MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01575)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 27.4% to approximately RMB1,199.7 million in 2017 (2016: approximately RMB941.6 million)
- Gross profit increased by approximately 38.1% to approximately RMB373.7 million in 2017 (2016: approximately RMB270.6 million)
- Profit for the year increased by approximately 98.1% to approximately RMB159.9 million in 2017 (2016: approximately RMB80.7 million)
- Profit before tax excluding the one-off listing expenses in 2017 and 2016 increased by approximately 48.5% to approximately RMB200.0 million in 2017 (2016: approximately RMB134.7 million)
- Basic earnings per share increased by approximately 49.7% to approximately RMB16.11 cents in 2017 (2016: approximately RMB10.76 cents)
- The Board proposed to declare final dividend of HK3.8 cents per ordinary share (2016: HK1.8 cents and a special dividend of HK8.7 cents) for the year ended 31 December 2017

The board (the "**Board**") of directors (the "**Directors**") of Morris Holdings Limited (the "**Company**") is pleased to announce that the consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 ("**2017**" or the "**Reporting Period**") together with the comparative figures for the previous year ended 31 December 2016 ("**2016**").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*4*	**1,199,714**	941,617
Cost of sales		**(826,008)**	(671,050)
Gross profit		**373,706**	270,567
Other income and gains		**13,399**	16,449
Selling and distribution expenses		**(102,331)**	(82,000)
Administrative expenses		**(72,251)**	(77,321)
Other expenses and losses		**(2,797)**	(1,318)
Finance costs		**(11,670)**	(14,332)
Profit before tax	*5*	**198,056**	112,045
Income tax expense	*6*	**(38,201)**	(31,369)
Profit for the year		**159,855**	80,676
Other comprehensive income:			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**(11,356)**	3,031
Total comprehensive income for the year		**148,499**	83,707
Profit attributable to owners of the parent		**159,855**	80,676
Total comprehensive income attributable to owners of the parent		**148,499**	83,707
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted *(RMB cents)*	*7*	**16.11**	10.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**57,638**	44,092
Prepaid land lease payments		**7,054**	7,641
Deferred tax assets		**1,941**	2,986
Total non-current assets		**66,633**	54,719
CURRENT ASSETS			
Inventories		**343,289**	314,543
Trade and bills receivables	*9*	**389,002**	219,980
Prepayments, deposits and other receivables		**88,844**	218,294
Pledged deposits		**181,861**	220,822
Cash and cash equivalents		**26,241**	73,647
Total current assets		**1,029,237**	1,047,286
CURRENT LIABILITIES			
Trade and bills payables	*10*	**438,206**	542,715
Other payables and accruals		**51,497**	72,863
Interest-bearing bank borrowings		**149,659**	277,183
Warranty provision		**3,292**	2,790
Income tax payables		**61,520**	43,810
Total current liabilities		**704,174**	939,361
NET CURRENT ASSETS		**325,063**	107,925
TOTAL ASSETS LESS CURRENT LIABILITIES		**391,696**	162,644
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**8,942**	3,880
Net assets		**382,754**	158,764
EQUITY			
Equity attributable to owners of the parent			
Share capital	*11*	**6,914**	1
Reserves		**375,840**	158,763
Total equity		**382,754**	158,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 6707, 67/F, The Center, 99 Queen's Road Central, 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.

This announcement has been approved for issue by the Board on 14 March 2018.

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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for this financial information.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on this financial information.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group does not have any subsidiaries classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

4. REVENUE

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

	2017	2016
	RMB'000	*RMB'000*
Sales of goods	**1,199,714**	941,617

5. PROFIT BEFORE TAX

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**835,985**	669,210
Loss on disposal of items of property, plant and equipment, net	**139**	334
Reversal of provision against obsolete and slow-moving inventories	**(7,898)**	(950)
(Reversal of write-down)/write-down of inventories to net realisable value	**(1,366)**	2,790
Impairment of trade receivables, net	**95**	154
Foreign exchange differences, net	**6,959**	(14,164)
Listing expenses	**1,943**	22,622

6. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong.

Under the income tax law of the People's Republic of China ("**PRC**"), companies with operations in Mainland China are subject to corporate income tax ("**CIT**") at a rate of 25% (2016: 25%) on the taxable income.

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

	2017	2016
	RMB'000	*RMB'000*
Current – PRC		
– Charge for the year	**20,027**	18,587
– Over-provision in prior year	**(5,564)**	(627)
Current – Hong Kong	**17,631**	8,957
Deferred	**6,107**	4,452
Tax charge for the year	**38,201**	31,369

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

The calculation of basic earnings per share amount for the year ended 31 December 2017 was based on the profit for the year attributable to ordinary equity holders of the parent of RMB159,855,000 (2016: RMB80,676,000), and the weighted average number of ordinary shares of 992,465,753 (2016: 750,000,000) in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 represented 100,000 ordinary shares of the Company as at 1 January 2017, 749,900,000 ordinary shares of the Company issued under the Capitalisation Issue (as defined in note 11) as if these additional shares issued under the Capitalisation Issue had been in issue throughout the year ended 31 December 2017, and weighted average number of 242,465,753 ordinary shares of the Company issued upon the Listing on the Main Board of the Stock Exchange (the "**Listing**") on 12 January 2017.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2016 represented 100 ordinary shares of the Company as at 1 January 2016, 99,900 ordinary shares of the Company issued under the Share Split and 749,900,000 ordinary shares of the Company issued under the Capitalisation Issue, as if these additional shares issued under the Share Split and Capitalisation Issue had been in issue throughout the year ended 31 December 2016.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

8. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Interim dividend paid		
– HK1.5 cents (2016: Nil) per ordinary share	**12,868**	–
Interim Special dividend paid		
– HK4.5 cents (2016: Nil) per ordinary share	**38,604**	–
Final dividend proposed		
– HK3.8 cents (2016: HK1.8 cents) per ordinary share	**30,632**	16,135
Special dividend proposed		
– Nil (2016: HK8.7 cents) per ordinary share	**–**	76,840
	82,104	92,975

Subsequent to the end of the Reporting Period, the Board has resolved to propose a final dividend of HK3.8 cents per ordinary share (2016: HK1.8 cents) for the year ended 31 December 2017.

The final dividend for the year ended 31 December 2017 proposed subsequent to the Reporting Period have not been recognised as a liability at the end of the Reporting Period and are subject to the approval of the Company's Shareholders at the forthcoming annual general meeting ("**AGM**").

9. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables from third parties	**364,339**	200,466
Trade receivables from a related company	**19,877**	–
Impairment of trade receivables	**(92)**	(159)
Trade receivables, net	**384,124**	200,307
Bills receivable arising from intra-group sales	**4,878**	19,673
	389,002	219,980

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months, extending up to three to four months for major customers. The Group does not hold any collateral over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**366,769**	201,870
4 to 6 months	**14,187**	12,110
7 to 12 months	**8,046**	6,000
	389,002	219,980

10. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables to third parties	**178,126**	297,466
Bills payable		
– arising from intra-group purchases	**119,674**	121,133
– arising from third party purchases	**140,406**	124,116
	438,206	542,715

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**188,508**	177,558
1 to 3 months	**101,190**	163,753
3 to 6 months	**141,327**	180,468
Over 6 months	**7,181**	20,936
	438,206	542,715

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

11. SHARE CAPITAL

	2017		2016	
	US$'000	***RMB'000 equivalent***	*US$'000*	*RMB'000 equivalent*
Authorised:				
10,000,000,000 ordinary shares of US$0.001 each (2016: 10,000,000,000 ordinary shares of US$0.001 each)	10,000		10,000	
Issued and fully paid:				
1,000,000,000 ordinary shares of US$0.001 each (2016: 100,000 ordinary shares of US$0.001 each)	1,000	6,914	–	1

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

	Notes	**Number of ordinary shares in issue**	**Issued capital** *RMB'000*
At 1 January 2016		100	1
Sub-division of shares (the "**Share Split**")	*(i)*	99,900	–
At 31 December 2016 and 1 January 2017		100,000	1
Global Offering	*(ii)*	250,000,000	1,728
Capitalisation Issue	*(iii)*	749,900,000	5,185
At 31 December 2017		1,000,000,000	6,194

Notes:

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the continuous efforts of our management team and our employees, the Group achieved good results in 2017. The Group's revenue increased from approximately RMB941.6 million in 2016 to approximately RMB1,199.7 million in 2017, representing an increase of approximately 27.4%. Profit for the year increased by approximately 98.1% from approximately RMB80.7 million in 2016 to approximately RMB159.9 million in 2017. Excluding the one-off listing expenses incurred in 2017 and 2016, the profit before tax increased by approximately 48.5% from approximately RMB134.7 million in 2016 to approximately RMB200.0 million.

Capacity Expansion

Capacity expansion is one of the key tasks for the Group's development in 2017. In the first quarter of 2017, the Group actively enhanced its production capacity by setting up new production lines and recruiting a large number of new workers. Having regard to the investment in staff training, the newly recruited workers have become more skillful during the Reporting Period, which laid a solid foundation to cater to the growing demands from both manufacturing and retail businesses in the future.

Overseas market

With effective marketing strategies, the Group has further gained customers' recognition and trust. During the Reporting Period, the Group increased its market share in the North America market, and became a major supplier for some well-known furniture retail chains. In addition to the North America market, the Group also made achievements in further expanding its business in other overseas markets, such as the United Kingdom, Ireland and Australia. Furthermore, the Group set up four new warehouses in North America during the Reporting Period to support its export business as well as to serve as a logistics and service hub for its online retail business in order to seize opportunities from the growing e-commerce market.

Retail Market

Building our own brand name "Morrisofa" is a strategic move for the Group's development in the long run. The Group opened its first flagship store in Wan Chai, Hong Kong in September 2017. The product of "Morrisofa" was designed by a famous designer in Milan, Italy, focusing on a more fashionable, young and multi-functional products line for the targeted mid-end market. With our brand concept of integrating "recreation", "entertainment" and "healthcare" in one product, the Group hopes to provide a practical and comfortable living experience to all customers. Following the successful start, the Group opened another flagship store in Xuhui District, Shanghai in January 2018, and has been receiving overwhelming responses from customers since its launch.

Strategic investor

In January 2018, the Company entered into a convertible loan agreement totaling HK$200 million with International Finance Corporation ("**IFC**"), which provided strong financial support to the Company's capacity and business expansion in China and Cambodia. Our Directors believe this would provide confidence to our shareholders and potential investors. At the same time, it also helped to lay a strong foundation for the development of the Company in the capital market.

FINANCIAL REVIEW

The revenue of the Group increased from approximately RMB941.6 million in 2016 to approximately RMB1,199.7 million in 2017, representing an increase of approximately 27.4%. The profit for the year increased by approximately 98.1% from approximately RMB80.7 million in 2016 to approximately RMB159.9 million in 2017. If excluding the one-off listing expenses incurred in 2017 and 2016, the profit before tax would increase by approximately 48.5% from approximately RMB134.7 million in 2016 to approximately RMB200.0 million in 2017. The Company's basic and diluted earnings per ordinary share was approximately RMB16.11 cents in 2017 (2016: RMB10.76 cents) based on the profit for the year attributable to ordinary equity holders of the parent of RMB159,855,000 (2016: RMB80,676,000), and the weighted average number of ordinary shares of 992,465,753 (2016: 750,000,000) in issue during the year. The weighted average number of ordinary shares in 2016 represented the 100 ordinary shares of the Company as at 1 January 2016, 99,900 ordinary shares of the Company issued under the Share Split and 749,900,000 ordinary shares of the Company issued under the Capitalisation Issue, as if these additional shares issued under the Share Split and the Capitalisation Issue had been in issue throughout the year ended 31 December 2016, and 250,000,000 ordinary shares of the Company were issued pursuant to the Listing of our shares on the Main Board of the Stock Exchange as at 12 January 2017.

Revenue

The revenue of the Group increased by approximately 27.4%, from approximately RMB941.6 million in 2016 to approximately RMB1,199.7 million in 2017, which was primarily attributable to the significant increase in sales volume of both sofas and sofa covers. Sofa products continued to contribute as the major component of sales, which was in line with the Group's strategy in developing its original brand manufacturing ("**OBM**") business model. The Group has been changing its business model from original equipment manufacturing business model to OBM business model and has been increasing its focus on promoting the Group's own brand in the market during the Reporting Period.

Cost of sales

The cost of sales of the Group increased by approximately 23.1% from approximately RMB671.1 million in 2016 to approximately RMB826.0 million in 2017, which was primarily due to the increase in the consumption of major raw materials and increase in direct labour.

Gross profit

The gross profit of the Group increased by approximately 38.1% from approximately RMB270.6 million in 2016 to approximately RMB373.7 million in 2017, which was primarily due to (i) the increase in average selling price of our sofa products; and (ii) the continuous growth on our OBM business which contributed a higher gross profit margin. Our gross profit margin increased from approximately 28.7% in 2016 to approximately 31.1% in 2017.

Other income and gains

The other income and gains of the Group decreased by approximately 18.5% from approximately RMB16.4 million in 2016 to approximately RMB13.4 million in 2017. Such decrease was primarily due to a net foreign exchange gain of approximately RMB14.2 million recorded in 2016.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 24.8% from approximately RMB82.0 million in 2016 to approximately RMB102.3 million in 2017. Such increase was primarily due to the increase in marketing and promotion expenses. In particular, there was an increase in the expenditure of expanding and strengthening our sales channels network in our major markets.

Administrative expenses

The administrative expenses of the Group decreased by approximately 6.6% from approximately RMB77.3 million in 2016 to approximately RMB72.3 million in 2017, which was primarily due to the net effects of (i) the decrease of listing expenses from approximately RMB22.6 million incurred in 2016 to approximately RMB1.9 million incurred in 2017; and (ii) a net foreign exchange loss of approximately RMB7.0 million recorded in 2017.

Finance costs

The finance costs of the Group decreased from approximately RMB14.3 million in 2016 to approximately RMB11.7 million in 2017 primarily due to a lower average balance of bank borrowings outstanding in 2017 compared to 2016.

Income tax expense

The income tax expense of the Group increased by approximately 21.8% from approximately RMB31.4 million in 2016 to approximately RMB38.2 million in 2017. In addition, the effective tax rate decreased from approximately 28.0% in 2016 to approximately 19.3% in 2017. The substantial decrease in effective tax rate in 2017 was mainly attributable to (i) the decrease in the impact of non-deductible expenses for tax from approximately RMB6.5 million in 2016 to approximately RMB2.1 million in 2017, which was mainly due to the decrease in non-deductible listing expenses incurred; (ii) the adjustments of current year income tax in respect of over-provision of prior year income tax provision of approximately RMB5.6 million; and (iii) the increase in the impact of a super-deduction of eligible research and development expenditure from approximately RMB3.2 million in 2016 to approximately RMB7.7 million in 2017, mainly arising from the manufacturing costs incurred by the Group that qualified for an additional 50% tax deduction for PRC CIT purpose in accordance with the Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses (關於完善研究開發費用稅前加計扣除政策的通知) which was promulgated by the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology on 2 November 2015 and with effect from 1 January 2016.

Profit for the year

As a result of the foregoing, our profit for the year significantly increased by approximately 98.1% from approximately RMB80.7 million in 2016 to approximately RMB159.9 million in 2017. If excluding the one-off listing expenses incurred in 2017 and 2016, the profit before tax would increase by approximately 48.5% from approximately RMB134.7 million in 2016 to approximately RMB200.0 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

For 2017, cash and cash equivalents of the Group decreased by approximately RMB47.4 million, which mainly comprised (i) the gross proceeds from our Listing of approximately RMB234.0 million; (ii) dividends paid for 2016 final and 2017 interim dividends in total of approximately RMB143.3 million; and (iii) repayments of interest-bearing bank borrowings of approximately RMB127.5 million.

Borrowing and pledge of assets

As at 31 December 2017, the Group's interest-bearing bank borrowings amounted to approximately RMB149.7 million, all of which were repayable within twelve months from 31 December 2017. The bank loans' interest rates ranged between 2.1% to 6.5% per annum.

As at 31 December 2017, approximately RMB181.9 million restricted bank balances were pledged for bills payables.

Gearing ratio

The gearing ratio of the Group, which is total interest-bearing bank borrowings divided by total equity as at the end of the year and multiplied by 100%, decreased from approximately 174.6% as at 31 December 2016 to approximately 39.1% as at 31 December 2017, which was primarily due to increase in total equity and repayment of interest-bearing bank borrowings during 2017.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2017.

Trade and bills receivables

The trade and bills receivables of the Group increased to approximately RMB389.0 million as at 31 December 2017 (31 December 2016: RMB220.0 million), primarily due to the significant increase in sales to our customers in the fourth quarter in 2017 as compared to the corresponding period in 2016.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB438.2 million as at 31 December 2017 (31 December 2016: RMB542.7 million), primarily due to early settlement of balances with some of our suppliers.

Foreign exchange exposure

Revenue from major customers is mainly from the U.S. while our production mainly operates in the PRC. Accordingly, most of the revenue is received in U.S. dollar while 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 2017, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation.

The Group did not use any financial instruments for hedging purposes during 2017 and there was no hedging instruments outstanding as at 31 December 2017. The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in future. The Group will further implement the necessary hedging arrangement to mitigate any significant foreign exchange risk when and if appropriate.

Use of proceeds from the listing

The Company Listed its shares on the Main Board of the Stock Exchange on 12 January 2017. Net proceeds from the listing were approximately HK$218.6 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the prospectus of the Company dated 30 December 2016 (the "**Prospectus**"). As at the date of this announcement, the net proceeds from the Listing were utilized as follows:

	Actual net proceeds	Amount utilised as at the date of this announcement	Amount unutilised as at the date of this announcement
	HK$ million	*HK$ million*	*HK$ million*
Further expansion of sales and marketing network	68.5	68.5	–
Repay bank borrowings	57.7	57.7	–
Brand recognition in furniture market	56.8	48.0	8.8
Working capital	21.4	12.5	8.9
Expansion of the manufacturing capabilities in Cambodia	14.2	14.2	–
Total	218.6	200.9	17.7

The unutilized net proceeds from the Listing have been deposited in the bank accounts of the Group.

The use of IPO proceeds is faster than expected with an excess amount of HKD54.6 million, which was expected to be expended from 2018 to 2020. It was due to the Company's strategy to boost a faster growth of the business by spending more on promotion activities and sales network expansion.

HUMAN RESOURCES MANAGEMENT

The management believes that talent is the basis for long-term development of enterprises. The Group targeted to enhance its corporate image through the building-up of the Company's brand name. With 'Five Hearts of Morris': ambition, confidence, determination, perseverance and loyalty, as the core values of our corporate culture, the Group targeted to establish a distinctive corporate culture. Through regular trainings and education of our corporate culture, the Group provides its staff with potentials for personal growth and increase our 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 creates a good working environment, and establishes teamwork spirit among employees. We carry out "performance evaluation for excellence" quarterly, and irregularly carry out "Morris Artisans" evaluations, aiming at encouraging the morale of our technicians. The Group regularly reviews human resources policies to ensure that the policies align with market practice and comply with regulatory requirements. As of December 31, 2017, the Group employed 2,052 employees (31 December 2016: 1,996 employees). The total annual salary and related costs (excluding directors' remuneration) for 2017 was approximately RMB143.2 millions (2016: RMB139.5 million).

EVENT AFTER THE REPORTING PERIOD

On 5 January 2018, the Company entered into a convertible loan agreement ("**Convertible Loan Agreement**") with IFC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, a convertible loan ("**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 share (subject to adjustments as set out in the Convertible Loan Agreement). On the assumption that the Convertible Loan would be converted into shares of the Company in full at the conversion price of HK$2.22 per share, the aggregate principal amount of the Convertible Loan of HK$200,000,000 is convertible into approximately 90,090,090 shares of the Company, which represent approximately 9.01% of the total issued share capital of the Company as at the date of this announcement and approximately 8.26% of the issued share capital of the Company as enlarged by the allotment and issue of the shares of the Company upon full exercise of the Convertible Loan at the initial conversion price. Please refer to the announcements of the Company dated 5 January 2018 and 24 January 2018 for further details.

OUTLOOK

Looking forward, the Group will adhere to the following major objectives for the business development in the coming two to three years, including the cultivation of the Company's corporate culture, the construction of the "Morris Center", the continuing expansion of overseas markets, the development of domestic retail business, the vertical and horizontal integration through merger and acquisition, the brand building of "Morrisofa" and the enhancement of the Company's reputation in the capital market.

The establishment of an unique corporate culture of the Company helps to create self-recognition and a sense of belonging among employees. By introducing the "Five Hearts of Morris" as the core values of our corporate culture, the Company aims to build a united and motivated workforce for the Company's long-term development in the future.

The Company has obtained the financing of HK$200 million convertible loan from IFC, part of which will be used to build the "Morris Center" in Haining Economic Development Zone. The Company aims to set up new production facilities and equipment as well as implement production upgrade and automation to foster production of higher quality sofa products.

In 2017, the Company successfully established its business presence in several overseas markets outside of North America. In the future, the Company will not only put efforts to drive growth in these newly developed markets, but will also strive to enhance our relationships with and the services to our existing major customers in North America in order to gain market shares. On the other hand, online shopping business will give an extra impetus to our business growth in the future.

Driven by consumption upgrade in the domestic market in China, the Company will aggressively develop and expand its domestic retail business in 2018, through its diversified business models and sales channels so as to implant the brand image of "in-heart at a glance" into the vast domestic consumer market. We believe that the retail business will be one of our key revenue contributor in the future.

Making merger and acquisition vertically and horizontally along supply chain to support our expanding business is also our key target in the coming years. The Company will strengthen its financial position by capitalizing resources from the capital market with a vision to become a well-known international furniture enterprise in the future.

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

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (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 during the period from 12 January 2017, the date on which the shares of the Company were listed on the Stock Exchange (the "**Listing Date**") to the date of this announcement, 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 throughout the period from the Listing Date to the date of this announcement.

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 Board has reviewed the Company's corporate governance practices and is satisfied that save as disclosed below, the Company has complied with all code provisions ("**Code Provisions**") and, where applicable, the recommended best practices of the Corporate Governance Code set out in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**") since the Listing Date and up to the date of this announcement.

According to Code Provision A.2.1., the roles of chairman and chief executive officer 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 chief executive officer of the Company. The Board believes that vesting the roles of the chairman and chief executive officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the senior management and the Board, which comprises experienced and high-calibre individuals. The Board currently comprises four executive directors (including Mr. Zou Gebing) and three independent non-executive directors and therefore has a fairly strong independence element in its composition. The Board will nevertheless review the structure and composition of the Board from time to time in light of prevailing circumstances, in order to maintain a high standard of corporate governance practices of the Company.

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

Pursuant to Code Provision I(f) of the CG Code and Rules 3.10(1) and 3.21 of the Listing Rules, an issuer must include in its board of directors of at least three independent non-executive directors and an audit committee comprising of a minimum of three members which shall comprise of non-executive directors only.

As disclosed in the Company's circular dated 26 April 2017 and the Company's announcement dated 31 May 2017, Ms. Zhang Bing Bing resigned as an independent non-executive director on 31 May 2017. Upon Ms. Zhang's retirement, the number of independent non-executive directors and the number of members of the audit committee of the Company falls below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules.

Mr. Liu Haifeng was appointed as an independent non-executive director and as the chairman of the nomination committee of the Company and a member of each of the audit committee and the remuneration committee of the Company on 6 July 2017. Following Mr. Liu's appointment, the Company has fulfilled the requirement under Rules 3.10 and 3.21 of the Listing Rules for having at least three independent non-executive directors and three members in the audit committee of the Company, respectively.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, comply with regulatory requirements and meet the growing expectations of shareholders and investors of the Company.

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 RMB6.7578 and translations of Hong Kong dollars to RMB have been made at the rate of HK$1 to RMB0.8673. 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 currently comprises three independent non-executive directors, namely Mr. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng. The audit committee has reviewed with the management of the Company the consolidated financial statements of the Group for 2017, 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 2017.

DIVIDEND

The Board recommended a payment of final dividend of HK3.8 cents per ordinary share for the year ended 31 December 2017 payable on 29 June 2018 to all shareholders on the register of members of the Company on 15 June 2018 subject to approval by the shareholders in the forthcoming annual general meeting of the Company (the "**AGM**").

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on 17 May 2018, will be eligible to attend and vote at the AGM. The transfer books and register of members will be closed from 11 May 2018 to 17 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to determine the identity of shareholders who are entitled to attend and vote at the forthcoming AGM of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 10 May 2018.

Shareholders whose names appear on the Company's register of members on 15 June 2018, will qualify for the proposed final dividend and the proposed special dividend. The Company's transfer books and register of members will be closed from 14 June 2018 to 15 June 2018 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend and the proposed special dividend. In order to qualify for the proposed final dividend and the proposed special dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office, Tricor Investor Services Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 13 June 2018. The proposed final dividend and the proposed special dividend (the payment of which is subject to the shareholders' approval at the forthcoming AGM of the Company) is to be payable on 29 June 2018.

ANNUAL GENERAL MEETING

The AGM of the Company will be convened on 17 May 2018. A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This 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 annual report of the Company for the year will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 14 March 2018

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