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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)**

### **SUPPLEMENTAL ANNOUNCEMENT ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023**

Reference is made to the annual report of Morris Home Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2023 published on 30 April 2024 (the “**Annual Report**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report, unless the context otherwise requires.

In addition to the information contained in the Annual Report, the board (the “**Board**”) of directors of the Company would like to provide the following supplementary information to the shareholders and potential investors of the Company.

#### **QUALIFIED OPINION**

##### **Basis for qualified opinion – scope limitation on amounts due from and to related parties**

The following is the basis for qualified opinion provided by the auditors of the Company in the Annual Report. As stated in the independent auditors’ report in the Annual Report, as disclosed in Notes 23 and 33(c) to the financial statements for the year ended 31 December 2023, included in amounts due from related companies and amounts due to related companies as at 31 December 2023 were balances of approximately RMB176,199,000 and RMB44,534,000 respectively which are the carrying amounts of the balances due from and to, respectively, entities which are controlled by Mr. Zou Gebing, a former executive director of the Company until his resignation with effect from 8 January 2024 who also has shareholding interests of 24.24% in the Company (the “**Related Parties**”). The Company’s auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves that the carrying amounts of the balances due from and to the Related Parties as at 31 December 2023 were not materially misstated because they were unable to obtain direct confirmations from the Related Parties

or have access to the management or relevant personnel of the Related Parties. There were no other alternative audit procedures that the auditors could carry out to obtain sufficient and appropriate audit evidence to satisfy themselves about the existence, accuracy, valuation and completeness of these balances as at 31 December 2023.

Further, the Group has recognized allowance for expected credit loss on the balances due from the Related Parties of approximately RMB182,000 for the year ended 31 December 2023 and RMB1,241,000 as at 31 December 2023. The auditors were not provided by management of the Company with the necessary financial, corporate, operating and business information about the Related Parties to support the impairment assessment of the balances due from the Related Parties as at 31 December 2023.

Accordingly, the auditors were unable to satisfy themselves as to whether the amounts due from and to the Related Parties were fairly stated. Any adjustments found to be necessary to the carrying amounts of the balances due from and to the Related Parties as at 31 December 2023 may also have a consequential significant impact on the expected credit loss on the balances due from the Related Parties of approximately RMB182,000 for the year ended 31 December 2023 that was recognized in consolidated profit or loss, the loss of the Group for the year ended 31 December 2023 and the Group's net liabilities as at 31 December 2023 and the related elements presented or disclosed in the consolidated financial statements.

#### **Management's position and view**

The auditors have requested a confirmation from the Related Parties and related financial, corporate, operating and business information in respect of (i) the amounts due from Related Parties and amounts due to Related Parties as at 31 December 2023 of approximately RMB176.2 million and RMB44.5 million respectively; (ii) the allowance for expected credit loss on the balances due from the Related Parties of RMB1.2 million as at 31 December 2023; and (iii) the expected credit loss on the balances due from the related parties of RMB0.2 million recognised in the Company's consolidated profit or loss for the year ended 31 December 2023. It was the Company's understanding that the auditors' requests were not satisfied due to the uncooperative attitude of the Related Parties (over which the Company has no control). The auditors stated that there were no other alternative audit procedures that they could carry out to obtain sufficient and appropriate audit evidence to satisfy themselves about the existence, accuracy, valuation and completeness of these balances as at 31 December 2023.

There was no disagreement between the Company and its auditors. Despite the management's best effort in procuring necessary information from and facilitate access to the Related Parties, the uncooperative attitude of the Related Parties had led to the inability to satisfy the auditors requests by providing sufficient appropriate audit evidence. In the circumstance, the management understands the qualified opinion issued by the auditors.

### **Audit committee's view**

The Audit Committee understands that the qualified opinion was issued by the auditors as a result of their failure to obtain sufficient and appropriate audit evidence in respect of the amount due from and to the Related Parties and the impairment assessment thereon. The Audit Committee, having considered the management's assessment and the auditors' view, concurred with the management's view.

### **The Company's plans to address the audit qualifications**

The Company is working closely with its auditors with a view to resolving the Audit Issues as soon as practicable, including without limitation ascertaining the audit evidence required to satisfy the auditors. In addition, the Company is also taking steps to review and assess all the amount due from Related Parties, with a view to formulating a recovery plan for all such amounts, including but not limited to commencing legal proceedings and/or other recovery actions against the Related Parties.

The Company has been having bona fide discussions with the Related Parties with a view to formulating a reasonable repayment plan in respect of the amount due from Related Parties, including without limitation physical meetings, telephone conversations and formal meetings with the participation of the Company's legal advisors. After reaching consensus on a repayment plan which was primarily based on the disposal of property assets held by the Related Parties in the PRC, the Company has been continuously and regularly monitoring the status of the amount due from Related Parties and the progress of repayment. Throughout 2023 and in early 2024, the Company had diligently and repeatedly demanded payment of the amount due from Related Parties from the Related Parties and arranged meetings with the Related Parties to follow up on the progress of repayment. The Company had also regularly and continuously enquired on the progress of the disposal of property assets held by the Related Parties, being a key element of the repayment plan. The Company was given to understand that the Related Parties have encountered continuing difficulties in disposing of the property assets in view of the gloomy sentiment in the PRC property market. However, in March 2024, the Related Parties denied the existence of and refused to repay the amount due from Related Parties claiming that such amount had been fully set off but failed to provide sufficient evidence to justify such set-off.

The existing management of the Company, which was appointed after the close of the unconditional mandatory cash offer in November 2022, is still reviewing and investigating the nature and details of the balances of the amount due from Related Parties. The Company will use its best endeavour to formulate a feasible solution with a view to the final resolution of the Audit Issues.

## Internal control

The existing management of the Company considers that the qualified opinion originates from historical transactions involving Mr. Zou Gebing and the Related Parties, in relation to which the Company is still conducting further investigation and review. During the investigation, subject to further verification and review, the Company discovered that there appeared to be certain unauthorized fund outflows from Zhejiang Morris Fashion Home Co., Ltd. (浙江慕容时尚家居有限公司) (“**Fashion Home**”, a subsidiary of the Company) to the Related Parties which was not compliant with the relevant requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The internal control system of the Company, including without limitation, the internal transaction approval procedures, has been revamped and enhanced following the engagement of the existing management. The existing management of the Company will use every effort to implement and maintain intact financial reporting procedures so as to avoid re-occurrence of similar issues, including conducting internal control review(s) as and when appropriate.

To prevent similar non-compliance from occurring in the future, the Company has put in place the following remedial measures:

- (a) the Company has designated Professor Kwan Pun Fong Vincent, an independent non-executive Director who has extensive compliance and financial management experience, to be a designated officer (the “**Designated Officer**”) for advising on and overseeing the internal controls of the Group. The Designated Officer would assist the Group in evaluating and implementing its risk management and compliance policies, in particular, management and reporting policies for notifiable transactions and connected transactions;
- (b) the Company has implemented and circulated internally a new internal approval policy (including document signing and use of seal/chop) to the effect that no legally binding documents or documents of material effect to the Group may be signed or entered into without the written approval from the Chairman and the chief executive officer of the Company (the “**CEO**”);
- (c) the Company has implemented an enhanced internal control system for fund transfers. Depending on fund size, applications will have to be made to and approvals will be provided by relevant authorised senior management personnel of the Group. All application forms and approval records for fund transfers will be properly retained and kept. Material fund transfers will only be made with the written approval from the Chairman and the CEO, and fund transfers which constitute notifiable transactions and/or connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) will be conducted in accordance with the measures set out in paragraph (e) below;

- (d) the Company has circulated within the Group guidance materials in relation to the Listing Rules requirements in respect of notifiable transactions and connected transactions. In particular, in-house training or relevant materials will be provided to the key management personnel and relevant staff of the Group on at least an annual basis to ensure they have the practical knowledge to identify notifiable and connected transactions and comply with relevant requirements under the Listing Rules;
- (e) the Company has implemented enhanced internal control procedures in monitoring notifiable transactions and connected transactions under Chapters 14 and 14A of the Listing Rules:
- subsidiaries of the Group shall from time to time and regularly report to the CEO in respect of potential transactions to be entered into by the subsidiaries;
  - the CEO (with the assistance of the compliance department) will be responsible for reviewing and checking whether the reports from subsidiaries contain information that may constitute notifiable transaction or connected transaction to be entered into in the next month and shall consolidate all information received and keep proper record of the reported potential or consummated transactions;
  - based on the information provided, the compliance department will advise the applicable compliance requirements under the Listing Rules (if any) in respect of the reported transactions (after consultation with professional advisers, if necessary). No agreement will be entered into before a written clearance is issued by the CEO;
  - the details of all notifiable or connected transactions will be reported to the CEO, chief financial officer and/or the Board as appropriate, and if needed, the compliance department shall arrange formal announcement/circular/general meetings etc. in accordance with the Listing Rules; and
  - the CEO will conduct regular inspections and verifications on at least a quarterly basis to identify and verify whether there are any unreported transactions, which, if found, will be reported to the senior management of the Company and/or Board as soon as practicable.
- (f) the Company will, as and when appropriate and necessary, seek external legal or other professional advice as to any action required to be taken in relation to any proposed transactions or events in the future. The Company will allocate resources such that the independent non-executive Directors will have sufficient access to independent professional advice as they see fit in assessing future transactions of the Group.

The Company will retain an independent professional adviser to conduct a thorough review of and make recommendations to further improve the Company's internal control and to ensure compliance with Chapters 14 and 14A of the Listing Rules and the Corporate Governance Code set out in Appendix C1 to the Listing Rules.

By order of the Board  
**Morris Home Holdings Limited**  
**Tse Kam Pang**  
*Chairman and Executive Director*

Hong Kong, 27 June 2024

*As at the date of this announcement, the executive Directors are Mr. Tse Kam Pang and Mr. Chong Tsz Ngai; the non-executive Director is Mr. Tse Hok Kan; 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.*