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MORRIS  
HOME HOLDINGS LIMITED

## MORRIS HOME HOLDINGS LIMITED

慕容家居控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1575)**

### ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

#### FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

- Revenue decreased by approximately 80.4% to approximately RMB53.9 million for the six months ended 30 June 2022 (2021: approximately RMB274.9 million)
- Gross loss recorded in the amount of approximately RMB4.3 million for the six months ended 30 June 2022 (2021: gross profit approximately RMB82.6 million)
- The Group recorded a loss of approximately RMB125.9 million for the six months ended 30 June 2022 (2021: approximately RMB42.8 million)
- Basic loss per share was approximately RMB12.00 cents for the six months ended 30 June 2022 (2021: approximately RMB4.52 cents)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: Nil)

#### UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Morris Home Holdings Limited (the “**Company**”) announced its unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2021 (the “**Comparative Period**”). This condensed consolidated interim financial information for the six months ended 30 June 2022 was unaudited, but has been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**  
*FOR THE SIX MONTHS ENDED 30 JUNE 2022*

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2022</b>	2021
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
<b>Revenue</b>	4	<b>53,949</b>	274,881
Cost of sales		<u>(58,275)</u>	<u>(192,236)</u>
Gross (loss)/profit		<b>(4,326)</b>	82,645
Other income and gains		<b>14,799</b>	9,805
Allowance for expected credit losses in respect of financial assets carried at amortised cost, net		<b>(5,429)</b>	(256)
Selling and distribution expenses		<b>(14,134)</b>	(37,573)
Administrative expenses		<b>(112,027)</b>	(64,903)
Other expenses and losses		<b>(938)</b>	(20,937)
Finance costs		<u>(3,840)</u>	<u>(10,980)</u>
<b>Loss before tax</b>	5	<b>(125,895)</b>	(42,199)
Income tax expense	6	<u>–</u>	<u>(636)</u>
<b>Loss for the period</b>		<u><b>(125,895)</b></u>	<u>(42,835)</u>
<b>Other comprehensive income/(loss):</b>			
Item may be reclassified to profit or loss			
Exchange differences on translation of financial statements		<b>4,662</b>	(5,555)
Item that were reclassified to profit or loss			
Reclassification of cumulative exchange fluctuation reserve upon disposal of subsidiaries		<u>–</u>	<u>(1,759)</u>
Other comprehensive income/(loss) for the period, net of income tax		<u><b>4,662</b></u>	<u>(7,314)</u>
<b>Total comprehensive loss for the period</b>		<u><b>(121,233)</b></u>	<u>(50,149)</u>

		<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Loss attributable to:</b>			
Owner of the Company		<b>(123,990)</b>	(41,780)
Non-controlling interests		<b>(1,905)</b>	(1,055)
		<u><b>(125,895)</b></u>	<u>(42,835)</u>
<b>Total comprehensive loss attributable to:</b>			
Owner of the Company		<b>(119,476)</b>	(49,135)
Non-controlling interests		<b>(1,757)</b>	(1,014)
		<u><b>(121,233)</b></u>	<u>(50,149)</u>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Loss per share attributable to ordinary equity holders of the Company</b>			
Basic (Unaudited)	7	<u><b>(12.00)</b></u>	<u>(4.52)</u>
Diluted (Unaudited)		<u><b>(12.00)</b></u>	<u>(4.52)</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2022**

		<b>30 June</b>	31 December
		<b>2022</b>	2021
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>5,474</b>	1,068
Right-of-use assets		<b>4,638</b>	7,641
		<hr/>	<hr/>
Total non-current assets		<b>10,112</b>	8,709
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		<b>59,081</b>	83,177
Trade receivables	9	<b>30,724</b>	39,873
Prepayments, deposits and other receivables		<b>49,425</b>	35,109
Amount due from a shareholder		<b>335</b>	322
Amount due from related companies		<b>193,018</b>	179,502
Pledged deposits		<b>38</b>	14,705
Cash and cash equivalents		<b>28,664</b>	13,485
		<hr/>	<hr/>
Total current assets		<b>361,285</b>	366,173
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>161,260</b>	179,145
Contract liabilities		<b>10,358</b>	9,858
Other payables and accruals		<b>153,076</b>	43,320
Amount due to related companies		<b>40,304</b>	27,734
Bank and other borrowings		<b>68,165</b>	64,616
Warranty provision		<b>409</b>	2,907
Lease liabilities		<b>10,710</b>	13,032
Derivative financial instruments		<b>361</b>	78
Convertible loan		<b>69,498</b>	69,977
Income tax payables		<b>3,534</b>	3,382
		<hr/>	<hr/>
Total current liabilities		<b>517,675</b>	414,049
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		<b>(156,390)</b>	<b>(47,876)</b>
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>(146,278)</b>	<b>(39,167)</b>
		<hr/>	<hr/>

		<b>30 June</b>	31 December
		<b>2022</b>	2021
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>34</b>	34
Lease liabilities		<b>6,731</b>	11,970
		<hr/>	<hr/>
Total non-current liabilities		<b>6,765</b>	12,004
		<hr/>	<hr/>
<b>Net liabilities</b>		<b>(153,043)</b>	<b>(51,171)</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
Share capital	11	<b>8,188</b>	6,914
Reserves		<b>(157,844)</b>	(56,455)
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>(149,656)</b>	(49,541)
Non-controlling interests		<b>(3,387)</b>	(1,630)
		<hr/>	<hr/>
<b>Total equity</b>		<b>(153,043)</b>	<b>(51,171)</b>
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

## 1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements (the “**unaudited interim results**”) is prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Hong Kong Companies Ordinance. These unaudited interim results do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited interim results announcement are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance, except for the adoption of the revised HKFRSs as disclosed in note 3 below.

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim results are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of amendments to HKFRSs effective as of 1 January 2022.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment –Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

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

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

- a. Retail segment
- b. Manufacturing segment

#### Segment revenues and results

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

	Retail segment		Manufacturing segment		Elimination of intersegment sales		Total	
	Six months ended 30 June 2022	Six months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021	Six months ended 30 June 2022	Six months ended 30 June 2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenues								
- External sales	36,219	109,007	17,730	165,874	-	-	53,949	274,881
- Internal sales	-	-	3,965	65,843	(3,965)	(65,843)	-	-
	<u>36,219</u>	<u>109,007</u>	<u>21,695</u>	<u>231,717</u>	<u>(3,965)</u>	<u>(65,843)</u>	<u>53,949</u>	<u>274,881</u>
Segment loss	<u>(11,683)</u>	<u>(15,429)</u>	<u>(106,976)</u>	<u>(22,461)</u>	<u>-</u>	<u>-</u>	<u>(118,659)</u>	<u>(37,890)</u>
Interest income							30	324
Fair value change on derivative component of convertible loan							(272)	(33)
Gain on disposal of subsidiaries							-	8,451
Loss on derecognition of a subsidiary							(15)	-
Unallocated corporate expenses							(5,580)	(12,447)
Unallocated finance costs							(1,399)	(604)
Loss before taxation							<u>(125,895)</u>	<u>(42,199)</u>

Segment loss represents the loss from each segment without allocation of interests income, fair value change on derivative component of convertible loan, loss on derecognition of a subsidiary, 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	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Segment assets	34,508	48,067	292,984	294,912	327,492	342,979
Unallocated corporate assets					43,905	31,903
Consolidated assets					<u>371,397</u>	<u>374,882</u>
Segment liabilities	32,507	37,241	398,839	304,202	431,346	341,443
Unallocated corporate liabilities					93,094	84,610
Consolidated liabilities					<u>524,440</u>	<u>426,053</u>

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

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

## Other segment information

	Retail segment		Manufacturing segment		Unallocated		Total	
	30 June 2022 RMB'000 (Unaudited)	30 June 2021 RMB'000 (Unaudited)						
Addition of property, plant and equipment	-	1,190	5,038	646	-	-	5,038	1,836
Depreciation of property, plant and equipment	123	848	628	495	-	-	751	1,343
Depreciation of right-of-use assets	3,051	4,680	-	-	-	-	3,051	4,680
Provision/(reversal of) against obsolete and slow-moving inventories	183	350	12,091	(43,011)	-	-	12,274	(42,661)
Allowance for/(reversal of) expected credit losses on financial assets at amortised cost, net	570	(242)	4,848	501	11	(3)	5,429	256
Finance costs	279	560	2,162	9,816	1,399	604	3,840	10,980

## Geographical information

### (a) Revenue from external customers

	<b>30 June 2022 RMB'000 (Unaudited)</b>	30 June 2021 RMB'000 (Unaudited)
The People's Republic of China (including Hong Kong)	24,573	29,944
The United Kingdom	16,424	76,894
The U.S.	10,867	159,609
Others	2,085	8,434
	<b><u>53,949</u></b>	<b><u>274,881</u></b>

### (b) Non-current assets

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
The People's Republic of China (including Hong Kong)	7,677	5,068
The United Kingdom	2,435	3,570
The U.S.	–	71
	<b><u>10,112</u></b>	<b><u>8,709</u></b>

### Information about major customers

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

	<b>Six months ended 30 June</b>	
	<b>2022 RMB'000 (Unaudited)</b>	2021 RMB'000 (Unaudited)
Customer 1	15,535	79,416
Customer 2	N/A*	48,036
Customer 3	N/A*	31,155
Customer 4	N/A*	30,732
	<b><u>N/A</u></b>	<b><u>189,339</u></b>

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

#### 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

An analysis of revenue, other net income and gains is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Revenue</b>		
<i>Recognised at a point of time:</i>		
Manufacturing and sales of sofas, sofa cover and other furniture products	53,741	274,547
Commission income	208	334

#### 5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	46,001	234,897
Depreciation of property, plant and equipment	751	1,343
Depreciation of right-of-use assets	3,051	4,680
Salaries, wages and benefits in kind	81,780	69,357
Pension scheme contributions	5,285	7,309
Provision/(reversal of) against obsolete and slow-moving inventories	12,274	(42,661)
Allowance for expected credit losses on financial assets at amortised cost, net	5,429	256
Reversal of product warranty, net	(2,498)	(1,452)
Interest for convertible loan	1,399	604
Interest for lease liabilities	564	801
Loss on sales of raw materials	–	14,308
Exchange losses	420	1,353

#### 6. INCOME TAX

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (2021: 16.5%).

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the period (2021: 25%). Pursuant to the relevant laws and regulations in the PRC, Zhejiang Morris Fashion Home Co., Ltd. (“**Fashion Home**”) and Zhejiang Apollo Leather Products Co., Ltd. (“**Apollo**”), which qualified as High and New Technology Enterprises (“**HNTE**”) on 30 November 2018, were entitled to a reduced enterprise income tax rate of 15%. During the period ended 30 June 2022, Fashion Home and Apollo applied the qualification of HNTE and are entitled to the reduced tax rate of 15% until the year ended 16 December 2024.

The U.S. corporate tax rate is 21% for the period ended 30 June 2022 in accordance to the Tax Cuts and Jobs Act. The U.S. income tax includes (a) federal income tax calculated at a fixed rate of 21% for the period ended 30 June 2022 (2021: a fixed rate of 21%) on the estimated U.S. federal taxable income and state income tax calculated at various state income tax rates for both periods on the estimated state taxable income for the respective states. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

Pursuant to the income tax rules and regulations of United Kingdom (UK), the subsidiary comprising the Group in UK is liable to United Kingdom CIT at a tax rate of 19% for the period ended 30 June 2022.

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Current – Hong Kong	–	46
Deferred tax	–	590
	<u>–</u>	<u>636</u>
Tax expense for the period	<u>–</u>	<u>636</u>

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

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Loss for the purpose of basic and diluted loss per share	<u><b>(123,990)</b></u>	<u>(41,780)</u>
	<b>'000</b>	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u><b>1,033,580</b></u>	<u>924,188</u>

*Note:* Diluted loss per share for the period ended 30 June 2022 and 2021 were the same as basic loss per share.

## 8. DIVIDENDS

The Board has proposed not to declare interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

## 9. TRADE RECEIVABLES

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Trade receivables from third parties	47,516	51,480
Less: allowance for expected credit losses	<u>(16,792)</u>	<u>(11,607)</u>
	<b><u>30,724</u></b>	<b><u>39,873</u></b>

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

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

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Within 3 months	13,441	32,955
4 to 6 months	9,605	6,290
7 to 12 months	<u>7,678</u>	<u>628</u>
	<b><u>30,724</u></b>	<b><u>39,873</u></b>

## 10. TRADE AND BILLS PAYABLES

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Trade payables to third parties	101,260	91,982
Bills payables		
– arising from intra-group purchases	60,000	67,348
– arising from third party purchases	<u>–</u>	<u>19,815</u>
	<b><u>161,260</u></b>	<b><u>179,145</u></b>

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:

	<b>30 June 2022 RMB'000 (Unaudited)</b>	31 December 2021 RMB'000 (Audited)
Within 1 month	<b>14,798</b>	15,187
2 to 3 months	<b>9,718</b>	7,772
4 to 6 months	<b>8,403</b>	60,700
Over 6 months	<b>68,341</b>	95,486
	<b><u>101,260</u></b>	<u>179,145</u>

The trade and bills payables are non-interest-bearing. Trade payables are normally settled on terms of 30 to 180 days while bills payables are settled on a term of 90 to 270 days.

## 11. SHARE CAPITAL

	<b>30 June 2022</b>		31 December 2021	
	<i>US\$'000</i>	<i>RMB'000 equivalent</i>	<i>US\$'000</i>	<i>RMB'000 equivalent</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	(Audited)	(Audited)
<i>Authorised:</i>				
10,000,000,000 ordinary shares of US\$0.001 each	<b><u>10,000</u></b>		<u>10,000</u>	
<i>Issued and fully paid:</i>				
1,200,000,000 (2021: 1,000,000,000) ordinary shares of US\$0.001 each	<b><u>1,200</u></b>	<b><u>8,188</u></b>	<u>1,000</u>	<u>6,914</u>

The movements in the Company's issued share capital during the period are as follow:

	<b>Number of ordinary shares in issue</b>	<b>Issued capital RMB'000 (Unaudited)</b>
As at 31 December 2021 and 1 January 2022	1,000,000,000	6,914
Placing of new shares	<u>200,000,000</u>	<u>1,274</u>
As at 30 June 2022	<b><u>1,200,000,000</u></b>	<b><u>8,188</u></b>

## **12. EVENT AFTER THE REPORTING PERIOD**

Subsequent to the Reporting Period, in August 2022, the Company announced that on 26 May 2022, the Company entered into the Share Subscription Agreement (as amended and supplemented by the Supplemental Share Subscription Agreement) with the Offeror, pursuant to which the Company has conditionally agreed to allot and issue, and the Offeror has conditionally agreed to subscribe for 1,300,000,000 Subscription Shares at the Share Subscription Price of HK\$0.063 per Subscription Share for the total Consideration of HK\$81,900,000. For more details, please refer to the Company's announcement dated 5 August 2022.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

During the Reporting Period, the Company was faced with complex and adverse trading environment, including but not limited to the widespread impact of COVID-19 pandemic, continued trade war between the US and China and the suspension of our major factories in PRC in early 2022, which resulted in adverse effects to the performance of the Group for the first half of 2022. The Group's revenue decreased from approximately RMB274.9 million in the Comparative Period to approximately RMB53.9 million in the Reporting Period, representing a decrease of approximately 80.4%. Loss for the period increased by approximately 194.2% from approximately RMB42.8 million in the Comparative Period to approximately RMB125.9 million in the Reporting Period.

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

Due to financial difficulties and the suspension of our major factories in PRC in early 2022, some of our substantial customers stopped placing orders with the Group, pending the outcome of the restructuring and the proposed share subscription. Although the suspension has a negative impact to the Company's brand and its business, with the long history and good reputation among the export customers, the Group is confident that its business will be gradually restored and resumed after the successful completion of the proposed share subscription.

Amidst the difficult business environment, the management of the Group sought to tackle these challenges by consolidating relationship with selected key customers.

#### **Retail business development in China and Hong Kong**

As of August 2022, the Group had a total of 1 flagship showroom, 1 self-operated retail store, 30 franchise stores and 2 online stores across different provinces in Mainland China.

In Hong Kong, the Group had a total of 4 self-operated retail stores in Central, Sha Tin, Tsuen Wan and West Kowloon, and 7 points of consignment sales in East Kowloon, Yuen Long, Wan Chai, Lai Chi Kok, Tsuen Wan and Fo Tan. 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. Two more self-operated retail stores located in Megabox, Kowloon Bay and Park Central, Tseung Kwan O are planned to be opened in the second half of 2022.

Our commitment to design and customer service has continuously improved our "Morrisofa" brand image and increased our customer base and loyalty.

## **FINANCIAL REVIEW**

For the six months ended 30 June 2022, the principal business activities of Group comprise the manufacturing and sales of sofas, sofa covers and other furniture products.

During the Reporting Period, the revenue of the Group amounted to approximately RMB53.9 million (2021: approximately RMB274.9 million), representing an decrease of approximately 80.4% as compared with the corresponding period last year, which was mainly attributed to the decrease in revenue generated from sale of sofas, sofa covers and other furniture products resulted from the decrease in export business, affected by the suspension of the factories in PRC in early 2022.

The Group's gross loss for the Reporting Period was approximately RMB4.3 million (2021: gross profit approximately RMB82.6 million), representing an decrease of approximately 105.2% as compared with the corresponding period last year. The decrease in gross profit was primarily due to the clearance sales of finished goods.

The net loss of the Group amounted to approximately RMB125.9 million (2021: approximately RMB42.8 million) during the Reporting Period. The increase in net loss was mainly attributable to the decrease in sales volume in export business after the suspension of the factories in PRC.

The Company's basic loss per ordinary share was approximately RMB12.00 cents for the six months ended 30 June 2022 (2021: approximately RMB4.52 cents) based on the loss for the period attributable to ordinary equity holders of the Company of approximately RMB124.0 million (2021: approximately RMB41.8 million), and the weighted average number of ordinary shares of 1,033,580,265 for the six months ended 30 June 2022 (30 June 2021: 924,188,000).

### **Cost of sales**

The cost of sales of the Group decreased by approximately 69.7% from approximately RMB192.2 million for the six months ended 30 June 2021 to approximately RMB58.3 million for the six months ended 30 June 2022, which was primarily due to the decrease in sales volume in export business and the suspension of the factories in PRC.

### **Other income and gains**

The other income and gains of the Group increased from approximately RMB9.8 million for the six months ended 30 June 2021 to approximately RMB14.8 million for the six months ended 30 June 2022. Such increase was mainly due to the increase in compensation on factory relocation and government subsidies.

### **Selling and distribution expenses**

The selling and distribution expenses of the Group decreased by approximately 62.5% from approximately RMB37.6 million for the six months ended 30 June 2021 to approximately RMB14.1 million for the six months ended 30 June 2022. Such decrease was primarily due to the decrease in export after the suspension of factories in PRC.

### **Administrative expenses**

The administrative expenses of the Group increased by approximately 72.6% from approximately RMB64.9 million for the six months ended 30 June 2021 to approximately RMB112.0 million for the six months ended 30 June 2022. Such increase was primarily attributed to the reclassification of manufacturing related rental expenses from cost of sales to administrative expenses and the redundancy pay due to the suspension of factories in PRC.

### **Finance costs**

The finance costs of the Group decreased by approximately 65.5% from approximately RMB11.0 million for the six months ended 30 June 2021 to approximately RMB3.8 million for the six months ended 30 June 2022. The decrease in finance costs was mainly due to the decrease in interest for lease liabilities.

### **Other expenses and losses**

The other expenses and losses of the Group decreased from approximately RMB20.9 million for the six months ended 30 June 2021 to approximately RMB0.9 million for the six months ended 30 June 2022 was mainly due to the decrease in the loss on clearance sales of aged raw materials as compared to last period.

### **Income tax expense**

The Group did not record any income tax expense for the six months ended 30 June 2022, as compared to income tax expense of approximately RMB0.6 million for the six months ended 30 June 2021.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Borrowing and pledge of assets**

As at 30 June 2022, the Group's interest-bearing bank and other borrowings amounted to approximately RMB68.2 million (31 December 2021: approximately RMB64.6 million). The bank loans' interest rates ranged from 4.5% to 6.6% (31 December 2021: 4.5% to 9%) per annum.

As at 30 June 2022, approximately RMB0.04 million (31 December 2021: approximately RMB14.7 million) restricted bank balances were pledged for bank borrowings and bills payables. The decrease in restricted bank balance was mainly due to the decline in deposit level required by banks during the restructuring.

### **Gearing ratio**

The gearing ratio of the Group, which is the ratio of the total debts (comprised of amounts due to related companies, lease liabilities, convertible loan and interest-bearing bank and other borrowings) to the equity attributable to owners of the Company. The gearing ratio of the Group was not applicable, as the Company has run into net liabilities as at 30 June 2022 and 31 December 2021.

### **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2022.

### **Trade receivables**

The trade receivables of the Group decreased to approximately RMB30.7 million as at 30 June 2022 (31 December 2021: approximately RMB39.9 million), primarily due to the decrease in sales to our customers after suspension of major factories in PRC in early 2022.

### **Trade and bills payables**

The trade and bills payables of the Group decreased to approximately RMB161.3 million as at 30 June 2022 (31 December 2021: approximately RMB179.1 million), primarily due to the decrease in purchase from the Group's suppliers after suspension of major factories in PRC in early 2022.

### **Foreign exchange exposure**

Revenue from major customers is mainly from the U.S. while the production facilities of the Group are mainly located in the PRC. Accordingly, most of the sales are denominated in U.S. dollars while the costs arising from the Group's operations are generally settled in RMB. As a result, fluctuations in the value of U.S. dollars against RMB could adversely affect the

financial results of the Group. During the six months ended 30 June 2022, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation. The Group used forward exchange contract for hedging purpose during 2021 and no hedging instruments outstanding as at 30 June 2022 (31 December 2021: Nil). The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in the future.

## **GOING CONCERN**

The Group incurred a net loss of approximately RMB125,895,000 during the six months ended 30 June 2022 and, as of that date, the Group's current liabilities exceeded its current assets and total liabilities exceeded its total assets by approximately RMB156,390,000 and RMB153,043,000 (31 December 2021: approximately RMB47,876,000 and RMB51,171,000), respectively. As at the same date, the Group's aggregate interest-bearing bank and other borrowings, lease liabilities and convertible loan amounted to approximately RMB68,165,000, RMB17,441,000 and RMB69,498,000 (31 December 2021: approximately RMB64,616,000, RMB25,002,000 and RMB69,977,000), respectively, whilst its cash and cash equivalents amounted to approximately RMB28,664,000 (31 December 2021: approximately RMB13,485,000). The Group's convertible loan, in the principal amount outstanding as at 30 June 2022 of approximately RMB69,498,000 (31 December 2021: approximately RMB69,977,000), matured and fell due for repayment during the period ended 30 June 2022. The outstanding principal amount and related overdue interests, in the amount of approximately RMB73,974,000 (31 December 2021: approximately RMB72,875,000) in aggregate, were not repaid as at 30 June 2022.

In view of the above circumstances, the Directors have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Company is carrying out certain plans (including without limitation the following measures) to mitigate the liquidity position and to improve the Group's financial position:

- (i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations.
- (ii) Two of the indirect wholly-owned subsidiaries of the Group filed pre-restructuring applications with the People's Court of Haining City to request the Court to allow those two subsidiaries to formulate pre-restructuring plans to resolve the debt positions. Please refer to page 21 for details.
- (iii) The Group is in the process of negotiating with its convertible loan holder and bank to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group's working capital and financial requirements in the near future.

- (iv) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities. During the six months ended 30 June 2022, the Company has entered into the placing agreement with the placing agent on 25 February 2022 to place 200,000,000 placing shares at placing price of HK\$0.12 per placing share, raising net proceeds in the amount of approximately HK\$23.71 million.
- (v) The ultimate holding company of the Company, Morris Capital Limited, has stated that it is willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due.
- (vi) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables, other receivables and amounts due from related companies in accordance with the repayment schedules agreed with them.
- (vii) On 22 April 2022, the Company and a potential subscriber (“**Potential Subscriber**”) entered into a memorandum of understanding, pursuant to which the Potential Subscriber intended to subscribe for 1,300,000,000 new shares of the Company for the total consideration of HK\$81,900,000 or HK\$0.063 per Share. On 26 May 2022, a binding subscription agreement was signed but the subscription is still subject to satisfaction of conditions including the obtaining of shareholders’ approval of the Company. Please refer to page 21 for details.

## **PLACING OF NEW SHARES UNDER GENERAL MANDATE**

On 18 January 2022, the Company and Silverbricks Securities Company Limited (“**Silverbricks**”) entered into the placing agreement (the “**First Placing Agreement**”), pursuant to which the Company appointed Silverbricks to place, on a best effort basis, a maximum of 200,000,000 shares to not less than six independent placees at a price of HK\$0.175 per share, raising net proceeds of approximately HK\$34.65 million which are intended to be used to repay debts and replenish the working capital of the Group. The First Placing Agreement was terminated on 11 February 2022.

On 25 February 2022, the Company and Silverbricks entered into another placing agreement (as supplemented by a supplemental agreement dated 28 February 2022) (the “**Second Placing Agreement**”), pursuant to which the Company appointed Silverbricks to place, on a best effort basis, a maximum of 200,000,000 shares to not less than six independent placees at a price of HK\$0.12 per share, raising net proceeds of approximately HK\$23.71 million which are intended to be used to repay debts and replenish the working capital of the Group. The Second Placing Agreement was completed on 23 March 2022.

## **SANCTION OF RESTRUCTURING PROPOSAL FOR TWO SUBSIDIARIES IN THE PRC BY THE COURT**

On 19 January 2022, two indirect wholly-owned subsidiaries of the Group, Zhejiang Apollo Leather Products Co., Ltd. (浙江阿波羅皮革製品有限公司) (“**Apollo Leather**”) and Zhejiang Morris Fashion Home Co., Ltd. (浙江慕容時尚家居有限公司) (“**Fashion Home**”) (collectively, the “**Relevant Subsidiaries**”), filed pre-restructuring applications (the “**Pre-restructuring**”) with the People’s Court of Haining City (the “**Haining Court**”) to request the Haining Court to allow the Relevant Subsidiaries to formulate pre-restructuring plans to resolve their debt positions. On 13 May 2022, the Haining Court accepted the restructuring application of the Relevant Subsidiaries on a consolidated basis (the “**Restructuring**”). The restructuring proposal was approved by the requisite number of creditors representing the requisite amount of debt at the creditors’ class meetings and was sanctioned by the Haining Court on 5 August 2022. Further details of the Pre-restructuring and the Restructuring were disclosed in the Company’s announcements dated 19 January 2022, 13 May 2022, 5 August 2022 and 18 August 2022.

## **ISSUE AND SUBSCRIPTION OF NEW SHARES AND UNDER SPECIFIC MANDATE**

On 22 April 2022, the Company and Mr. Tse Kam Pang (the “**Subscriber UBO**”) entered into a memorandum of understanding (the “**MOU**”), pursuant to which the Subscriber UBO (or a company nominated and controlled by him) intended to subscribe for 1,300,000,000 new shares of the Company at the indicative total consideration of HK\$81,900,000 or HK\$0.063 per share. Further details of the MOU were disclosed in the Company’s announcement dated 22 April 2022.

## **PLACING OF NEW SHARES UNDER SPECIFIC MANDATE**

On 26 May 2022, the Company entered into the share subscription agreement (as supplemented by a supplemental agreement dated 5 August 2022) (the “**Share Subscription Agreement**”) with Century Icon Holdings Limited (the “**Offeror**”), a company controlled by the Subscriber UBO, pursuant to which the company conditionally agreed to allot and issue 1,300,000,000 shares at the subscription price of HK\$0.063 per share for the total consideration of HK\$81,900,000. On 5 August 2022, the Company and Forwin Securities Group Limited (“**Forwin**”) entered into the placing agreement (the “**Third Placing Agreement**”), pursuant to which Forwin agreed to place, on a fully underwritten basis, 250,000,000 shares to places for the total consideration of HK\$27,500,000 or HK\$0.11 per share. The Share Subscription Agreement and the Third Placing Agreement are inter-conditional with each others and are expected to complete simultaneously. An extraordinary general meeting (the “**EGM**”) will be held to consider and, if thought fit, pass resolutions to approve, among other matters, the Share Subscription Agreement and the Third Placing Agreement. Upon the completion of the Share Subscription Agreement and the Third Placing Agreement, the Offeror and parties acting in concert with it (including Morris Capital) will be interested in 1,966,500,000 shares, representing 71.51% of the issued shares as enlarged by the allotment and issue of the subscription shares and the placing shares. Pursuant to Rule 26.1 of the Takeovers Code, upon

the completion of the share subscription, the Offeror is required to make an unconditional mandatory cash offers (the “**Offers**”) for all the issued shares and all the outstanding convertible loan (other than those already owned or to be acquired by the Offeror and parties acting in concert with it). Further details of the Share Subscription Agreement, the Third Placing Agreement and the Offers were disclosed in the Company’s announcement dated 5 August 2022.

## **SUBSEQUENT EVENTS**

As disclosed in the Company’s announcement dated 5 August 2022, the Company is currently in negotiation with the International Finance Corporation (the “**Convertible Loan Creditor**”) in relation to the restructuring (the “**Debt Restructuring**”) of the repayment terms of the outstanding convertible loan (the “**Convertible Loan**”) in the aggregate principal amount of HK\$81,439,031.

## **HUMAN RESOURCES MANAGEMENT**

Quality and dedicated staff are indispensable assets to the Group’s success in the competitive market. By providing comprehensive training and corporate culture education periodically, the employees are able to obtain on-going training and development in the sofa manufacturing industry. Furthermore, the Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees. The Group reviews its human resources and remuneration policies periodically to ensure that they are in line with market practice and regulatory requirements. As at 30 June 2022, the Group employed a work force of 391 (31 December 2021: 1,070). The total salaries and related costs including the directors’ remuneration for the six months ended 30 June 2022 amounted to approximately RMB81.8 million (for the six months ended 30 June 2021: approximately RMB69.4 million).

## **SHARE OPTION SCHEME**

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

As at 30 June 2022 and the date of this announcement, the total number of options available for grant under the Share Option Scheme is 100,000,000 Shares, which represents 8.3% of the issued Shares as at 30 June 2022 and the date of this announcement.

## **OUTLOOK**

### **Broadening sources of income and cutting expenditure**

The Group will take measures on broadening sources of income and cutting expenditure to cope with the continuing outbreak of COVID-19. In terms of broadening sources of income, the Group will continue to explore opportunities in other overseas markets and the domestic sales in China and Hong Kong. In terms of cost control measures, the management will continue to optimize human resources, enhance production management and improve production and operating efficiency, in order to minimize the impacts of the COVID-19 on the Group.

### **Branding strategy**

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

In China, in order to explore the domestic sofa and furniture market, the Group will continue to take part in fairs, and launch new products. In Hong Kong, the Group will continue to a foothold for “Morris”.

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

Save as disclosed in the paragraph headed “Restricted Share Award Scheme” below, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities for the six months ended 30 June 2022.

## **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. Pursuant to the terms of the rules and trust deed of the Award Scheme, the trustee of the Award Scheme did not acquire any Shares during the first half of 2021. As at 30 June 2022, 75,812,000 Shares acquired under the Award Scheme were deemed to be held in treasury, representing 6.32% of the Shares in issue as at 30 June 2022.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as a code of conduct of the Company for Directors’ securities transactions. The Company has made specific enquiry with all Directors and the relevant employees regarding any non-compliance with the Model Code for the Reporting Period, and they all confirmed that they had fully complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions for the Reporting Period.

## **CORPORATE GOVERNANCE CODE**

The Company is committed to maintain high standards of corporate governance to protect the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the code provisions (“**Code Provisions**”) and, where applicable, the recommended best practices of the Corporate Governance Code (“**Corporate Governance Code**”) set out in Appendix 14 of the Listing Rules. Save for the disclosed below, the Company has applied and complied with the relevant provisions of the Code Provisions throughout the six months ended 30 June 2022.

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

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

## **AUDIT COMMITTEE AND REVIEW OF UNAUDITED INTERIM RESULTS**

During the Reporting Period and up to the date hereof, the Audit Committee of the Company comprised of three independent non-executive Directors, with at least one member possessing recognised professional qualifications in accounting and/or having wide experience in audit and accounting. Currently, the members of the Audit Committee are Ms. Wu Weixia, Mr. Tan Tianhong and Ms. Zhao Hongyan. The Audit Committee has reviewed with the management of the Company the unaudited interim results and interim report of the Group for the six months ended 30 June 2022 and is of the opinion that it complies with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2022 (2021: Nil).

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **PUBLICATION OF UNAUDITED INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This unaudited interim results announcement will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.morrishome.com.hk](http://www.morrishome.com.hk). The unaudited interim report of the Company for the Reporting Period will be dispatched to the shareholders of the Company and published on the aforesaid websites in due course on or before 30 September 2022.

## **APPRECIATION**

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

By order of the Board

**Morris Home Holdings Limited**

**Zou Gebing**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 30 August 2022

*As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Shen Zhidong and Mr. Wu Yueming; and the independent non-executive Directors are Ms. Wu Weixia, Mr. Tan Tianhong and Ms. Zhao Hongyan.*