MORRIS
HOME HOLDINGS LIMITED

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慕容家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

INSIDE INFORMATION REGARDING THE PRE-RESTRUCTURING OF TWO PRC SUBSIDIARIES

This announcement is made by Morris Home Holdings Limited (the "**Company**", which together with its subsidiaries are collectively referred to as the "**Group**") pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board (the "**Board**") of directors (the "**Directors**") announces that on 19 January 2022 (after trading hours), 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**"), both being indirect wholly-owned subsidiaries of the Group, filed pre-restructuring applications (the "**Pre-restructuring**") with the People's Court of Haining City (the "**Court**") to request the Court to allow the Relevant Subsidiaries to formulate pre-restructuring plans to resolve their debt positions. The Company understands that the purposes of pre-restructuring were to ascertain the value of enterprises, to save time and costs and increase the success rate of restructuring. Subject to the Court's discretion, the Pre-restructuring may involve the appointment of provisional administrator(s) (the "**Provisional Administrators**"), the introduction of restructuring investors and the coordination of negotiations amongst stakeholders including creditors, contributories and restructuring investors with the view to formulating the pre-restructuring plans. Based on the Company's understanding, until the end of the Pre-restructuring, the Relevant Subsidiaries can continue their business operations with their available resources under the management of its existing board of directors and the supervision of the Provisional Administrators.

INFORMATION OF THE TWO RELEVANT SUBSIDIARIES

Apollo Leather is a company established in the People's Republic of China (the "**PRC**") with limited liability and an indirect wholly-owned subsidiary of the Group, principally engaged in the manufacturing and sales of sofa covers. Based on the audited accounts of Apollo Leather as prepared under generally accepted accounting principles of the PRC, Apollo Leather recorded revenue and profit for the year of RMB188,172,000 and RMB4,724,000, respectively, for the year ended 31 December 2020, and total assets and total liabilities of RMB375,585,000 and RMB330,911,000, respectively, as at 31 December 2020.

Fashion Home is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Group, principally engaged in the manufacturing and sales of upholstered sofas. Based on the audited accounts of Fashion Home as prepared under generally accepted accounting principles of the PRC, Fashion Home recorded revenue and loss for the year of RMB431,244,000 and RMB43,738,000, respectively, for the year ended 31 December 2020, and total assets and total liabilities of RMB893,221,000 and RMB639,531,000, respectively, as at 31 December 2020.

The above figures of assets and liabilities were the audited figures as at 31 December 2020. The Directors noticed that the due to the further deterioration of business, financial position and liquidity of the two Relevant Subsidiaries in 2021, based on their unaudited management accounts, Apollo Leather and Fashion Home have respectively run into low net assets and net current liabilities during the second half of 2021. The Directors emphasize that they are still in the process of finalizing the up-to-date accounts of the two Relevant Subsidiaries with the help of independent valuers and accounting firms in the PRC. Further announcement(s) will be made by the Company when the updated financial figures of the two Relevant Subsidiaries are finalized.

REASONS FOR THE PRE-RESTRUCTURING

The Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products. Due to China-US trade tension and imposition of tariffs by the US Government on furniture exported from China since 2018 and the outbreak of COVID-19 epidemic since 2020, the operation and financial position of the PRC Subsidiaries were under pressure, and the Relevant Subsidiaries have run into loss-making position in recent years. In view of the ongoing situation of China-US trade relationship and COVID-19 epidemic, the business volume of the export of furniture by the Group is not expected to show great improvement in the foreseeable future. Due to the spare production capacity of the Group on overall basis and in view of the debt-ridden financial position of the Relevant Subsidiaries, the Directors are of the view that it is no longer desirable to continue to inject the Group's cash to support the operation of the Relevant Subsidiaries without a debt restructuring.

There is no guarantee on the outcome of the Pre-restructuring, as it may depend on many factors including the macro-economy, the finalized accounts of the two Relevant Subsidiaries, the attitude of creditors and the successful introduction of restructuring investors. However, the Pre-restructuring aims to preserve value for other stakeholders and due regard is hoped to be given to the welfare of the staff of the Relevant Subsidiaries, as a matter of social responsibilities.

EFFECT OF THE PRE-RESTRUCTURING ON THE GROUP

As disclosed in the Company's annual report 2020, the Group recorded revenue and loss for the year of RMB606,363,000 and RMB90,730,000, respectively, for the year ended 31 December 2020, and total assets and total liabilities of RMB676,852,000 and RMB600,109,000, respectively, as at 31 December 2020. On pure arithmetic calculations by only eliminating the inter-company sales between them but before conducting any other adjustments, the two Relevant Subsidiaries roughly accounted for 84%, 43%, 55% and 68% of the Group's revenue, loss for the year, total assets and total liabilities for the year ended or as at 31 December 2020. The Company wishes to emphasize that these percentages are purely for illustration purposes only and have not taken into account all the necessary adjustments including those due to combination or differences in accounting standards.

The Group is a vertically-integrated furniture manufacturer and retailer operating the whole product cycle of sofas from their design, manufacturing to sales, owning its own brand name and having its own retail and wholesale distribution networks. The Group is not engaged in any OEM/ODM manufacturing. The Group's business can be divided into: (a) the manufacturing division (the "**Manufacturing Division**") which comprises five subsidiaries running five factories; and (b) the sales division (the "**Sales Division**") which is responsible for procuring wholesale orders and operating the retail shops of the Group. In 2019 and 2020, all the revenue of the two Relevant Subsidiaries was derived from the manufacturing of sofa and sofa cover, which were internally sold to the Sales Division before the Sales Division eventually sold the products to end-customers through our distribution networks.

Due to overall under-capacity of the Group's factories and reduced business volume resulted from the China-US trade tension and COVID-19 since 2018, the Group slowed down the manufacturing operations of the other three subsidiaries/factories of the Manufacturing Division (the "**Remaining Factories**") and focus on the two Relevant Subsidiaries purely as a matter of convenience and business efficacy. This has resulted in the two Relevant Subsidiaries accounting for over 95% of the internal sales of the entire Manufacturing Division in 2020. However, even in the worst case scenario of the failure of the Pre-restructuring and the insolvent dissolution of the two Relevant Subsidiaries, the Directors are of the view that the Remaining Factories can restore to the full-cycle operation within a short period of time without significant investment in equipment, and to take up the manufacturing orders from the Sales Division to deliver a similar level of manufacturing capability as in 2021. Therefore, notwithstanding the significant proportion of business scale purely on arithmetic calculations, the Directors are of the view that the Pre-restructuring of the Relevant Subsidiaries should not have material adverse effect to the Group's remaining operation. If the Pre-restructuring results in the deconsolidation of the Relevant Subsidiaries, it is expected that the Group's assets and liabilities will both decrease.

Following the entering into of Pre-restructuring process of the two Relevant Subsidiaries, the Directors intend to continue and focus on the remaining operations of the Group of furniture manufacturing and furniture sales. In view of the circumstances described above, the Directors are of the view that the Company will be able to continue to carry out a business having substance, with sufficient level of operations and asset of sufficient value to support its operations.

The Company wishes to emphasize that the Pre-restructuring process is expected to run for at least a few months after commencement. As explained above, until the end of the Pre-restructuring, the Relevant Subsidiaries can continue their business operations with their available resources under the management of its existing board of directors and the supervision of the Provisional Administrators. The deconsolidation of the Relevant Subsidiaries is expected to take place only at the end of the implementation stage of the Pre-restructuring plan, or if the Pre-restructuring fails resulting in the ultimate insolvent dissolution of the Relevant Subsidiaries.

LISTING RULES IMPLICATIONS

The Company was advised by its PRC legal advisers that: (a) the Pre-restructuring is not expected to result in the immediate loss of control by the Group on the two Relevant Subsidiaries; and (b) the Provisional Administrators do not have the power and authority to adopt a restructuring proposal without the consent of the Relevant Subsidiaries or their holding companies. On that basis, the Directors are of the view that the Company shall have the opportunity to comply with the Listing Rules if and when the Pre-restructuring proposal is formulated in due course, including those regarding announcement, circular and shareholders' approval requirements for notifiable transactions. If the Pre-restructuring proposal involves the deconsolidation of the Relevant Subsidiaries, the Company expects that the relevant transactions may constitute very substantial disposals for the Company under Chapter 14 of the Listing Rules.

Further announcement(s) will be made by the Company as and when appropriate if there is any material progress regarding the Pre-restructuring of the Relevant Subsidiaries.

Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

By order of the Board
Morris Home Holdings Limited
Zou Gebing
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 19 January 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 Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun.