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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Morris Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was affected for transmission to the purchaser or transferee.

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MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE SHARE CAPITAL OF A SUBSIDIARY; AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



瓏盛資本
Draco Capital

Draco Capital Limited

Capitalised terms used herein shall have the same meanings as those defined in the section headed “Definitions” of this circular, unless the context otherwise requires.

A letter from the Board is set out on pages 6 to 19 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 20 of this circular. A letter from Draco Capital Limited, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 36 of this circular.

A notice convening the EGM to be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Monday, 8 March 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the meeting including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.

18 February 2021

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Announcement”	the announcement of the Company dated 8 January 2021 in relation to the Disposal
“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than Saturdays, Sundays and public holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted or in effect between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are open for business
“BVI”	British Virgin Islands
“Cambodia”	the Kingdom of Cambodia
“Company”	Morris Holdings Limited (慕容控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1575
“Completion”	the completion of the Disposal
“Completion Accounts”	the consolidated accounts made up to 31 December 2020 and the unaudited accounts certified by the directors of the Disposal Group up to Completion Date to be true and accurate in all respects
“Conditions Precedent”	the conditions precedent to the Completion as set out in the Share Purchase Agreement
“connected person(s)”	having the meaning ascribed thereto under the Listing Rules
“Consideration”	US\$5.513 million, being the consideration payable by the Purchaser to the Company pursuant to the Share Purchase Agreement

DEFINITIONS

“Controlling Shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	disposal of the entire issued share capital of the Disposal Company by the Vendor, the Company’s wholly owned subsidiary to the Purchaser pursuant to the Share Purchase Agreement
“Disposal Company”	Masia Investment Limited (美亞投資有限公司), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of the Company
“Disposal Group”	the Disposal Company and Masia Industries
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Share Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Draco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Purchaser and its respective associates

DEFINITIONS

“JCI”	Jennifer Convertibles Inc., a company incorporated in the US and a wholly-owned subsidiary of the Company prior to the JCI Disposal Completion
“JCI Disposal”	the disposal of JCI by the Company to Morris PRC as triggered by the exercise of the JCI Put Option
“JCI Disposal Completion”	the completion of the JCI Disposal
“JCI EGM”	the extraordinary general meeting which was held by the Company on 21 July 2020 to consider and approve the JCI Put Option and the JCI Receivables Disposal
“JCI Put Option”	the put option right granted by Morris PRC in 2018 and exercised by the Company on 31 March 2020, requiring Morris PRC to repurchase JCI for the consideration of US\$35 million (approximately RMB229 million)
“JCI Receivables”	the trade and loan receivables in the aggregate sum of RMB99.1 million due from JCI to the Group prior to the JCI Disposal
“JCI Receivables Disposal”	the disposal of the JCI Receivables by the Group to Morris PRC, taking place simultaneously with the JCI Disposal
“Land”	two plots of land with an aggregate area of 59,781.978 square meters situated at Sihanoukville Special Economy Zone (柬埔寨西哈努克港經濟特區), Cambodia, which was owned by the Vendor prior to the Disposal
“Latest Practicable Date”	10 February 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Lease Agreement”	the lease agreement dated 16 September 2013 entered into between the Sihanoukville Special Economy Zone Co., Ltd. (as lessor) and Haining Mengnu Group Co., Ltd. (as lessee), leasing the Land for a term from 18 December 2013 to 18 September 2064 at a rent of US\$1,195,639.56 for the entire term
“Listing”	the listing of the Company’s Shares on the Main Board of the Stock Exchange of Hong Kong Limited

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Masia Industries”	Masia Industries Co., Ltd., (formerly known as Morris Zou (Cambodia) Co., Ltd.), a company incorporated in Cambodia with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of the Company
“Morris PRC”	慕容集團有限公司 (Morris Group Co., Ltd*) (formerly known as 海寧蒙努集團有限公司 (Haining Mengnu Group Co., Ltd.*)), a company established in the PRC with limited liability which is owned as to 85% by Mr. Zou and 15% by Ms. Wu
“Mr. Shen”	Mr. Shen Zhidong (沈志東), an executive Director of the Company
“Mr. Zou”	Mr. Zou Gebing (鄒格兵), the Chairman, Chief Executive Officer and an executive Director of the Company
“Ms. Wu”	Ms. Wu Xiangfei (鄔向飛), spouse of Mr. Zou
“PRC”	the People’s Republic of China
“Purchaser” or “Morris Capital”	Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability, a Controlling Shareholder of the Company and the purchaser of the Disposal Company under the Disposal
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100 ordinary shares of US\$1 each of the Disposal Company, being the entire issued share capital of the Disposal Company, which is wholly owned by the Company prior to the entering into of the Share Purchase Agreement
“Share Charge”	the share charge over the Sale Shares to be executed by the Purchaser in favour of the Vendor
“Share Purchase Agreement”	the share purchase agreement dated 8 January 2021 entered into between the Vendor and the Purchaser in relation to the Disposal

DEFINITIONS

“Share(s)”	ordinary share(s) of the Company having a par value of US\$0.001 each
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement, entered into between Sihanoukville Special Economy Zone Co., Ltd, Morris PRC and Masia Industries, to the Lease Agreement, transferring the long-term lease rights over the Land, with the consent of the owner, from Morris PRC to Masia Industries as effective from 27 December 2013
“UK”	the United Kingdom of Great Britain and Northern Ireland
“US”	the United States of America
“US Furniture Retail Business”	the Group’s furniture retail business in the United States operated by JCI
“US\$”	United States Dollars, the lawful currency of the US
“Vendor” or “Morris International”	Morris International Group Limited (慕容國際集團有限公司) (formally known as Teagle International Group Limited (天鷹國際集團有限公司)), a company incorporated in the BVI with limited liability on 27 December 2013 and a direct wholly-owned subsidiary of the Company
“%”	per cent

In this circular, for the purpose of illustration only, amounts quoted in US\$ have been converted into RMB at the rate of US\$1 to RMB6.53 (by reference to the closing exchange rate on 31 December 2020), unless otherwise indicated. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

In this circular, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*

LETTER FROM THE BOARD



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

Executive Directors:

Mr. ZOU Gebing *(Chairman and Chief Executive Officer)*

Mr. SHEN Zhidong

Mr. ZENG Jin

Mr. WU Yueming

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Independent non-executive Directors:

Mr. LIU Haifeng

Mr. CHU Guodi

Mr. QIAN Jun

Principal place of business

in Hong Kong:

Unit 2001, 20/F

Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

18 February 2021

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
THE ENTIRE SHARE CAPITAL OF A SUBSIDIARY; AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement of the Company dated 8 January 2021 in respect of the Share Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The purposes of this circular are (i) to provide you with further information regarding the Share Purchase Agreement and the transactions contemplated thereunder; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder; (iii) to set out the opinion and recommendation of the Independent Board Committee after taking into consideration of the advice of the Independent Financial Adviser in respect of the terms of the Share Purchase Agreement and the transactions contemplated thereunder; and (iv) to give notice to the Shareholders of the EGM to be held to consider and, if thought fit, to approve, among other things, the Share Purchase Agreement and the transactions contemplated thereunder.

THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are set out below:

Date

8 January 2021 (after trading hours)

Parties

- (1) Morris International Group Limited (慕容國際集團有限公司), a direct wholly-owned subsidiary of the Company, as the Vendor; and
- (2) Morris Capital Limited, as the Purchaser.

The Purchaser is the Controlling Shareholder of the Company which indirectly holds 100% of the issued share capital of the Disposal Company. The entire issued share capital of the Purchaser is legally and beneficially owned as to 85% by Mr. Zou, the Chairman, Chief Executive Officer and executive Director of the Company. Therefore, the Purchaser is a connected person under Rule 14A.07 of the Listing Rules.

Disposal Assets

Pursuant to the Share Purchase Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being the entire issued share capital of the Disposal Company. The main assets of the Disposal Company are the properties held by its wholly-owned subsidiary incorporated in Cambodia, Masia Industries, being the leasehold title for a term ending 18 September 2063 with rights of exclusive use of two plots of industrial land with an aggregate area of 59,781,978 square meters located in Sihanoukville Special Economy Zone, Cambodia, and the five blocks of one to two-storey buildings (the “**Buildings**”) thereon with a gross floor area of approximately 38,866 square meters.

LETTER FROM THE BOARD

Consideration

The Consideration for the Sale Shares is US\$5.513 million (approximately RMB36 million) which shall be payable within 12 months in the following manner:

- (i) A deposit in the amount of US\$1.5 million (approximately RMB9.795 million) has been paid on the date of the Share Purchase Agreement;
- (ii) A further US\$1 million (approximately RMB6.53 million) will be paid within six months from the date of the Share Purchase Agreement; and
- (iii) The balance of US\$3.013 million (approximately RMB19.675 million) will be paid in full in clear fund by electronic transfer to the Vendor's or its holding company's bank account on or before the first anniversary of the date of the Share Purchase Agreement.

The Consideration has been determined after arm's length negotiations between the parties with reference to amongst other things, the followings:

- (i) the adjusted unaudited consolidated net asset value^(Note 1) and current liabilities of the Disposal Group in the amount of approximately US\$4.440 million (approximately RMB28.993 million) and US\$628,000 (approximately RMB4.101 million), respectively, as at 31 December 2020;
- (ii) As per unaudited management account, the carrying value^(Note 2) of the Land and the Buildings as at 31 December 2020 amounted to approximately US\$4.954 million (approximately RMB32.350 million); and

Notes:

1. The adjustments made to the net asset value of the Disposal Group include the waiver of inter-company amounted approximately US\$5.34 million (approximately RMB34.87 million), as at 31 December 2020. No impairment has been made to the Land and Buildings since 2016.
2. The right to use of the Land and the Buildings was held by the Disposal Group for original self-use purpose since 2016, prior to the Company's listing application, the Land and Buildings was booked in the Group's accounts at the initial capital investments on the Land (i.e. without depreciation nor fair value adjustment) of US\$4.67 million (approximately RMB30.5 million). The Company intended to dispose the self-use Land and Buildings. The carrying amount of the Land and Buildings as at 31 December 2020 amounted to approximately US\$4.954 million (approximately RMB32.350 million). In compliance with generally accepted accounting principle, no fair value change will be recognized at this stage. The difference between the carrying value of the properties and the valuation of the properties represents solely the fair value gain.

LETTER FROM THE BOARD

- (iii) the valuation of the Land and the Buildings^(Note 3), being approximately US\$5.513 million (approximately RMB36 million), as accessed on the 20 November 2020 by an independent valuer (the “**Valuer**”) appointed by the Company.

As at the Latest Practicable Date, the deposit set out in (i) above was made in RMB in the sum of 9,725,400, which was calculated on the basis of the exchange rate of US\$1 to RMB6.4836 as at the time of the transfer.

Liabilities

Further, it is agreed between the Vendor and the Purchaser that the Purchaser shall take the Disposal Company with the current liabilities of the Disposal Group as at the Completion Date. As at the Latest Practicable Date, the current liabilities of the Disposal Group amount to US\$628,000 (approximately RMB4.101 million).

Share Charge

As security for the due and punctual performance by the Purchaser of all its obligations under the Share Purchase Agreement, the Purchaser has agreed to charge the Sale Shares immediately after the Completion in favour of the Vendor by way of first legal charge which shall remain effective until the full amount of the Consideration has been paid by the Purchaser to the Vendor.

After the Share Charge has become enforceable after the occurrence of an event of default by the Purchaser, the Vendor may, among other things, take possession and hold or dispose of all or any part of the Sale Shares.

Conditions Precedent

The Completion is conditional on the following Conditions Precedent being fulfilled (or waived, as applicable):

- (a) the Share Purchase Agreement and the transactions contemplated thereunder and the Share Charge having been approved by the board of directors of the Purchaser;

Notes:

3. The Directors have reviewed the valuation report of the Land and the Buildings and discussed with the Valuer regarding the methodology of and the basis and assumptions adopted for the valuation of the Land and Buildings. Details of the valuation assumptions adopted by the Valuer are set out in the section headed “Valuation Report” in Appendix I to this circular. Based on our review of the legal opinion of the land use rights and the relevant title documents of the Land, the Directors are of the view that the valuation assumptions are fair and reasonable.

LETTER FROM THE BOARD

- (b) the Share Purchase Agreement and the transactions contemplated thereunder and the Share Charge having been approved by the board of directors of the Vendor;
- (c) the Company having despatched to its Shareholders a Circular in relation to the Share Purchase Agreement and the transactions contemplated hereunder in accordance with the Listing Rules;
- (d) the Share Purchase Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders in compliance with the Listing Rules; and
- (e) the Company having completed the vetting and approval procedures required under the Listing Rules in relation to the Disposal.

The Vendor and the Purchaser shall use its reasonable endeavours to procure that all Conditions Precedent above are satisfied on or before Completion. Save for items (a) and (b) of the Conditions Precedent which may be waived by the Vendor or the Purchaser (as the case may be), none of the Conditions Precedent above may be waived.

If the Conditions Precedent are not fulfilled or waived before the Completion, the Share Purchase Agreement shall terminate automatically.

As at the Latest Practicable Date, save for item (a) to (c) above, none of the Conditions Precedent had been fulfilled or waived.

Conditions Subsequent

The Disposal will be subject to the following Conditions Subsequent:

- (a) the Vendor shall within 30 days from the Completion Date deliver at its own cost and expense the consolidated Completion Accounts of the Disposal Group made up to Completion Date;
- (b) the Purchaser shall arrange for registration of the Share Charges with the Registrar of Corporate Affairs in accordance with *the BVI Business Companies Act, 2004 (as amended)* no later than 14 Business Days after the date of the Share Charge; and

LETTER FROM THE BOARD

- (c) the Vendor shall within one year from the Completion Date produce evidence, in agreed form, of the release of all guarantees or other security given by the Company in respect of the liabilities or obligations of the Vendor (or another member of the Vendor's group), or of any other third party^(Note).

Completion

Pursuant to the Share Purchase Agreement, Completion shall take place two months after the date of the Share Purchase Agreement or such other date as the parties may agree in writing.

INFORMATION ABOUT THE PARTIES

The Purchaser is an investment holding company incorporated in the British Virgin Islands with limited liability.

The Vendor is a company incorporated under the laws of the British Virgin Islands. It is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

The Disposal Company is an investment holding company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is indirectly wholly owned by the Company as at the Latest Practicable Date and immediately prior to Completion.

Masia Industries, a wholly-owned subsidiary of the Disposal Company, is incorporated in Cambodia with limited liability. The principal business of Masia Industries is manufacturing of sofa and sofa cover but it has not yet commenced operation as at the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company acting as the holding company of the Group and its subsidiaries are principally engaged in manufacturing and sale of sofas, sofa covers and other furniture products.

Note: In January 2018, the Company (as borrower) entered into a convertible loan agreement with International Finance Corporation (“**IFC**”) (as lender) for the loan of HK\$200,000,000 (the “**Convertible Loan Agreement**”) as disclosed in the Company's announcement in March 2020.

Pursuant to the Convertible Loan Agreement (as amended in March 2020), Masia Industries assigned to IFC all its right to payment, performance and other intangible property rights as it may have under any sub-lease agreement(s) by which Masia Industries grants leasehold rights or right of use of the Land to any third party(ies), as a continuing and first priority security (the “**Security**”) for due performance of its obligation under the Convertible Loan Agreement.

As at the Latest Practicable Date, the Security had yet not been released/discharged, and the outstanding balance was HK\$96,349,373.76 (approximately RMB81,122,000 calculated by reference to the exchange rate as at 31 December 2020 as provided by the auditors), which is expected to be fully repaid in 2022.

LETTER FROM THE BOARD

The main assets of the Disposal Group are the Land and the factories built thereon. The right to use of the Land has been held by the Disposal Group since 2016 pursuant to the Lease Agreement and Supplemental Agreement, prior to the Company's listing application. After the Listing of the Company, the Group has made a capital investment of approximately US\$4.67 million (rounded up to 2 decimal place) (approximately RMB30.5 million) on the Land, which was used for the construction of the factories and other related facilities for production. Particulars of the Lease Agreement and Supplemental Agreement are as follows.

Lease Agreement:

Date:	16 September 2013
Parties:	(1) Sihanoukville Special Economy Zone Co., Ltd. (as lessor); and (2) Morris PRC (as lessee).
Leased property:	Lease of two plots of industrial lands located in Sihanoukville Special Economy Zone, Cambodia with a total land size of 59,781.978 square meters
Lease term:	18 December 2013 to 18 September 2063.
Rental fee:	(i) US\$20 per square meter inclusive of 10% VAT tax. (ii) Total rental fee: US\$1,195,639.5 (approximately RMB7,807,525.94).
Non-monetary consideration/ conditions:	The lessee was required to develop 50% of the total leased property within one year, and to develop the entire leased property within two years, otherwise, the lessee has to pay a penalty to the lessor ^(Note) .
Payment:	The payments of total rental fee were divided into two phases: the first 50% shall be paid within 10 days after signing of the Lease Agreement and the remaining 50% shall be paid by 18 November 2013.
Usage:	The leased property shall be used for building factory(ies) in accordance with Cambodian law and the master plan of Sihanoukville Special Economy Zone.
Transfer of the lease:	During the lease term, the lessee has the right to sub-lease/cooperate with a third party over the leased property, provided that the lessee has obtained prior consent from the lessor.

LETTER FROM THE BOARD

Note: As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries: (i) the above conditions set out in the Lease has been fulfilled; neither the Company nor the Disposal Group has ever received any notice in respect of non-compliance of the conditions; and (ii) as such, no outstanding penalty will be borne by the Company.

Supplemental Agreement:

Effective Date: 27 December 2013

Parties: (1) Sihanoukville Special Economy Zone Co., Ltd. (as owner);

(2) Haining Mengnu Group Co., Ltd. (the former name of Morris PRC) (as transferor); and

(3) Masia Industries Co., Ltd. (as transferee).

Subject: Transfer of the long term lease rights over the lands with a total land size of 59,781.978 square meters located in Sihanoukville Special Economy Zone, Cambodia, with the consent of the lessor (i.e. the owner)

Monetary consideration: Nil

Transferor's warranties and obligations: (i) That the transferor has the rights to transfer the long term lease right.

(ii) That the leased land is not/has not been involved in any ownership dispute, encumbrance, transfer or sale to any third party, subject of any succession, or prohibition by any person or entity.

The Group intended to use the Land for its production line. Construction of the production facility on the Land was completed in early 2018. However, the Group has never commenced any production in the Land due to the fact that the infrastructure development in the Sihanoukville Special Economic Zone (which is the responsibilities of the local government) is much slower than expected. The Ministry of Public Works and Transport of Cambodia announced the infrastructure improvements and future plans in October 2014 (the “**2014 plans**”) which, among other things, outlined (i) a proposed Cambodian expressway network including an expressway from Phnom Penh to Sihanoukville; and (ii) railway network development projects including amongst others, a southern line from Phnom Penh to Sihanoukville for freight traffic, a north-south railway across Cambodia for heavy industries, a line between the Thai border at Poipet and Battambang and Phnom, and a new railway connecting Phnom Penh to Ho Chi Minh City (which would complete the rail link from Singapore to Kunming). However, to the knowledge of the Company, the actual infrastructure development has fallen significantly behind

LETTER FROM THE BOARD

the 2014 plans construction work of the expressway connecting Sihanoukville and Phnom Penh was began only in March 2019. As at the date of the Share Purchase Agreement, the expressway project was still under construction. As to the railway development, except the southern line aforementioned, other projects are still either under planning or construction. Furthermore, during the supplier selection process, the quality of the major raw materials, such as softwood, leather and specialty foam of the sofa was assessed and did not meet the production standard of the Group. Therefore, the Group did not source any raw materials from the local suppliers in Cambodia.

As many of the essential infrastructure and peripheral facilities, as well as the supply chain for sofa manufacturing are still at infant stage, which causes mass production of sofa almost impossible or otherwise very cost inefficient. For that reasons, the Board was of the view that it was not prudent and not in the best interest of the Group to commence any production in the Land. Masia Industries then started to sublet part of the Land for income since October 2018. As at the Latest Practicable Date, there were three tenants, who are independent third parties, and the total lettable area of the Land was approximately 35,352 square metre. The existing tenancy agreements entered by Masia Industries are summarized as below:

	Tenant 1	Tenant 2	Tenant 3
Term	24 July 2019 to 23 July 2021	30 November 2020 to 30 November 2022	1 October 2020 to 30 September 2022
Size of leased premises	approximately 11,500 square metre	approximately 11,926 square metre	approximately 11,926 square metre
Monthly rent (tax excluded)	US\$2.2 per square metre		
Payment term	The rent shall be payable quarterly.		

Taken into consideration that the rental charge under the Lease Agreement is only US\$20 per square metre for the entire term, which is equivalent to a monthly rental charge of US\$0.03 (rounded up figure) per square metre, the Directors are of the view that the rent of the sublease is for the interest of the Shareholders.

The rental income from the tenancies abovementioned for the years ended 31 December 2018, 2019 and 2020 are approximately US\$163,000 (approximately RMB1.06 million), US\$870,000 (approximately RMB5.68 million) and US\$804,000 (approximately RMB5.25 million), respectively, which are the main contributors to the profit of the Disposal Group. Set out below are the extracts of the unaudited financial information of the Disposal Group for the

LETTER FROM THE BOARD

year ended 31 December 2019 and the unaudited financial information before the waiver of the inter-company balances for the year ended 31 December 2020:

	For the year ended 31 December 2019		For the year ended 31 December 2020	
	<i>(US\$'000) (RMB'000)</i>		<i>(US\$'000) (RMB'000)</i>	
	(unaudited)		(unaudited)	
Other income (<i>Note 1</i>)	872	5,694	805	5,257
Profit/(loss) before tax	358	2,338	228	1,489
Profit/(loss) after tax	350	2,286	228	1,489

The decrease in profit before tax for the year ended 31 December 2020 was mainly attributable to (i) provision of rent relief as requested by Tenant 1 (*Note 2*) in 2020 in a sum of US\$75,900, which is equivalent to three months rent at the time; and (ii) increase of administrative expense incurred during that year. The increase in administrative expense mainly includes electricity fees incurred by the tenants and resulted in a decrease in the profit before tax.

The Group has carefully reviewed its business operation and development strategy. Considering, amongst other things, that (a) no manufacturing activities have been carried out on the Land; (b) the completion date of the essential infrastructures surrounding the Land remains unknown and hence the commencement date of full operation of the Cambodia factory; (c) the capital investment on the Land, i.e. the construction costs and expenses of the production facilities on the Land was approximately US\$4.67 million (approximately RMB30.5 million) only, which is significantly lower than the sale price of the Disposal; (d) the profit generated from the rental income is minimal; (e) the Group's net loss increased by approximately 10.5% to approximately RMB87.4 million as at 30 June 2020, which result in a decrease in cash flow; (f) depreciation of the facilitates as well as the Land and it's goodwill (due to the delay in the development of the infrastructure); (g) the Company would like to focus on the development of its principal business; and (h) the global economic uncertainty and poor business environment are affecting the consumer spending worldwide on goods other than living essentials, the Group has decided to dispose of the Disposal Group, comprising mainly the land use right of the Land, to the Purchaser to increase its cash flow for daily operation of the Group in general during the period of uncertainty and future development when new opportunities come.

After the Disposal, the Company has no production facilities in Cambodia. The Company will continue to make use of its existing production facilities located in the PRC and has no intention to construct another production facility (in Cambodia or elsewhere) for the moment.

Notes:

- Other income includes rental income and interest income.
- To the best knowledge and belief of the Directors after having made all reasonable enquiries, Tenant 1 has settled all outstanding rental and in a timely basis.

LETTER FROM THE BOARD

Under the influence of the continuing outbreak of COVID-19, the escalation of China-US tension and the Group's disposal of the US Furniture Retail Business in July 2020, there is a lower demand of products and the Group's current production capacity is sufficient for fulfilling its orders despite the Disposal. In case there is any need for expansion of production capacity, the Company is currently more inclined to use rented premises in the PRC.

The Consideration represents a premium of approximately 24.2% over the adjusted unaudited consolidated net asset value of the Disposal Company. The Disposal provides a suitable opportunity for the Group to increase the working capital of the Group, improve the liquidity and strengthen the overall financial position of the Group. The Directors are of the view that the Disposal will not have any negative impact on the operations of the Company.

Having considered the above, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after considering the advice from the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the Disposal) consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable, and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Mr. Zou (the Chairman, Chief Executive Officer and an executive Director of the Company) is the 85% shareholder of the Purchaser. The spouse of Mr. Shen (another executive Director) is a cousin of Ms. Wu (15% shareholder of the Purchaser and spouse of Mr. Zou). Mr. Zou and Mr. Shen abstained from voting on Board level in relation to the Share Purchase Agreement and the transactions contemplated thereunder. Save for Mr. Zou and Mr. Shen, no other Director regarded himself to have a material interest or perceived conflict in the transactions which requires him to disclose his interest and/or to abstain from voting on Board level regarding the Share Purchase Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECT AND USE OF PROCEEDS

Upon Completion, the Company will cease to own any interests in each member of the Disposal Group. Each member of the Disposal Group will cease to be a subsidiary of the Company and their assets, liabilities and financial results will no longer be consolidated into the financial statements of the Group.

The Group expects to record a net gain attributable to the Disposal of approximately US\$1.073 million (approximately RMB7.007 million) (before tax), which is calculated by reference to (i) the difference between the Consideration for the Disposal and the unaudited net assets of the Disposal Group as at 31 December 2020. The Company intends to utilize the net proceeds from the Disposal to replenish the Group's working capital. Given the economic uncertainty brought by the COVID-19 pandemic is volatile, the Board will continue to carefully review the financial position of the Group from time to time and may seek for new opportunities

LETTER FROM THE BOARD

for future business development. In the event of any material change in the use of the net proceeds, a formal announcement will be made.

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Purchaser (a Controlling Shareholder of the Company) is directly and beneficially owned as to 85% by Mr. Zou, an executive Director of the Company and a director of the Purchaser, and 15% by Ms. Wu, the spouse of Mr. Zou. Therefore, each of the Purchaser and its beneficial owner (i.e. Mr. Zou and Ms. Wu) is a connected person or associate of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Disposal and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal are therefore the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, has been established to advise the Independent Shareholders regarding the terms of the Share Purchase Agreement. Draco Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

ABSTAINING FROM VOTING BY INTERESTED SHAREHOLDERS

Pursuant to the Listing Rules, any Shareholder who has a material interest in the Disposal would be required to abstain from voting for the resolution to approve the Disposal at the EGM.

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquires, the Purchaser (owned as to 85% by Mr. Zou and 15% by Ms. Wu) is interested in 750,000,000 Shares, representing 75% of the issued share capital of the Company. As the Purchaser has material interests in the Disposal, it has undertaken to the Company that it will abstain from voting for the resolution(s) regarding the Disposal at the EGM. Save for the Purchaser, the Directors are not aware of any other Shareholders who have a material interest in the Disposal or are required to abstain from voting for the resolution(s) regarding the Disposal at the EGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or

LETTER FROM THE BOARD

permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

EGM

A notice convening the EGM to be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Monday, 8 March 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

All the resolutions set out in the EGM Notice will be taken by poll at the EGM. Announcement will be made by the Company on the voting results after the EGM.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES AT THE EGM

To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the EGM including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.

Shareholders, particularly those who are unwell or subject to quarantine requirements or travel restrictions, are reminded that instead of attending the EGM in person, they may appoint any person or the chairman of the EGM as proxy to vote on the resolutions at the EGM by lodging the form of proxy or appropriate corporate appointment forms.

Subject to the development of the COVID-19 epidemic, the Company may implement further precautionary measures as may be appropriate or desirable for the health and safety of attendees of the EGM.

BOOK CLOSURE FOR DETERMINING VOTING ENTITLEMENTS AT THE EGM

The register of members of the Company will be closed from 4 March 2021 to 8 March 2021, both days inclusive, during which period no transfer of shares will be effected. In order to

LETTER FROM THE BOARD

be entitled to attend and vote at the EGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on 3 March 2021.

RECOMMENDATION

The Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser, and except Mr. Zhou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the Disposal) consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote for both resolution(s) to approve the Disposal.

You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser before deciding how to vote on the resolution(s) relating to the Disposal to be proposed at the EGM.

ADDITIONAL INFORMATION

The English texts of this circular and the accompanying proxy form shall prevail over the Chinese texts in case of inconsistency.

Your attention is also drawn to the additional information set out in the appendices to this circular and the EGM Notice.

WARNING

The Completion are subject to Condition Precedent, namely, the obtaining of approval of Independent Shareholders at the EGM. Therefore, the Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

By order of the Board
Morris Holdings Limited
Wu Yueming
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

18 February 2021

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE SHARE CAPITAL OF A SUBSIDIARY

We refer to the circular of the Company dated 18 February 2021 (the “**Circular**”), of which this letter forms part. Unless otherwise required, capitalised terms herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Share Purchase Agreement and the Disposal. The Independent Financial Adviser has been appointed to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving their advice, are set out on pages 21 to 36 of the Circular. Your attention is also drawn to the Letter from the Board as set out on pages 6 to 19 of the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Share Purchase Agreement and the benefits for and reasons of the Disposal and taking into account the advice of the Independent Financial Adviser set out in its letter on pages 21 to 36 of the Circular, we are of the opinion that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable and that the Disposal is on normal commercial terms of in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote for the resolution approving the Share Purchase Agreement and the Disposal.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Liu Haifeng
*Independent non-executive
Director*

Mr. Chu Guodi
*Independent non-executive
Director*

Mr. Qian Jun
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Disposal prepared for the purpose of inclusion in this circular.



Room B, 26/F, Two Chinachem Plaza
68 Connaught Road Central
Central, Hong Kong

18 February 2021

Morris Holdings Limited
Unit 2001, 20/F, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE SHARE CAPITAL OF A SUBSIDIARY

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the major and connected transaction contemplated under the Share Purchase Agreement, details of which are set out in the Letter from the Board contained in the circular dated 18 February 2021 to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

On 8 January 2021 (after trading hours), the Vendor (a direct wholly-owned subsidiary of the Company) and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being the entire issued share capital of the Disposal Company at the Consideration of US\$5.513 million (approximately RMB36 million). The main assets of the Disposal Group are the properties held by its wholly-owned subsidiary incorporated in Cambodia, Masia Industries, being the leasehold title for a term ending 18 September 2063 with rights of exclusive use of two plots of industrial land with an aggregate area of 59,781,978 square meters located in Sihanoukville Special Economy Zone, Cambodia, and the five blocks of one to two-storey buildings (the “**Buildings**”) thereon with a gross floor area of approximately 38,866 square meters.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Purchaser (a Controlling Shareholder of the Company) is directly and beneficially owned as to: (a) 85% by Mr. Zou, an executive Director and a director of the Disposal Company and (b) 15% by Ms. Wu, the spouse of Mr. Zou. Therefore, each of the Purchaser and its beneficial owners (i.e. Mr. Zou and Ms. Wu) is a connected person or associate of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Disposal and the transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal is therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Further, as the spouse of Mr. Shen (another executive Director of the Company) is a cousin of Ms. Wu (15% shareholder of the Purchaser and spouse of Mr. Zou). The Purchaser, Mr. Zou and Mr. Shen abstained from voting on Board level in relation to the Share Purchase Agreement and the transactions contemplated thereunder. Save for Mr. Zou and Mr. Shen, no other Director regarded himself to have a material interest or perceived conflict in the transactions which requires him to disclose his interest and/or to abstain from voting on Board level regarding the Share Purchase Agreement and the transactions contemplated thereunder.

The EGM will be convened at which the Independent Shareholders will consider and, where appropriate, approve the Share Purchase Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquires, the Purchaser (owned as to 85% by Mr. Zou and 15% by Ms. Wu) is interested in 750,000,000 Shares, representing 75% of the issued share capital of the Company. As the Purchaser has material interests in the Disposal, it has undertaken to the Company that it will abstain from voting for the resolution(s) regarding the Disposal at the EGM. Save for the Purchaser, the Directors are not aware of any other Shareholders who have a material interest in the Disposal or are required to abstain from voting for the resolution(s) regarding the Disposal at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun, all being independent non-executive Directors, has been established to advise the Independent Shareholders regarding the terms of the Share Purchase Agreement. We, Draco Capital Limited have been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Share Purchase Agreement and the transactions contemplated thereunder are fair and reasonable; (ii) whether the entering into the Share Purchase Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, and are in the interests of the Company and its Shareholders as a whole, and (iii) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM.

We have previously acted as the independent financial adviser to the Company with regards to the continuing connected transaction and revised annual caps in relation to the 2020 lease renewal agreement as set out in the circular of the Company dated 2 September 2020 (the “**2020 Lease Renewal Agreement CCT**”). Save for the aforesaid transactions, we have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Disposal and the transactions contemplated thereunder are at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations supplied, and the opinions expressed, by the Directors, management of the Company and other professional experts and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. Specifically, we have reviewed, amongst others (i) the Company’s annual report for the year ended 31 December 2019 (the “**2019 Annual Report**”); (ii) the Company’s interim report for the six months ended 30 June 2020 (the “**2020 Interim Report**”); (iii) the valuation report on the properties held by the Disposal Company as at 20 November 2020 prepared by the valuer (the “**Valuation Report**”); (iv) the Share Purchase Agreement; (v) the Cambodian legal opinion prepared by Husby & Partner Law Firm, the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group's legal adviser on the Cambodia law (the "**Cambodia Legal Adviser**"), regarding the title to the Properties; (vi) the unaudited consolidated management accounts of the Disposal Company as at 31 December 2020 provided by the Company; (vii) the Lease Agreement; (viii) the Supplemental Agreement; (ix) the sublease tenancy agreements with the three tenants for the Land; (x) the engagement letter between the Company and the Valuer regarding the Valuation Report; (xi) the qualifications, expertise and experience of the persons in charge of the Valuation Report; and (xii) other information as set out in the Circular.

The Directors have declared in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that the information provided to us may be relied upon in formulating our opinion. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and we do not have any obligation to update, revise or reaffirm this opinion.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources, although we did not conduct any independent investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Disposal and arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1) **Background and reasons for entering into the Share Purchase Agreement**

Information about the parties of the Share Purchase Agreement

The Company acts as the holding company of the Group and its subsidiaries are principally engaged in manufacturing and sale of sofas, sofa covers and other furniture products.

The Purchaser is an investment holding company incorporated in the British Virgin Islands with limited liability.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Vendor is a company incorporated under the laws of the British Virgin Islands. It is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

The Disposal Company is an investment holding company incorporated in the British Virgin Islands with limited liability, the entire issued share capital of which is beneficially owned by the Company as at the Latest Practicable Date and immediately prior to Completion.

Masia Industries, a wholly-owned subsidiary of the Disposal Company, is incorporated in Cambodia with limited liability. The principal business of Masia Industries is manufacturing of sofa and sofa cover but it has not yet commenced operation as at the Latest Practicable Date.

Reasons for and benefit of the Disposal

As stated in the Letter from the Board, the main assets of the Disposal Group are the right of use of the Land and the factories built thereon. The right to use of the Land has been held by the Disposal Group since 2016, pursuant to the Lease Agreement and the Supplemental Agreement, prior to the Company's listing application. After the Listing of the Company, the Group has made a capital investment of approximately US\$4.67 million (rounded up to 2 decimal place) (approximately RMB30.5 million) on the Land, which was used for the construction of the factories and other related facilities for production, pursuant to the Lease Agreement. Particulars of the Lease Agreement and Supplemental Agreement are disclosed in the Letter of the Board.

The Group intended to use the Land for its production line. Construction of the production facility on the Land was completed in early 2018. However, the Group has never commenced any production in the Land due to the fact that the infrastructure development in the Sihanoukville Special Economic Zone (which is the responsibilities of the local government) is much slower than expected. The Ministry of Public Works and Transport of Cambodia announced the infrastructure improvements and future plans in October 2014 (the “**2014 plans**”) which, among other things, outlined (i) a proposed Cambodian expressway network including an expressway from Phnom Penh to Sihanoukville; (ii) railway network development projects including amongst others, a southern line from Phnom Penh to Sihanoukville for freight traffic, a north-south railway across Cambodia for heavy industries, a line between the Thai border at Poipet and Battambang and Phnom, and a new railway connecting Phnom Penh to Ho Chi Minh City (which would complete the rail link from Singapore to Kunming). However, to the knowledge of the Company, the actual infrastructure development has fallen significantly behind the 2014 plans construction work of the expressway connecting Sihanoukville and Phnom Penh was began only in March 2019. As at the date of the Share Purchase Agreement, the expressway project was still under construction. As to the railway development, except the southern line

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

aforementioned, other projects are still either under planning or construction. Furthermore, we noted that during the local supplier selection process, the quality of the major raw materials, such as softwood, leather and specialty foam of the sofa was assessed and did not meet the production standard of the Group. Therefore, the Group did not source any raw materials from local suppliers in Cambodia.

As many of the essential infrastructure and peripheral facilities, as well as the supply chain for the sofa manufacturing are still at infant stage, which causes mass production of sofa almost impossible or otherwise very cost inefficient. For that reasons, the Board was of the view that it was not prudent and not in the best interest of the Group to commence any production in the Land. Masia Industries then started to sublet part of the Land for income since October 2018. As at the Latest Practicable Date, there were three tenants, who are independent third parties, and the total lettable area of the Land was approximately 35,352 square metre. The existing tenancy agreements entered by Masia Industries are summarized as below:

	Tenant 1	Tenant 2	Tenant 3
Term	24 July 2019 to 23 July 2021	30 November 2020 to 30 November 2022	1 October 2020 to 30 September 2022
Size of leased premises	approximately 11,500 square metre	approximately 11,926 square metre	approximately 11,926 square metre
Monthly rent (tax excluded)	US\$2.2 per square metre		
Payment term	The rent shall be payable quarterly		

Taken into consideration that the rental charge under the Lease Agreement is only US\$20 per square metre for the entire term, which is equivalent to a monthly rental charge of US\$0.03 (rounded up figure) per square metre, we concur with the Directors are of the view that the rent of the sublease is for the interest of the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The rental income of the tenancies abovementioned entered into by Masia Industries for the years ended 31 December 2018, 2019 and 2020 are approximately US\$163,000 (approximately RMB1.06 million), US\$870,000 (approximately RMB5.68 million) and US\$804,000 (approximately RMB5.25 million), respectively, which are the main contributors to the profit of the Disposal Group. Set out below are the extracts of the unaudited financial information of the Disposal Group for the year ended 31 December 2019 and the unaudited financial information before the waiver of the inter-company balances for the year ended 31 December 2020:

	For the year ended 31 December 2019		For the year ended 31 December 2020	
	<i>(US\$'000)</i>	<i>(RMB'000)</i>	<i>(US\$'000)</i>	<i>(RMB'000)</i>
	(unaudited)		(unaudited)	
Other income (<i>Note 1</i>)	872	5,694	805	5,257
Profit/(loss) before tax	358	2,338	228	1,489
Profit/(loss) after tax	350	2,286	228	1,489

The decrease in profit before tax for the year ended 31 December 2020 was mainly attributable to (i) provision of rent relief as requested by Tenant 1 (*Note 2*) in 2020 in a sum of US\$75,900, which is equivalent to three months rent at the time and (ii) increase of administrative expense incurred during that year. The increase in administrative expense mainly includes electricity fees incurred by the tenants and resulted in a decrease in the profit before tax.

As stated in the Letter from the Board, the Group has carefully reviewed its business operation and development strategy. Considering, amongst other things, that (a) no manufacturing activities have been carried out on the Land; (b) the completion date of the essential infrastructures surrounding the Land remains unknown and hence the commencement date of full operation of the Cambodia factory; (c) the capital investment on the Land, i.e. the construction costs and expenses of the production facilities on the Land was approximately US\$4.67 million (approximately RMB30.5 million) only, which is significantly lower than the sale price of the Disposal; (d) the profit generated from the rental income is minimal; (e) the Group's net loss increased by approximately 10.5% to approximately RMB87.4 million as at 30 June 2020, which result in a decrease in cash flow; (f) depreciation of the facilitates as well as the Land and it's goodwill (due to the delay in the development of the infrastructure); (g) the Company would like to focus on the develop of its principal business; and (h) the global economic uncertainty and poor business environment are affecting the

Notes:

1. Other income includes rental income and interest income.
2. To the best knowledge and belief of the Directors after having made all reasonable enquiries, Tenant 1 has settled all outstanding rental and in a timely basis.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

consumer spending worldwide on goods other than living essentials, the Group has decided to dispose of the Disposal Group, comprising mainly the land use right of the Land, to the Purchaser to increase its cash flow for daily operation of the Group in general during the period of uncertainty and future development when new opportunities come.

After the Disposal, the Company has no production facilities in Cambodia. The Company will continue to make use of its existing production facilities located in the PRC and has no intention to construct another production facility (in Cambodia or elsewhere) for the moment.

Under the influence of the continuing outbreak of COVID-19, the escalation of China-US tension and the Group's disposal of the US Furniture Retail Business in July 2020, there is a lower demand of products and the Group's current production capacity is sufficient for fulfilling its orders despite the Disposal. In case there is any need for expansion of production capacity, the Company is currently more inclined to use rented premises in the PRC.

The Disposal provides a suitable opportunity for the Group to increase the working capital of the Group, improve the liquidity and strengthen the overall financial position of the Group. The Directors are of the view that the Disposal will not have any significant impact on the operations of the Company.

Having considered the above, the Directors (except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the Disposal) consider that although the Disposal is not in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable, and that the Disposal is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Our view

Having taken account into the above, in particular, (i) given the Group has recorded losses for the six months ended 30 June 2020 and the year ended 31 December 2019 respectively, the Disposal provides a suitable opportunity to replenish the working capital for daily operation of the Group with the cash consideration to be received to mitigate the adverse effect amid the global economic uncertainty and poor business environment brought by the COVID-19 Epidemic and China-US tension in recent financial reporting periods, and seek for future development when new opportunities come; (ii) the Disposal would not have significant adverse effect on the business activities and operations of the Group given no manufacturing activities have ever been carried out on the Land; (iii) the Group would like to continue to make use of its existing production facilities in the PRC with no intention to construct another productions facilities in other places and there is lower demand of products under the continuing outbreak of COVID-19 and the escalation of China US tension; (iv) the

Group was unable to commence operations of the Cambodia factory due to the uncertainties in the development of the essential infrastructures surrounding the Land, among others, the expressway network, the railway network and Sihanoukville Port in the Sihanoukville Special Economic Zone; and (v) the profit generated from the rental income is minimal and not sufficient for alleviating the recent deteriorating financial performance of the Target Group, we concur with the Directors that the Share Purchaser Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2) The Share Purchase Agreement

The principal terms of the Share Purchase Agreement are set out below:

Date

8 January 2021 (after trading hours)

Parties

- (1) Morris International Group Limited (慕容國際集團有限公司), a direct wholly-owned subsidiary of the Company, as the Vendor; and
- (2) Morris Capital Limited, as the Purchaser.

The Purchaser is the Controlling Shareholder of the Company which indirectly holds 100% of the issued share capital of the Disposal Company. The entire issued share capital of the Purchaser is legally and beneficially owned as 85% by Mr. Zou, the chairman, chief executive officer and executive Director of the Company. Therefore, the Purchaser is a connected person under Rule 14A.07 of the Listing Rules.

Disposal Assets

Pursuant to the Share Purchase Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being the entire issued share capital of the Disposal Company. The main assets of the Disposal Group are the properties held by its wholly-owned subsidiary incorporated in Cambodia, Masia Industries, being the leasehold title for a term ending 18 September 2063 with rights of exclusive use of two plots of industrial land with an aggregate area of 59,781,978 square meters located in Sihanoukville Special Economy Zone, Cambodia, and the five blocks of one to two-storey buildings (the “**Building**”) thereon with a gross floor area of approximately 38,866 square meters.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Consideration

The Consideration for the Sale Shares is US\$5.513 million (RMB36 million) which shall be payable within 12 months in the following manner:

- (i) A deposit in the amount of US\$1.5 million (approximately RMB9.795 million) has been paid on the date of the Share Purchase Agreement;
- (ii) A further US\$1 million (approximately RMB6.53 million) will be paid within six months from the date of the Share Purchase Agreement; and
- (iii) The balance of US\$3.013 million (approximately RMB19.675 million) will be paid in full in clear fund by electronic transfer to the Vendor's or its holding company's bank account on or before the first anniversary of the date of Share Purchase Agreement.

The Consideration has been determined after arm's length negotiations between the parties with reference to, amongst other things, the followings:

- (i) the adjusted unaudited consolidated net asset value ^(Note 1) and current liabilities of the Disposal Group in the amount of approximately US\$4.440 million (approximately RMB28.993 million) and US\$628,000 (approximately RMB4.101 million), respectively, as at 31 December 2020;
- (ii) As per unaudited management account, the carrying value ^(Note 2) of the Land and the Buildings as at 31 December 2020 amounted to approximately US\$4.954 million (approximately RMB32.350 million); and
- (iii) the valuation of the Land and the Buildings ^(Note 3), being approximately US\$5.513 million (approximately RMB36 million), as accessed on the 20 November 2020 by a valuer (the "Valuer") appointed by the Company.

Notes:

1. The adjustments made to the net asset value of the Disposal Group include the waiver of inter-company amounted approximately US\$5.34 million (approximately RMB34.87 million) as at 31 December 2020. No impairment has been made to the Land and Buildings since 2016.
2. The right to use of the Land and the Buildings was held by the Disposal Group for original self-use purpose since 2016, prior to the Company's listing application, the Land and Buildings was booked in the Group's accounts at the initial capital investments on the Land (i.e. without depreciation nor fair value adjustment) of US\$4.67 million (approximately RMB30.5 million). The Company intended to dispose the self-use Land and Buildings. The carrying amount of the Land and Buildings as at 31 December 2020 amounted to approximately US\$4.954 million (approximately RMB32.350 million). In compliance with generally accepted accounting principle, no fair value change will be recognized at this stage. The difference between the carrying value of the properties and the valuation of the properties represents solely the fair value gain.
3. The Directors have reviewed the valuation report of the Land and the Buildings and discussed with the Valuer regarding the methodology of and the basis and assumptions adopted for the valuation of the Land and Buildings. Details of the valuation assumptions adopted by the Valuer are set out in the section headed "Valuation Report" in Appendix I to this circular.

Based on the review of the legal opinion of the land use rights and the relevant title documents of the Land, the Directors are of the view that the valuation assumptions are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the deposit set out in (i) above was made in RMB in the sum of 9,725,400, which was calculated on the basis of the exchange rate of US\$1 to RMB6.4836 as at the time of the transfer.

We noted that the Group has engaged the Valuer, namely Peak Vision Appraisal Limited to assess the market value of the main assets of the Disposal Company, which are the land use right of the Land and the buildings thereon (the “**Properties**”). According to the Valuation Report prepared by the Valuer, the value of the Properties as at 20 November 2020 is US\$5.513 million.

We have performed work as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 8(v) of the HKEX Guidance Letter HKEX-GL76-14 in respect of the valuation performed by the Valuer, including discussing with the Valuer, with its local valuation cooperation partner, as to its experience in assessment for properties in Cambodia, its relationship with the Group and other parties to the Share Purchase Agreement and reviewing the terms of the Valuer’s engagement for the valuation of the Properties, in particular its scope of work.

We understand that the Valuer is a member of the Hong Kong Institute of Surveyors and has experience in a number of market property value assessment engagements. Furthermore, we understand that Mr. Nick Kung, the director of the corporate valuation department of the Valuer and the signor of the Valuation Report, is a member of Royal Institution of Chartered Surveyors, Registered Valuer of the Royal Institution of Chartered Surveyors, member of the Hong Kong Institution of Surveyors with over 20 years of experience in real estate industry and asset valuation sector. Also, CPL Cambodia Properties Limited (“**CPL**”), the cooperation partner of the Valuer in Cambodia is a real estate valuer. For the inspection and valuation works conducted in Cambodia, the Properties were inspected from November 2020 by Mr. Ear Sony, a CPL branch manager who has 3 years of experience in valuation in Cambodia and Mr. Phan Phathla, the head of valuation of CPL, who has over 10 years of experience in property valuation, is the person in charge and another signor of this valuation. Both Mr. Phan Phathla and Mr. Ear Sony are licensed registered real estate appraisers/valuer licensed by Ministry of Economic and Finance Cambodia. As such, we are of the view that the Valuer, with its cooperation partner in Cambodia, are qualified, experienced and competent in performing the Valuation Report and to form a reliable opinion in respect of the market value of the property in Cambodia.

We have reviewed the engagement letter entered into between the Company and the Valuer and noted that the scope of work was appropriate for the Valuer to provide the opinion of value required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by it in the Valuation Report. We have interviewed the Valuer by phone and the Valuer confirmed us that apart from normal professional fees payable to it in connection with its engagement for the valuation of the Properties in Cambodia, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have enquired with the Valuer as to its independence from the Group and were given a written confirmation that the Valuer is a third party independent of the Company and its connected persons. Save for the previous engagement with the Valuer by the Company with regards to (i) the 2020 Lease Renewal Agreement CCT, (ii) the valuation of a construction-in-progress project located at Haining City, the PRC as at 25 August 2020 and (iii) the valuation of convertible bonds of initial principle amount of HK\$200,000,000 issued by the Company on 5 January 2018 and an incremental borrowing rate to be used in the measurement of a right-of-use asset held by the Company as at 28 August 2020, the Valuer also confirmed us that it was not aware of any relationship or interest between it and the Company or any other party that would be reasonably considered to affect its independence to act as a valuer for the Company. We have also discussed with the Valuer and management of the Company regarding the representations made by the Company to the Valuer and noted that those representations made are in accordance with our knowledge.

We have reviewed the Valuation Report in respect of the value of Properties in Cambodia prepared by the Valuer and discussed with the Valuer the methodology, basis and assumptions adopted in arriving at the market value of the Properties as at 20 November 2020. We understand from the Valuer that the Valuation Report was prepared in compliance with the Hong Kong Institute of Surveyors Valuation Standards 2017 published by the Hong Kong Institute of Surveyors, the International Valuation Standards (Effective 31 January 2020) published by the International Valuation Standards Council and the requirements as set out in Chapter 5 and Practice Note 12 of the Listing Rules. The Valuer advised us that the depreciated replacement cost (“DRC”) Method was adopted in arriving at the market value of the Properties. The DRC Method is based on an estimate of the market value for the existing use of the land by Direct Comparison Method, and the costs to reproduce or replace in new condition the buildings and structures being valued in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC Method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

We noted that in assessing the market value, the Valuer has made on the assumption that the owner sells the property on the open market in its existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property. No forced sale situation in any manner is assumed in the valuation. In addition, the Group has advised that the Properties is not subject to any option or right of pre-emption which would concern or affect the sale of the property unless otherwise specified in the Valuation Report. We also noted that the Valuer has made reference to the legal opinions prepared by the Cambodia Legal Adviser regarding the title to the Properties and the local cooperation valuation partner of the Valuer have inspected the Properties and did not note any serious defects. We have

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

enquired the Valuer and was advised that the value of the Properties is the joint opinion made by the Valuer and the local valuation cooperation partner.

Given the methodology applied by the Valuer is one of the generally accepted procedures and practices of professional surveyors and is in compliance with the standards published by Hong Kong Institute of Surveyors and International Valuation Standards Council, we concur with the Valuer that the methodology and basis adopted by the Valuer for determining the market value of the Properties is appropriate.

Share Charge

As security for the due and punctual performance by the Purchaser of all its obligations under the Share Purchase Agreement, the Purchaser has agreed to charge the Sale Shares immediately after the Completion in favour of the Vendor by way of first legal charge which shall remain effective until the full amount of the Consideration has been paid by the Purchaser to the Vendor.

After the Share Charge has become enforceable after the occurrence of an event of default by the Purchaser, the Vendor may, among other things, take possession and hold or dispose of all or any part of the Sale Shares.

Conditions Precedent

The Completion is conditional on the following Conditions Precedent being fulfilled (or waived, as applicable):

- (a) the Share Purchase Agreement and the transactions contemplated thereunder and the Share Charge having been approved by the board of directors of the Purchaser;
- (b) the Share Purchase Agreement and the transactions contemplated thereunder and the Share Charge having been approved by the board of directors of the Vendor;
- (c) the Company having despatched to its shareholders a Circular in reference to the Share Purchase Agreements and the transaction contemplated hereunder in accordance with the Listing Rules;
- (d) the Share Purchase Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders in compliance with the Listing Rules; and
- (e) the Company having completed the vetting and approval procedures required under the Listing Rules in relation to the Disposal.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Vendor and the Purchaser shall use its reasonable endeavours to procure that all Conditions Precedent above are satisfied on or before Completion. Save for items (a) and (b) of the Conditions Precedent which may be waived by the Vendor or the Purchaser (as the case may be), none of the Conditions Precedent above may be waived.

If the Conditions Precedent are not fulfilled or waived before the Completion, the Share Purchase Agreement shall terminate automatically.

As at the Latest Predicable Date, save for items (a) to (c) above, none of Conditions Precedent had been fulfilled or waived.

Conditions Subsequent

The Disposal will be subject to the following Conditions Subsequent:

- (a) the Vendor shall within 30 days from the Completion Date deliver at its own cost and expense the consolidated Completion Accounts of the Disposal Group made up to Completion Date;
- (b) the Purchaser shall arrange for registration of the Share Charges with the Registrar of Corporate Affairs in accordance with the BVI Business Companies Act, 2004 (as amended) no later than 14 Business Days after the date of the Share Charge; and
- (c) the Vendor shall within one year from the Completion Date produce evidence, in agreed form, of the release of all guarantees or other security given by the Company in respect of the liabilities or obligations of the Vendor (or another member of the Vendor's group), or of any other third party^(Note).

Completion

Pursuant to the Share Purchase Agreement, Completion shall take place two months after the date of the Share Purchase Agreement or such other date as the parties may agree in writing.

Note: In January 2018, the Company (as borrower) entered into a convertible loan agreement with International Finance Corporation ("IFC") (as lender) for the loan of HK\$200,000,000 (the "**Convertible Loan Agreement**") as disclosed in the Company's announcement in March 2020.

Pursuant to the Convertible Loan Agreement (as amended in March 2020), Masia Industries assigned to IFC all its right to payment, performance and other intangible property rights as it may have under any sub-lease agreement(s) by which Masia Industries grants leasehold rights or right of use of the Land, as a continuing and first priority security (the "**Security**") for due performance of its obligation under the Convertible Loan Agreement. As at the Latest Practicable Date, the Security has yet not been released/discharged and the outstanding balance was HK\$96,349,373.76, which is expected to be fully repaid in 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view

Having considered that (i) the market value of the Properties, which are the main assets of the Disposal Group, is supported by the Valuation Report which was properly conducted by the Valuer and is no more than the Consideration to be received by the Group in the Disposal; (ii) the Consideration represents a premium of approximately 24.2% over the adjusted unaudited consolidated net asset value of the Disposal Company as at 31 December 2020; (iii) neither the Group nor the Disposal Group was required to pay any monetary consideration under the Lease Agreement and the Supplemental Agreement; and (iv) the Group is expected to record a net gain attributable to the Disposal of approximately US\$1.073 million before tax as mentioned below under the paragraph headed “3. Financial effect of the Disposal”; and (iii) the Consideration is higher than the initial capital investments on the Land of approximately US\$4.67 million (approximately RMB30.5 million), we consider that the terms of the Share Purchase Agreement are normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

3) Financial effect of the Disposal

Upon Completion, the Company will cease to own any interest in each member of the Disposal Group. Each member of the Disposal Group will cease to be a subsidiary of the Company and their assets, liabilities and financial results will no longer be consolidated into the financial statements of the Group.

We noted that the Group expects to record a net gain attributable to the Disposal of approximately US\$1.073 million (approximately RMB7.007 million) (before tax), which is calculated by reference to the difference between the Consideration for the Disposal and the unaudited net assets of the Disposal Group as at 31 December 2020. The Company intends to utilize the net proceeds from the Disposal to replenish the Group’s working capital. Given the economic uncertainty brought by the COVID-19 pandemic is volatile, the Board will continue to carefully review the financial position of the Group from time to time and may seek for new opportunities for future business development. In the event of any material change in the use of the net proceeds, a formal announcement will be made.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider and concur with the Directors that although the Disposal is not conducted in the ordinary and usual course of business of the Group, the terms of the Share Purchase Agreement are fair and reasonable and the Disposal is on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, and we ourselves also recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the transactions contemplated under the Share Purchase Agreement.

Yours faithfully,
For and on behalf of
Draco Capital Limited
Kevin Choi **Ken Zhao**
Managing Director *Director*

Notes:

- (i) Mr. Kevin Choi is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 10 years of experience in corporate finance.
- (ii) Mr. Ken Zhao is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 4 years of experience in corporate finance.

The following is the text of a letter and property valuation report prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the property as at 20 November 2020.



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18 February 2021

The Board of Directors
Morris Holdings Limited
Unit 2001, 20th Floor
Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Dear Sirs,

Re: An industrial complex located at Land Nos. D-06-03 (Mengnu Group Land 1) and D-06-02 (Mengnu Group Land 2), Sihanoukville Special Economic Zone, Pu Thoeang Village, Bet Trang Commune, Prey Nob District, Preah Sihanouk Province, the Kingdom of Cambodia

In accordance with the instruction from Morris Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for us to value the captioned property located in the Kingdom of Cambodia (“**Cambodia**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of the property as at 20 November 2020 (the “**Valuation Date**”) for public documentation purpose.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation and lists out the assumptions and title investigations, which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation is our opinion of market value which is defined to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property which is held for investment by the Group, in principal, we had considered the Investment Method by taking into account the current rents passing and the reversionary income potential (i.e. market rent) of the property. However, subsequent to the withdrawal of the EBA (Everything But Arms, it’s a memorandum entered into between Cambodia and Europe Market for Cambodia to export the products to Europe) and the outbreak of COVID-19, no rental transactions were recorded, and without rental transaction, we are unable to assess the market rent when adopting the Investment Method to perform the valuation. We have therefore solely relied on the Depreciated Replacement Cost Method in arriving at our opinion of value of the property.

Since there are no readily identifiable market comparables due to the nature of buildings and structures constructed, and accordingly the property cannot be valued by comparison with open market transactions. Therefore, we have adopted the Depreciated Replacement Cost (“DRC”) Method in arriving at the value of the property. The DRC Method is based on an estimate of the market value for the existing use of the land by Direct Comparison Method, and the costs to reproduce or replace in new condition the buildings and structures being valued in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC Method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property. No forced sale situation in any manner is assumed in our valuation. In addition, we have been advised by the Group that the property is not subject to any option or right of pre-emption which would concern or affect the sale of the property unless otherwise specified in this report.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have been provided by the Group with copies of documents in relation to the title to the property located in Cambodia. We have not examined the original documents to verify ownership and to ascertain the existence of any amendments which do not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by the Group and the legal

opinions prepared by Husky & Partners Law Firm, the Group's legal adviser on the Cambodia law (the "**Cambodia Legal Adviser**"), regarding the title to the property.

The property was inspected during November 2020 by Mr. Ear Sony, a CPL Sihanoukville Branch Manager of CPL Cambodia Properties Limited who has 3 years valuation experience in Cambodia. We have inspected the exterior and, where possible, the interior of the property. In the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the site and floor areas of the property but have assumed that the site and floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached property valuation report are based on information contained in the documents provided to us and are, therefore, only approximations.

We have relied to a considerable extent on the information provided by the Group and the Cambodia Legal Adviser regarding the title to the property, we have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site and floor areas and all other relevant materials regarding the property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld. The management of the Group has reviewed and confirmed the factual content and has agreed to the assumptions and limiting conditions of this report.

In valuing the property, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, The HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors, the International Valuation Standards (Effective 31 January 2020) published by the International Valuation Standards Council, where applicable, and under generally accepted valuation procedures and practices.

Our valuation has been prepared based on economic, market and other conditions as they existed on, and information made available to us as of the Valuation Date only. It has come to our attention that since the Valuation Date, the outbreak of Coronavirus Disease (COVID-19) has caused significant disruption to economic activities around the world. It is uncertain how long the disruption will last and to what extent it will affect the economy and it may cause volatility and uncertainty that the input parameters and assumptions adopted in our valuation may change significantly and unexpectedly over short period of time. It should therefore be noted that any market volatility, policy, geopolitical and social changes or other circumstances after the Valuation Date may affect the value of the property after the Valuation Date.

Unless otherwise stated, all monetary amounts stated in our property valuation report are in Cambodian Riel and United States Dollars. The exchange rate adopted in our valuation is approximately US\$1 to KHR4,010 which was approximately the prevailing exchange rate at the Valuation Date.

We hereby confirm that we have no material connection or involvement with the Group, the property or the value reported herein and that we are in a position to provide an objective and unbiased valuation.

Our property valuation report is enclosed herewith.

Yours faithfully,
For and on behalf of
CPL Cambodia Properties Limited
Mr. Phan Phathla
ID:V-07-002-06
Head of Valuation

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung
MRICS, MHKIS, RPS (G.P.),
RICS Registered Valuer, MCIREA
Director

Note: Mr. Phan Phathla is a Registered Valuer Licensed by Ministry of Economic and Finance Cambodia with over 10 years of experience in valuation.

Note: Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and the overseas.

PROPERTY VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 20 November 2020
An industrial complex located at Land Nos. D-06-03 (Mengnu Group Land 1) and D-06-02 (Mengnu Group Land 2), Sihanoukville Special Economic Zone, Pu Thoeang Village, Bet Trang Commune, Prey Nob District, Preah Sihanouk Province, Cambodia	<p>The property comprises an industrial complex erected on an irregular shaped site formed by two contiguous parcels of land (land nos. D-06-02 and D-06-03) with an aggregate site area of approximately 59,781.978 sq.m. It is located in Sihanoukville Special Economic Zone, Pu Thoeang Village, Bet Trang Commune, Prey Nob District, Preah Sihanouk Province.</p> <p>The buildings of the industrial complex include 5 blocks of 1 to 2-storey buildings used as office, workshop, warehouse and dormitory, having a total gross floor area of approximately 38,866.00 sq.m., completed in about 2018.</p> <p>The property is held under a Land Lease Agreement for a term from 18 December 2013 to 18 September 2063.</p>	<p>As advised by the Group, as at the Valuation Date, portions of the property having a total lettable area of approximately 35,352.00 sq.m. were subject to 3 tenancy agreements, yielding a total monthly rental of US\$71,811 exclusive of management fee and other outgoings with the latest agreement expiring on 30 September 2022.</p> <p>The remaining portion of the property was vacant.</p>	US\$5,513,000 (See Note vii) below)

Notes:

- i) Pursuant to a Land Lease Agreement (“**Land Lease Agreement**”) No. SSEZ-MN20130916 dated 16 September 2013 entered into between Sihanoukville Special Economy Zone Co., Ltd. (the “**Lessor**”) and Haining Mengnu Group Co., Ltd. (the “**Lessee**”), the 2 parcels of land (land nos. D-06-02 and D-06-03) of the industrial complex with a total site area of approximately 59,781.978 sq.m. were leased to Haining Mengnu Group Co., Ltd. for a term from 18 December 2013 to 18 September 2063 at a total rental of US\$1,195,639.56.
- ii) According to Approval letter of change of company name No. Guo Ming Cheng Bian He Nei Zi 2014 Di 2017 dated 14 February 2014 issued by State Administration for Industry and Commerce, the People’s Republic of China, the company name of Haining Mengnu Group Co., Ltd. (Lessee) has been changed to Morris Group Co., Ltd.

- iii) According to Transfer Contract regarding Construction in Progress (the “**Transfer Contract**”) entered into between Morris Group Co., Ltd (“**Morris Group**”) and Masia Industries Co., Ltd (“**Masia Industries**”), an indirect wholly-owned subsidiary of the Company, Morris Group has agreed to transfer the ownership and other relevant rights (including but not limited to the construction rights regarding the project and the rights over the land attached thereto and others) regarding the construction in progress of the newly established plan project located in Sihanoukville Special Economic Zone of Cambodia (gross floor area of 38,866 sq.m., the final area is subject the measured area at the acceptance of construction upon completion) and Masia Industries has agreed to accept the transfer of said ownership and other relevant rights.
- iv) According to Certificate issued by the Lessor dated 15 January 2016, Masia Industries is allowed to rent the land and built factory and supporting construction within Sihanoukville Special Economy Zone with the purpose of production. The buildings are within the permissions of Ministry of Land Management, Urban Planning and Construction.
- v) According to the Supplementary Agreement of the Land Lease Agreement (the “**Supplementary Agreement**”) entered into among the Lessor, Masia Industries and Morris Group on 15 June 2016, given, on 16 September 2013, a Land Lease Agreement (see Note i) above) was entered into between the Lessor and Morris Group; on 27 December 2013, Masia Industries was incorporated in the Cambodia Development Council by Morris Group and on 28 March 2016, Masia Industries and Morris Group entered into a lease transfer agreement, pursuant to which, Masia Industries inherited the rights and obligations stipulated in the Land Lease Agreement and became the legal lessee of the leased land. This Supplementary Agreement is entered into among the Lessor, Masia Industries and Morris Group as confirmation to the above with major terms summarized as follows:
 - a) All parties confirm that the lease term of the leased land under the Land Lease Agreement is from 18 December 2013 to 18 September 2063; during the lease period, without the written consent from Masia Industries, the Lessor shall not dispose of, pledge, or set rights restrictions in any forms on the leased land;
 - b) If the Lessor is required to sell the leased land under unforeseen circumstances, the Lessor shall ensure that the new owner continues to execute the relevant rights granted to Masia Industries under the Land Lease Agreement (Note i) above);
 - c) If the Lessor is required to sell the leased land under unforeseen circumstances, Masia Industries or its joint venture company(ies) in Cambodia has the first right of refusal under the same conditions;
 - d) The Lessor guarantees to bear any economic losses caused to Masia Industries due to its unilateral breach of the Land Lease Agreement and the Supplementary Agreement; and
 - e) If there is any inconsistency between the supplementary agreement and the Land Lease Agreement, the Supplementary Agreement shall prevail.
- vi) We have been provided with a legal opinion on the property by the Cambodia Legal Adviser:
 - a) Masia Industries is a private limited company duly incorporated under the laws of Cambodia;
 - b) The Land Lease Agreement, the Supplemental Agreement, and the Transfer Contract are in forms that are valid and enforceable under the laws of Cambodia;
 - c) The Land Lease Agreement, the Supplemental Agreement, and the Transfer Contract are enforceable in the courts of Cambodia;
 - d) The Land Lease Agreement, the Supplemental Agreement, and the Transfer Contract do not contain any provisions contrary to law or public policy in Cambodia;
 - e) The Lease Agreement is considered as a long-term lease as its term is longer than 15 years but does not exceed 50 years. Masia Industries may renew the lease term up to another 50 years upon its expiration, if agreed by the Lessor. To protect the Lessee’s rights and interest on the long-term lease against any third

- party, the Lessee must register the Land Lease Agreement and obtain a long-term lease registration certificate from Preah Sihanouk Provincial Department of Land Management, Urban Planning, Construction, and Cadastral. The Cambodia Legal Adviser has not been provided a long-term lease registration certificate for the Cambodia Legal Adviser review;
- f) Clause 11 of the Land Lease Agreement requires the Lessee to notify to and obtain prior approval from the Lessor in advance in order to transfer the leasehold right to any third party. The Lessee has duly obtained such approval from the Lessor through execution of the Supplemental Agreement by the Lessee, the Lessor, and Masia Industries;
 - g) The Cambodia Legal Adviser has only been provided the front side of the Land Title Certificate No. 008044 dated 19 February 2008 and not its reverse side which states important information such as the name of the land owner, the land size, and whether the land is currently under any encumbrances. Therefore, we are unable to confirm whether the land is subject to any encumbrances or whether this Land Title Certificate is owned by the Lessor. However, we have noted that the front side of this Land Title Certificate states the same location as the Sihanoukville Special Economy Zone Co., Ltd., namely, Pu Thoeang Village, Bet Trang Commune, Prey Nob District, Preah Sihanouk Province;
 - h) The total rental fee for the land of the property has been fully settled; and
 - i) Masia Industries is entitled to the lawful and valid occupation and use of the buildings and the land to which the land use rights relate based on the Land Lease Agreement, the Supplemental Agreement and the Transfer Contract.
- vii) The following assumptions are made in the course of our valuation;
- a) The buildings of the property has complied with the government lease and other statutory requirements;
 - b) Good and alienable title to the property is free from any unduly onerous or unusual covenants, restrictions or outgoings;
 - c) The property rights proofed by the Land Lease Agreement, are legal and valid. Masia Industries has obtained all the relevant approvals of the property;
 - d) There are no easements or rights of way affecting the property;
 - e) The property is free from and clear of any and all charges, liens and encumbrances of any onerous or unusual nature likely to affect the value; and
 - f) The property is able to be disposed of freely to local or overseas purchasers.
- viii) As per your request, the apportionment of the market value attributable to the land element of the property would be approximately US\$2,152,000 and the buildings of the property would be approximately US\$3,361,000.
- ix) In valuing the property which is held for investment by the Group, in principal, we had considered the Investment Method by taking into account the current rent passing and the reversionary income potential (i.e. market rent) of the property. However, subsequent to the withdrawal of the EBA and the outbreak of COVID-19, no rental transactions were recorded, and without rental transaction, we are unable to assess the market rent when adopting the Investment Method to perform the valuation. We have therefore solely relied on the Depreciated Replacement Cost Method in arriving at our opinion of value of the property.
- x) In our valuation, we have adopted a unit rate of approximately US\$36 per sq.m. for the land portion of the property.

In the course of our valuation on the land portion of the property, we have made reference to recent land sale transaction comparables of industrial use in the vicinity which have characteristics comparable to the land portion of the property. The prices of those sale transaction comparables are about US\$50 to US\$70 per sq.m.

The unit rate adopted by us is consistent with the said land sale transaction comparables after due adjustments. Due adjustments to the unit rates have been made to reflect factors including but not limited to time, location and size of the land portion of the property in arriving at our opinion of value. After adjusting for factors, the adjusted rates of the sale transaction comparables are about US\$32 to US\$40 per sq.m.

The significant lower unit rate of approximately US\$36 per sq.m. adopted in our valuation of the land portion of the property when compared to the sale transaction comparables is based on the facts that:

- a. The significant decline in market price since the transaction dates of the sale transaction comparables adopted up to the Valuation Date. The sale transaction comparables adopted in our valuation were all transacted prior to the withdrawal of the EBA (Everything But Arms, it's a memorandum entered into between Cambodia and Europe Market for Cambodia to export the products to Europe) and the outbreak of COVID-19. When performing the valuation, we have conducted market search and noticed that there were no sale transactions subsequent to the withdrawal of the EBA and the outbreak of COVID-19. The prevailing asking prices declined significantly, ranged from approximately US\$35 per sq.m. to US\$42 per sq.m., still the counter offers are lower than this;
 - b. Adjusted the sale transaction comparables by making reference to factors including but not limited to time, location and size of the sale transaction comparables; and
 - c. The unit rate of US\$36 per sq.m. for land portion of the property is derived by taking the simple average of the adjusted sale transaction comparables. We consider the valuation of the land portion of the property is fair and reasonable given that the unit rate adopted is consistent with the adjusted land sale transaction comparables.
- xi) In valuing the building portion of the property, we have adopted the average unit rate of approximately US\$86 per sq.m. for the building portion of the property.

In the course of our valuation on the building portion of the property, we have made reference to the costs to reproduce or replace in new condition the buildings being valued in accordance with the prevailing construction costs for similar buildings and structures in the locality. The construction costs to reproduce the building portion of the property in new condition and the adjustments made (including but not limited to depreciation, maintenance condition and functional obsolescence) are exhibited below:

	Useful Life		Gross Floor Area (sq.m.)	Construction cost per US\$/sq.m. (see note a)	Total (US\$)
Dormitory Building					
Base	30		2,279	79	179,000
Adjustments		6%			(11,000)
			<u>2,279</u>	74	<u>168,000</u>
Factory Building					
Factory Portion					
Base	25		33,944	87	2,960,000
Adjustments		8%			(240,000)
			<u>33,944</u>	80	<u>2,720,000</u>
Office Portion					
Base	50		2,643	186 (see note b)	491,000
Adjustments		4%			(18,000)
			<u>2,643</u>	179	<u>473,000</u>
			<u>36,587</u>		<u>3,193,000</u>
Building portion of the property			<u><u>38,866</u></u>	86	<u><u>3,361,000</u></u>

- a) The unit rate adopted is determined with reference to the prevailing construction costs for similar buildings as of the Valuation Date in the locality.
- b) The office portion is a 2-storey building and constructed with better construction materials, and the prevailing construction costs of similar office buildings in the locality are higher than the construction costs for the dormitory building or the factory portion (single-storey buildings constructed with lower quality construction materials) as of the Valuation Date.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 are disclosed in the following which have been published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<http://www.morrisholdings.com.hk/>) respectively:

- annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (pages 79 to 168) available on:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0329/ltn20180329289.pdf>

- annual report of the Company for the year ended 31 December 2018 published on 5 September 2019 (pages 81 to 196) available on:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0905/ltn20190905125.pdf>

- annual report of the Company for the year ended 31 December 2019 published on 15 May 2020 (pages 81 to 212) available on:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051501169.pdf>

- interim report of the Company for the six months ended 30 June 2020 published on 30 September 2020 (pages 8 to 52) available on:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0930/2020093000816.pdf>

2. INDEBTEDNESS OF THE GROUP

As at the close of business on 31 December 2020, being the latest practicable date for the purpose of preparing this indebtedness statement, the Group had the following indebtedness:

	<i>RMB'000</i>
Carrying amounts:	
Interest-bearing bank borrowings	94,734
Lease liabilities	18,383
Amounts due to related companies	63,351
Convertible loan	81,813
	<hr/>
	258,281
	<hr/> <hr/>

Interest-bearing Bank Borrowings*RMB'000*

Bank loans – Secured and repayable within one year or on demand	94,734
	<u>94,734</u>

The Group's borrowing of approximately RMB94.7 million were secured by pledges of certain parcels of land and buildings which were provided by Morris PRC, personal guarantees provided by Mr. Zou and Ms. Wu (collectively, the “**Controlling Shareholders**”), corporate guarantees provided by Morris PRC, corporate guarantees provided by Zhejiang Morris Property Co., Ltd. (浙江慕容世家地產有限公司) (“**Morris Real Estate**”), a company controlled by the Controlling Shareholders, corporate guarantees provided by independent third parties and pledges of certain properties which were provided by Morris Real Estate.

Lease Liabilities

As at 31 December 2020, the Group had lease liabilities (comprising both current and non-current liabilities) of approximately RMB18,383,000.

Amounts Due to a Shareholder and Related Companies

The amounts due are unsecured.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases, hire-purchase commitments, guarantees or other material contingent liabilities at the close of business on 30 November 2020.

3. WORKING CAPITAL

The Directors, after due and careful enquiry and consideration, are of the opinion that the Group will, after taking into account the effect of the Disposal and the present internal financial resources available to the Group including internally generated cash flows and existing banking and credit facilities available, have sufficient working capital for its present requirements in the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As at the Latest Practicable Date, the Group is principally engaged in manufacturing and sale of sofas, sofa covers and other furniture products.

With unpredictable geopolitical and macroeconomic uncertainties, including the continuing spread of the novel coronavirus epidemic (the “**Epidemic**”), prolonged US-Sino trade conflicts and the escalated tension between China and other countries, both domestic and international economic activities have been severely disrupted. In view of the wide spread of the Epidemic worldwide, it is expected that the business operation of different industries and the market demand may not greatly improve in short term.

The sofa manufacturing and export industry is also subject to challenges. In 2020, the Group has focused its efforts to mitigate the US market risks and has successfully expanded into other overseas market, and engaged in the development of the digital retail business in the PRC. The Group will continue to put more efforts in developing other matured and stable furniture markets to better avoid market risks and respond to the ever-changing market environment.

US Furniture Retail Business

In 2019, the performance of the Group’s US Furniture Retail Business operated by JCI has not lived up to the Company’s expectation due to the adverse impact caused by the US-Sino trade war narrowing the profit margin due to the partial sharing of the tariffs. Since January 2020, transportation in China has been severely affected by traffic restriction in an effort to contain the outbreak of the Epidemic, which not only caused the worsening of consumer sentiment but also the disruption to the global supply chain, posing uncertainties as to whether the financial performance of the US Furniture Retail Business for the rest of the year will be able to compensate the losses incurred during the supply chain disruption. With the heavy hit of the Epidemic and the increase of infected people in the United States (including the eastern states where the JCI’s retail network is situated) as disclosed in the Company’s announcement dated 22 March 2020, JCI’s management has decided to close all the retail shops in the United States. On 31 March 2020, the Company served an option notice on Morris PRC and Mr. Zou (as warrantor to Morris PRC) stating its decision to exercise the JCI Put Option to require Morris PRC to repurchase JCI for the consideration of US\$35 million (approximately RMB229 million). The circular regarding the exercise of the JCI Put Option and the JCI Receivables Disposal has been dispatched to shareholders on 3 July 2020, and the JCI EGM was held by the Company on 21 July 2020 at which the exercise of the JCI Put Option and the JCI Receivables Disposal were approved by the independent shareholders of the Company.

In the light of the unsatisfactory performance of the US Furniture Retail Business, the Group has been trying to develop other markets. To diversify the Group’s revenue stream, the Group established a showroom in Tokyo, Japan, as the first step to develop the Japanese market. For the UK market, the Group started the supply chain warehouse program with a large chain store. The Group intends to provide more diversified and competitive products

to increase the market share in these markets. The Company has also set up a sales and warehousing centre in the UK to facilitate business growth in Europe. However, since March 2020, the Epidemic has been affecting Europe including the UK. The Group will closely monitor the situation and exercise caution and prudence in making any expansion plans in the forthcoming year.

Disposal of land in PRC

In order to support the Group's development strategies and meet the product demand from various markets, the Group has planned to set up a new production plant to be named the "Morris Center". With the goals of smart manufacturing and product upgrade, the Morris Center was hoped to enhance the Group's production capacity and production technology to support its long-term development. The Company acquired the land use right for a plot of land in the PRC (the "**PRC Land**") and commenced the construction of the Morris Center during the year 2019. As a result of Epidemic in the first half of 2020, the Group has carefully reviewed its uses of funding and projections of production capacity and sales volume. By way of prudent measures, the Company has decided to slow down its expansion plans and capital expenditures to preserve its internal resources to sustain for the period of uncertainty caused by prolonged and escalated US-Sino trade tension and the tightening of consumption pattern resulted from the Epidemic. The construction on the PRC Land has therefore been suspended in May 2020. In June 2020, the Company announced the disposal of the PRC Land together with the construction in progress (the "**Construction in Progress**") built on it for the aggregate consideration of RMB95.7 million. As a part of the Company's resources-preservation strategy and to maintain flexibility, the Company is currently more inclined to use rented premises to expand its production capacity if such need ever arises.

Disposal of a subsidiary with the main assets of the land use right of the Land

With a view to expand the production capacity, the Group has planned to set up a new production facility in Cambodia. In 2016, the Group acquired from Morris PRC the long-term lease rights over the Land with the effective date being 27 December 2013. Construction of the production facility on the Land was completed in early 2018. However, the Group has never commenced any production in the Land due to the fact that the infrastructure development in the Sihanoukville Special Economic Zone (which is the responsibilities of the local government) is much slower than expected. Many of the essential infrastructure and peripheral facilities, as well as the supply chain for the sofa manufacturing are still at infant stage, which causes mass production of sofa almost impossible or otherwise very cost inefficient. For that reasons, the Board was of the view that it was not prudent and not in the best interest of the Group to commence any production in the Land. On 8 January 2021, the Company announced the disposal of the Disposal Company, the main assets of which comprises the right of exclusive use of the Land under a long term lease and the five blocks of buildings on that Land for the aggregate consideration of US\$5.513 million. It is currently intended that the proceeds of

the Disposal will be allocated for the cash flow for daily operation of the Group in general and future development.

In the year of 2021, the Company will keep a close eye on the development of the trading conditions world-wide, and will continue to refine its management system and make timely adjustments to its operation and sales strategies to meet the changing needs. With an aim of becoming a well-known furniture brand in the world, the Company will continue to focus on the develop its own brand with more diversified and competitive products.

5. MATERIAL ADVERSE CHANGE

As disclosed in the Company's announcements dated 22 and 31 March 2020, the US Furniture Retail Business was heavily hit by the outbreak of the Epidemic. With the increase of infected people in the US including the eastern states where JCI's retail network is situated, some non-essential retailers have closed their shops to curb the spread of the Epidemic. Other non-essential retailers which tried to remain open suffered unprecedented decline in sales. In the third week of March 2020, the Group received reports from JCI's management that some of their shops recorded next-to-nil sales. In the circumstances, JCI's management has decided to close all the retail shops of JCI in the United States.

As disclosed in the interim results announcement of the Company for the six months ended 30 June 2020, the Group recorded a decrease in revenue of approximately RMB287.1 million, or approximately 57.5% from approximately RMB499.6 million for the six months ended 30 June 2019 to approximately HK\$212.5 million for the six months ended 30 June 2020, mainly attributable to the decrease in revenue generated from sale of sofas, sofa covers and other furniture products resulted from the disruption of business activities and supply chain caused by COVID-19 and the shop closures of the Group in the United States.

As at the Latest Practicable Date, save and except the adverse financial situation of JCI as disclosed in the Company's announcements dated 22 and 31 March 2020 and the interim report of the Company for the six months ended 30 June 2020, as summarized above, there had been no material adverse change in the financial or trading position or outlook of the Group since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company: (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (b) which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules, were as follows:

Name of Director	Capacity in which the Shares are held	Long Position in Number of Shares	Approximate Percentage of Shareholding
Mr. Zou (<i>Note</i>)	Interest of controlled corporation	750,000,000	75.00%

Note: Morris Capital is a controlled corporation which is 85% owned by Mr. Zou and 15% owned by Ms. Wu (spouse of Mr. Zou). Mr. Zou is deemed to be interested in all the 750,000,000 Shares owned by Morris Capital. Mr. Zou (the Chairman, the Chief Executive Officer and an executive Director of the Company) is also a director of Morris Capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company which were notified to the Company and the Stock Exchange or recorded in the register as aforesaid.

3. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquires, none of the Directors and their respective close associates was considered to have any interests in businesses which competed or were likely to compete, directly or indirectly, with the businesses of the Group.

4. MATERIAL ADVERSE CHANGE

As disclosed in the Company's announcements dated 22 and 31 March 2020, the US Furniture Retail Business was heavily hit by the outbreak of the Epidemic. With the increase of infected people in the US including the eastern states where JCI's retail network is situated, some non-essential retailers have closed their shops to curb the spread of the Epidemic. Other non-essential retailers which tried to remain open suffered unprecedented decline in sales. In the third week of March 2020, the Group received reports from JCI's management that some of their shops recorded next-to-nil sales. In the circumstances, JCI's management has decided to close all the retail shops of JCI in the United States.

As disclosed in the interim results announcement of the Company for the six months ended 30 June 2020, the Group recorded a decrease in revenue of approximately RMB287.1 million, or approximately 57.5% from approximately RMB499.6 million for the six months ended 30 June 2019 to approximately HK\$212.5 million for the six months ended 30 June 2020, mainly attributable to the decrease in revenue generated from sale of sofas, sofa covers and other furniture products resulted from the disruption of business activities and supply chain caused by COVID-19 and the shop closures of the Group in the United States.

As at the Latest Practicable Date, save and except the adverse financial situation of JCI as disclosed in the Company's announcements dated 22 and 31 March 2020 and the interim report of the Company for the six months ended 30 June 2020, as summarized above, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

5. DIRECTORS' INTEREST IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

Save for the transactions set out below, none of the Directors: (a) was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group, nor (b) had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Company were made up):

Counter-parties	Transactions	Transaction Value or Annual Caps
Morris Capital	The disposal of the entire share capital of the Disposal Company by Morris International (as vendor) to Morris Capital (as purchaser). For details, please see the Letter from the Board of this circular.	The Consideration for the Disposal is US\$5.513 million (approximately RMB36 million). The Consideration has been determined with reference to (i) the unaudited consolidated net asset value and current liabilities of the Disposal Group; and (ii) the valuation of the Land and the buildings thereon, as accessed by an independent valuer.
Morris PRC	The lease of properties by Morris PRC (as landlord) to the Group (as tenant). For details, please see the Company's circular dated 3 September 2020.	Annual cap of rental payment of originally RMB15,000,000 for the year ending 31 December 2020, which was proposed to be revised to RMB16,020,000, RMB21,622,000, RMB21,622,000 and RMB10,194,000 for the years ending 31 December 2020, 2021, 2022 and 2023, respectively.
JCI	The JCI Receivables owed by JCI to the Group, comprising trade receivables due to sales of sofa and interest-free, repayable-on-demand loan receivables. For details, please see the Company's circular dated 3 July 2020.	JCI Receivables in the aggregate sum of RMB99.1 million being owed by JCI to the Group prior to the JCI Disposal. The disposal of the JCI Receivables was approved at the JCI EGM on 21 July 2020 and completed subsequently.

Counter-parties	Transactions	Transaction Value or Annual Caps
Morris PRC	The exercise of the JCI Put Option by the Company to require Morris PRC to repurchase JCI, and the simultaneous disposal of the JCI Receivables by the Company to Morris PRC. For details, please see the Company's circular dated 3 July 2020. Following the JCI Disposal Completion, JCI and the JCI Receivables are owned by Morris PRC.	The consideration for the repurchase of JCI is US\$35 million (approximately RMB229 million). The consideration for the JCI Receivables Disposal is the fair value of the Receivables (which is assessed as nil) plus RMB1, together with a 99.99% outcome sharing entitlement on the outcome of the recovery actions. The JCI Receivables Disposal was approved at the JCI EGM on 21 July 2020 and completed subsequently.

As explained in the Company's circular dated 3 July 2020, transactions between JCI and the Group were intra-group transactions prior to the JCI Disposal Completion but will become continuing connected transactions if they are not terminated beyond the JCI Disposal Completion. In the light of the management's decision on the shop closure in the US as disclosed in the Company's announcement dated 22 March 2020, no supply of goods has taken place since 20 March 2020, nor will any supply of goods take place beyond the JCI Disposal Completion. Given that JCI is already in a distressed financial position, the Company does not intend to allow the JCI Receivables to be continued to be owed by JCI to the Group after the JCI Disposal Completion. Both the JCI Disposal and the JCI Receivables Disposal were approved by the independent shareholders of the Company at the JCI EGM on 21 July 2020 and completed subsequently.

6. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Draco Capital Limited, the Independent Financial Adviser	A licensed corporation carrying out Type 6 (advising on corporate finance) regulated activities under the SFO
Husky & Partners Law Firm	Cambodian legal advisers
Peak Vision Appraisals Limited	Independent valuer

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the experts named above did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the experts named above did not have any direct or indirect interest in any assets which have been acquired or disposed of or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up).

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group which is not expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following material contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group within two years immediately preceding the date of this circular:

- (a) the option notice dated 31 March 2020 regarding the Company's exercise of the JCI Put Option to require Morris PRC to repurchase JCI for the consideration of US\$35 million (approximately RMB229 million);
- (b) the disposal agreement dated 19 June 2020 regarding the disposal of the Land and the Construction in Progress by the Group for the consideration of RMB95.7 million; and
- (c) the Share Purchase Agreement dated 8 January 2021 regarding the disposal of the entire issued share capital of the Disposal Company by the Vendor to the Purchaser for the consideration of US\$5.513 million (approximately RMB36 million).

10. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

- (b) The head office and principal place of business of the Company in Hong Kong is at Unit 2001, 20/F, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is Codan Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The company secretary of the Company is Mr. Lam Hoi Lun, a fellow member of the Association of the Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (f) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:00 a.m. to 5:00 p.m. on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM at the principal place of business of the Company at Unit 2001, 20/F., Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019;
- (c) the interim report of the Company for the six months ended 30 June 2020;
- (d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;
- (e) the "Letter from the Board", the text of which is set out on pages 6 to 19 of this circular;
- (f) the valuation report prepared by the independent valuer, the text of which is set out in Appendix I to this circular;
- (g) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 36 of this circular;

- (h) the written consents referred to in the section headed “Experts and Consents” in this appendix;
- (i) the Company’s circular dated 3 July 2020 in relation to the JCI Put Option and JCI Receivables Disposal;
- (j) the Company’s circular dated 25 August 2020 in relation to the disposal of land use right of the PRC Land and Construction in Progress;
- (k) the Company’s circular dated 2 September 2020 in relation to the lease renewal agreement; and
- (l) this circular.

NOTICE OF EGM



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Morris Holdings Limited (the “**Company**”) will be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Monday, 8 March 2021 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT:

- (a) the share purchase agreement dated 8 January 2021 (the “**Share Purchase Agreement**”) entered into between Morris International Group Limited (a direct wholly-owned subsidiary of the Company) and Morris Capital Limited and the transactions contemplated thereunder as described in the circular of the Company dated 18 February 2021 (the “**Circular**”) (a copy of the Share Purchase Agreement and the Circular and marked “A” and “B” respectively are produced at the meeting and initialled by the chairman of the meeting for the purpose of identification) and the implementation thereof be and are hereby approved, ratified and confirmed; and
- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute and, where required, to affix the common seal of the Company to all such documents, instruments, deeds and agreements and to take all such steps as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Sale and Purchase Agreement and all other matters incidental thereto.”

By order of the Board
Morris Holdings Limited
Wu Yueming
Executive Director

Hong Kong, 18 February 2021

NOTICE OF EGM

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Principal place of business
in Hong Kong:*

Unit 2001, 20/F
Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

Notes:

1. Capitalized terms used in this notice of EGM and the form of proxy shall have the same meanings as defined in the circular of the Company dated 18 February 2021 dispatched to the shareholders of the Company and available on the websites of the Company and The Stock Exchange of Hong Kong Limited.
2. A shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies, if holding two or more shares, to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
3. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.
4. The register of members of the Company will be closed from 4 March 2021 to 8 March 2021, both days inclusive, during which period no transfer of shares will be effected. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 3 March 2021 for the purpose of determining shareholders' eligibility to attend and vote at the EGM.
5. A form of proxy for use at the EGM is enclosed with the circular to the shareholders. In order to be valid, a proxy form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.
6. Completion and return of a proxy form will not preclude a shareholder from attending and voting in person if he is subsequently able to be present and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the resolutions set out in this notice will be voted on at the EGM by way of poll.
8. To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the meeting including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.
9. As at the date of this notice, the executive Directors are Mr. Zou Gebing, Mr. Zeng Jin, Mr. Shen Zhidong and Mr. Wu Yueming; and the independent non-executive Directors are Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun.