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MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

- Revenue decreased by approximately 57.5% to approximately RMB212.5 million for the six months ended 30 June 2020 (2019: approximately RMB499.6 million)
- Gross profit decreased by approximately 76.7% to approximately RMB16.6 million for the six months ended 30 June 2020 (2019: profit of approximately RMB71.1 million)
- The Group recorded a loss of approximately RMB87.4 million for the six months ended 30 June 2020 (2019: approximately RMB79.1 million)
- Basic loss per share was approximately RMB8.96 cents for the six months ended 30 June 2020 (2019: approximately RMB7.91 cents)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: Nil)

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Morris Holdings Limited (the “**Company**”) announced its unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2019. This condensed consolidated interim financial information for the six months ended 30 June 2020 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 2020

		Six months ended 30 June	
	<i>Notes</i>	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	212,461	499,599
Cost of sales		(195,816)	(428,503)
Gross profit		16,645	71,096
Other income and gains		39,896	21,032
Reversal of/(allowance for) expected credit losses in respect of financial assets carried at amortised cost, net		6,192	(1,184)
Selling and distribution expenses		(51,889)	(94,781)
Administrative expenses		(84,473)	(63,496)
Other expenses and losses		(1,494)	(78)
Finance costs		(13,345)	(12,798)
Loss before tax	5	(88,468)	(80,209)
Income tax credit	6	1,052	1,142
Loss for the period		(87,416)	(79,067)
Other comprehensive loss: <i>Item may be reclassified to profit or loss</i>			
Exchange differences on translation of financial statements		(1,185)	(2,290)
Total comprehensive loss for the period		(88,601)	(81,357)
Loss attributable to:			
Owner of the Company		(87,363)	(79,067)
Non-controlling interests		(53)	–
		(87,416)	(79,067)
Total comprehensive loss attributable to:			
Owner of the Company		(88,562)	(81,357)
Non-controlling interests		(39)	–
		(88,601)	(81,357)
Loss per share attributable to ordinary equity holders of the Company	7		
Basic (Unaudited)		RMB(8.96) cents	RMB(7.91) cents
Diluted (Unaudited)		RMB(9.50) cents	RMB(7.91) cents

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		49,970	71,480
Right-of-use assets		133,910	227,972
Contingent consideration receivables		247,388	234,425
Deferred tax assets		7,805	9,020
Total non-current assets		439,073	542,897
CURRENT ASSETS			
Inventories		145,163	169,509
Trade and bills receivables	9	93,514	217,018
Prepayments, deposits and other receivables		195,469	212,217
Amount due from a shareholder		353	–
Amount due from related companies		31,257	–
Pledged deposits		100,818	132,277
Cash and cash equivalents		65,659	71,046
Total current assets		632,233	802,067
CURRENT LIABILITIES			
Trade and bills payables	10	371,870	389,334
Contract liabilities		33,818	24,844
Other payables and accruals		65,385	63,240
Amount due to a shareholder		10,606	10,107
Amount due to related companies		146,360	80,310
Interest-bearing bank borrowings		66,849	220,815
Warranty provision		3,723	4,689
Lease liabilities		37,301	46,504
Convertible loan	11	51,166	99,986
Income tax payables		7,406	18,969
Total current liabilities		794,484	958,798
NET CURRENT LIABILITIES		(162,251)	(156,731)
TOTAL ASSETS LESS CURRENT LIABILITIES		276,822	386,166
NON-CURRENT LIABILITIES			
Deferred tax liabilities		556	2,888
Interest-bearing bank borrowings		10,000	–
Convertible loan	11	49,186	9,602
Lease liabilities		113,348	176,709
Total non-current liabilities		173,090	189,199
Net assets		103,732	196,967
EQUITY			
Share capital	12	6,914	6,914
Reserves		97,119	190,315
Equity attributable to owners of the Company		104,033	197,229
Non-controlling interests		(301)	(262)
Total equity		103,732	196,967

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2019.

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 2019, 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.

In preparing the unaudited condensed consolidated interim financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the Group’s net loss and net current liabilities of approximately RMB87,416,000 and RMB162,251,000 respectively as at 30 June 2020. The Directors have taken the following factors to consider the future liquidity which include, but not limited to the followings:

(i) **Operation plans and positive cash flow operations**

The Group will implement operation plans to control costs and generate adequate cash flows from the Group’s operations.

(ii) **Necessary facilities**

The Group will negotiate with its bankers for the renewal and additional of bank facilities, and the restructuring of bank loan combination with an aim to transform the short-term bank loans to long-term bank loans, in order to meet the Group’s working capital and financial requirements in the next 12 months.

(iii) **Financial support and amount due to immediate holding company**

Morris Capital Limited has agreed to provide the financial support for not less than 12 months from the six months ended 30 June 2020.

(iv) Put option

Pursuant to the disclosable and connected transaction circular of the Company dated 3 July 2020, the Company has exercised the put option to require the seller to repurchase all the common stock of Jennifer Convertibles Inc. at the exit price of US\$35 million. The exercise of the put option was approved at the extraordinary general meeting of the Company held on 21 July 2020 and completed subsequently.

In the opinion of the directors of the Company, in light of the various measures or arrangements implemented after the end of reporting period together with the expected results of the other measures, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to remain a commercially viable concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 2019, except for the adoption of amendments to HKFRSs effective as of 1 January 2020.

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

Issued but not yet effective HKFRSs

The Group has not applied the following new and amendments to HKFRSs, that have been issued but are not yet effective, in these unaudited interim results:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 17	Insurance Contracts
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19 Related Rent Concessions
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contract – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41

The amendments are not expected to have any significant impact on the Group's financial statements.

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 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019	Six months ended 30 June 2020	Six months ended 30 June 2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenues								
— External sales	86,879	105,575	125,582	394,024	-	-	212,461	499,599
— Internal sales	-	-	21,693	21,977	(21,693)	(21,977)	-	-
	<u>86,879</u>	<u>105,575</u>	<u>147,275</u>	<u>416,001</u>	<u>(21,693)</u>	<u>(21,977)</u>	<u>212,461</u>	<u>499,959</u>
Segment loss	<u>(21,103)</u>	<u>(34,013)</u>	<u>(79,139)</u>	<u>(39,642)</u>	<u>(20)</u>	<u>39</u>	<u>(100,262)</u>	<u>(73,616)</u>
Interest income							675	587
Fair value change on derivative component convertible loan							-	2,356
Fair value change on contingent consideration receivables							9,500	4,168
Gain on substantial modification of convertible loan							11,716	-
Unallocated corporate expenses							(8,408)	(8,752)
Unallocated finance costs							(1,689)	(4,952)
Loss before taxation							<u>(88,468)</u>	<u>(80,209)</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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Segment assets	187,194	287,448	636,663	822,127	823,857	1,109,575
Unallocated corporate assets					247,449	235,389
Consolidated assets					<u>1,071,306</u>	<u>1,344,964</u>
Segment liabilities	190,632	272,523	569,915	662,022	760,547	934,545
Unallocated corporate liabilities					207,027	213,452
Consolidated liabilities					<u>967,574</u>	<u>1,147,997</u>

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 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
Addition of property, plant and equipment	247	743	63,545	23,879	-	-	63,792	24,622
Addition of right-of-use assets	6,096	-	-	40,309	-	-	6,096	40,309
Depreciation of property, plant and equipment	1,589	1,713	2,670	2,891	-	-	4,259	4,604
Depreciation of right-of-use assets	19,978	20,120	2,461	2,628	-	-	22,439	22,748
Provision against obsolete and slow-moving inventories	(106)	(8)	1,869	1,184	-	-	1,763	1,176
(Reversal of)/impairment loss on trade and bills receivables	(316)	-	(5,876)	1,184	-	-	(6,192)	1,184
Finance costs	5,125	-	6,531	2,529	1,689	10,269	13,345	12,798

Geographical information

(a) Revenue from external customers

	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
The People's Republic of China (including Hong Kong)	14,955	71,395
The United Kingdom	22,777	–
The U.S.	174,729	428,204
	212,461	499,599

(b) Non-current assets

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
The People's Republic of China (including Hong Kong)	32,739	79,444
Cambodia	35,841	36,387
The U.S.	115,044	183,460
The United Kingdom	256	161
	183,880	299,452

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	
	2020 RMB'000	2019 RMB'000
Customer 1	30,560	N/A*
Customer 2	N/A*	66,345
Customer 3	N/A*	66,261
Customer 4	21,817	N/A*

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

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
<i>Recognised at point of time:</i>		
Manufacturing and sales of sofas, sofa cover and other furniture products	212,461	499,599

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	194,053	407,111
Depreciation of property, plant and equipment	4,259	4,604
Depreciation of right-of-use assets	22,439	22,748
Gain on substantial modification of convertible loan	(11,716)	–
Salaries, wages and benefits in kind	56,417	88,254
Pension scheme contributions	3,949	4,173
Provision against obsolete and slow-moving inventories	1,763	1,176
Write-down of inventories to net realisable value	–	1,491
(Reversal of impairment)/impairment of trade and bills receivables, net	(6,192)	1,184
Reversal of product warranty, net	(966)	(1,484)
Interest for convertible loan	1,689	4,880
Interest for lease liabilities	5,462	5,317

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% (2019: 16.5%).

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the period (2019: 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 2020, 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 2020 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 2020 (2019: 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 2020.

Pursuant to the relevant laws and regulations in Cambodia, the tax rate of the Cambodian subsidiary is 20% during the period ended 30 June 2020.

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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Hong Kong	–	1,139
Current — U.S.	–	65
Current — Other	65	–
Deferred tax	(1,117)	(2,346)
	<u> </u>	<u> </u>
Tax credit for the period	(1,052)	(1,142)
	<u> </u>	<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 2020 was based on the loss for the period attributable to ordinary equity holders of the Company of RMB87,363,000 (2019: RMB79,067,000), and the weighted average number of ordinary shares of 975,440,956 (2019: 1,000,000,000) in issue during the period.

Diluted earnings per share amounts for the six months ended 30 June 2020 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 2020 is adjusted to exclude the interest expense on the Convertible Loan and gain on substantial modification of convertible loan less tax effect, if any (2019: No adjustment has been made to the basic loss per share amounts as the Group had anti-dilutive ordinary shares in issue).

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

	Six months ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Loss for the purpose calculating basic loss per share (loss for the period attributable to the owners of the Company)	(87,363)	(79,067)
Interest on the convertible loan	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	(97,390)	(79,067)
	<hr/>	<hr/>
	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Weighted average number of ordinary shares in issue, used in the basic earnings per share calculation	975,440,956	1,000,000,000
Effect of dilutive — weighted average number of ordinary shares: convertible loan	49,985,192	–
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,025,426,148	1,000,000,000
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8. DIVIDENDS

The Board has proposed not to declare interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

9. TRADE AND BILLS RECEIVABLES

	30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
	Trade receivables from third parties	104,519
Less: Impairment of trade receivables	(11,637)	(17,829)
	<hr/>	<hr/>
Trade receivables, net	92,882	217,018
Bills receivable arising from intra-group sales	632	–
	<hr/>	<hr/>
	93,514	217,018
	<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 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	55,310	205,807
4 to 6 months	29,087	2,925
7 to 12 months	9,117	8,286
	93,514	217,018

10. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables to third parties	153,028	158,737
Bills payable		
— arising from intra-group purchases	69,853	90,865
— arising from third party purchases	148,989	139,732
	371,870	389,334

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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	59,131	108,207
2 to 3 months	158,435	72,450
4 to 6 months	109,914	130,034
Over 6 months	44,390	78,643
	371,870	389,334

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Liability component of the Convertible Loan	100,352	109,588

30 June 2020	31 December 2019
RMB'000	RMB'000
(Unaudited)	(Audited)

Analysed for reporting purpose as:

Liability component of the Convertible Loan

Current liabilities	51,166	99,986
Non-current liabilities	49,186	9,602
	100,352	109,588

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.

On 29 May 2020, the Company was granted a temporary waiver by IFC to postpone the instalments from 28 January 2020 to 28 April 2020. At the same time, the repayment schedule was renewed. As the modification of the convertible loan is substantial, the convertible loan was derecognized and the Company record gain on substantial modification of the convertible loan of approximately RMB11,716,000.

The Convertible Loan recognised in the unaudited condensed consolidated statement of financial position of the Group and the movements during the Reporting Period are as follows:

	<i>RMB'000</i>
At 1 January 2020 (Audited)	109,588
Gain on substantial modification of the Convertible Loan	(11,716)
Imputed interest on the Convertible Loan	1,689
Exchange difference	791
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At 30 June 2020 (Unaudited)	100,352
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12. SHARE CAPITAL

	30 June 2020		31 December 2019	
	<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	
	<hr/>		<hr/>	
<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
	<hr/>	<hr/>	<hr/>	<hr/>

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 2019 and 30 June 2020	1,000,000,000	6,914
	<hr/>	<hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) has severely disrupted the global economic activities and led to widespread slowdown in economy. The unprecedented situation coupled with China US trade tensions led to disruption to global supply chains and weakened consumer sentiment, resulting in adverse effects to the performance of the Group for the first half of 2020. The revenue of the Group amounted to approximately RMB212.5 million for the six months ended 30 June 2020, representing a decrease of approximately 57.5% as compared to approximately RMB499.6 million for the six months ended 30 June 2019.

Business development in North America

As our revenue was mainly derived from the U.S., the Sino-US trade friction and the epidemic had material impacts on the Group, leading to a significant decrease in our results in North America as compared to the same period of last year. Due to the partial sharing of tariffs, the profit margin of our exported products was also affected. Amidst the difficult business environment caused by the Sino-US trade war, the management of the Group sought to tackle these challenges by consolidating relationship with selected enterprise customers.

Retail business development in China and Hong Kong

As of August 2020, the Group had a total of 1 flagship showroom, 2 self-operated retail stores, 6 franchise stores and 3 online stores across different provinces in Mainland China.

In Hong Kong, the Group had a total of 4 self-operated retail stores in Wan Chai, Sha Tin, Tsuen Wan and Causeway Bay, respectively and 4 points of consignment sales in Kowloon Bay, Yuen Long, Wan Chai 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.

Other overseas markets

During the Reporting Period, the Group established a showroom in Tokyo, Japan, as the first step to develop the Japanese market. For United Kingdom market, the Group started the supply chain warehouse program with a large chain store. The Group intends to provide more diversified and competitive products to increase the market share in these markets.

FINANCIAL REVIEW

For the six months ended 30 June 2020, 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 RMB212.5 million (2019: RMB499.6 million), representing a decrease of approximately 57.5% as compared with last period, which was mainly attributed to the decrease in revenue generated from sale of sofas, sofa covers and other furniture products resulted from the disruption of business activities and supply chain caused by COVID-19 and the shop closures of the Group in the United States.

The Group's gross profit for the Reporting Period was RMB16.6 million (2019: RMB71.1 million), representing a decrease of approximately 76.7% as compared with the same period of last year, with gross profit margin decreased from approximately 14.2% to approximately 7.8%. The decrease in gross profit margin was primarily due to tariffs imposed by the US on furniture imported from Mainland China and the decreased orders of furniture products due to the outbreak of COVID-19.

The net loss of the Group amounted to RMB87.4 million (2019: RMB79.1 million) during the Reporting Period. The increase in net loss was mainly attributable to a decrease in sales volume caused by the Sino-US trade war and the outbreak of COVID-19.

The Company's basic loss per ordinary share was RMB8.96 cents for the six months ended 30 June 2020 (basic loss per share for the six months ended 30 June 2019: RMB7.91 cents) based on the loss for the period attributable to ordinary equity holders of the Company of approximately RMB87.4 million (profit for the six months ended 30 June 2019: approximately RMB79.1 million), and the weighted average number of ordinary shares of 1,025,426,148 for the six months ended 30 June 2020 (30 June 2019: 1,000,000,000).

Cost of sales

The cost of sales of the Group decreased by approximately 54.3% from approximately RMB428.5 million for the six months ended 30 June 2019 to approximately RMB195.8 million for the six months ended 30 June 2020, which was primarily due to the decrease in sales.

Other income and gains

The other income and gains of the Group increased from approximately RMB21.0 million for the six months ended 30 June 2019 to approximately RMB39.9 million for the six months ended 30 June 2020. Such increase was mainly due to the increase in fair value change on contingent consideration receivables, gain on substantial modification of the convertible loan, gain on leases termination and net exchange gains.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately 45.3% from approximately RMB94.8 million for the six months ended 30 June 2019 to approximately RMB51.9 million for the six months ended 30 June 2020. Such decrease was primarily due to the decrease in marketing cost.

Administrative expenses

The administrative expenses of the Group increased by approximately 24.9% from approximately RMB63.5 million for the six months ended 30 June 2019 to approximately RMB84.5 million for the six months ended 30 June 2020. Such increase was primarily due to increase in professional and consultancy fee incurred during the period.

Finance costs

The finance costs of the Group slightly increased by approximately 3.9% from approximately RMB12.8 million for the six months ended 30 June 2019 to approximately RMB13.3 million for the six months ended 30 June 2020. The increase in finance costs was mainly due to the increase in interest for lease liabilities.

Income tax credit

The income tax credit decreased by approximately 7.9% from approximately RMB1,142,000 for the six months ended 30 June 2019 to income tax credit approximately RMB1,052,000 for the six months ended 30 June 2020 as the major subsidiaries in PRC suffered loss during the Reporting Period due to the decrease in sales volume and the impact from the Sino-US trade war. Currently, our principal subsidiaries in Mainland China are subject to an enterprise income tax rate of 15%.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

For the six months ended 30 June 2020, cash and cash equivalents of the Group decreased by approximately RMB5.4 million, which was comprised of the net cash flows generated from operating activities of approximately RMB84.1 million, net cash flows generated from investing activities of approximately RMB58.8 million, and net cash flows used in financing activities of approximately RMB146.0 million, while approximately RMB2.3 million was the net exchange loss of foreign exchange rate changes.

Borrowing and pledge of assets

As at 30 June 2020, the Group's interest-bearing bank borrowings amounted to approximately RMB76.8 million (31 December 2019: approximately RMB220.8 million). The bank loans' interest rates ranged from 4.4% to 6.5% (31 December 2019: 3.2% to 6.5%) per annum.

As at 30 June 2020, approximately RMB100.8 million (31 December 2019: approximately RMB132.3 million) restricted bank balances were pledged for bank borrowings and bills payables. Decrease in restricted bank balance was mainly due to the decrease in bills payables during the Reporting Period.

Gearing ratio

The gearing ratio of the Group, which is total interest-bearing bank borrowings divided by total equity as at the end of the year/period, decreased from approximately 112.0% as at 31 December 2019 to approximately 74.0% as at 30 June 2020, which was primarily due to the decrease in interest-bearing bank borrowings as at 30 June 2020.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2020.

Trade and bills receivables

The trade and bills receivables of the Group decreased to approximately RMB93.5 million as at 30 June 2020 (31 December 2019: approximately RMB217.0 million), primarily due to the decrease in sales to our customers in the second quarter in 2020 as compared to the fourth quarter in 2019.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB371.9 million as at 30 June 2020 (31 December 2019: approximately RMB389.3 million), primarily due to the decrease in purchase from the Group's suppliers in the second quarter in 2020 as compared to the fourth quarter in 2019.

Foreign exchange exposure

Revenue from major customers is mainly from the U.S. while the production facilities of the Group are mainly located in the PRC. Accordingly, most of the sales are denominated in U.S. dollar while the costs arising from the Group's operations are generally settled in RMB. As a result, fluctuations in the value of U.S. dollar against RMB could adversely affect the financial results of the Group. During the six months ended 30 June 2020, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation. The Group did not use any financial instruments for hedging purposes during the six months ended 30 June 2020 and there was no hedging instruments outstanding as at 30 June 2020. 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 consider implementing hedging arrangement to mitigate foreign exchange risk if and when necessary or appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

On 19 June 2020, the Group entered into the disposal agreement to dispose of certain land and construction in progress (the "**Disposal Assets**") to Zhejiang Haining Warp Knitting Industrial Zone Development Co., Ltd., an independent third party, for the consideration of RMB95.7 million, constituting a major transaction for the Company. The disposal was approved by the written shareholder's approval of Morris Capital Limited (75% shareholder of the Company) in lieu of the holding of a general meeting pursuant to Rule 14.44 of the Listing Rules, and was completed on signing. Further details of the disposal were set out in the Company's announcement dated 19 June 2020.

Save as disclosed above, the Group had no other significant investments, nor had it made any material acquisition or disposal of the Group's subsidiaries or associated companies during the Reporting Period. Although the JCI Disposal and the JCI Receivables Disposal were triggered by way of the Put Option during the Reporting Period, completion of the disposals took place after the period end.

SUBSEQUENT EVENTS

On 31 March 2020, the Company exercised the put option (the “**Put Option**”) to require Morris Group Co., Ltd. (慕容集團有限公司) (“**Morris PRC**”) to repurchase the entire shareholding of Jennifer Convertibles Inc. (“**JCI**”) for the consideration of US\$35 million (the “**JCI Disposal**”), together with the disposal of trade and loan receivables (the “**JCI Receivables Disposal**”). Further details of the JCI Disposal and the JCI Receivables Disposal are set out in the Company’s announcement dated 31 March 2020. The disposals regarding JCI were regarded as discloseable and connected transactions for the Company, were approved by the independent shareholders of the Company (the “**Independent Shareholders**”) at the extraordinary general meeting of the Company held on 21 July 2020, and were completed subsequent to the end of the Reporting Period.

On 8 July 2020, the Group entered into the 2020 Lease Renewal Agreement with Morris PRC to agree on the renewal of the leases of the 2020 Leased Properties, subject to the obtaining of approval from the Independent Shareholders. On 21 August 2020, the Group and Morris PRC entered into a supplemental agreement regarding the lease renewal. Further details on the leases are set out in the Company’s announcements dated 8 July 2020 and 21 August 2020. Due to the right of unilateral early termination by the Group, the Company does not expect that the leases as renewed by the 2020 Lease Agreements would be recognized as right-of-use assets in the Group’s consolidated statement of financial position.

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 2020, the Group employed a work force of 1,431 (31 December 2019: 2,065). The total salaries and related costs including the directors’ remuneration for the six months ended 30 June 2020 amounted to approximately RMB56.4 million (for the six months ended 30 June 2019: approximately RMB88.3 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 2020 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 Sino-US trade war and 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 Sino-US trade war and 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 2020. 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 2020.

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 39,698,000 shares of the Company by way of acquisition at an aggregate consideration of approximately HK\$5,143,000 (including transaction costs) representing approximately 4.0% of the issued share capital of the Company as at the Adoption Date.

CHANGE OF DIRECTORS AND COMPOSITION OF BOARD COMMITTEES

The changes in information of the Directors since 31 December 2019 are set out below:

Mr. Pang Wing Hong, an independent non-executive Director, resigned on 31 July 2020. Mr. Qian Jun was appointed as an independent non-executive Director on 31 July 2020. For further details, please refer to the announcement of the Company dated 31 July 2020.

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 2020.

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

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

AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS

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 2020 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 2020 (2019: 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.morrisholdings.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 2020.

APPRECIATION

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

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 28 August 2020

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