MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01575)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

- Revenue increased by approximately 23.3% to approximately RMB515.0 million for the six months ended 30 June 2017 (2016: approximately RMB417.8 million)
- Gross profit increased by approximately 9.0% to approximately RMB139.9 million for the six months ended 30 June 2017 (2016: approximately RMB128.3 million)
- Profit for the period increased by approximately 89.9% to approximately RMB56.6 million for the six months ended 30 June 2017 (2016: approximately RMB29.8 million)
- Basic earnings per share increased by approximately 44.2% to approximately RMB5.74 cents for the six months ended 30 June 2017 (2016: approximately RMB3.98 cents)
- The Board has resolved to declare interim dividend of HK1.5 cents per ordinary share (2016: Nil) and a special dividend of HK4.5 cents per ordinary share (2016: Nil) for the six months ended 30 June 2017

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 2017 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2016. These condensed consolidated interim financial statements for the six months ended 30 June 2017 were unaudited, but have 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 2017

	Notes	Six months ended 30 June **2017** ***RMB'000*** **(unaudited)**	 2016 *RMB'000* (unaudited)
REVENUE	*5*	**515,022**	417,804
Cost of sales		**(375,107)**	(289,513)
Gross profit		**139,915**	128,291
Other net income and gains		**3,638**	3,127
Selling and distribution expenses		**(32,188)**	(31,773)
Administrative expenses		**(36,702)**	(44,660)
Other expenses and losses		**(88)**	(541)
Finance costs		**(6,025)**	(5,973)
PROFIT BEFORE TAX	*6*	**68,550**	48,471
Income tax expense	*7*	**(11,986)**	(18,623)
PROFIT FOR THE PERIOD		**56,564**	29,848
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**(3,142)**	(1,616)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**53,422**	28,232
Profit attributable to owners of the Company		**56,564**	29,848
Total comprehensive income attributable to owners of the Company		**53,422**	28,232
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	*8*	**RMB5.74 cents**	RMB3.98 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**51,107**	44,092
Prepaid land lease payment		**7,416**	7,641
Deferred tax assets		**4,160**	2,986
Total non-current assets		**62,683**	54,719
CURRENT ASSETS			
Inventories		**330,212**	314,543
Trade and bills receivables	*10*	**212,751**	219,980
Prepayments, deposits and other receivables		**219,148**	218,294
Due from related parties		**21,860**	–
Pledged deposits		**199,558**	220,822
Cash and cash equivalents		**62,547**	73,647
Total current assets		**1,046,076**	1,047,286
CURRENT LIABILITIES			
Trade and bills payables	*11*	**472,488**	542,715
Other payables and accruals		**64,243**	72,863
Interest-bearing bank borrowings		**180,837**	277,183
Warranty provision		**1,666**	2,790
Income tax payables		**44,961**	43,810
Total current liabilities		**764,195**	939,361
NET CURRENT ASSETS		**281,881**	107,925
TOTAL ASSETS LESS CURRENT LIABILITIES		**344,564**	162,644
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,906**	3,880
Net assets		**339,658**	158,764
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**6,914**	1
Reserves		**332,744**	158,763
Total equity		**339,658**	158,764

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are 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**").

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 2016.

The accounting policies and the basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2016, 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.

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention. These unaudited condensed consolidated interim financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

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 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements and there has been no significant changes to the accounting policies in the unaudited condensed consolidated interim financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements.

Amendments to HKFRS 2	*Classifications and Measurement of Share-based payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers to Investment Property*[1]
Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs[4]
HK(IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption
4 Effective for annual periods beginning on or after 1 January 2018, with early application permitted

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacturing 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.

5. REVENUE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods	**515,022**	417,804

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories sold	**380,594**	288,981
(Gain)/loss on disposal of items of property, plant and equipment, net	**(6)**	6
(Reversal of provision)/provision against obsolete and slow-moving inventories	**(5,487)**	532
Impairment of trade receivables, net	**–**	154
Listing expenses	**2,690**	15,900

7. INCOME TAX EXPENSES

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% (2016: 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% (2016: 25%) on the taxable income.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – PRC	**5,619**	14,421
Current – Hong Kong	**6,516**	810
Deferred	**(149)**	3,392
Tax charge for the period	**11,986**	18,623

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

The calculation of basic earnings per share for the six months ended 30 June 2017 and 2016 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB56,564,000 (2016: RMB29,848,000), and the weighted average number of ordinary shares of 984,806,630 (2016: 750,000,000) in issue during the six months ended 30 June 2017.

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 (as defined in note 12) 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 of the Company (the "**Listing**") on the Main Board of the Stock Exchange on 12 January 2017.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2016 represented 100 ordinary shares of the Company as at 1 January 2016, 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 if these additional shares issued under the Share Split and the Capitalisation Issue had been in issue throughout the six months ended 30 June 2016.

No adjustment has been made to the basic earnings per share presented for the six months ended 30 June 2017 and 2016 as the Group had no potentially diluted ordinary shares in issue during those periods.

9. DIVIDENDS

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

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

Subsequent to the end of the Reporting Period, the Board has resolved to declare interim dividend of HK1.5 cents per ordinary share (2016: Nil) and a special dividend of HK4.5 cents per ordinary share (2016: Nil) for the six months ended 30 June 2017 to be paid on 25 September 2017 to shareholders of the Company whose names appeared on the register of members of the Company on 13 September 2017.

10. TRADE AND BILLS RECEIVABLES

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Trade receivables from third parties	**212,731**	200,466
Impairment of trade receivables	**–**	(159)
Trade receivables, net	**212,731**	200,307
Bills receivable arising from intra-group sales	**20**	19,673
	212,751	219,980

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months, extending up to two to three months for major customers. 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 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Within 3 months	**130,407**	201,870
4 to 6 months	**80,156**	12,110
7 to 12 months	**2,188**	6,000
	212,751	219,980

11. TRADE AND BILLS PAYABLES

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Trade payables to third parties	**228,149**	297,466
Bills payable		
– arising from intra-group purchases	**140,400**	121,133
– arising from third party purchases	**103,939**	124,116
	472,488	542,715

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 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Within 1 month	**168,476**	177,558
1 to 3 months	**130,508**	163,753
3 to 6 months	**143,776**	180,468
Over 6 months	**29,728**	20,936
	472,488	542,715

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.

12. SHARE CAPITAL

	30 June 2017		31 December 2016	
	US$'000 **(Unaudited)**	***RMB'000*** **equivalent (Unaudited)**	*US$'000* (Audited)	*RMB'000* equivalent (Audited)
Authorised:				
10,000,000,000 ordinary shares of US$0.001 each (31 December 2016: 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 (31 December 2016: 100,000 ordinary shares of US$0.001 each)	**1,000**	**6,914**	–	1

The movements in the Company's issued share capital during the periods are as follows:

	Notes	**Number of shares** **(Unaudited)**	**Nominal value** ***RMB'000*** **(Unaudited)**
Authorised:			
At 1 January 2016		50,000	346
Share Split	*(i)*	49,950,000	–
Increase in authorised share capital	*(ii)*	9,950,000,000	68,795
At 31 December 2016, 1 January 2017 and 30 June 2017		**10,000,000,000**	**69,141**
Issued and fully paid:			
At 1 January 2016		100	1
Share Split	*(i)*	99,900	–
At 31 December 2016 and 1 January 2017		100,000	1
Issue of new shares pursuant to the Global Offering	*(iii)*	250,000,000	1,728
Issue of new shares pursuant to the Capitalisation Issue	*(iv)*	749,900,000	5,185
At 30 June 2017		**1,000,000,000**	**6,914**

Note:

(i) Pursuant to the written resolutions of the then sole shareholder of the Company passed on 10 December 2016, each share of the Company of US$1 in the issued and unissued share capital of the Company was sub-divided into 1,000 shares of US$0.001 each, such that the authorised share capital of the Company became US$50,000 divided into 50,000,000 shares of US$0.001 each and the issued share capital of the Company became US$100 divided into 100,000 shares of US$0.001 each (the "**Share Split**").

(ii) Pursuant to the written resolutions of the then sole shareholder of the Company passed on 10 December 2016, the authorised share capital of the Company was increased from US$50,000 to US$10,000,000 by the creation of a further 9,950,000,000 shares of US$0.001 each.

(iii) In connection with the Listing, 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.

(iv) Upon the creation of the Company's share premium account as a result of the Global Offering pursuant to the Listing, 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 of the Company for allotment and issue to the then existing shareholders of the Company (the "**Capitalisation Issue**").

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the Group has been committed to promote its own brands, to develop new products and to improve its production and operation efficiency, which has greatly enhanced the competitiveness of its sofa export business. The Group has also focused on developing its retail business and establishing a new retail sofa brand for the China market.

Since the transformation of the Group's business model from original-equipment-manufacturing ("**OEM**") to original-brand-manufacturing ("**OBM**"), and followed by its successful Listing in early 2017, the brand "Morris Holdings Limited" has gained greater recognition in the market of the United States ("**U.S.**"). With the enhanced product quality and the improved customer loyalty in the U.S. market, the Group's revenue increased by approximately 23.3% to approximately RMB515.0 million for the six months ended 30 June 2017 from approximately RMB417.8 million for the six months ended 30 June 2016.

In April 2017, the Group participated in the High Point Market exhibition held in High Point, North Carolina, the U.S.. At the exhibition, the Group showcased its latest sofa products with new designs and new functions, and received good responses and encouraging feedback from both existing and potential customers. The exhibition provided the Group the opportunities to communicate with customers and other sofa suppliers, and enabled the Group to gain a greater understanding of the U.S. sofa market and market trend. Through its marketing efforts, the Group has promoted its own brand "Morris Holdings Limited" in the U.S. market as a brand which is known for its design, quality and good value for money.

In order to meet the increasing demand from its customers and the rapid growth of its business, the Group recruited a large number of new workers and increased the floor area of its plant and office in the PRC from 100,528.4 square meters as at 31 December 2016 to 201,565.4 square meters as at 30 June 2017. The Group's expansion of its production facilities has also been progressing well in an orderly and planned manner during the Reporting Period, which has substantially increased the Group's production capacity.

The management believes that online shopping is the new trend. During the Reporting Period, the Group entered into agreements with two well-known online shopping platforms in the U.S. to sell its own-branded sofa products. The Group rented a 8,450.5 square meters warehouse in Mocksville, North Carolina, U.S., from which its sofas could be directly shipped to online shoppers. The Group also provides pre-sale and after-sales services at the warehouse in response to customer's demand. The Group also improved its inventory control and management.

To satisfy customers' demand for high quality products with new features, the Group's research and development center in Haining developed 15 new production technologies and 13 new products during the Reporting Period. The Group believes that its continuous technological upgrades, diversified product portfolio and sofas with smart features have increased customers' awareness of its products and have positively contributed to the promotion of its brand.

FINANCIAL REVIEW

The revenue of the Group increased from approximately RMB417.8 million for the six months ended 30 June 2016 to approximately RMB515.0 million for the six months ended 30 June 2017, representing an increase of approximately 23.3%. The profit for the period increased by approximately 89.9% from approximately RMB29.8 million for the six months ended 30 June 2016 to approximately RMB56.6 million for the six months ended 30 June 2017. If excluding the one-off Listing expenses incurred for the six months ended 30 June 2016 and 2017 and the government grant recorded for the six months ended 30 June 2017, the profit for the period would increase by approximately 16.6% from approximately RMB45.7 million for the six months ended 30 June 2016 to approximately RMB53.3 million for the six months ended 30 June 2017. The Company's basic and diluted earnings per ordinary share was RMB5.74 cents for the six months ended 30 June 2017 (2016: RMB3.98 cents) based on the profit for the period attributable to ordinary equity holders of the Company of approximately RMB56.6 million (2016: approximately RMB29.8 million), and the weighted average number of ordinary shares of 984,806,630 for the six months ended 30 June 2017 (2016: 750,000,000) on the assumption that the Share Split (see Note 12) and Capitalisation Issue (see Note 12) had been completed on 1 January 2016.

Revenue

The revenue of the Group increased by approximately 23.3%, from approximately RMB417.8 million for the six months ended 30 June 2016 to approximately RMB515.0 million for the six months ended 30 June 2017, which was primarily attributable to the successful promotion of OBM products in the U.S. markets, the increased popularity of functional sofas and the depreciation of RMB against U.S. dollar.

Cost of sales

The cost of sales of the Group increased by approximately 29.6% from approximately RMB289.5 million for the six months ended 30 June 2016 to approximately RMB375.1 million for the six months ended 30 June 2017, which was primarily due to the increase in cost of raw materials and the expansion of the production capacity of the Group for the six months ended 30 June 2017.

Gross profit

The gross profit of the Group increased by approximately 9.0% from approximately RMB128.3 million for the six months ended 30 June 2016 to approximately RMB139.9 million for the six months ended 30 June 2017. The gross profit margin decreased from approximately 30.7% for the six months ended 30 June 2016 to approximately 27.2% for the six months ended 30 June 2017, primarily due to the higher percentage increase in cost of raw materials and the cost of expansion of the production capacity of the Group, which outweighed the percentage increase in revenue during the corresponding period.

Other net income and gains

The other net income and gains of the Group increased from approximately RMB3.1 million for the six months ended 30 June 2016 to approximately RMB3.6 million for the six months ended 30 June 2017. Such increase was primarily due to an one-off government grant of RMB6.0 million recorded for the six months ended 30 June 2017, which was partially offset by the exchange losses recorded for the six months ended 30 June 2017.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 1.3% from approximately RMB31.8 million for the six months ended 30 June 2016 to approximately RMB32.2 million for the six months ended 30 June 2017. Such increase was primarily due to the increase in carriage outwards expenses which mainly include the delivery expenses charged by logistics companies for delivery of the products from warehouse to the ports and loading charges and declaration charges, which was partially offset by the decrease in promotion expenses in the U.S. market due to the maturity of the U.S. market.

Administrative expenses

The administrative expenses of the Group decreased by approximately 17.9% from approximately RMB44.7 million for the six months ended 30 June 2016 to approximately RMB36.7 million for the six months ended 30 June 2017, which was primarily due to the decrease in Listing expenses of approximately RMB2.7 million incurred during the six months ended 30 June 2017, as compared to the Listing expenses of approximately RMB15.9 million incurred during the six months ended 30 June 2016.

Finance costs

The finance costs of the Group for the Reporting Period was similar to the corresponding period in 2016 primarily due to similar average interest rate of bank borrowings in both periods.

Income tax expense

The income tax expense of the Group decreased by approximately 35.5% from approximately RMB18.6 million for the six months ended 30 June 2016 to approximately RMB12.0 million for the six months ended 30 June 2017. In addition, the effective tax rate decreased from approximately 38.4% for the six months ended 30 June 2016 to approximately 17.5% for the six months ended 30 June 2017. The substantial decrease in both income tax expense and effective tax rate for the six months ended 30 June 2017 was mainly attributable to (i) decrease in non-deductible Listing expenses incurred during the six months ended 30 June 2017; (ii) increase of super-deduction of eligible research and development expenditure during the six months ended 30 June 2017 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.

Profit for the period

As a result of the foregoing, the profit for the period increased by approximately 89.9% from approximately RMB29.8 million for the six months ended 30 June 2016 to approximately RMB56.6 million for the six months ended 30 June 2017. If excluding the one-off Listing expenses incurred during the six months ended 30 June 2017 and 2016 and the one-off government grant received during the six months ended 30 June 2017, the profit for the period would increase by approximately 16.6% from approximately RMB45.7 million for the six months ended 30 June 2016 to approximately RMB53.3 million for the six months ended 30 June 2017.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

For the six months ended 30 June 2017, cash and cash equivalents of the Group decreased by approximately RMB11.1 million, which was comprised of the net cash flows used in operating activities of approximately RMB50.4 million, net cash flows generated from investing activities of approximately RMB14.5 million, and net cash flows generated from financing activities of approximately RMB25.7 million, while approximately RMB0.8 million was the net exchange losses of foreign exchange rate changes.

Borrowing and pledge of assets

As at 30 June 2017, the Group's interest-bearing bank borrowings amounted to approximately RMB180.8 million (31 December 2016: approximately RMB277.2 million), all of which were repayable within 12 months from 30 June 2017. The bank loans' interest rates ranged from 2.1% to 6.5% (31 December 2016: 1.4% to 7.4%) per annum.

As at 30 June 2017, approximately RMB199.6 million (31 December 2016: approximately RMB220.8 million) restricted bank balances were pledged for bank borrowings and bills payables.

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 174.6% as at 31 December 2016 to approximately 53.2% as at 30 June 2017, which was primarily due to the increase in total equity and the decrease in interest-bearing bank borrowings as at 30 June 2017.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2017.

Trade and bills receivables

The trade and bills receivables of the Group decreased to approximately RMB212.8 million as at 30 June 2017 (31 December 2016: approximately RMB220.0 million), primarily due to the decrease in the discounting of less low credit rating bills which could not satisfy the derecognition criteria of the relevant accounting standard, to obtain financing from banks.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB472.5 million as at 30 June 2017 (31 December 2016: approximately RMB542.7 million), primarily due to the 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 2017, 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 2017 and there was no hedging instruments outstanding as at 30 June 2017. 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 2017, the Group employed a work force of 2,265. The total salaries and related costs including the directors' remuneration for the six months ended 30 June 2017 amounted to approximately RMB72.2 million (2016: approximately RMB63.6 million).

EVENT AFTER THE REPORTING PERIOD

No subsequent event has occurred after 30 June 2017 which may have a significant effect on the assets and liabilities or future operation of the Group.

OUTLOOK

The Group's major tasks in the forthcoming future include increasing market presence in the U.S., expanding its business into other overseas markets, developing its retail business in China as well as improving production capacity.

The U.S. market has always been the Group's primary market. The management will increase the size of the sales team in order to maintain close business relationship with existing customers. The Group intends to increase its brand recognition with existing customers, while actively developing business relationships with new customers. The Group will participate in the Las Vegas Furniture Show for the first time in the second half of 2017 where the Group's brands and products will be promoted to new customers, with an aim to develop new business relationships. The Group also intends to expand into other overseas markets, including Ireland, the United Kingdom, Australia, South Korea, etc. The Company is in the process of setting up sales teams in the target markets.

The Group has accumulated invaluable experience when transforming from an OEM business to an OBM business. In the future, the Group will focus on the development of OBM products, striving to achieve a top ranking in global sofa brands and to produce world-class sofa products. The Group will continue to attempt to uplift its position in the industry and to enhance its bargaining power in the supply chain.

"MorriSofa" is a newly established brand specifically designed for China and Hong Kong markets. Its brand positioning is young, stylish, technological and multi-functional. The Group has employed an Italian designer for MorriSofa's exterior design, and a U.S. designer for functional design, through which fashion and function can be perfectly combined. To develop the MorriSofa brand, the Group plans to open a MorriSofa retail flagship store in Shanghai by the end of 2017, and to gradually expand to other parts of China. In Hong Kong, a MorriSofa retail flagship store on Morrison Hill Road in Wan Chai is expected to open in September 2017. By integrating online channels with offline platforms, the Group attempts to capture the Hong Kong market with the support of its high-quality new products.

In terms of capacity expansion, the Group has increased its production capacity by almost doubling the floor area of its plant and office in the PRC in the first half of 2017. Newly-recruited employees have been trained simultaneously and have started to work in the production facilities. The management may continue to enhance production capacity in Haining to satisfy the increase in sales and production demand.

In addition to the Group's organic growth, merger and acquisition is another way of growing the Group's business. The Group is actively looking for suitable merger and acquisition targets to further expand and strengthen its position in the market.

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 during the six months ended 30 June 2017.

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 and, where applicable, the recommended best practices set out in the Corporate Governance Code ("**Corporate Governance Code**") set out in Appendix 14 of the Listing Rules. The Company has applied and complied with the relevant provisions of the Corporate Governance Code for the period from Listing Date to 30 June 2017, save for the below deviations.

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.

Under code provision A.6.7 of the Corporate Governance Code, independent non-executive directors and other non-executive directors should attend general meetings. One of the independent non-executive Directors, Ms. Zhang Bingbing, did not attend the annual general meeting of the Company, held on 31 May 2017 due to other business engagements.

Pursuant to code provision I(f) of the Corporate Governance Code and Rule 3.10(1) of the Listing Rules, an issuer must include at least three independent non-executive directors. Further, pursuant to Rule 3.21 of the Listing Rules, every issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required in Rule 3.10(2) of the Listing Rules. The majority of the audit committee members must be independent non-executive directors of the issuer. The audit committee must be chaired by an independent non-executive director. As disclosed in the Company's announcement dated 31 May 2017, Ms. Zhang Bingbing resigned as an independent non-executive Director with effect from 31 May 2017. Following the resignation of Ms. Zhang Bingbing, the Company was not in compliance with Rules 3.10(1) and 3.21 of the Listing Rules. Mr. Liu Haifeng was appointed as an independent non-executive Director on 6 July 2017. Following his appointment, the Company is in compliance with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules.

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 2017 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 HK1.5 cents per ordinary share (2016: Nil) and a special dividend of HK4.5 cents per ordinary share (2016: Nil) for the six months ended 30 June 2017 to be paid on 25 September 2017 to shareholders whose names appeared on the register of members on 13 September 2017.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on 13 September 2017, will qualify for the interim dividend and the special dividend. The Company's transfer books and register of members will be closed from 11 September 2017 to 13 September 2017 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the interim dividend and the special dividend. In order to qualify for the interim dividend and the special 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 8 September 2017.

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, 25 August 2017

As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Chen Guohua, Mr. Zeng Jin and Mr. Shen Zhidong; and the independent non-executive Directors are Mr. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng.