bills receivables of the Group increased to approximately RMB513.6 million as at 30 June 2018 (31 December 2017: approximately RMB389.0 million), primarily due to the increase in sales to our customers in the second quarter in 2018 as compared to the fourth quarter in 2017.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB284.0 million as at 30 June 2018 (31 December 2017: approximately RMB438.2 million), primarily due to the restructuring of subsidiaries in PRC which reduced the bills payables between inter-companies and increase in timely payment to the suppliers for third party purchases.

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 six months ended 30 June 2018, 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 six months ended 30 June 2018 and there was no hedging instruments outstanding as at 30 June 2018. 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.

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 2018, the Group employed a work force of 2,363 (31 December 2017: 2,052). The total salaries and related costs including the directors' remuneration for the six months ended 30 June 2018 amounted to approximately RMB73.8 million (for the six months ended 30 June 2017: approximately RMB72.2 million).

OUTLOOK

Branding strategy

In the future, the Group will continue to develop its own brand as the main enterprise development strategy, and carefully create a young and fashionable sofa and furniture brand in the mid-market.

In the U.S., the Group is planning to extend its position in the industry value-chain through the acquisition of Jennifer Convertibles Inc., and expand its own brand wholesale business to its own brand retail business. Jennifer Convertibles Inc. has a long history and a good sales network. Through its network, the Group can sell higher-end and more unique products, enhance the brand image and market position of the Group's products. In addition, with further development of its US business it can provide impetus for the future development of the Group in the medium and long term. As at the date of this announcement, the acquisition of Jennifer Convertibles Inc. has not completed. Further details of the acquisition are set out in the Company's announcement dated 4 July 2018 and circular dated 14 August 2018. The US-China trade war may bring uncertainties, but the Group's management believes that the threat of possible tariff will have limited impact on the Group's business, and will formulate countermeasures to reduce the impact of trade war, while exerting the competitive advantage of independent brand strategy.

In China, with the rising consumption power of younger generation and the consumption upgrading, the development of the domestic market is also the Group's short- and medium-term goal. The Group believes that its products have advantages in design, speed of style update, quality, market position and better value for money. The products can meet the style and taste of the younger generation and provide a new generation of multi-functional sofa for the consumer groups seeking beauty and fashion and pursuing quality of life. The Group is committed to making "MorriSofa" a new generation of sofa brand. To develop the domestic market, the Group plans to operate self-operated stores in major first-tier cities, and also rely on agents to expand distribution networks in other major cities across the country. We will strictly require agents to unify the store design and bring the design concept and the brand mission of "MorriSofa" to the vast number of Chinese consumers.

In terms of e-commerce, the Group is actively entering the main e-commerce platform in China and the United States, connecting online and offline sales channels, grasping the traditional sales channels and the general trend of online shopping.

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 2018.

CHANGE OF DIRECTORS AND COMPOSITION OF BOARD COMMITTEES

The changes in information of the Directors since the annual report of the Company for the year ended 31 December 2017 is set out below:

Executive Directors

At the annual general meeting of the Company held on 17 May 2018, Mr. Chen Guohua retired and did not seek for re-election as an executive Director due to his other business commitments.

With effect from 6 June 2018, Mr. Wu Yueming has been appointed as an executive Director of the Company. For further details, please refer to the announcement of the Company dated 6 June 2018.

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 2018.

According to Code Provision A.2.1 of the Corporate Governance Code, the roles of chairman and 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.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng. The Audit Committee has reviewed with the management of the Company the unaudited condensed consolidated interim results and interim report of the Group for the six months ended 30 June 2018 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 to declare interim dividend of HK1.8 cents per ordinary share (2017: HK1.5 cents) for the six months ended 30 June 2018 to be paid on 22 October 2018 to shareholders whose names appeared on the register of members on 10 October 2018.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on 10 October 2018, will qualify for the interim dividend. The Company's transfer books and register of members will be closed from 8 October 2018 to 10 October 2018 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the interim dividend. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office, Tricor Investor Services Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 pm on 5 October 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This 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 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.

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 28 August 2018

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. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng.