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 2023

FINANCIAL HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

- Revenue increased by approximately 65.7% to approximately RMB89.3 million for the six months ended 30 June 2023 (2022: approximately RMB53.9 million)
- Gross profit recorded in the amount of approximately RMB25.6 million for the six months ended 30 June 2023 (2022: gross loss approximately RMB4.3 million)
- The Group recorded a loss of approximately RMB14.6 million for the six months ended 30 June 2023 (2022: approximately RMB125.9 million)
- Basic loss per share was approximately RMB0.52 cents for the six months ended 30 June 2023 (2022: approximately RMB12.00 cents)
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: Nil)

UNAUDITED INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Morris Home Holdings Limited (the "**Company**") announced the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2023 (the "**Reporting Period**") together with the comparative figures for the six months ended 30 June 2022 (the "**Comparative Period**"). This condensed consolidated interim financial information for the six months ended 30 June 2023 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 2023

		Six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	4	**89,255**	53,949
Cost of sales		**(63,679)**	(58,275)
Gross profit/(loss)		**25,576**	(4,326)
Other income and gains	4	**7,921**	14,799
Allowance for expected credit losses in respect of financial assets carried at amortised cost, net		**(129)**	(5,429)
Selling and distribution expenses		**(21,836)**	(14,134)
Administrative expenses		**(19,868)**	(112,027)
Other expenses and losses		**(1,239)**	(938)
Finance costs		**(5,063)**	(3,840)
Share of result of an associate		**4**	–
Loss before tax	5	**(14,634)**	(125,895)
Income tax credit	6	**71**	–
Loss for the period		**(14,563)**	(125,895)
Other comprehensive income:			
Item may be reclassified to profit or loss			
Exchange differences on translation of financial statements		**4,667**	4,662
Other comprehensive income for the period, net of income tax		**4,667**	4,662
Total comprehensive loss for the period		**(9,896)**	(121,233)

		Six months ended 30 June	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Loss attributable to:			
Owner of the Company		**(13,797)**	(123,990)
Non-controlling interests		**(766)**	(1,905)
		(14,563)	(125,895)
Total comprehensive loss attributable to:			
Owner of the Company		**(8,645)**	(119,476)
Non-controlling interests		**(1,251)**	(1,757)
		(9,896)	(121,233)
		RMB cents	*RMB cents*
Loss per share attributable to ordinary equity holders of the Company	7		
Basic (Unaudited)		**(0.52)**	(12.00)
Diluted (Unaudited)		**(0.52)**	(12.00)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	**30 June 2023** *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,820**	6,505
Right-of-use assets		**32,004**	43,656
Investment in an associate		**11,130**	–
Total non-current assets		**49,954**	50,161
CURRENT ASSETS			
Inventories		**29,088**	25,411
Trade receivables	9	**38,326**	33,142
Prepayments, deposits and other receivables		**38,580**	64,695
Amount due from a shareholder		**362**	345
Amounts due from related companies		**185,568**	185,527
Pledged deposits		**33**	33
Cash and cash equivalents		**4,323**	7,590
Total current assets		**296,280**	316,743
CURRENT LIABILITIES			
Trade and bills payables	10	**93,696**	143,936
Contract liabilities		**12,061**	11,052
Other payables and accruals		**91,264**	100,260
Amounts due to related companies		**45,657**	62,173
Bank and other borrowings		**96,599**	69,235
Warranty provision		**504**	455
Lease liabilities		**22,615**	25,133
Derivative financial instruments		**1,006**	372
Convertible loan		**26,780**	21,492
Income tax payables		**2,998**	2,863
Total current liabilities		**393,180**	436,971
NET CURRENT LIABILITIES		**(96,900)**	(120,228)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(46,946)**	(70,067)

	Notes	**30 June 2023** *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Convertible loan		**27,139**	39,073
Lease liabilities		**12,068**	22,319
Bank and other borrowings		**55,202**	–
Total non-current liabilities		**94,409**	61,392
Net liabilities		**(141,355)**	(131,459)
EQUITY			
Share capital	11	**19,212**	19,212
Reserves		**(154,879)**	(146,234)
Equity attributable to owners of the Company		**(135,667)**	(127,022)
Non-controlling interests		**(5,688)**	(4,437)
Total equity		**(141,355)**	(131,459)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2022.

The accounting policies and the basis of preparation adopted in the preparation of this unaudited interim report are consistent with those adopted in the Group's annual financial statements for the year ended 31 December 2022, 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 2022, except for the adoption of amendments to HKFRSs effective as of 1 January 2023.

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 2023 *RMB'000* **(Unaudited)**	Six months ended 30 June 2022 *RMB'000* (Unaudited)	**Six months ended 30 June 2023** *RMB'000* **(Unaudited)**	Six months ended 30 June 2022 *RMB'000* (Unaudited)	**Six months ended 30 June 2023** *RMB'000* **(Unaudited)**	Six months ended 30 June 2022 *RMB'000* (Unaudited)	**Six months ended 30 June 2023** *RMB'000* **(Unaudited)**	Six months ended 30 June 2022 *RMB'000* (Unaudited)
Segment revenues								
– External sales	**41,030**	36,219	**48,225**	17,730	**–**	–	**89,255**	53,949
– Internal sales	**–**	–	**74,492**	3,965	**(74,492)**	(3,965)	**–**	–
	41,030	36,219	**122,717**	21,695	**(74,492)**	(3,965)	**89,255**	53,949
Segment (loss)/profit	**(6,825)**	(11,683)	**6,232**	(106,976)	**–**	–	**(593)**	(118,659)
Interest income							**54**	30
Fair value change on derivative component of convertible loan							**(590)**	(272)
Loss on deregistration of a subsidiary							**–**	(15)
Unallocated corporate expenses							**(11,770)**	(5,580)
Unallocated finance costs							**(1,735)**	(1,399)
Loss before tax							**(14,634)**	(125,895)

Segment loss represents the loss from each segment without allocation of interests income, fair value change on derivative component of convertible loan, loss on deregistration of a subsidiary, 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 2023	31 December 2022	**30 June 2023**	31 December 2022	**30 June 2023**	31 December 2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**46,041**	37,507	**258,727**	300,828	**304,768**	338,335
Unallocated corporate assets					**41,466**	28,569
Consolidated assets					**346,234**	366,904
Segment liabilities	**38,051**	40,141	**376,467**	379,304	**414,518**	419,445
Unallocated corporate liabilities					**73,071**	78,918
Consolidated liabilities					**487,589**	498,363

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 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 2023	30 June 2022	**30 June 2023**	30 June 2022	**30 June 2023**	30 June 2022	**30 June 2023**	30 June 2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Addition of property, plant and equipment	**6**	–	**1,859**	5,038	**–**	–	**1,865**	5,038
Depreciation of property, plant and equipment	**306**	123	**1,351**	628	**–**	–	**1,657**	751
Depreciation of right-of-use assets	**4,932**	3,051	**7,304**	–	**–**	–	**12,236**	3,051
(Reversal of provision)/provision against obsolete and slow-moving inventories	**(255)**	183	**–**	12,091	**–**	–	**(255)**	12,274
Allowance for/(reversal of) allowance for expected credit losses on financial assets at amortised cost, net	**777**	570	**(652)**	4,848	**4**	11	**129**	5,429
Finance costs	**833**	279	**2,495**	2,162	**1,735**	1,399	**5,063**	3,840

Geographical information

(a) Revenue from external customers

	30 June 2023	30 June 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The People's Republic of China (including Hong Kong)	**30,605**	24,573
The United Kingdom	**14,566**	16,424
The U.S.	**39,053**	10,867
Others	**5,031**	2,085
	89,255	53,949

(b) Non-current assets

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
The People's Republic of China (including Hong Kong)	**49,792**	49,065
The United Kingdom	**162**	1,096
	49,954	50,161

The non-current asset information above is based on the locations of the assets.

Information about major customers

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer 1	**11,471**	15,535
Customer 2	**24,272**	N/A*

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

4. REVENUE, OTHER INCOME AND GAINS

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	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Recognised at a point of time:		
Manufacturing and sales of sofas, sofa cover and other furniture products	**89,251**	53,741
Commission income	**4**	208
	89,255	53,949
Other income and gains		
Interest income	**53**	30
Government subsidies	**10**	933
Rental income	**–**	138
Sales of raw materials	**237**	96
Over-provision for redundancy payable in prior year	**6,571**	–
Compensation income	**–**	13,366
Exchange gain	**851**	–
Others	**199**	236
	7,921	14,799

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**63,934**	46,001
Depreciation of property, plant and equipment	**1,657**	751
Depreciation of right-of-use assets	**12,236**	3,051
Salaries, wages and benefits in kind	**22,513**	81,780
Pension scheme contributions	**712**	5,285
(Reversal of provision)/provision against obsolete and slow-moving inventories	**(255)**	12,274
Allowance for expected credit losses on financial assets at amortised cost, net	**129**	5,429
Provision for/(reversal of provision for) product warranty, net	**49**	(2,498)
Interest for convertible loan	**1,735**	1,399
Interest for lease liabilities	**1,837**	564
Exchange losses	**–**	420

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% (2022: 16.5%).

PRC subsidiaries are subject to the PRC Enterprise Income Tax at 25% during the period (2022: 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 2023, 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 2023 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 2023 (2022: 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 2023.

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Hong Kong	**(71)**	–
Deferred tax	**–**	–
Tax credit for the period	**(71)**	–

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:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss for the purpose of basic and diluted profit/loss per share	**(13,797)**	(123,990)
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,674,188**	1,033,580

Note: Diluted loss per share for the period ended 30 June 2023 and 2022 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 2023 (six months ended 30 June 2022: Nil).

9. TRADE RECEIVABLES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables from third parties	**60,572**	52,098
Less: allowance for expected credit losses	**(22,246)**	(18,956)
	38,326	33,142

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:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 3 months	**35,700**	29,777
4 to 6 months	**2,424**	1,389
7 to 12 months	**202**	1,976
	38,326	33,142

10. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables to third parties	**93,696**	84,941
Bills payables		
– arising from intra-group purchases	**–**	58,995
	93,696	143,936

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 month	**13,090**	18,156
2 to 3 months	**6,823**	440
4 to 6 months	**7,350**	1,699
Over 6 months	**66,433**	123,641
	93,696	143,936

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 within 1 year.

11. SHARE CAPITAL

	30 June 2023		31 December 2022	
		RMB'000		*RMB'000*
	US$'000	***equivalent***	*US$'000*	*equivalent*
	(Unaudited)	**(Unaudited)**	(Audited)	(Audited)
Authorised:				
10,000,000,000 ordinary shares of US$0.001 each	**10,000**		10,000	
Issued and fully paid:				
2,750,000,000 (2022: 2,750,000,000) ordinary shares of US$0.001 each	**2,750**	**19,212**	2,750	19,212

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

	Number of ordinary shares in issue	**Issued capital**
		RMB'000
		(Unaudited)
As at 31 December 2022, 1 January 2023 and 30 June 2023	2,750,000,000	19,212

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Throughout the Reporting Period, the Company demonstrated remarkable adaptability in a challenging economic landscape. Overcoming various obstacles, including persistent trade tensions between the US and China, as well as the temporary suspension of our main PRC factories early in 2022, the Group exhibited resilience and innovation in response to the dynamic environment.

During the Reporting Period, the net loss of the Group amounted to approximately RMB14.6 million (2022: approximately RMB125.9 million). The decrease in net loss can be primarily attributed to two key factors. Firstly, there was a rise in revenue during the first half of 2023. Secondly, there was a one-off redundancy payment resulted from the suspension of operations of the factories of the Group in the PRC in 2022.

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

In light of financial challenges and the temporary suspension of operations of our primary factories in the PRC in 2022, certain significant clients paused their orders, awaiting the completion of our restructuring endeavors and proposed share subscription. Despite this, the Group's strong reputation and historical ties with export customers infused optimism for an upcoming rebound. With the successful completion of the proposed share subscription on the horizon, the Group anticipates a gradual resurgence. Guided by this vision, the Group's management took proactive steps to nurture relationships with key customers and re-develop a steady cooperation with and re-gain confidence from these customers, showcasing unwavering dedication to both short-term stability and long-term expansion. Following the disruption to the Group's operations, the Group has been negotiating at its best effort to resolve differences between itself and its customers in the U.K. with a view to resuming its business, while at the same time ensuring the Group's rights and legitimate interest are adequately safeguarded. This revival is being facilitated by the concerted efforts of two local teams, who are steadily ushering in the return of orders.

Retail business development in China and Hong Kong

As of June 2023, the Group had a total of one flagship showroom and one self-operated retail store in Mainland China. In Hong Kong, the Group had a total of six self-operated retail stores in Central, Sha Tin, Tsuen Wan, Kowloon Bay, Tseung Kwan O and Tai Kok Tsui, respectively and seven points of consignment sales in Kowloon Bay, Kwun Tong, Yuen Long, Wan Chai, Tsuen Wan, Fo Tan and Lai Chi Kok. The Group also introduced auxiliary decoration services to establish onestop services including decoration and furniture setting, instilling its stylish home design concept into the Hong Kong market.

FINANCIAL REVIEW

During the six months ended 30 June 2023, the Group's principal business activities primarily consisted of the manufacturing and sales of sofas, sofa covers and other furniture products.

For the Reporting Period, the Group generated revenue amounting to approximately RMB89.3 million (2022: approximately RMB53.9 million), reflecting a significant increase of approximately 65.7% compared to the corresponding period in last year. This growth can largely be attributed to the overall improvement in global containment of COVID-19 pandemic, widespread vaccination efforts, and the subsequent economic recovery, which led to an increased demand for furniture products. Consequently, the Group achieved substantial improvements in operating results compared with the same period last year.

The gross profit for the Reporting Period reached approximately RMB25.6 million (2022: gross loss approximately RMB4.3 million). The gross loss incurred in last year was primarily due to the clearance sales of finished goods that occurred as a one-off event after the suspension of the factories.

During the Reporting Period, the net loss of the Group amounted to approximately RMB14.6 million (2022: net loss approximately RMB125.9 million). The decrease in net loss can be primarily attributed to two key factors. Firstly, there was a rise in revenue during the first half of 2023. Secondly, there was a one-off redundancy payment resulted from the suspension of operations of the factories of the Group in the PRC in 2022.

The basic loss per ordinary share of the Company for the six months ended 30 June 2023 was approximately RMB0.52 cents (2022: approximately RMB12.00 cents). This calculation is based on the loss for the period attributable to ordinary equity holders of the Company, which amounted to approximately RMB13.8 million (2022: approximately RMB124.0 million), and the weighted average number of ordinary shares which stood at 2,674,188,000 for the six months ended 30 June 2023 (30 June 2022: 1,033,580,000).

Cost of sales

The cost of sales for the Group experienced an increase of approximately 9.3%, rising from approximately RMB58.3 million for the six months ended 30 June 2022 to approximately RMB63.7 million for the corresponding period in 2023. This increase is primarily attributable to the recovery of export business and resumption of manufacturing activities following the temporary suspension of the factories in PRC during 2022.

Other income and gains

The other income and gains of the Group decreased from approximately RMB14.8 million for the six months ended 30 June 2022 to approximately RMB7.9 million for the six months ended 30 June 2023. The balance primarily consisted of the reversal of overprovision of redundancy compensation amounting to RMB6.6 million.

Selling and distribution expenses

The selling and distribution expenses of the Group increased by approximately 54.5% from approximately RMB14.1 million for the six months ended 30 June 2022 to approximately RMB21.8 million for the six months ended 30 June 2023. Such increase was primarily due to the increase in export after the resumption of manufacturing activities in the PRC during the Reporting Period.

Administrative expenses

The administrative expenses of the Group decreased by approximately 82.2% from approximately RMB112.0 million for the six months ended 30 June 2022 to approximately RMB19.9 million for the six months ended 30 June 2023. Such decrease was primarily attributable to the one-off redundancy payment due to the suspension of operations of factories of the Group in the PRC in 2022.

Finance costs

The finance costs of the Group increased by approximately 34.2% from approximately RMB3.8 million for the six months ended 30 June 2022 to approximately RMB5.1 million for the six months ended 30 June 2023. The increase in finance costs was mainly due to the increase in interest for lease liabilities amount approximately RMB1.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Borrowing and pledge of assets

As at 30 June 2023, the Group's interest-bearing bank and other borrowings amounted to approximately RMB151.8 million (31 December 2022: approximately RMB69.2 million). The bank loans' interest rates ranged from 5.0% to 6.6% (31 December 2022: 4.5% to 6.6%) per annum.

As at 30 June 2023, approximately RMB33,000 (31 December 2022: approximately RMB33,000) restricted bank balances were pledged for bank borrowings and bills payables.

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 2023 and 31 December 2022.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2023.

Trade receivables

The trade receivables of the Group increased to approximately RMB38.3 million as at 30 June 2023 (31 December 2022: approximately RMB33.1 million), primarily due to the slight increase in sales to our customers in the second quarter of 2023 as compared to the fourth quarter of 2022.

Trade and bills payables

The trade and bills payables of the Group decreased to approximately RMB93.7 million as at 30 June 2023 (31 December 2022: approximately RMB143.9 million), primarily due to the shorten of the credit period granted from the Group's suppliers after the temporary suspension of major factories in PRC in early 2022.

Foreign exchange exposure

Revenue from major customers is mainly from the U.S. and Europe 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 2023, the Group did not experience any material difficulties or impacts on its operations or liquidity as a result of currency exchange fluctuation. The Group will continue to monitor closely the exchange rate risk arising from its existing operations and new investments in the future. The Group will further implement the necessary hedging arrangement to mitigate any significant foreign exchange risk if and when appropriate.

GOING CONCERN

The Group incurred a net loss of approximately RMB14,563,000 during the six months ended 30 June 2023 and, as of that date, the Group's current liabilities exceeded its current assets and total liabilities exceeded its total assets by approximately RMB96,900,000 and RMB141,355,000 (31 December 2022: approximately RMB120,228,000 and RMB131,459,000), respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have prepared the consolidated financial statements based on going concern on the assumptions and measures.

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 ultimate holding company of the Company, Century Icon Holdings Limited which is wholly owned by the substantial shareholder of the Company, Mr. Tse Kam Pang, 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;

(ii) The Group will take steps to obtain external funding in order to improve the working capital and liquidity and cash flow position of the Group;

(iii) The Group is taking measures to tighten cost controls with an aim to attain positive cash flows from operations;

(iv) 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;

(v) The Group has actively negotiated with stakeholders for the purpose of obtaining further financing when necessary, including but not limited to shareholder's loan, equity financing, bank borrowing and issuance of new convertible bonds to improve the liquidity of the Group;

(vi) The Haining Court accepted the restructuring application of the two subsidiaries of the Company in the PRC on a consolidated basis. 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. The restructuring proposal than become effective and binding on the relevant subsidiaries and all creditors; and

(vii) The Company and IFC entered into an amendment agreement (the "**Amendment Agreement**") to amend the principal terms and conditions of the Convertible Loan in relation to, among others, the repayment schedule of the Convertible Loan. Further details of the Amendment Agreement was disclosed in the Company's announcement dated 30 December 2022.

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 2023, the Group employed a work force of 366 (31 December 2022: 350). The total salaries and related costs excluding the directors' remuneration for the six months ended 30 June 2023 amounted to approximately RMB23.2 million (for the six months ended 30 June 2022: approximately RMB87.1 million). Significant decreased in balance was mainly due to the one-off redundancy payment resulted from the suspension of operations of the Group's factories in the PRC in 2022.

SHARE SCHEMES

Share Option Scheme

The share options scheme (the "**Share Option Scheme**") was adopted by the Company on 10 December 2016 ("**Adoption Date**"). The Share Option Scheme allows the Company to grant options to the following eligible person(s) (the "**Eligible person(s)**"), namely, any fulltime or part-time employee of the Company or any member of the Group, including any executive Director, non-executive Director and independent non-executive Director, adviser and consultant of the Group. The purpose of the Share Option Scheme is to enable the Company to grant options to the Eligible Persons as incentives or rewards for their contribution to the Group.

No share options were granted by the Company under the Share Option Scheme during the period from the Adoption Date to 30 June 2023 and there were no outstanding share options under the Share Option Scheme as at 1 January 2023 and 30 June 2023. No share options were exercised, vested, lapsed or cancelled during the Reporting Period. The number of share options available for grant under the scheme mandate of the Share Option Scheme was 100,000,000 as at 1 January 2023 and 30 June 2023.

Restricted Share Award Scheme

The Restricted Share Award Scheme (the "**Share Award Scheme**") was adopted by the Company on 29 August 2019 as an incentive to retain and encourage employees for the continual operation and development of the Group. The trustee of the Share Award Scheme did not acquire any Shares during the first half of 2023. As at 30 June 2023, 75,812,000 Shares acquired and held by the trustee under the Share Award Scheme were deemed to be held in treasury, representing 2.76% of the Shares in issue as at 30 June 2023.

OUTLOOK AND PROSPECTS

Broadening sources of income and cutting expenditure

The Group will take measures on broadening sources of income and cutting expenditure to cope with the staggering economy. 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.

Branding strategy

Moving forward, the Group will remain committed to its strategies of cultivating proprietary brands, venturing into retail avenues, and meticulously establishing a youthful and stylish sofa and furniture brand within the mid-market segment.

Within China, the Group will persist in actively participating in trade fairs and introducing fresh product lines to delve deeper into the domestic sofa and furniture market. In Hong Kong, the Group will maintain its presence as a stronghold for "Morris".

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 for the six months ended 30 June 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Pursuant to a stock purchase agreement dated 16 May 2023, among others, the Company has subscribed for 423 shares of Series Angel Preferred Stock in Charme Inc. for the consideration of US$1,600,000. Upon completion, the Company holds 15.9804% of the shares in Charme Inc.. Charme Inc. is principally engaged in developing and sales of adjustable beds and medical beds to overseas markets. For more details, please refer to the Company's announcements dated 16 May 2023 and 7 July 2023.

Save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures for the Reporting Period.

SIGNIFICANT INVESTMENTS

As at 30 June 2023, the Group did not hold any significant investments save as those disclosed in this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no plan authorised by the Board for material investments or additions of capital assets at the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions. The Company has made specific enquiry with its incumbent Directors regarding compliance with the Model Code during the Reporting Period, and they all confirmed that they had fully complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

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 principle of the Company's corporate governance is to promote effective internal control and risk management measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects, and to ensure that its affairs are conducted in accordance with applicable laws and regulations. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value and formulate its business strategies and policies. 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**") of the Corporate Governance Code (the "**Corporate Governance Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the Reporting Period and up to the date of this announcement.

Code Provision D.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. 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.

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 four 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 Professor Kwan Pun Fong Vincent *(Chairman)*, Professor Lee Chack Fan, Professor Alfred Sit Wing Hang and Ms. Chen Jianhua. 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 2023 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 2023 (2022: Nil).

EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this announcement.

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 is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at 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 2023.

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
Tse Kam Pang
Chairman and Executive Director

Hong Kong, 31 August 2023

As at the date of this announcement, the executive Directors are Mr. Tse Kam Pang, Mr. Chong Tsz Ngai and Mr. Zou Gebing; the non-executive Directors are Mr. Tse Hok Kan and Ms. Wu Xiangfei; and the independent non-executive Directors are Professor Alfred Sit Wing Hang, Professor Lee Chack Fan, Professor Kwan Pun Fong Vincent and Ms. Chen Jianhua.