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MORRIS
HOME HOLDINGS LIMITED

MORRIS HOME HOLDINGS LIMITED

慕容家居控股有限公司

(formerly known as “Morris Holdings Limited 慕容控股有限公司”)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

- Revenue increased by approximately 29.4% to approximately RMB274.9 million for the six months ended 30 June 2021 (2020: approximately RMB212.5 million)
- Gross profit increased by approximately 397.6% to approximately RMB82.6 million for the six months ended 30 June 2021 (2020: approximately RMB16.6 million)
- The Group recorded a loss of approximately RMB42.8 million for the six months ended 30 June 2021 (2020: approximately RMB87.4 million)
- Basic loss per share was approximately RMB4.52 cents for the six months ended 30 June 2021 (2020: approximately RMB8.96 cents)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: Nil)

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Morris Home Holdings Limited (the “**Company**”) announced its unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2020 (the “**Comparative Period**”). This condensed consolidated interim financial information for the six months ended 30 June 2021 was unaudited, but has been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Six months ended 30 June	
	<i>Notes</i>	2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	274,881	212,461
Cost of sales		(192,236)	(195,816)
Gross profit		82,645	16,645
Other income and gains		9,805	39,896
(Allowance for)/reversal of expected credit losses in respect of financial assets carried at amortised cost, net		(256)	6,192
Selling and distribution expenses		(37,573)	(51,889)
Administrative expenses		(64,903)	(84,473)
Other expenses and losses		(20,937)	(1,494)
Finance costs		(10,980)	(13,345)
Loss before tax	5	(42,199)	(88,468)
Income tax (expense)/credit	6	(636)	1,052
Loss for the period		(42,835)	(87,416)
Other comprehensive loss:			
<i>Item may be reclassified to profit or loss</i>			
Exchange differences on translation of financial statements		(5,555)	(1,185)
<i>Item that were reclassified to profit or loss</i>			
Reclassification of cumulative exchange fluctuation reserve upon disposal of subsidiaries		(1,759)	–
Other comprehensive loss for the period, net of income tax		(7,314)	(1,185)
Total comprehensive loss for the period		(50,149)	(88,601)

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss attributable to:			
Owner of the Company		(41,780)	(87,363)
Non-controlling interests		(1,055)	(53)
		<u>(42,835)</u>	<u>(87,416)</u>
Total comprehensive loss attributable to:			
Owner of the Company		(49,135)	(88,562)
Non-controlling interests		(1,014)	(39)
		<u>(50,149)</u>	<u>(88,601)</u>
Loss per share attributable to ordinary equity holders of the Company			
Basic (Unaudited)	7	<u>RMB(4.52) cents</u>	<u>RMB(8.96) cents</u>
Diluted (Unaudited)		<u>RMB(4.52) cents</u>	<u>RMB(9.50) cents</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

		30 June 2021	31 December 2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		6,749	32,316
Right-of-use assets		11,345	23,449
Deferred tax assets		3,552	4,142
		<hr/>	<hr/>
Total non-current assets		21,646	59,907
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		169,969	171,229
Trade receivables	9	82,528	140,380
Prepayments, deposits and other receivables		285,946	106,284
Amount due from a shareholder		–	324
Amount due from related companies		172,794	92,521
Pledged deposits		47,474	70,238
Cash and cash equivalents		54,260	35,969
		<hr/>	<hr/>
Total current assets		812,971	616,945
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	10	248,343	265,237
Contract liabilities		13,451	13,239
Other payables and accruals		48,817	49,766
Amount due to related companies		29,169	46,575
Bank and other borrowings		166,162	94,734
Warranty provision		1,648	3,124
Lease liabilities		15,137	17,259
Derivative financial instruments		347	313
Convertible loan		68,198	84,356
Income tax payables		2,982	3,749
		<hr/>	<hr/>
Total current liabilities		594,254	578,352
		<hr/>	<hr/>
NET CURRENT ASSETS		218,717	38,593
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		240,363	98,500
		<hr/>	<hr/>

		30 June	31 December
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		36	123
Bank and other borrowings		199,200	–
Lease liabilities		14,533	21,634
		<hr/>	<hr/>
Total non-current liabilities		213,769	21,757
		<hr/>	<hr/>
Net assets		26,594	76,743
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital	11	6,914	6,914
Reserves		20,518	69,653
		<hr/>	<hr/>
Equity attributable to owners of the Company		27,432	76,567
Non-controlling interests		(838)	176
		<hr/>	<hr/>
Total equity		26,594	76,743
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements (the “**unaudited interim results**”) is prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Hong Kong Companies Ordinance. These unaudited interim results do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2020.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited interim results are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 2 below.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim results are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of amendments to HKFRSs effective as of 1 January 2021.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021

These amendments have no material impact on the Group’s financial statements, nor are expected to have any future impact to the Group.

3. SEGMENT INFORMATION

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

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

- a. Retail segment
- b. Manufacturing segment

Segment revenues and results

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

	Retail segment		Manufacturing segment		Elimination of intersegment sales		Total	
	Six months ended 30 June 2021 RMB'000 (Unaudited)	Six months ended 30 June 2020 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)	Six months ended 30 June 2020 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)	Six months ended 30 June 2020 RMB'000 (Unaudited)	Six months ended 30 June 2021 RMB'000 (Unaudited)	Six months ended 30 June 2020 RMB'000 (Unaudited)
Segment revenues								
- External sales	109,007	86,879	165,874	125,582	-	-	274,881	212,461
- Internal sales	-	-	65,843	21,693	(65,843)	(21,693)	-	-
	<u>109,007</u>	<u>86,879</u>	<u>231,717</u>	<u>147,275</u>	<u>(65,843)</u>	<u>(21,693)</u>	<u>274,881</u>	<u>212,461</u>
Segment loss	<u>(15,429)</u>	<u>(21,103)</u>	<u>(22,461)</u>	<u>(79,139)</u>	<u>-</u>	<u>(20)</u>	<u>(37,890)</u>	<u>(100,262)</u>
Interest income							324	675
Fair value change on contingent consideration receivables							-	9,500
Fair value change on derivative component of convertible loan							(33)	-
Gain on substantial modification of convertible loan							-	11,716
Gain on disposal of subsidiaries							8,451	-
Unallocated corporate expenses							(12,447)	(8,408)
Unallocated finance costs							<u>(604)</u>	<u>(1,689)</u>
Loss before taxation							<u>(42,199)</u>	<u>(88,468)</u>

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

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

	Retail segment		Manufacturing segment		Consolidated	
	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	81,154	114,632	721,573	554,890	802,727	669,522
Unallocated corporate assets					31,890	7,330
Consolidated assets					834,617	676,852
Segment liabilities	43,675	54,386	684,385	459,944	728,060	514,330
Unallocated corporate liabilities					79,963	85,779
Consolidated liabilities					808,023	600,109

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

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

Other segment information

	Retail segment		Manufacturing segment		Unallocated		Total	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Addition of property, plant and equipment	1,190	247	646	63,545	-	-	1,836	63,792
Addition of right-of-use assets	-	6,096	-	-	-	-	-	6,096
Depreciation of property, plant and equipment	848	1,589	495	2,670	-	-	1,343	4,259
Depreciation of right-of-use assets	4,680	19,978	-	2,461	-	-	4,680	22,439
(Reversal)/provision against obsolete and slow-moving inventories	350	(106)	(43,011)	1,869	-	-	(42,661)	1,763
Allowance for/(reversal of) expected credit losses on financial assets at amortised cost, net	(242)	(316)	501	(5,876)	(3)	-	256	(6,192)
Finance costs	560	5,125	9,816	6,531	604	1,689	10,980	13,345

Geographical information

(a) Revenue from external customers

	30 June 2021 RMB'000 (Unaudited)	30 June 2020 RMB'000 (Unaudited)
The People's Republic of China (including Hong Kong)	29,944	14,955
The United Kingdom	76,894	22,777
The U.S.	159,609	174,729
Others	8,434	–
	<u>274,881</u>	<u>212,461</u>

(b) Non-current assets

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
The People's Republic of China (including Hong Kong)	13,242	17,260
Cambodia	–	32,233
The U.S.	–	–
The United Kingdom	4,852	6,272
	<u>18,094</u>	<u>55,765</u>

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

Information about major customers

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Customer 1	79,416	30,560
Customer 2	48,036	N/A*
Customer 3	31,155	N/A*
Customer 4	30,732	21,817
	<u>179,339</u>	<u>73,194</u>

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

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
<i>Recognised at a point of time:</i>		
Manufacturing and sales of sofas, sofa cover and other furniture products	274,547	212,461
Commission income	334	–
	<u>274,881</u>	<u>212,461</u>

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	234,897	194,053
Depreciation of property, plant and equipment	1,343	4,259
Depreciation of right-of-use assets	4,680	22,439
Gain on substantial modification of convertible loan	–	(11,716)
Salaries, wages and benefits in kind	69,357	56,417
Pension scheme contributions	7,309	3,949
(Reversal of)/provision against obsolete and slow-moving inventories	(42,661)	1,763
Allowance for/(reversal of) expected credit losses on financial assets at amortised cost, net	256	(6,192)
Reversal of product warranty, net	(1,452)	(966)
Interest for convertible loan	604	1,689
Interest for lease liabilities	801	5,462
	<u>801</u>	<u>5,462</u>

6. INCOME TAX

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2020: 16.5%).

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the period (2020: 25%). Pursuant to the relevant laws and regulations in the PRC, Zhejiang Morris Fashion Home Co., Ltd. (“**Fashion Home**”) and Zhejiang Apollo Leather Products Co., Ltd. (“**Apollo**”), which qualified as High and New Technology Enterprises (“**HNTE**”) on 30 November 2018, were entitled to a reduced enterprise income tax rate of 15%. During the period ended 30 June 2021, Fashion Home and Apollo applied the qualification of HNTE and are entitled to the reduced tax rate of 15% until 30 November 2021.

The U.S. corporate tax rate is 21% for the period ended 30 June 2021 in accordance to the Tax Cuts and Jobs Act. The U.S. income tax includes (a) federal income tax calculated at a fixed rate of 21% for the period ended 30 June 2021 (2020: a fixed rate of 21%) on the estimated U.S. federal taxable income and (b) state income tax calculated at various state income tax rates for both periods on the estimated state taxable income for the respective states. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

Pursuant to the income tax rules and regulations of United Kingdom (UK), the subsidiary comprising the Group in UK is liable to United Kingdom CIT at a tax rate of 19% for the period ended 30 June 2021.

Pursuant to the relevant laws and regulations in Cambodia, the tax rate of the Cambodian subsidiary is 20% during the period ended 30 June 2021.

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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Hong Kong	46	–
Current – U.S.	–	–
Current – Other	–	65
Deferred tax	<u>590</u>	<u>(1,117)</u>
Tax expense/(credit) for the period	<u><u>636</u></u>	<u><u>(1,052)</u></u>

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

The calculation of basic loss per share amount for the period ended 30 June 2021 was based on the loss for the period attributable to ordinary equity holders of the Company of RMB41,780,000 (2020: RMB87,363,000), and the weighted average number of ordinary shares of 924,188,000 (2020: 975,440,956) in issue during the period.

Diluted earnings per share amounts for the six months ended 30 June 2021 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 loss for the six months ended 30 June 2021 is adjusted to exclude the interest expense on the Convertible Loan, if any (2020: adjusted to exclude the interest expense on the Convertible Loan and gain on substantial modification of convertible loan less tax effect, if any).

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss for the purpose calculating basic loss per share (loss for the period attributable to the owners of the Company)	(41,780)	(87,363)
Interest on the convertible loan	604	1,689
Gain on substantial modification of convertible loan	–	(11,716)
	<hr/>	<hr/>
Loss attributable to the shareholders of the Company, used in the diluted loss per share calculation	(41,176)	(97,390)
	<hr/> <hr/>	<hr/> <hr/>
	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue, used in the basic earnings per share calculation	924,188,000	975,440,956
Effect of dilutive – weighted average number of ordinary shares: convertible loan	44,591,312	49,985,192
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	968,779,312	1,025,426,148
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDENDS

The Board has proposed not to declare interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

9. TRADE RECEIVABLES

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables from third parties	89,118	147,401
Less: allowance for expected credit losses	(6,590)	(7,021)
	<hr/>	<hr/>
	82,528	140,380
	<hr/> <hr/>	<hr/> <hr/>

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

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	73,868	134,551
4 to 6 months	7,456	5,628
7 to 12 months	1,204	201
	<u>82,528</u>	<u>140,380</u>

10. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables to third parties	104,535	113,039
Bills payables		
– arising from intra-group purchases	60,664	54,098
– arising from third party purchases	83,144	98,100
	<u>248,343</u>	<u>265,237</u>

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 month	71,289	100,252
2 to 3 months	98,901	44,978
4 to 6 months	60,698	48,014
Over 6 months	17,455	71,993
	<u>248,343</u>	<u>265,237</u>

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

11. SHARE CAPITAL

	30 June 2021		31 December 2020	
	<i>US\$'000</i> (Unaudited)	<i>RMB'000</i> <i>equivalent</i> (Unaudited)	<i>US\$'000</i> (Audited)	<i>RMB'000</i> <i>equivalent</i> (Audited)
<i>Authorised:</i>				
10,000,000,000 ordinary shares of US\$0.001 each	10,000		10,000	
<i>Issued and fully paid:</i>				
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 period are as follow:

	Number of ordinary shares in issue	Issued capital <i>RMB'000</i> (Unaudited)
As at 31 December 2020 and 30 June 2021	1,000,000,000	6,914

12. EVENT AFTER THE REPORTING PERIOD

Subsequent to the Reporting Period, in July 2021, the Company received a notice from the Potential Investor (the "**Termination Notice**") that it does not intend to proceed further with the Possible Subscription on the terms described in the Memorandum of Understanding, and that the transactions contemplated in the Memorandum of Understanding would cease and proceed no further. Simultaneously with the receiving of the Termination Notice, the Company received repayment notices dated 8 July 2021 (the "**Repayment Notices**") demanding repayment of the outstanding principal of the Working Capital Loan in the approximate amount of RMB50 million plus interest. For more details, please refer to the Company's announcement dated 9 July 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, having faced with complex and adverse trading environment and the widespread impact of COVID-19, the Group continued to develop new markets, invest in product design and research and development, and establish and expand sales channels. As a result, the Group's revenue increased from approximately RMB212.5 million in the Comparative Period to approximately RMB274.9 million in the Reporting Period, representing an increase of approximately 29.4%. Loss for the period decreased by approximately 51.0% from approximately RMB87.4 million in the Comparative Period to approximately RMB42.8 million in the Reporting Period.

Business development in the U.S. and U.K.

The Group's U.S. business has faced strong challenges due to continued Sino-US trade war, instability of global supply chain and high freight costs caused by the COVID-19 pandemic. However, due to vigorous efforts to rebuild our U.S. business, the Group successfully achieved growth in some of our key U.S. customers. In the meantime, with hard efforts and strong execution, the Group continued the growth in our U.K. business amidst the severe impact of the COVID-19 pandemic. Amidst the difficult business environment, the management of the Group sought to tackle these challenges by consolidating relationship with selected key customers, and grow our wholesale business.

Retail business development in China and Hong Kong

As of August 2021, the Group had a total of 1 flagship showroom, 1 self-operated retail store, 30 franchise stores and 2 online stores across different provinces in Mainland China.

In Hong Kong, the Group had a total of 4 self-operated retail stores in Central, Sha Tin, Tsuen Wan and West Kowloon, and 6 points of consignment sales in East Kowloon, Yuen Long, Wan Chai, Lai Chi Kok and Tsuen Wan. The Group also introduced auxiliary decoration services to establish one-stop services including decoration and furniture setting, instilling its stylish home design concept into Hong Kong market.

Our commitment to design and customer service has continuously improved our "Morrisofa" brand image and increased our customer base and loyalty. As a result, the Group's retail business continued to grow in the Reporting Period.

FINANCIAL REVIEW

For the six months ended 30 June 2021, the principal business activities of Group comprise the manufacturing and sales of sofas, sofa covers and other furniture products.

During the Reporting Period, the revenue of the Group amounted to approximately RMB274.9 million (2020: approximately RMB212.5 million), representing an increase of approximately 29.4% as compared with the corresponding period last year, which was mainly attributed to the increase in revenue generated from sale of sofas, sofa covers and other furniture products resulted from the recovery of the economy with the stabilization of the COVID-19 situation in our major markets.

The Group's gross profit for the Reporting Period was approximately RMB82.6 million (2020: approximately RMB16.6 million), representing an increase of approximately 397.6% as compared with the corresponding period last year, with gross profit margin increased from approximately 7.8% to approximately 30.0%. The increase in gross profit margin was primarily due to larger contribution from the U.K. and Hong Kong markets which enjoyed a higher profit margin and the reverse of inventory provision due to clearance sales.

The net loss of the Group amounted to approximately RMB42.8 million (2020: approximately RMB87.4 million) during the Reporting Period. The decrease in net loss was mainly attributable to an increase in sales volume in the U.K. and Hong Kong markets.

The Company's basic loss per ordinary share was approximately RMB4.52 cents for the six months ended 30 June 2021 (2020: approximately RMB8.96 cents) based on the loss for the period attributable to ordinary equity holders of the Company of approximately RMB42.8 million (2020: approximately RMB87.4 million), and the weighted average number of ordinary shares of 924,188,000 for the six months ended 30 June 2021 (30 June 2020: 975,440,956).

Cost of sales

The cost of sales of the Group decreased by approximately 1.8% from approximately RMB195.8 million for the six months ended 30 June 2020 to approximately RMB192.2 million for the six months ended 30 June 2021, which was primarily due to the increase in sales of higher gross margin product in U.K. and Hong Kong market and the reverse of inventory provision due to clearance sales.

Other income and gains

The other income and gains of the Group decreased from approximately RMB39.9 million for the six months ended 30 June 2020 to approximately RMB9.8 million for the six months ended 30 June 2021. Such decrease was mainly due to the decrease in fair value change on contingent consideration receivables, gain on substantial modification of convertible loan and net exchange gains.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately 27.6% from approximately RMB51.9 million for the six months ended 30 June 2020 to approximately RMB37.6 million for the six months ended 30 June 2021. Such decrease was primarily due to the decrease in store expenses after the disposal of Jennifer Convertibles Inc.

Administrative expenses

The administrative expenses of the Group decreased by approximately 23.2% from approximately RMB84.5 million for the six months ended 30 June 2020 to approximately RMB64.9 million for the six months ended 30 June 2021. Such decrease was primarily due to decrease in one off expenses related to land development during the period.

Finance costs

The finance costs of the Group decreased by approximately 17.3% from approximately RMB13.3 million for the six months ended 30 June 2020 to approximately RMB11.0 million for the six months ended 30 June 2021. The decrease in finance costs was mainly due to the decrease in interest for lease liabilities.

Other expenses and losses

The other expenses and losses of the Group increased from approximately RMB1.5 million for the six months ended 30 June 2020 to approximately RMB20.9 million for the six months ended 30 June 2021 was mainly due to the loss on clearance sales of long age raw materials.

Income tax (expense)/credit

The income tax expense of the Group was approximately RMB0.6 million for the six months ended 30 June 2021, as compared to income tax credit of approximately RMB1.1 million for the six months ended 30 June 2020. The reversal of income tax credit to income tax expense was mainly attributable to the profit-making situation this year in Hong Kong and deferred tax expenses.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at 30 June 2021, cash and bank balances of the Group were denominated mainly in Renminbi, British pound sterling, Hong Kong dollars and U.S. dollars in the aggregate amount of approximately RMB101.7 million (31 December 2020: RMB106.2 million). The current ratios (current assets divided by current liabilities) of the Group were 1.37 times and 1.07 times as at 30 June 2021 and 31 December 2020, respectively. In view of the Group's current level of cash and bank balances and funds being generated internally from our operations, the Board is of the view that the Group should have sufficient resources to meet its financial needs for its operations.

Borrowing and pledge of assets

As at 30 June 2021, the Group's interest-bearing bank and other borrowings amounted to approximately RMB365.4 million (31 December 2020: approximately RMB94.734 million). The bank loans' interest rates ranged from 1.7% to 6.5% (31 December 2020: 3.4% to 6.5%) per annum.

As at 30 June 2021, approximately RMB47.5 million (31 December 2020: approximately RMB70.2 million) restricted bank balances were pledged for bank borrowings and bills payables. Decrease in restricted bank balance was mainly due to the decline in deposit level required by banks during the Reporting Period.

Gearing ratio

The gearing ratio of the Group, which is total debts (comprised of amount due to a shareholder, amounts due to related companies, lease liabilities, convertible loan and interest-bearing bank and other borrowings) divided by total equity as at the end of the year/period, increased from approximately 345.5% as at 31 December 2020 to approximately 1,851.5% as at 30 June 2021, which was primarily due to the increase in interest-bearing bank and other borrowings as at 30 June 2021.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2021.

Trade receivables

The trade and bills receivables of the Group decreased to approximately RMB82.5 million as at 30 June 2021 (31 December 2020: approximately RMB140.4 million), primarily due to the decrease in sales to our customers in the second quarter of 2021 as compared to the fourth quarter of 2020.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB248.3 million as at 30 June 2021 (31 December 2020: approximately RMB265.2 million), primarily due to the decrease in purchase from the Group's suppliers in the second quarter of 2021 as compared to the fourth quarter of 2020.

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. dollars while the costs arising from the Group's operations are generally settled in RMB. As a result, fluctuations in the value of U.S. dollars against RMB could adversely affect the financial results of the Group. During the six months ended 30 June 2021, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation. The Group used forward exchange contract for hedging purpose with the hedging instruments outstanding as at 30 June 2021 in the amount of approximately RMB0.3 million (31 December 2020: approximately RMB0.3 million). The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in the future.

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE SHARE CAPITAL OF A SUBSIDIARY

On 8 January 2021, Morris International Group Limited (the “**Vendor**”), a direct wholly-owned subsidiary of the Company, and Morris Capital Limited (the “**Purchaser**”), a connected person of the Company, entered into the share purchase agreement, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to acquire the entire issued share capital of Masia Investment Limited (the “**Disposal Company**”), for the aggregate consideration of US\$5.513 million (approximately RMB36 million). Further, it is agreed between the Vendor and the Purchaser that the Purchaser shall take the Disposal Company with the current liabilities of the Disposal Group. The transaction was completed on 9 March 2021. Further details of the disposal of the Disposal Company were set out in the announcements of the Company dated 8 January 2021 and 9 March 2021 and the circular of the Company dated 18 February 2021.

CHANGE OF COMPANY NAME

On 13 April 2021, the Company changed its English name from “Morris Holdings Limited” to “Morris Home Holdings Limited” and adopted the Chinese name “慕容家居控股有限公司” as its dual foreign name to replace its former Chinese name “慕容控股有限公司” (the “**Change of Company Name**”). Further details of the Change of Company Name were set out in the announcements of the Company dated 24 February 2021, 1 April 2021 and 26 May 2021 and the circular of the Company dated 10 March 2021. The Change of Company Name was registered with Hong Kong Companies Registry on 13 May 2021. Following the Change of Company Name becoming effective, the stock short name of the Company has changed from “MORRIS HOLD” in English and “慕容控股” in Chinese to “MORRIS HOME” in English and “慕容家居” in Chinese with effect from 9:00 a.m. on 1 June 2021. The Company also adopted a new company logo with effect from 1 June 2021.

DISCLOSURE PURSUANT TO RULE 13.17 OF THE LISTING RULES

On 14 April 2021, the controlling shareholder of the Company, Morris Capital Limited (“**Morris Capital**”) entered into two share charges (the “**Share Charges**”) to agree to charge an aggregate of 750,000,000 shares (representing 75% of the issued share capital) of the Company in favour of Jiaxing Haining branch of 浙商银行股份有限公司 (China Zheshang Bank Co., Ltd.) (“**CZBank**”) to secure the repayment obligations of loan facilities owed by 浙江慕容时尚家居有限公司 (Zhejiang Morris Fashion Home Co., Ltd.) and 浙江阿波羅皮革製品有限公司 (Zhejiang Apollo Leather Products Co., Ltd.) (collectively, the “**Borrowers**”) to CZBank for up to the maximum limit of RMB280 million. Further details of the Share Charges were disclosed in the Company’s announcement dated 26 May 2021.

SUBSEQUENT EVENTS

As disclosed in the Company’s announcement dated 16 June 2021, on 15 June 2021 (after trading hours), the Company and the Potential Investor entered into the Memorandum of Understanding, pursuant to which the Company intends to issue, and the Potential Investor intends to subscribe for, the Subscription Shares. On 15 June 2021, the Potential Investor provided (and procured the provision by its affiliated entities of) short-term working capital loans to the Group in the total amount of RMB 50 million (the “**Working Capital Loan**”), secured by corporate guarantees by the Company and share charges in the equity of certain subsidiaries of the Group. As disclosed in the Company’s announcement dated 9 July 2021, on 8 July 2021 (after trading hours), the Company received a notice from the Potential Investor (the “**Termination Notice**”) that it does not intend to proceed further with the Possible Subscription on the terms described in the Memorandum of Understanding, and that the transactions contemplated in the Memorandum of Understanding would cease and proceed no further. Simultaneously with the receiving of the Termination Notice, the Company received repayment notices dated 8 July 2021 (the “**Repayment Notices**”) demanding repayment of the outstanding principal of the Working Capital Loan in the approximate amount of RMB50 million plus interest. The Board considers that the termination of the Memorandum of Understanding should have no material adverse impact on the financial position and operations of the Group.

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 2021, the Group employed a work force of 1,295 (31 December 2020: 1,494). The total salaries and related costs including the directors’ remuneration for the six months ended 30 June 2021 amounted to approximately RMB69.4 million (for the six months ended 30 June 2020: approximately RMB56.4 million).

SHARE OPTION SCHEME

The Company operates a share option scheme which allows the Company to grant options to eligible persons as rewards for their contributions to the Group. The share option scheme was adopted by the Company on 10 December 2016. No share options were granted under the share option scheme since the listing date in January 2017, no share options were granted, exercised or cancelled during the Reporting Period and no share options were outstanding as at 30 June 2021 and the date of this announcement.

OUTLOOK

Broadening sources of income and cutting expenditure

The Group will take measures on broadening sources of income and cutting expenditure to cope with the continuing outbreak of COVID-19. In terms of broadening sources of income, the Group will actively seek for methods in reducing reliance on the U.S. market, and leverage on its mature and effective production capacity to focus on the expansion in the furniture market in other overseas markets and the domestic sales in China and Hong Kong. In terms of cost control measures, the management will continue to optimize human resources, enhance production management and improve production and operating efficiency, in order to minimize the impacts of the COVID-19 on the Group.

Branding strategy

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

In China, in order to explore the domestic sofa and furniture market, the Group will continue to take part in large furniture fairs in China for promoting the brand “Morris”, and will launch a new series of sofa and furniture products integrating modern and traditional styles in the fourth quarter of 2021. In Hong Kong, with its solid development foundation, the Group will continue to penetrate the Hong Kong market for gaining a foothold for “Morris” in Hong Kong.

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

Save as disclosed in the paragraph headed “Restricted Share Award Scheme” below, 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 2021.

RESTRICTED SHARE AWARD SCHEME

The Restricted Share Award Scheme (the “**Award Scheme**”) was adopted by the Board on 29 August 2019 (the “**Adoption Date**”) as an incentive to retain and encourage employees for the continual operation and development of the Group. During the period under review, the trustee of the Award Scheme, pursuant to the terms of the rules and trust deed of the Award Scheme, acquired 75,812,000 shares of the Company by way of acquisition at an aggregate consideration of approximately HK\$10,679,284 (including transaction costs) representing approximately 7.58% of the issued share capital of the Company as at the Adoption Date.

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 2021.

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

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

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

During the Reporting Period and up to the date hereof, the Audit Committee of the Company comprised of three independent non-executive Directors, with at least one member possessing recognised professional qualifications in accounting and/or having wide experience in audit and accounting. Currently, the members of the Audit Committee are Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun. The Audit Committee has reviewed with the management of the Company the unaudited interim results and interim report of the Group for the six months ended 30 June 2021 and is of the opinion that it complies with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2021 (2020: Nil).

SUFFICIENCY OF PUBLIC FLOAT

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

PUBLICATION OF UNAUDITED INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This unaudited interim results announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.morrishome.com.hk. The unaudited interim report of the Company for the Reporting Period will be dispatched to the shareholders of the Company and published on the aforesaid websites in due course on or before 30 September 2021.

APPRECIATION

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

By order of the Board
Morris Home Holdings Limited
Zou Gebing

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 30 August 2021

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