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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)

**FURTHER ANNOUNCEMENT ON AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

Reference is made to the announcement of Morris Home Holdings Limited (the “**Company**”, which together with its subsidiaries is collectively referred to as the “**Group**”) dated 31 March 2022 (the “**Unaudited Results Announcement**”) in relation to the unaudited annual results of the Group for the year ended 31 December 2021 (the “**2021 Unaudited Results**”), as clarified and supplemented by the Company’s announcement dated 4 April 2022. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the Unaudited Results Announcement.

The Board announced that the Company’s auditor, HLB Hodgson Impey Cheng Limited (“**HLB**”), has completed its audit of the annual results of the Group for the year ended 31 December 2021 (the “**2021 Audited Results**”) in accordance with Hong Kong Standards on Auditing (“**HKSA**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

MATERIAL DIFFERENCE BETWEEN THE UNAUDITED AND AUDITED ANNUAL RESULT

The 2021 Audited Results remain substantially the same as the 2021 Unaudited Results, except for the following major changes with details set out below:

The following set forth the audited consolidated statement of financial position of the Group as at 31 December 2021, the audited consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 December 2021, the relevant changes between audited and the unaudited figures, the explanatory notes on these changes, and the consequential changes to the notes to the consolidated financial statements:

1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	<i>Note</i>	2021 RMB'000 (Audited)	2021 <i>RMB'000</i> (Unaudited)	Change <i>RMB'000</i>
Revenue		502,932	502,932	–
Cost of sales	(a)	(403,276)	(400,506)	(2,770)
Gross profit		99,656	102,426	(2,770)
Other income and gains		23,894	23,894	–
Allowance for expected credit losses in respect of financial assets carried at amortised cost, net		(5,044)	(5,044)	–
Impairment loss on property, plant and equipment		(4,846)	(4,846)	–
Impairment loss on right-of-use assets		(3,821)	(3,821)	–
Selling and distribution expenses		(67,801)	(67,801)	–
Administrative expenses		(112,686)	(112,686)	–
Other expenses and losses		(27,170)	(27,170)	–
Finance costs		(22,468)	(22,468)	–
Loss before tax		(120,286)	(117,516)	(2,770)
Income tax expenses		(3,116)	(3,116)	–
Loss for the year		(123,402)	(120,632)	(2,770)

<i>Note</i>	2021 RMB'000 (Audited)	2021 <i>RMB'000</i> (Unaudited)	Change <i>RMB'000</i>
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements	(2,534)	(2,534)	–
<i>Items that was reclassified to profit or loss:</i>			
Reclassification of cumulative exchange fluctuation reserve upon disposal of subsidiaries	(1,978)	(1,978)	–
Other comprehensive loss for the year, net of income tax	(4,512)	(4,512)	–
Total comprehensive loss for the year	<u>(127,914)</u>	<u>(125,144)</u>	<u>(2,770)</u>
Loss attributable to:			
Owners of the Company	(121,508)	(118,738)	(2,770)
Non-controlling interests	(1,894)	(1,894)	–
	<u>(123,402)</u>	<u>(120,632)</u>	<u>(2,770)</u>
Total comprehensive loss attributable to:			
Owners of the Company	(126,108)	(123,338)	(2,770)
Non-controlling interests	(1,806)	(1,806)	–
	<u>(127,914)</u>	<u>(125,144)</u>	<u>(2,770)</u>
Loss per share attributable to ordinary equity holders of the Company			
Basic (<i>RMB cents</i>)	<u>(13.15)</u>	<u>(12.85)</u>	<u>(0.3)</u>
Diluted (<i>RMB cents</i>)	<u>(13.15)</u>	<u>(12.85)</u>	<u>(0.3)</u>

Note:

- (a) The write-down of inventories

2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 RMB'000 (Audited)	2021 <i>RMB'000</i> (Unaudited)	Change <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment		1,068	1,068	–
Right-of-use assets		7,641	7,641	–
Total non-current assets		8,709	8,709	–
CURRENT ASSETS				
Inventories	(a)	83,177	85,947	(2,770)
Trade receivables		39,873	39,873	–
Prepayments, deposits and other receivables		35,109	35,109	–
Amount due from a shareholder		322	322	–
Amounts due from related companies		179,502	179,502	–
Pledged deposits		14,705	14,705	–
Cash and cash equivalents		13,485	13,485	–
Total current assets		366,173	368,943	(2,770)
CURRENT LIABILITIES				
Trade and bills payables		179,145	179,145	–
Contract liabilities		9,858	9,858	–
Other payables and accruals		43,320	43,320	–
Amounts due to related companies		27,734	27,734	–
Interest-bearing bank and other borrowings		64,616	64,616	–
Warranty provision		2,907	2,907	–
Lease liabilities		13,032	13,032	–
Derivative financial instruments		78	78	–
Convertible loan		69,977	69,977	–
Income tax payables		3,382	3,382	–
Total current liabilities		414,049	414,049	–
NET CURRENT LIABILITIES		(47,876)	(45,106)	(2,770)
TOTAL ASSETS LESS CURRENT LIABILITIES		(39,167)	(36,397)	(2,770)

	2021	2021	Change
<i>Note</i>	RMB'000	RMB'000	RMB'000
	(Audited)	(Unaudited)	
NON-CURRENT LIABILITIES			
Deferred tax liabilities	34	34	–
Lease liabilities	11,970	11,970	–
Total non-current liabilities	12,004	12,004	–
Net liabilities	(51,171)	(48,401)	(2,770)
EQUITY			
Share capital	6,914	6,914	–
Reserves	(56,455)	(53,685)	(2,770)
Equity attributable to owners of the Company	(49,541)	(46,771)	(2,770)
Non-controlling interests	(1,630)	(1,630)	–
Total equity	(51,171)	(48,401)	(2,770)

Note:

- (a) The write-down of inventories

During the audit procedures, additional write-down of obsolete or slow-moving inventories in the amount of HK\$2,770,000 was decided by the Company to be appropriate. Such amount is immaterial as compared to the size of the Company's inventories and total assets.

As illustrated above, the write-down of inventories had consequential effects on: (i) the total current assets, net current liabilities, total assets less current liabilities, net liabilities, reserves, equity attributable to owners of the Company and the total equity; and (ii) the cost-of sales, gross profit, loss before tax, loss for the year, total comprehensive loss for the year, loss attributable to owners of the Company, total comprehensive loss attributable to owners of the Company, and the basic and diluted loss per share attributable to ordinary equity holders of the Company. Where the Unaudited Results Announcement refers to the above-mentioned items, it should be read in conjunction with this announcement by substituting the unaudited figures therein with the audited figures above.

The changes to the above-mentioned items also resulted in consequential changes to the notes 2, 4, 8 and 10 to the consolidated financial statements, which are set out as follows, using colored font to illustrate the changes made.

3. Note 2 – Basis of Preparation set out on pages 6 and 7 of the Unaudited Results Announcement should be amended as below:

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and the Hong Kong Companies Ordinance.

Going concern

These consolidated financial statements have been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon the Group being a going concern and will be able to continue its operations for the foreseeable future. The ability of the Group to continue as a going concern is dependent on the continued availability of adequate finance to the Group and the Group’s ability to attain profitable operations in the foreseeable future, all of which depend on the eventual successful outcome of the below mentioned plans and measures in view of the fact that the Group incurred a net loss of approximately RMB123,402,000 during the year ended 31 December 2021 and, as of that date, the Group’s current liabilities exceeded its current assets and total liabilities exceeded its total assets by 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 liability amounted to approximately RMB64,616,000, RMB25,002,000 and RMB69,977,000, respectively, whilst its cash and cash equivalents amounted to approximately RMB13,485,000. The Group’s convertible bonds with outstanding principal amounts of approximately RMB69,977,000 as at 31 December 2021, matured and fell due for repayment during the year ended 31 December 2021. The outstanding principal amount and related overdue interests on these convertible loan, amounting to approximately RMB72,875,000 in aggregate, were not repaid as at 31 December 2021.

In order to improve the liquidity situation and the Group’s ability to operate as a going concern, the directors of the Company have formulated plans and measures to deal with the conditions referred to above, as follows:

- (i) The Group is taking measures to tighten cost controls with an aim to attain positive cash flows 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;
- (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. Subsequent to 31 December 2021, the Company has entered into the placing agreement with the placing agent on 25 February 2022. A total of 200,000,000 placing shares have been successfully placed by the placing agent to not less than six placees at placing price of HK\$0.12 per placing share. The net proceed from placing amounted to approximately HK\$23.71 million and the placing has been completed on 23 March 2021;

- (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; and
- (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 intends to subscribe for and the Company intends to allot and issue 1,300,000,000 new shares of the Company. The indicative total consideration for the Subscription Shares shall be HK\$81,900,000 at HK\$0.063 per Share. However, the completion for subscription of shares could not be determined as of the date of the approval of the consolidated financial statements.

Having considered the above and with reviewed the cash flow forecast of the Group, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2021 on a going concern basis.

The eventual outcome of the plans and measures described above are inherently uncertain. Should the Group fail to achieve successful outcome from the above-mentioned plans and measures, it may be unable to continue as a going concern, and adjustments would have to be made to write down the carrying values of its assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

4. Note 4 – Segment Information set out in pages 8 to 11 of the Unaudited Results Announcement should be amended as below:

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

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

- a. Retail segment
- b. Manufacturing segment

Segment revenue and results

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

	Retail segment		Manufacturing segment		Elimination of intersegment sales		Total	
	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)
Segment revenue								
External sales	216,304	183,671	286,628	422,692	-	-	502,932	606,363
Internal sales	-	-	106,739	103,046	(106,739)	(103,046)	-	-
	<u>216,304</u>	<u>183,671</u>	<u>393,367</u>	<u>525,738</u>	<u>(106,739)</u>	<u>(103,046)</u>	<u>502,932</u>	<u>606,363</u>
Segment loss	<u>(27,583)</u>	<u>(31,576)</u>	<u>(82,755)</u>	<u>(121,688)</u>	<u>-</u>	<u>(1,078)</u>	<u>(110,338)</u>	<u>(154,342)</u>
Interest income							529	1,107
Fair value change on contingent receivables							-	9,411
Loss on derivative financial instruments							(78)	-
Gain on modification of convertible loan							-	11,503
Gain on disposal of subsidiaries							8,250	57,761
Unallocated corporate expenses							(15,522)	(11,002)
Unallocated finance costs							<u>(3,127)</u>	<u>(2,278)</u>
Loss before tax							<u>(120,286)</u>	<u>(87,840)</u>

Segment loss represents the loss from each segment without allocation of interest income, fair value change on contingent consideration receivables, loss on derivative financial instruments, gain on modification of convertible loan, gain on disposal of subsidiaries, unallocated corporate expenses, and unallocated finance costs. This is the measure reported to the Board for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

	Retail segment		Manufacturing segment		Consolidated	
	2021	2020	2021	2020	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	48,067	114,632	294,912	554,890	342,979	669,522
Unallocated corporate assets					31,903	7,330
Consolidated assets					374,882	676,852
Segment liabilities	37,241	54,386	304,202	459,944	341,443	514,330
Unallocated corporate liabilities					84,610	85,779
Consolidated liabilities					426,053	600,109

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

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

Other segment information

	Retail segment		Manufacturing segment		Unallocated		Total	
	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)	2021 RMB'000 (Audited)	2020 RMB'000 (Audited)
Addition of right-of-use assets	-	30,596	4,637	-	-	-	4,637	30,596
Addition of property, plant and equipment	1,444	2,539	1,070	65,502	-	-	2,514	68,041
Depreciation of property, plant and equipment	1,765	3,002	965	5,218	-	-	2,730	8,220
Depreciation of right-of-use assets	8,138	26,941	844	4,721	-	-	8,982	31,662
(Reversal)/provision against obsolete and slow-moving inventories	57	291	(38,454)	39,557	-	-	(38,397)	39,848
Allowance for/(reversal of allowance for) expected credit losses in respect of trade receivables, net	(345)	223	4,931	(11,031)	-	-	4,586	(10,808)
(Reversal of)/allowance for expected credit losses in respect of on prepayments, deposits and other receivables, net	29	(41)	(119)	140	(4)	4	(94)	103
Allowance for expected credit losses in respect of amounts due from related parties, net	-	-	552	474	-	-	552	474
Impairment loss on property, plant and equipment	80	1,489	4,766	11,465	-	-	4,846	12,954
Impairment loss on right-of-use assets	-	8,350	3,821	9,734	-	-	3,821	18,084
Gain on disposal of subsidiaries	-	-	-	-	(8,250)	(57,761)	(8,250)	(57,761)
Loss on disposal of property, plant and equipment	1,080	-	86	15,677	-	-	1,166	15,677
Loss on disposal of right-of-use assets	-	-	-	5,086	-	-	-	5,086
Finance costs	977	5,767	18,364	9,545	3,127	2,278	22,468	17,590

5. Note 8 – Loss before tax set out on page 14 of the Unaudited Results Announcement should be amended as below:

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

	2021 <i>RMB’000</i> (Audited)	2020 <i>RMB’000</i> (Audited)
Cost of inventories sold	441,673	507,749
(Reversal)/provision against obsolete and slow-moving inventories	(38,397)	39,848
Cost of sales	403,276	547,597
Depreciation of property, plant and equipment	2,730	8,220
Depreciation of right-of-use assets	8,982	31,662
Expense relating to short-term lease	19,956	12,478
Impairment loss on property, plant and equipment	4,846	12,954
Impairment loss on right-of-use assets	3,821	18,084
Loss on disposal of property, plant and equipment	1,166	15,677
Loss on disposal of right-of-use assets	–	5,086
Auditors’ remuneration:		
Audit and audit related services	1,304	1,415
Non-audit services	204	248
	1,508	1,663
Employee benefit expenses (excluding directors’ and Chief executives remuneration):		
Salaries, wages and benefits in kind	63,443	51,950
Pension scheme contributions*	16,388	8,626
	79,831	60,576
Allowance for/(reversal of) expected credit losses in respect of trade receivables, net	4,586	(10,808)
(Reversal of)/allowance for expected credit losses in respect of prepayments, deposits and other receivables, net	(94)	103
Allowance for expected credit losses in respect of amounts due from related companies, net	552	474
Product warranty additional provision	2,908	3,268
Gain on modification of convertible loan	–	(11,503)
Loss on derivative financial instruments	78	311
Loss on sales of raw materials**	24,093	–
Exchange losses	456	8,254

* At 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to pension schemes in future years (2020: Nil).

** The above items are included in “Other expenses and losses” on the face of the consolidated statement of profit or loss and other comprehensive income.

6. Note 10 – Loss per share attributable to ordinary equity holders of the Company set out on page 16 of the Unaudited Results Announcement should be amended as below:

The calculation of basic loss per share amount for the year ended 31 December 2021 was based on the loss for the year attributable to ordinary equity holders of the Company of approximately RMB121,508,000 (2020: approximately RMB91,192,000), and the weighted average number of ordinary shares of 924,188,000 after excluding treasury shares (2020: 953,526,940) in issue during the year.

For the year ended 31 December 2021, no adjustment has been made to the basic loss per share amounts as the Group had no potentially dilutive ordinary shares in issue.

Diluted loss per share amounts for the year ended 31 December 2020 are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The convertible loan is assumed to have been converted into ordinary shares, and the loss for the year ended 31 December 2020 is adjusted to exclude the interest expense on the convertible loan and gain on modification of convertible loan less tax effect, if any.

The calculation of basic and diluted loss per share is based on the following:

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

Save and except the changes described above and the consequential changes, the Group's annual results for the year ended 31 December 2021 as contained in the Unaudited Results Announcement remain unchanged.

EXTRACT OF THE AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2021:

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern basis

We draw attention to Note 2.1 in the consolidated financial statements, which describe that the Group incurred a net loss of approximately RMB123,402,000 during the year ended 31 December 2021 and, as of that date, the Group's current liabilities exceeded its current assets and total liabilities exceeded its total assets by 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 liability amounted to approximately RMB64,616,000, RMB25,002,000 and RMB69,977,000, respectively, whilst its cash and cash equivalents amounted to approximately RMB13,485,000. The Group's convertible loan with outstanding principal amount of approximately RMB69,977,000 as at 31 December 2021, matured and fell due for repayment during the year ended 31 December 2021. These outstanding principal amount and related overdue interests on these convertible loan, amounting to approximately RMB72,875,000 in aggregate, were not repaid as at 31 December 2021 and at the date of this report.

The factors referred to above, along with other matters as described in Note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The directors have implemented certain plans and measures to improve the Group's liquidity and financial position, which are set out in Note 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcomes of these measures, which are subject to multiple uncertainties, including (i) whether the Group is able to implement its cost control measures to attain positive cash flows from operations; (ii) whether the Group is successful in formulating pre-restructuring plans to resolve the debt positions; (iii) whether the Group is able to successfully negotiate with the convertible loan holder and bank to restructure and/or refinance these borrowings, and secure necessary credit facilities to meet the Group's working capital and financial requirements in the near future; (iv) whether the Directors are successful in formulating alternatives to strengthen the capital base of the Company including the seeking of new investment and business opportunities; (v) whether the ultimate holding company of the Company will provide financial support to the Group to enable the Group to continue as a going concern and to settle the Group's liabilities as and when they fall due; (vi) whether the Group is successful in 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; and (vii) whether the Group is successful in proceeding and completing the subscription of shares by the Potential Subscriber in accordance with the memorandum of understanding dated 22 April 2022 as disclosed in the Company's announcement dated 22 April 2022 (the "**Possible Share Subscription**").

We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements because of the lack of detailed analyses provided by management in relation to its plans and measures for future actions in its going concern assessment which take into account the uncertainty of outcome of these plans and measures and how variability in outcome would affect the future cash flows of the Group.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements and we were unable to determine whether such adjustments might have been found necessary.

The views of the management and the Audit Committee on the disclaimer of opinion relating to going concern

In view of the net current liabilities position, the Directors have carried out a detailed review of the cash flow forecast of the Group covering a period of not less than twelve months from the end of the reporting period based on certain underlying assumptions including (i) the Group succeeding in taking measures to tighten cost control; (ii) two indirect wholly-owned subsidiaries of the Group being able to formulate pre-restructuring plans to resolve the debt positions; (iii) the Group succeeding in 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 succeeding in strengthening the capital base of the Company including but not limited to, seeking new investment and business opportunities; (v) the shareholder of the Company, Morris Capital Limited, providing 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 succeeding in 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; and (vii) the Company succeeding in proceeding with and completing the Possible Share Subscription with the Potential Subscriber. Taking into account the above assumptions, the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the twelve months from 31 December 2021. The Directors will continue to negotiate with banks and other financiers, financial institutions and potentially interested investors with the view to obtaining new funding whether by way of equity or debt financing to improve the Company's financial position and/or liquidity, with the objective of removing the emphasis of matter on going concern.

During the audit process, the audit committee discussed with the management during which the management presented the financial highlights and conveyed the key audit matters expressed by the auditors. After considering the circumstances surrounding the key audit matters and the management's presentation, the audit committee concurred with the management's judgments regarding the going concern basis of the financial statements.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") currently comprises five independent non-executive directors, namely Mr. Liu Haifeng, Mr. Chu Guodi, Ms. Wu Weixia, Mr. Tan Tianhong and Ms. Zhao Hongyan. The Audit Committee has reviewed with the management of the Company and the Company's external auditors the consolidated financial statements of the Group for the year ended 31 December 2021, including accounting principles and practices adopted by the Group, and discussed the risk management, internal controls and financial reporting matters related to the preparation of the annual results of the Group for 2021.

The Group's 2021 Audited Results have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF AUDITORS

Following the reclassification described above in this announcement, the figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2021 as set out in the Unaudited Results Announcements have been agreed by the Group's auditor, HLB, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board on 10 May 2022. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with HKSA, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the HKICPA and consequently no assurance has been expressed by HLB on the Unaudited Results Announcements or this further announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.morrishome.com.hk. The Annual Report of the Company for the year ended 31 December 2021 is expected to be dispatched to the shareholders of the Company and published on the websites of the Company and Stock Exchange on or before 15 May 2022.

Save as disclosed above, all other information in the Unaudited Results Announcement remains unchanged.

By order of the Board
Morris Home Holdings Limited
Zou Gebing
Chairman

Hong Kong, 10 May 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, Ms. Zhao Hongyan, Mr. Liu Haifeng and Mr. Chu Guodi.