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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 FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 38.1% to approximately RMB606.4 million in 2020 (2019: approximately RMB980.3 million)
- Gross profit decreased by approximately 43.0% to approximately RMB58.8 million in 2020 (2019: approximately RMB103.1 million)
- Loss for the year was approximately RMB90.7 million in 2020 as compared with loss for the year of approximately RMB140.7 million in 2019
- Basic loss per share was approximately RMB9.56 cents in 2020 as compared with basic loss per share of approximately RMB14.07 cents in 2019
- The Board did not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil)

The board (the “**Board**”) of directors (the “**Directors**”) of Morris Holdings Limited (the “**Company**”) announces the consolidated final results (the “**Final Results**”) of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 (“**2020**” or the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2019 (“**2019**”). The Final Results have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) as below.

The figures in respect of the preliminary announcement of the Group’s results for the year ended 31 December 2020 have been agreed by the Group’s auditor, HLB Hodgson Impey Cheng Limited (“**HLB**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	5	606,363	980,298
Cost of sales		<u>(547,597)</u>	<u>(877,211)</u>
Gross profit		58,766	103,087
Other income and gains	6	120,508	85,549
Reversal of/(allowance for) expected credit losses in respect of financial assets carried at amortised cost, net		10,231	(15,579)
Impairment loss on property, plant and equipment		(12,954)	(2,346)
Impairment loss on right-of-use assets		(18,084)	(6,773)
Selling and distribution expenses		(97,235)	(191,938)
Administrative expenses		(99,759)	(117,073)
Other expenses and losses		(31,723)	(4,539)
Finance costs	7	<u>(17,590)</u>	<u>(29,331)</u>
Loss before tax	8	(87,840)	(178,943)
Income tax (expenses)/credit	9	<u>(2,890)</u>	<u>38,253</u>
Loss for the year		<u>(90,730)</u>	<u>(140,690)</u>
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements		(10,886)	(5,969)
<i>Items that were reclassified to profit or loss:</i>			
Reclassification of cumulative exchange fluctuation reserve upon disposal of subsidiaries		<u>(11,885)</u>	–
Other comprehensive loss for the year, net of income tax		<u>(22,771)</u>	<u>(5,969)</u>
Total comprehensive loss for the year		<u>(113,501)</u>	<u>(146,659)</u>

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
(Loss)/profit attributable to:			
Owners of the Company		(91,192)	(140,436)
Non-controlling interests		462	(254)
		<u>(90,730)</u>	<u>(140,690)</u>
 Total comprehensive (loss)/profit attributable to:			
Owners of the Company		(113,939)	(146,397)
Non-controlling interests		438	(262)
		<u>(113,501)</u>	<u>(146,659)</u>
 Loss per share attributable to ordinary equity holders of the Company			
Basic (<i>RMB cents</i>)	<i>10</i>	<u>(9.56)</u>	<u>(14.07)</u>
Diluted (<i>RMB cents</i>)	<i>10</i>	<u>(10.01)</u>	<u>(14.07)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		32,316	71,480
Right-of-use assets		23,449	227,972
Contingent consideration receivables		–	234,425
Deferred tax assets		4,142	9,020
		<hr/>	<hr/>
Total non-current assets		59,907	542,897
CURRENT ASSETS			
Inventories		171,229	169,509
Trade receivables	<i>12</i>	140,380	217,018
Prepayments, deposits and other receivables		106,284	212,217
Amount due from a shareholder		324	–
Amounts due from related companies		92,521	–
Pledged deposits		70,238	132,277
Cash and cash equivalents		35,969	71,046
		<hr/>	<hr/>
Total current assets		616,945	802,067
CURRENT LIABILITIES			
Trade and bills payables	<i>13</i>	265,237	389,334
Contract liabilities		13,239	24,844
Other payables and accruals		49,766	63,240
Amount due to a shareholder		–	10,107
Amounts due to related companies		46,575	80,310
Interest-bearing bank borrowings		94,734	220,815
Warranty provision		3,124	4,689
Lease liabilities		17,259	46,504
Derivative financial instruments		313	–
Convertible loan		84,356	99,986
Income tax payables		3,749	18,969
		<hr/>	<hr/>
Total current liabilities		578,352	958,798
NET CURRENT ASSETS/(LIABILITIES)		<hr/> 38,593	<hr/> (156,731)
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 98,500	<hr/> 386,166

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		123	2,888
Convertible loan		–	9,602
Lease liabilities		21,634	176,709
		<hr/>	<hr/>
Total non-current liabilities		21,757	189,199
		<hr/>	<hr/>
Net assets		76,743	196,967
		<hr/>	<hr/>
EQUITY			
Share capital		6,914	6,914
Reserves		69,653	190,315
		<hr/>	<hr/>
Equity attributable to owners of the Company		76,567	197,229
Non-controlling interests		176	(262)
		<hr/>	<hr/>
Total equity		76,743	196,967
		<hr/>	<hr/>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 18 December 2013. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2001, 20/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 12 January 2017.

The Company acts as the holding company of the Group and its subsidiaries are principally engaged in the manufacture and sale of sofas, sofa covers and other furniture products.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Morris Capital Limited, which is incorporated in the British Virgin Islands (the “**BVI**”).

This announcement has been approved for issue by the Board on 30 March 2021.

2. BASIS OF PREPARATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. It has been prepared under the historical cost convention. This announcement is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”) except when otherwise indicated.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

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

Early adoption of amendments to HKFRSs

The following amendments to HKFRSs, which is applicable to the Group but are not yet effective for the current year, have been early adopted in current year:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
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Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

Impacts on early application of Amendment to HKFRS 16 Covid-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated losses at 1 January 2020. The Group has benefited from waiver of lease payments on several leases. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of approximately RMB501,000, which has been recognised as variable lease payments in profit or loss for the current year.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. 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 are as follows:

- a. Retail segment
- b. Manufacturing segment

Segment revenue 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	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Segment revenues								
External sales	183,671	241,860	422,692	738,438	-	-	606,363	980,298
Internal sales	-	-	103,046	64,803	(103,046)	(64,803)	-	-
	<u>183,671</u>	<u>241,860</u>	<u>525,738</u>	<u>803,241</u>	<u>(103,046)</u>	<u>(64,803)</u>	<u>606,363</u>	<u>980,298</u>
Segment loss	<u>(31,576)</u>	<u>(18,823)</u>	<u>(121,688)</u>	<u>(141,426)</u>	<u>(1,078)</u>	<u>(148)</u>	<u>(154,342)</u>	<u>(160,397)</u>
Interest income							1,107	1,357
Fair value change on derivative component of convertible loan							-	2,530
Fair value change on contingent consideration receivables							9,411	5,257
Gain/(loss) on modification of convertible loan							11,503	(3,915)
Gain on disposal of subsidiaries							57,761	-
Unallocated corporate expenses							(11,002)	(15,771)
Unallocated finance costs							<u>(2,278)</u>	<u>(8,004)</u>
Loss before tax							<u>(87,840)</u>	<u>(178,943)</u>

Segment loss represents the loss from each segment without allocation of interests income, fair value change on derivative component of convertible loan, fair value change on contingent consideration receivables, gain/(loss) on modification of convertible loan, gain on disposal of subsidiaries, 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	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	114,632	287,448	554,890	822,127	669,522	1,109,575
Unallocated corporate assets					7,330	235,389
Consolidated assets					676,852	1,344,964
Segment liabilities	54,386	272,523	459,944	662,022	514,330	934,545
Unallocated corporate liabilities					85,779	213,452
Consolidated liabilities					600,109	1,147,997

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

Other segment information

	Retail segment		Manufacturing segment		Unallocated		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Addition of right-of-use assets	30,596	70,640	-	41,435	-	-	30,596	112,075
Addition of property, plant and equipment	2,539	3,017	65,502	25,137	-	-	68,041	28,154
Depreciation of property, plant and equipment	3,002	3,835	5,218	5,751	-	-	8,220	9,586
Depreciation of right-of-use assets	26,941	46,437	4,721	3,782	-	-	31,662	50,219
Provision against obsolete and slow-moving inventories	291	194	39,557	12,257	-	-	39,848	12,451
(Reversal of)/allowance for expected credit losses in respect of trade receivables, net	223	421	(11,031)	15,155	-	-	(10,808)	15,576
(Reversal of)/allowance for expected credit losses in respect of prepayments, deposits and other receivables, net	(41)	2	140	1	4	-	103	3
Allowance for expected credit losses in respect of amounts due from related companies, net	-	-	474	-	-	-	474	-
Impairment loss on property, plant and equipment	1,489	1,973	11,465	373	-	-	12,954	2,346
Impairment loss on right-of-use assets	8,350	4,066	9,734	2,707	-	-	18,084	6,773
Gain on disposal of subsidiaries	-	-	-	-	(57,761)	-	(57,761)	-
Loss/(gain) on disposal of property, plant and equipment	-	-	15,677	(15)	-	-	15,677	(15)
Loss on disposal of right-of-use assets	-	-	5,086	-	-	-	5,086	-
Finance costs	5,767	12,851	9,545	8,476	2,278	8,004	17,590	29,331

Information about major customers

Revenue from major customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer 1	89,985	N/A*
Customer 2	N/A*	208,518
Customer 3	76,798	N/A*
Customer 4	88,192	N/A*
Customer 5	70,558	100,847

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

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the year and the Group's non-current assets.

(a) Revenue from external customers

The geographical locations of the customers are determined based on the locations of customer.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
People's Republic of China (including Hong Kong)	16,890	88,802
The United States of America ("US" or "U.S.")	466,088	800,462
Europe (<i>Note (a)</i>)	110,693	43,496
Others	12,692	47,538
	606,363	980,298

Notes:

(a) Europe mainly include France, Norway, Spain, Ireland and the United Kingdom.

(b) Non-current assets

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
People's Republic of China (including Hong Kong)	17,260	79,444
Cambodia	32,233	36,387
The U.S.	–	183,460
The United Kingdom ("U.K.")	6,272	161
	55,765	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.

5. REVENUE

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Recognised at a point in time</i>		
Manufacture and sales of sofa, sofa covers and other furniture products	605,901	980,298
Commission income	462	–
	<u>606,363</u>	<u>980,298</u>

As at 31 December 2020, the aggregate amount of the transaction price allocated to the remaining performance obligation under the Group's existing manufacture and sales of sofa, sofa covers and other furniture products is approximately RMB13,239,000 (2019: approximately RMB24,844,000) and the Group will recognise this revenue in 2021.

6. OTHER INCOME AND GAINS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income	1,107	1,357
Exchange gains	2,585	31,004
Government subsidies	6,279	27,302
Gain on disposal of property, plant and equipment	–	15
Gain on modification of convertible loan	11,503	–
Gain on remeasurement of leases	4,832	–
Gain on disposal of subsidiaries	57,761	–
Rental income	5,549	6,010
Covid-19 related rental concessions	501	–
Fair value change on derivative component of convertible loan	–	2,530
Sales of raw materials	407	134
Repair service income	1,759	9,180
Compensation on factory relocation	18,683	–
Fair value change on contingent consideration receivables	9,411	5,257
Others	131	2,760
	<u>120,508</u>	<u>85,549</u>

7. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans	7,577	6,041
Interest on discounted trade bills	1,332	1,832
Interest on convertible loan	2,278	7,931
Interest on lease liabilities	6,403	13,527
	<u>17,590</u>	<u>29,331</u>

8. LOSS BEFORE TAX

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

	2020	2019
	RMB'000	RMB'000
Cost of inventories sold	507,749	864,760
Depreciation of property, plant and equipment	8,220	9,586
Depreciation of right-of-use assets	31,662	50,219
Expense relating to short-term lease	12,478	18,679
Impairment loss on property, plant and equipment	12,954	2,346
Impairment loss on right-of-use assets	18,084	6,773
Loss on written off items of property, plant and equipment	–	4,322
Loss on disposal of property, plant and equipment	15,677	–
Loss on disposal of right-of-use assets	5,086	–
Auditors' remuneration:		
Audit and audit related services	1,415	1,481
Non-audit services	248	88
	1,663	1,569
Employee benefit expense (excluding directors' and chief executives remuneration):		
Salaries, wages and benefits in kind	51,950	171,930
Pension scheme contributions	8,626	9,195
	60,576	181,125
Provision against obsolete and slow-moving inventories	39,848	12,451
(Reversal of)/allowance for expected credit losses in respect of trade receivables, net	(10,808)	15,576
Allowance for expected credit losses in respect of prepayment, other receivables and deposits, net	103	3
Allowance for expected credit losses in respect of amounts due from related companies	474	–
Product warranty additional provision	3,268	4,649
(Gain)/loss on modification of convertible loan	(11,503)	3,915
Loss on derivative financial instruments	311	–
Exchange losses	8,254	–

9. INCOME TAX EXPENSES/(CREDIT)

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

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

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the year (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**”) in 30 November 2018, were entitled to a reduced enterprise income tax rate of 15%. During the year ended 31 December 2020 and 2019, Fashion Home and Apollo applied the qualification of HNTE and are entitled to the reduced tax rate of 15% until the year ended 30 November 2021.

The U.S. corporate tax rate is 21% for the year ended 31 December 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 year ended 31 December 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.

A change to the main U.K. corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. Deferred taxes are calculated based on the rates enacted in respect of future periods as at the reporting date. Pursuant to the income tax rules and regulations of U.K., the subsidiary comprising the Group in U.K. is liable to U.K. CIT at a tax rate of 19% for the year ended 31 December 2019.

Pursuant to the relevant laws and regulations in Cambodia, the tax rate of the Cambodian subsidiary is 20% during the years ended 31 December 2020 and 2019.

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

	2020	2019
	RMB'000	RMB'000
Current — PRC		
— Charge for the year	2,954	—
— Under/(over)-provision in prior year	155	(530)
Current — Hong Kong		
— Charge for the year	86	723
— Over-provision in prior year	(2,807)	(33,410)
Current — U.S.		
— Charge for the year	—	66
Current — Other		
— Charge for the year	331	9
— Under-provision in prior year	60	—
Deferred	2,111	(5,111)
	2,890	(38,253)

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

The calculation of basic loss per share amount for the year ended 31 December 2020 was based on the loss for the year attributable to ordinary equity holders of the Company of approximately RMB91,192,000 (2019: approximately RMB140,436,000), and the weighted average number of ordinary shares of 953,526,940 (2019: 998,379,710) in issue during the year.

Diluted loss per share amounts for the year ended 31 December 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 year ended 31 December 2020 is adjusted to exclude the interest expense on the convertible loan and gain on 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:

	2020	2019
	RMB'000	RMB'000
Loss for the purpose calculating basic loss per share		
(loss for the year attributable to the owners of the Company)	(91,192)	(140,436)
Interest on the convertible loan	2,278	—
Gain on modification of convertible loan	(11,503)	—
	(100,417)	(140,436)
Loss attributable to the owners of the Company, used in the diluted loss per share calculation	(100,417)	(140,436)
	2020	2019
Weighted average number of ordinary shares in issue, used in the basic earnings per share calculation	953,526,940	998,379,710
Effect of dilutive – weighted average number of ordinary shares:		
Convertible loan	49,985,193	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,003,512,133	998,379,710

11. DIVIDENDS

The board of directors did not recommend the payment of dividend of the year ended 31 December 2020 (2019: Nil).

12. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables from third parties	147,401	234,847
Less: allowance for expected credit losses	(7,021)	(17,829)
	140,380	217,018

The Group's trading terms with its customers are mainly on credit. The credit period for customers of the manufacturing segment is generally one to two months, extending up to three to four months for major customers, the credit period for customers of the retail segment is within one month. 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	134,551	205,807
4 to 6 months	5,628	2,925
7 to 12 months	201	8,286
	140,380	217,018

13. TRADE AND BILLS PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables to third parties	113,039	158,737
Bills payable		
— arising from intra-group purchases	54,098	90,865
— arising from third party purchases	98,100	139,732
	265,237	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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	100,252	108,207
2 to 3 months	44,978	72,450
4 to 6 months	48,014	130,034
Over 6 months	71,993	78,643
	<u>265,237</u>	<u>389,334</u>

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.

14. SUBSEQUENT EVENTS

(a) **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 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 on 18 February 2021.

(b) **Proposed change of company name**

The Company proposes to change the English name of the Company from “Morris Holdings Limited” to “Morris Home Holdings Limited” and to adopt the Chinese name “慕容家居控股有限公司” as the dual foreign name of the Company to replace the existing Chinese name “慕容控股有限公司” (the “**Change of Company Name**”), subject to the obtaining of shareholders’ approval at an extraordinary meeting of the Company (the “**EGM**”). Further details of Change of Company Name were set out in the announcements of the Company dated 24 February 2021 and the circular of the Company dated on 10 March 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year of 2020, the Group continued to develop new markets and invest in product design and research and development, and establishment and expansion of sales channels.

Due to the decrease in sales volume of sofa, sofa covers and other furniture products as a result of the supply-chain disruption caused by the outbreak of COVID-19 epidemic, the Group's revenue decreased from approximately RMB980.3 million in 2019 to approximately RMB606.4 million in 2020, representing a decrease of approximately 38.1%. Loss for the year was decreased from approximately RMB140.7 million in 2019 to approximately RMB90.7 million in 2020, principally due to the gain on modification of convertible loan, gain on disposal of subsidiaries, compensation on factory relocation and the decrease in selling and distribution expenses as a result of the disposal of Jennifer Convertibles Inc.

Business development in North America

As our revenue was mainly derived from the U.S., the Sino-US tension and the COVID-19 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 with our US customers, the profit margin of our exported products was also affected. Amidst the difficult business environment caused by the Sino-US tension, the management of the Group sought to tackle these challenges by strengthening relationship with selected quality customers.

Retail business development in China and Hong Kong

As of December 2020, the Group had a total of 1 flagship showroom, 2 self-operated retail stores, 10 franchise stores and 3 online stores across different provinces in Mainland China.

In Hong Kong, the Group had a total of 5 self-operated retail stores in Wan Chai, Sha Tin, Tsuen Wan, Causeway Bay and Tai Kok Tsui, respectively and 5 points of consignment sales in Kowloon Bay, Yuen Long, Wan Chai, Tsuen Wan and Lai Chi Kok. 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

Thanks to the successful launch of the warehouse program in the U.K., U.K. has become the fastest growing market for the Group in FY2020. We have established and strengthened the relationship with a large U.K. furniture retail chain customer and will continue to leverage on our resources in growing the business with U.K. customers.

As of December 2020, the Group established a showroom in Tokyo, Japan, as the first step to develop the Japanese market, and we successfully received orders from Japanese customers.

FINANCIAL REVIEW

For the year of 2020, the principal business activities of Group comprise the manufacturing and sales of sofas, sofa covers and other furniture products.

During the year, the revenue of the Group amounted to approximately RMB606.4 million (2019: approximately RMB980.3 million), representing a decrease of approximately 38.1% as compared with last year, which was mainly due to the impact of COVID-19 epidemic globally. Affected by the temporary closing of our factory and retail shops, slower logistics and distribution arrangement and the public awareness of social distancing, we experienced reduced sales volume of products and decreased revenue from sales of sofa, sofa covers and other furniture products.

The net loss of the Group amounted to approximately RMB90.7 million during the year, as compared with the net loss of RMB140.7 million in last year. The decrease in net loss were mainly attributable to (i) the decrease in selling and distribution expenses after the disposal of Jennifer Convertibles Inc. (“**Jennifer Convertibles**”) and (ii) increases in other income and gains from gain on modification of convertible loan, gain in disposal of subsidiaries and compensation on factory relocation.

The Company’s basic loss per ordinary share was RMB9.56 cents for the year of 2020 (2019: RMB14.07 cents) based on the loss for the year attributable to ordinary equity holders of the Company of approximately RMB91.2 million (2019: RMB140.4 million), and the weighted average number of ordinary shares of 953,526,940 for the year of 2020 (2019: 998,379,710).

Cost of sales

The cost of sales of the Group decreased by approximately 37.6% from approximately RMB877.2 million in 2019 to approximately RMB547.6 million in 2020, which was primarily due to the decrease in sales volume.

Gross profit

The Group’s gross profit for the year was approximately RMB58.8 million (2019: approximately RMB103.1 million), representing a decrease of approximately 43.0% as compared with last year. The gross profit margin decreased from 10.5% in 2019 to 9.7% in 2020 primarily due to the additional tariff levied on the Group’s export products and the decreased utilisation of manufacturing capacity due to the decrease in sales.

Other income and gains

The other income and gains of the Group increased from approximately RMB85.5 million in 2019 to approximately RMB120.5 million in 2020. Such increase was primarily due to the increase in gain on modification of convertible loan, gain on disposal of subsidiaries and compensation on factory relocation, but partially offset by the decreases in exchange gains, government subsidies and repair service income.

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately 49.3% from approximately RMB191.9 million in 2019 to approximately RMB97.2 million in 2020. Such decrease was primarily due to the decrease in marketing cost.

Administrative expenses

The administrative expenses of the Group decreased by approximately 14.8% from approximately RMB117.1 million in 2019 to approximately RMB99.8 million in 2020, which was primarily due to decrease in employee benefit expenses after disposal of Jennifer Convertibles and the implementation of cost-control measures.

Finance costs

The finance costs of the Group decreased by approximately 39.9% from approximately RMB29.3 million in 2019 to approximately RMB17.6 million in 2020, which was primarily due to the decrease in interest on lease liabilities of approximately RMB7.1 million resulted from the disposal of Jennifer Convertibles and decrease in interest on convertible loan resulted from the extension of repayment schedule, but partially offset by the increases in interest on bank loans.

Income tax (expense)/credit

The income tax expense of the Group was approximately RMB2.9 million in 2020, as compared to income tax credit of approximately RMB38.3 million in 2019. The reversal of income tax credit in 2019 to income tax expense in 2020 was mainly attributable to the profit-making situation this year in Hong Kong, under-provision in prior year and deferred tax expenses.

LIQUIDITY AND CAPITAL RESOURCES

Borrowing and pledge of assets

As at 31 December 2020, the Group's interest-bearing bank borrowings amounted to approximately RMB94.7 million, all of which were repayable within twelve months from 31 December 2020. The bank loans' interest rates ranged between 3.4% to 6.5% per annum.

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 borrowings) divided by equity attributable to owners of the Company as at the end of the year and multiplied by 100%, increased from approximately 326.5% as at 31 December 2019 to approximately 345.5% as at 31 December 2020, which was primarily due to significant decrease in lease liabilities during 2020.

Capital commitments

The Group did not have any capital commitment as at 31 December 2020 and 2019.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2020.

Trade receivables

The trade receivables of the Group decreased to approximately RMB140.4 million (2019: approximately RMB217.0 million) as at 31 December 2020, primarily due to the significant decrease in sales to the Group's customers in the fourth quarter in 2020 as compared to the corresponding period in 2019.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB265.2 million (2019: approximately RMB389.3 million) as at 31 December 2020, primarily due to the decrease in purchases from the Group's suppliers in the fourth quarter in 2020 as compared to the corresponding period 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 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 use forward exchange contract for hedging purposes during 2020 and there was hedging instruments outstanding as at 31 December 2020 in the amount of approximately RMB313,000 (2019: Nil). The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in the future. The Group will further implement the necessary hedging arrangement to mitigate any significant foreign exchange risk if and when appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

Pursuant to the disclosed and connected transaction announcement of the Company dated 31 March 2020, the Company has exercised the put option to require the seller to repurchase all the issued common stock of Jennifer Convertibles at the exit price of US\$35 million. The disposals of Jennifer Convertibles and the related receivables were completed on 14 August 2020.

HUMAN RESOURCES MANAGEMENT

The management of the Group believes that talent is the basis for long-term development of enterprises. The Group targets to enhance its corporate image through building up and solidifying the Company's brand name. With the 'Five Hearts of Morris': ambition, confidence, determination, perseverance and loyalty, as core values, the Group targets to establish a distinctive corporate culture. Through regular trainings and promotion of its corporate culture, the Group provides its staff with opportunities for personal growth and enhances the employees' sense of belonging to the Group. In addition, the Group provides its employees with competitive remuneration packages and various benefits in line with industry practice. At the same time, the Group strives to create a good working environment, and cultivates teamwork spirit among employees. The Group carries out performance evaluation quarterly, and conducts "Morris Artisans" evaluations, aiming at elevating the morale of the Group's technicians. The Group regularly reviews human resources policies to ensure that the policies align with market practice and comply with regulatory requirements. As of 31 December 2020, the Group employed 1,494 employees (31 December 2019: 2,065 employees). The total annual salary and related costs (excluding directors' remuneration) for 2020 were approximately RMB60.6 million (2019: RMB181.1 million).

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 has been adopted by the Company on 10 December 2016. No share options were granted, exercised or cancelled by the Company under the share option scheme during the period from the listing date to 31 December 2020 and there were no outstanding share options under the share option scheme as at 31 December 2020 and the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

(a) 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 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 on 18 February 2021.

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OUTLOOK

The Group expect to be faced with more challenges and opportunities in 2021. As a result, the board will keep a close watch on the development of the situation, continue to refine our management and make timely adjustments to our operation and sales strategies.

Looking forward to 2021, the board will continue to lead all staff of the Group to step onto the international stage and develop our self-owned brands, aiming at becoming a well-known furniture brand enterprise in the world.

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 had purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

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 year 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 to the Listing Rules as a code of conduct of the Company for Directors’ securities transactions. All Directors have confirmed that they complied with the required standard set out in the Model Code during the year ended 31 December 2020.

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 during the year ended 31 December 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.

EXCHANGE RATE

For the purpose of this announcement, unless otherwise indicated, translations of U.S. dollars to RMB have been made at the rate of US\$1 to RMB6.53, translations of Hong Kong dollars to RMB have been made at the rate of HK\$1 to RMB0.8 and translations of GBP to RMB have been made at the rate of GBP1 to RMB8.91. These translations are for the purposes of illustration only and no representation is made by the Company that any amounts in U.S. dollars and RMB or Hong Kong dollars and RMB can be or could have been converted at the above rate or any other rates or at all.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) currently comprises three independent non-executive directors, namely Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun. The Audit Committee has discussed with the management of the Company and the Company’s external auditors and reviewed the unaudited consolidated financial statements of the Group for 2020, including accounting principles and practices adopted by the Group, and discussed the risk management, internal controls and financial reporting matters related to the preparation of the annual results of the Group for 2020.

The Group’s audited results for the year 2020 as contained in this announcement have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF AUDITORS

The figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Group’s auditor, HLB, to the amounts set out in the Group’s audited consolidated financial statements for the year as approved by the Board on 30 March 2021. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with HKSA, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by HLB on this results announcement.

DIVIDEND

The Board does not recommend any payment of final dividend (2019: Nil).

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This Audited Annual Results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.morrisholdings.com.hk. The 2020 Annual Report containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be despatched to the shareholders of the Company and published on the website of the Company and the Stock Exchange in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers, management team and staff for their continuous support to the Group.

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 30 March 2021

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.