**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**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 stockbroker or other registered dealer in securities, 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 and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



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)**

## DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ALL THE ISSUED AND OUTSTANDING COMMON STOCK OF JENNIFER CONVERTIBLES INC. AND NOTICE OF EXTRAORDINARY GENERAL MEETING

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

HOORAY 好盈

A letter from the Board is set out on pages 5 to 34 of this circular, a letter from the Independent Board Committee is set out on pages 35 and 36 of this circular, and a letter from Hooray Capital, the Independent Financial Adviser, containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 58 of this circular.

A notice convening the EGM to be held at Room 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong at 9:30 a.m. on Friday, 31 August 2018 is set out on pages N-1 to N-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 the same to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, as soon as possible and 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.

14 August 2018

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

| | |
|---|---|
| "Accounting Date" | 31 December 2017 |
| "Acquisition" | the proposed acquisition of the Sale Shares by the Company from the Seller pursuant to the Sale and Purchase Agreement |
| "Audited Accounts" | the audited consolidated financial statements of the Target Group for the accounting period which ending on each of 31 December 2019 and 31 December 2020 (each such financial statement comprising a balance sheet, profit and loss account) to be prepared by the Company's reporting accountants |
| "Average Profit" | the average of the audited consolidated net profit after tax of the Target Group (excluding profits and losses arising not from the ordinary and usual course of business) as shown in the Audited Accounts for the years ending 31 December 2019 and 31 December 2020 which shall be calculated and determined by the Company's reporting accountants; in the event the Target Group shall record an audited consolidated net loss in any financial year, a negative figure shall be used in calculating the average |
| "Board" | the board of Directors |
| "Business Day(s)" | a day other than Saturday or Sunday, on which banks are open in Hong Kong to general public for business |
| "Company" | Morris Holdings Limited (慕容控股有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1575) |
| "Completion" | completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement |
| "Completion Date" | the sixth Business Day after all the Conditions have been satisfied or waived (or such later date as the Parties may agree in writing) |
| "Condition(s)" | the requisite condition(s) for the Completion pursuant to the Sale and Purchase Agreement |
| "Consideration" | the consideration payable for the Sale Share by the Company to the Seller in relation to the Acquisition |

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| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Sale and Purchase Agreement and the Acquisition |
| "Enlarged Group" | the Group as enlarged by the Acquisition (assuming the Acquisition has been completed) |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | an independent committee of the Board comprising all the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition |
| "Independent Financial Adviser" or "Hooray Capital" | Hooray Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition |
| "Independent Shareholders" | Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolutions approving the Sale and Purchase Agreement and the Acquisition |
| "Independent Valuer" | Roma Appraisals Limited, an independent professional valuer commissioned by the Company for the purpose of issuing the Valuation Report |
| "Latest Practicable Date" | 9 August 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| "Leased Properties" | the properties used by the Target Group with particulars as set out in the Sale and Purchase Agreement |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Morris Capital" | Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability and one of the controlling Shareholders and is owned as to 85% by Mr. Zou and 15% by Ms. Wu |

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| "Mr. Zou" or "Warrantor" | Mr. Zou Gebing (鄒格兵), the chairman, chief executive officer, an executive Director and a controlling Shareholder of the Company |
| "Ms. Wu" | Ms. Wu Xiangfei (鄔向飛), the spouse of Mr. Zou and a controlling Shareholder |
| "Option Notice" | the written notice to be delivered from the Company to the Seller exercising the Put Option |
| "Parties" or "Party" | the parties or a party to the Sale and Purchase Agreement and their respective successors and assigns |
| "PRC" or "China" | the People's Republic of China, which for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| "Put Option" | the put option right granted to the Company under the Sale and Purchase Agreement as set out in the section headed "Letter from the Board — Sale and Purchase Agreement — Repurchase undertaking" in this circular |
| "Reporting Accountants" | Ernst & Young, the reporting accountants of the Company |
| "Repurchase Completion" | in respect of the exercise of the Put Option, completion of the sale and purchase of the Repurchase Shares |
| "Repurchase Shares" | all of the then issued and outstanding common stock of the Target Company legally and beneficially held by the Company |
| "Sale and Purchase Agreement" | the sale and purchase agreement dated 4 July 2018 entered into among the Company, the Seller and the Warrantor in relation to the Acquisition and supplemented by a supplemental agreement dated 9 August 2018 |
| "Sale Share" | 901,000 shares of the Target Company, being all the issued and outstanding common stock of the Target Company |
| "Seller" or "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 and owned as to 85% by Mr. Zou and 15% by Ms. Wu |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

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| "Share(s)" | ordinary share(s) of the Company, having a par value of US$0.001 each |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Target Company" | Jennifer Convertibles Inc., a company incorporated in the U.S. and a wholly-owned subsidiary of the Seller |
| "Target Group" | the Target Company and its subsidiaries |
| "U.S." | the United States of America |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "Valuation Report" | the valuation report dated 14 August 2018 on the fair value of the entire equity interest of the Target Company prepared by the Independent Valuer as at 31 March 2018 |
| "%" | per cent. |

* *For identification purpose only*

*In this circular, the terms "associate", "connected person", "controlling shareholder" and "subsidiary" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

# MORRIS HOLDINGS LIMITED
# 慕容控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1575)**

***Directors:***
*Executive Directors:*
Mr. Zou Gebing *(Chairman and Chief Executive Officer)*
Mr. Shen Zhidong
Mr. Zeng Jin
Mr. Wu Yueming

*Independent Non-Executive Directors:*
Mr. Huang Wenli
Mr. Liu Haifeng
Mr. Shao Shaomin

*Registered office:*
Cricket Square, Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

*Principal place of business:*
Unit 6707, 67/F,
The Center,
99 Queen's Road Central,
Hong Kong

14 August 2018

*To all Shareholders*

Dear Sir or Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ALL THE ISSUED AND OUTSTANDING COMMON STOCK OF JENNIFER CONVERTIBLES INC. AND NOTICE OF EXTRAORDINARY GENERAL MEETING

### 1. INTRODUCTION

Reference is made to the announcement of the Company dated 4 July 2018 in relation to the Acquisition.

After trading hours on 4 July 2018, the Company (as purchaser) entered into the Sale and Purchase Agreement with the Seller (as vendor) and Mr. Zou (as warrantor) in relation to the Acquisition, pursuant to which the Company conditionally agreed to purchase and the Seller conditionally agreed to sell the Sale Shares at the Consideration of US$35 million (subject to adjustment in accordance with the Sale and Purchase Agreement), which shall be satisfied by the Company by cash.

The purpose of this circular is to provide you with (i) further information relating to the Sale and Purchase Agreement and the Acquisition; (ii) the letter of the Independent Board Committee to the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition; (iv) the Valuation Report; (v) the general information of the Company; and (vi) a notice of the EGM.

## 2. THE SALE AND PURCHASE AGREEMENT

Principal terms of the Sale and Purchase Agreement are set out as follows:

**Date**

4 July 2018 (supplemented by a supplemental agreement dated 9 August 2018)

**Parties**

(a) Seller: 慕容集團有限公司(Morris Group Co., Ltd.*)

(b) Purchaser: the Company

(c) Warrantor: Mr. Zou

As at the Latest Practicable Date, the Seller is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Mr. Zou, the chairman, the chief executive officer and an executive Director of the Company, and Ms. Wu, the spouse of Mr. Zou, are each a controlling Shareholder and are therefore each a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Seller is an associate of the controlling Shareholders and therefore a connected person of the Company under the Listing Rules.

**Assets to be acquired**

Pursuant to the Sale and Purchase Agreement, the Company will acquire from the Seller the Sale Shares, representing all the issued and outstanding common stock of the Target Company.

**Conditions precedent**

Completion is conditional upon the following Conditions being satisfied or waived by the Company (provided that Condition (e) below cannot be waived):

(a) the warranties provided by the Seller and the Warrantor pursuant to the Sale and Purchase Agreement (the "**Warranties**") remaining true and accurate in all material respects at Completion as if repeated at Completion;

(b) the Company having been delivered the legal opinion issued by its U.S. legal advisers on laws of the U.S. in respect of, *inter alia*, (i) the valid existence and good standing of the Target Company and its subsidiary; (ii) the transfer of the Sale Shares to the Company do not result in a violation or breach of the Target Company's constitutional documents or the relevant laws; (iii) the Sale Shares are fully paid and nonassessable; (iv) the Target Company and its subsidiary have all requisite corporate power and authority to own, lease and operate their assets and to conduct their respective business operations; and (v) the Target Company and its subsidiary are duly qualified to conduct business as a foreign corporation in each jurisdiction where they conduct their business, in form and substance satisfactory to the Company;

(c) the Seller having performed in all material respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;

(d) all waivers or consents as set out in the Sale and Purchase Agreement being granted by third parties (including governmental or official authorities) and no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of any member of the Target Group having been proposed, enacted or taken by any governmental or official authority;

(e) the Company having obtained its Independent Shareholders' approval at the EGM to proceed with the sale and purchase of the Sale Shares in accordance with the Listing Rules;

(f) there not being in existence on the Completion Date any material adverse change;

(g) the Seller having completed all necessary corporate actions and its internal approval procedures in relation to the sale and purchase of the Sale Shares pursuant to its constitutional documents and the relevant laws;

(h) the Seller having provided evidence, to the satisfaction of the Company, regarding the due qualification of the Target Group to conduct business as a foreign corporation in each jurisdiction where it conducts its business;

(i) the Seller having procured the relevant members of the Target Group to rectify, to the satisfaction of the Company, their respective register of members and all other statutory books such that they are up to date and contain true, full and accurate records of all matters required to be dealt with therein;

(j) a successful completion of the financial due diligence, legal due diligence and commercial due diligence, the results of which shall be reasonably satisfactory to the Company and any adverse due diligence findings resolved to the reasonable satisfaction of the Company; and

(k) the Seller having procured the tenants in the leases of the Leased Properties which is not a member of the Target Group to (i) assign all of their interest in the relevant leases to a member of the Target Group; and (ii) obtain the consent from the relevant landlord for the said assignment.

In the event any of the above Conditions shall not have been fulfilled or waived prior to the Completion Date then the Company shall have the right to terminate the Sale and Purchase Agreement and the Sale and Purchase Agreement shall cease to be of any effect save for those clauses in relation to, among others, restriction on announcement, confidentiality, costs, notices and governing law and save for claims arising out of any antecedent breach of the Sale and Purchase Agreement.

The Company has no intention to waive any of the Conditions and the Target Company, the Seller and the Company are preparing for the documents required to fulfil the Conditions. The Target Company has partially fulfilled Condition (d) and is in the process of obtaining good standing in New York to fulfil Condition (h) and obtaining the landlords' consents on assignment of lease to fulfil Condition (k). The Company expects that all Conditions could be fulfilled upon Completion.

**Consideration**

The Consideration shall be US$35 million (subject to the below Profit Guarantee Payment (as defined below) and any adjustment as may be mutually agreed among the Parties in writing pursuant to the Sale and Purchase Agreement) payable in cash at any time prior to the second anniversary of the Completion Date (the "**Payment Period**"). The Company shall have the right to pay the Consideration in any number of instalment and in any amount per instalment (subject to the below paragraphs) at its absolute discretion during the Payment Period, provided that the Company shall be obliged to pay all outstanding amount of the Consideration to the Seller on the expiration date of the Payment Period.

Each instalment of the Consideration shall be in the minimum denomination of US$1 million and in integral multiples of US$1 million, save that at any time, the amount of the Consideration outstanding is less than US$1 million, the whole (but not part only) of the outstanding amount of the Consideration may be paid.

Each instalment of the Consideration shall be paid by the delivery to the Seller by the Company by way of a bankers' draft drawn on a bank in the Hong Kong or U.S. in favour of the Seller or another party as it in writing may direct.

The right to pay an instalment of the Consideration may, subject to the Sale and Purchase Agreement, be exercised on any business day during the Payment Period by the Company delivering to the Seller a written notice stating its intention to pay an instalment of the Consideration no less than 14 days prior to such payment of instalment of the amount and time of the payment of the instalment of the Consideration provided that the payment date of any instalment of the Consideration shall not be later than the last day of the Payment Period. The notice shall also specify the total outstanding amount of the

Consideration immediately prior to the payment of the instalment and the total outstanding amount of the Consideration immediately subsequent to the payment of the instalment.

No interest shall accrue on any part of the Consideration outstanding during the Payment Period.

If the Average Profit is less than US$3 million, the Consideration shall be reduced on a dollar-for-dollar basis by an amount equivalent to the 11.67 (the "**Multiplier**") multiplied by the shortfall difference between US$3 million and the Average Profit (the "**Profit Guarantee Payment**") and the Seller shall, subject to the Sale and Purchase Agreement, pay to the Company, upon demand, the Profit Guarantee Payment in accordance with the Sale and Purchase Agreement provided that:

(a) the Audited Accounts shall be prepared in accordance with the accounting principles and standards consistently applied by the Target Group prior to Completion; and

(b) the Audited Accounts shall be made available to the Seller and the Company as soon as practicable after they become available and in any event no later than three months after the end of each of the years ending 31 December 2019 and 2020 (and if there is any reasonable dispute on the part of the Seller or the Company in respect of the Audited Accounts or the Average Profit and such dispute remains unresolved within 30 days from the day on which they are made available to the Seller or the Company, the relevant Party may require the Audited Accounts or the Average Profit to be reviewed by an independent internationally reputable accountancy firm to be agreed by the Seller and the Company or, failing such agreement, by the President of the Hong Kong Institute of Certified Public Accountants — it being understood and agreed that (i) the outcome of such review shall be final and binding upon the Parties and (ii) the costs and expenses associated with such review shall be borne by the Party against whom the outcome of such review prevails),

and provided further that, (i) in the event the Average Profit shall be negative, it shall be considered as zero for the purpose of calculating the Profit Guarantee Payment; and (ii) the adjustment to the Consideration shall not reduce the Consideration by more than the entire Consideration and the Profit Guarantee Payment shall not exceed US$35 million.

The Multiplier is derived based on the implied forward price to earnings multiple for the year ending 31 December 2019 as represented by the Consideration. The Multiplier is calculated as below:

Multiplier = Consideration/US$3 million

The Consideration was determined with reference to the fair value of the entire equity interest of the Target Company as at 31 March 2018 in the amount of approximately US$35 million based on the Valuation Report by the Independent Valuer based on the market-based approach. With reference to the Valuation Report, the fair value is arrived at by multiplying forecast profit for the year ending 31 December 2019 and average forward P/E multiple of the comparable companies with adjustments for (i) control premium; non-operating assets/(liabilities) and (ii) marketability discount.

The Average Profit is determined based on the forecast net profit after tax of the Target Group of approximately US$3 million for the year ending 31 December 2019. Since the Target Group would like to avoid sudden short term unexpected circumstances in the macroeconomic environment, an average of the audited consolidated net profit after tax of the Target Group (excluding profits and losses arising not from the ordinary and usual course of business) for the years ending 31 December 2019 and 31 December 2020 is adopted for the calculation of the Average Profit. The said forecast has taken into account of the factors that (i) the Target Group is a private group. The value of a share in a privately held company is usually less than an otherwise comparable share in a publicly held company; (ii) upon Completion, the Target Company will become an direct wholly-owned subsidiary of the Company. A control premium has been adopted to reflect the higher marketability of a controlling interest compared to a minority interest with reference to the Mergerstat Control Premium Study (4th Quarter 2017), by FactSet Mergerstat, LLC; and (iii) the non-operating liabilities has been adjusted in arriving at the forecast.

Based on the analysis above and taking into account that (i) the Average Profit is determined based on the forecast; and (ii) the use of the Multiplier for calculating the Profit Guarantee Payment provides protection to the Group, in that if the Average Profit is less than US$3 million, the Consideration will be adjusted downward. In view of the above, the Directors' believe that the Average Profit and the Multiplier are fair and reasonable.

Subject to the Sale and Purchase Agreement, in the event of an adjustment of the Consideration, the Company may demand the payment of the Profit Guarantee Payment from the Seller at any time during the period of three months from the date of the issuance of the Audited Accounts for the year ending 31 December 2020 by delivering to the Seller a written notice stating its demand for the Profit Guarantee Payment. The notice shall specify the Average Profit and the amount of the Profit Guarantee Payment and enclose the Audited Accounts.

Within 20 business days upon service of the notice for demand of the Profit Guarantee Payment to the Seller by the Company or upon the determination of the Audited Accounts or the Average Profit by the independent accounting firm (if there is a reasonable dispute on the Audited Accounts or the Average Profit), the Seller shall pay to the Company the Profit Guarantee Payment by way of a bankers' draft drawn on a bank in the Hong Kong or U.S. in favour of the Company or another party as it in writing may direct.

Unless dispute by the Seller or the Company in accordance with the Sale and Purchase Agreement, the Audited Accounts prepared by the Company's accountants and the Average Profit as calculated and determined by the Company's accountants shall, in the absence of manifest error, be final and binding on the Parties.

The Company will comply with the disclosure requirements under Rule 14A.63 of the Listing Rules.

The Company intends to pay the Consideration on the following proposed payment schedule: (i) US$20 million by the end of 2018; (ii) US$10 million by 30 June 2019; and (iii) the remaining US$5 million by the end of 2019.

When setting out the proposed payment schedule, the Directors have considered the factors including (i) balance of cash and cash equivalents as at 28 June 2018 of approximately RMB101.1 million; (ii) unutilized banking facilities as at 28 June 2018 of approximately RMB214.3 million; (iii) no significant capital commitment of the Group as at 30 June 2018; (iv) profit guarantee payment as a protection to the Group; and (v) the growth in profit before tax for the six months ended 30 June 2018 as compared to the corresponding period of last year. In addition, assuming (i) the rate of growth in profit before tax for the second half of 2018 and for the year ending 31 December 2019 will remain the same as for the six months ended 30 June 2018; and (ii) each of the proposed payment will be financed by debts and at the highest interest rate among all current borrowings of the Group, which is 6.5% per annum. The interest coverage ratios of the Group for the years ending 31 December 2018 and 2019 is expected to be approximately 9.57 and 9.19 times, respectively. The Directors are of the view that the estimated interest coverage ratios for the years ending 31 December 2018 and 2019 are at a relatively healthy level and thus consider the proposed payment schedule will not pose any liquidity issue to the Group. In addition, the deadline for the payment of Consideration is agreed at a time after the majority of the Consideration is intended to pay, which would provide extra buffer for the Company in terms of payment in the event the intended payment schedule is not met.

In view of the above, save for the existing unutilized banking facilities, the Company does not need to raise additional borrowings for the settlement of the Consideration, the Board considered that the proposed payment schedule will not pose any liquidity issue to the Group and it is in the interest of the Company and the Shareholders as a whole.

As the Company shall pay US$35 million to the Seller as the Consideration at any time prior to the second anniversary of the Completion Date, with a certain profit guarantee, contingent consideration is recognized as financial liability at its fair value as part of the consideration transferred in exchange for the acquiree on Completion Date according to the International Financial Reporting Standard (the "**IFRS**"). Subsequently, the interest is credited to financial liability and the financial liability is reduced by each payment. Since contingent consideration that is within the scope of IFRS 9 is remeasured at fair value at each reporting date and changes in fair value are recognized in profit or loss in accordance with IFRS 9, the company will re-measure the fair value of the liability at each reporting date and the changes in fair value will be recognized in profit or loss.

The Company intends to fund the Consideration by its internal resources and bank borrowings.

**Basis of the determination of the Consideration**

The Consideration was determined after arm's length negotiation between the Company and the Seller with reference to (i) the fair value of the entire equity interest of the Target Company as at 31 March 2018 in the amount of approximately US$35 million based on the Valuation Report prepared by the Independent Valuer based on the market-based approach; and (ii) the benefits of the Acquisition brought about to the Group upon Completion as set out in the paragraph headed "Reasons for and benefits of the Acquisition" below in this circular, the Directors (excluding the Director who is required to abstain from voting but including the independent non-executive Directors) consider that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**Repurchase undertaking**

Subject to the Sale and Purchase Agreement, the Seller irrevocably grants to the Company an option to sell, and to require the Seller to buy, all (but not part only) of the Repurchase Shares on terms set out in the Sale and Purchase Agreement, together with all interests attached or attaching, accrued or accruing thereto after the date of Repurchase Completion.

Subject to the Sale and Purchase Agreement, in the event the Target Group shall record an audited net loss after tax (excluding profits and losses not from the ordinary and usual course of business) in the Audited Accounts for any of the years ending 31 December 2019 and 2020 (regardless if the Average Profit meets the US$3 million profit threshold), the Put Option may be exercised by the Company on any date during the period of three months from the date of the issuance of the Audited Accounts for the relevant year by the delivery of the Option Notice to the Seller. Upon service of the Option Notice, the Seller shall become bound to buy the Repurchase Shares at the price and in accordance with the Sale and Purchase Agreement.

The purchase price of the Repurchase Shares by the Seller shall be the Consideration (the "**Exit Price**"). The Repurchase Shares shall be sold free from any encumbrances.

Repurchase Completion shall take place at such place as the Parties may agree in writing on the date falling 20 business days after service of the Option Notice by the Company to the Seller.

At Repurchase Completion:

(a) the Company shall deliver to the Seller a stock certificate evidencing the Repurchase Shares, free and clear of encumbrances, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank and with all required stock transfer tax stamps affixed; and

(b) the Seller shall pay the Exit Price for the Repurchase Shares as set out in the Option Notice in US$ to the Company by the delivery to the Company by way of a bankers' draft drawn on a bank in the Hong Kong or U.S. in favour of the Company or another party as it in writing may direct.

If, at Repurchase Completion, the Seller shall be in breach of its obligations under (b) above, the Company shall be entitled (in addition to and without prejudice to all other rights and remedies available to it) to defer Repurchase Completion to a date not more than twenty business days after such date (and the relevant provisions of the Sale and Purchase Agreement shall apply as if that other date is the date set for Repurchase Completion).

The Seller hereby irrevocably undertakes to the Company that it shall be responsible for all costs and expenses to be incurred for and incidental to the sale and purchase of the Repurchase Shares.

For the avoidance of doubt, the Company shall be entitled to either exercise the Put Option or to demand the Profit Guarantee Payment, but not both. As such, the Company shall not be entitled to exercise the Put Option if it has demanded the Profit Guarantee Payment (regardless if the Average Profit is positive but less than US$3 million or is negative) pursuant to the Sale and Purchase Agreement.

The Company will comply with the relevant requirements under Chapters 14 and 14A of the Listing Rules if it exercises the Put Option to sell the Repurchase Shares to the Seller.

**Completion**

Completion shall take place on the Completion Date. At Completion, the Seller shall:

(a) deliver to the Company:

   i. a stock certificate evidencing the Sale Shares, free and clear of encumbrances, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank and with all required stock transfer tax stamps affixed;

   ii. such waivers or consents as required under Condition (d);

   iii. certified true copies of minutes of duly convened shareholder's meeting or board meeting or written shareholders' resolutions or board resolutions of the Target Company and its subsidiary confirming, adopting, approving or ratifying, on terms to the satisfaction of the Company, the election of its directors, the appointment of its officers and all corporate actions taken by it including without limitation the transfer of the Sale Shares prior to the Completion Date;

iv. the leases and all other relevant documents and correspondence relating to the Leased properties;

v. all the statutory and other books and records (including financial records) duly written up to date of the Target Company and its subsidiary and their respective certificates of incorporation, current business registration certificate(s), common seals and any other papers and documents of the Target Company and its subsidiary in their possession or under their control;

vi. a completion certificate duly executed by a duly authorised officer of the Seller, pursuant to which it represents and warrants to the Company that the Warranties remaining true and accurate and not misleading in any respect at Completion and having performed in all respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement on or prior to the Completion Date;

vii. evidence satisfactory to the Company of the authority of any person signing on behalf of the Seller;

viii. a duly executed release under seal, in a form acceptable to the Company, releasing the Target Group from any liability whatsoever (whether actual or contingent) which may be owing to the Seller or the Warrantor by the Target Group at Completion;

ix. if needed, irrevocable powers of attorney (in such form as the Company may require) executed under seal by the Seller in favour of the Company or such person(s) as may be nominated by the Company to enable the Company or its nominee(s) (pending registration of the said transfers) to act generally in respect of the Sale Shares and to execute all voting and other rights attaching to the Sale Shares and to appoint proxies for that purpose;

x. a certificate of the secretary or an assistant secretary (or equivalent officer) of the Seller certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of the Seller authorizing the execution, delivery, and performance of the Sale and Purchase Agreement and all documents and instruments contemplated hereunder and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby;

xi. a good standing certificate (or its equivalent) for the Target Company and its subsidiary from the secretary of state or similar governmental authority of the jurisdiction under the laws in which the Target Company and its subsidiary are organised;

xii. a certificate pursuant to Treasury Regulations Section 1.1445-2(b), laws of the U.S., that the Seller is not a foreign person within the meaning of Section 1445 of the Internal Revenue Code, laws of the U.S.;

xiii. such other documents or instruments as the Company may reasonably requests and are reasonably necessary to consummate the transactions contemplated by the Sale and Purchase Agreement;

(b) cause the directors of the Target Company and its subsidiary to hold a meeting of the board of directors at which the directors of the relevant company shall pass resolutions or to pass written resolutions in the approved terms (inter alia) to approve the registration of the Company or its nominee(s) as members of the Target Company subject only to the production of duly stamped and completed transfers in respect of the Sale Shares; and

(c) cause such persons as the Company may nominate (if any) to be validly appointed as directors and/or secretary of the Target Company and its subsidiary with effect from the Completion Date and upon such appointment forthwith cause the existing directors and/or secretary of the Target Company and its subsidiary to resign from their respective offices and as employees with effect from the close of business on the Completion Date, and deliver to the Company certified copies of the resignation letters in the approved terms (if applicable, under seal) of each such directors and secretary acknowledging that each has no outstanding claim against the Target Company or its subsidiary for compensation or otherwise.

If the Seller fails to comply with its obligations at Completion, without prejudice to any other remedies available to the Company, the Company may:

(a) defer Completion to a date as the Parties may agree in writing (and so that the obligations at Completion shall apply to Completion as so deferred);

(b) proceed to Completion so far as practicable (without prejudice to its rights under the Sale and Purchase Agreement; or

(c) rescind the Sale and Purchase Agreement except the clauses in relation to, among others, restriction on announcement, confidentiality, costs, notices and governing law. No party to the Sale and Purchase Agreement shall have any claim against the other parties, save in respect of claims arising out of any antecedent breach of the Sale and Purchase Agreement and save for the right to apply for and obtain injunctive relief which may be available at equity or under applicable laws.

## 3. VALUATION

According to the valuation of the Target Group in the Valuation Report, the appraised fair value of the entire equity interest in the Target Group is approximately US$35 million as at 31 March 2018, which was prepared using market approach.

As the Valuation Report contains a profit forecast under the Listing Rules, accordingly, the requirements under Rules 14.62 of the Listing Rules are applicable.

The following are the details of the principal assumptions, including commercial assumptions, upon which the Valuation Report were based:

- The Target Group would be operated and developed as planned by the management and the development would be in line with the financial projection;
- The valuation was mainly based on the projections of the future cash flows. The projections outlined in the financial information provided are assumed to be capable of reflecting future market conditions and economic fundamentals, and are assumed to be materialized;
- The total number of active shops of the Target Group shall be increased to 20 in year 2018. The number of shops was assumed to remain stable in year 2019;
- The projected average revenue per shop was based on the actual revenue per shop (excluding under-performing shops which are to be closed and one inactive shop) in the year ended 31 December 2017, growing at an annual rate estimated with reference to that of comparable companies of 4.8% in 2019;
- The projected rent cost (including estimated 25% floor area for warehousing purpose) per shop was based on the actual rent cost per shop (including all active shops) in the year ended 31 December 2017. Rent cost per shop would increase by 10% for the year ending 31 December 2018 and at the rate of inflation in year 2019;
- Administrative cost is expected to grow in line with the number of shops;
- Warehousing expenses and selling and distribution expenses will grow at the same rate as purchase cost of products;
- The effective corporate tax rate has become flat 21% according to Tax Cuts and Jobs Act since 20 December 2017;
- The Target Group is expected to increase the proportion of sales of products with higher gross margin;
- It was assumed that the Target Group could source its inventory with higher gross margin from the Company or other third party suppliers;
- The latest gross margin of the Company's products, which contributed around 25% of the revenue of the Target Group for the year ended 31 December 2017, is higher than other third party's products. It was assumed that the Target Group would continue sourcing products with higher gross margin from either the Company or other third party such that the proportion of products with higher gross margin would increase by 10% each year until reaching 45% for the year ending 31 December 2019;

- Making reference to the gross margin (excluding warehouse expenses and warehousing related rent cost) of recent sales of the Company's products, the gross margin (excluding warehouse expenses and warehousing related rent cost) of products with higher gross margin is forecasted to increase to approximately 57% in the year ending 31 December 2019;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate were assumed to be successfully obtained and renewable upon expiry with minimal costs;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates, and the Target Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group; and

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing.

**Basis of the assumptions**

Set out below are the bases of some of the major assumptions underlying the Valuation Report:

| Assumptions | Bases |
|---|---|
| Average revenue per shop | The average revenue per shop for the year ending 31 December 2019 was estimated based on the actual revenue per operating shop for the year ended 31 December 2017, growing at an annual rate of 4.8% with reference to that of the comparable companies for the year ended 31 December 2017. The 1-year revenue growth rates of comparable companies ranged from approximately -2.9% to approximately 25.2% and the average 1-year revenue growth rate was approximately 8.0%. Given the Target Group plans to close down under-performing stores and open new stores in 2018, it may take time for the new shops to build up their customer bases. As a prudent measure, the management applied a 40% discount on the average revenue growth rate of approximately 8.0% of comparable companies in arriving at the revenue growth rate of approximately 4.8%. |

The revenue growth rates of the comparable companies are listed below:

| Company Name | Stock Code | 1-Year Revenue Growth Rate (%) | For the Year Ended |
|---|---|---|---|
| Big Lots Incorporated | BIG.US | 4.0 | 31 January 2018 |
| At Home Group Incorporated | HOME.US | 25.2 | 31 January 2018 |
| Conn's Incorporated | CONN.US | –2.9 | 31 January 2018 |
| Haverty Furniture Companies Incorporated | HVT.US | –0.5 | 31 December 2017 |
| RH | RH.US | 14.2 | 31 January 2018 |

The selection criteria of comparable companies adopted by the Directors in forecasting revenue growth rate was identical to that adopted by the Valuer in the Market-Based Approach. Please refer to page I-10 in the Valuation Report for the detailed selection criteria.

| Assumptions | Bases |
|---|---|
| | In relation to the major business activities and the contribution from furniture retail business to the revenue of the comparable companies, please refer to the disclosures on page I-11 and I-12 in the Valuation Report.<br><br>As the shortlisted comparable companies adopted by the Directors in forecasting revenue growth rate were an exhaustive list of companies meeting the selection criteria, hence the Directors are of the view that the Revenue Growth Comparables are fair and representative samples.<br><br>After reviewing the annual report of At Home Group Incorporated for the fiscal year ended 27 January 2018, the Directors noticed that the major revenue drivers of At Home Group Incorporated were mainly positive overall economic trend, consumer preferences and demand and business strategy. The Directors did not note any extraordinary factors that might indicate At Home Group Incorporated's financial data is not applicable to estimate the revenue growth rate of the Target Group. Taking into account of the above, the Directors are of the view that At Home Group Incorporated serves as a fair and representative reference to determine the assumption of average revenue per shop. |
| Cost of sales | Costs of sales consist of purchase cost of products, warehousing expenses and rent cost (for warehousing). As advised by the management of the Target Group, 25% of the floor area of brick-and-mortar stores are used for warehousing purpose. In light of the above, 25% of the total rent cost was allocated to cost of sales. |
| Gross profit | The gross profit (excluding warehouse expenses and warehousing related rent cost) was arrived by multiplying the revenue by the expected gross margin. Regarding brick-and-mortar stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be the weighted average of gross margins (excluding warehouse expenses and warehousing related rent cost) of products with lower and higher gross margins with reference to historical sales data. |

| Assumptions | Bases |
|---|---|
| | The forecasted gross margin of the products sold (excluding warehouse expenses and warehousing related rent cost) for the year ending 31 December 2019 will be approximately 52.0%. If taking into account of the warehouse expenses and warehousing related rent cost), the gross margin will be approximately 43.2% for the year ending 31 December 2019. The Directors have considered the weighting of Morris products to be increased to 45% for the year ending 31 December 2019 (excluding home deliver revenue) and also the gross margins of products with higher margin and products with lower margin, which are approximately 57.1% (excluding warehouse expenses and warehousing related rent cost) and 47.7% (excluding warehouse expenses and warehousing related rent cost) respectively, for the first quarter of 2018.<br><br>Taking into account that (i) the forecast gross profit margin is taking reference to the actual gross profit margin of the Morris products and other products for the first quarter of 2018; and (ii) the proportion of product mix is taking reference to the business plan of the management of the Target Group. The Directors are of the view that the assumptions in deriving the forecasted weighted average figure are fair and reasonable.<br><br>For brick-and-mortar stores, the forecasted gross profit margin of approximately 52.0% (excluding warehouse expenses and warehousing related rent cost) and approximately 43.2% (including warehouse expense and warehousing related rent cost) in the year ending 31 December 2019 was derived by weighing between the gross profit margins (excluding warehouse expenses and warehousing related rent cost) of products with lower gross profit margin approximately 47.7% (excluding warehouse expenses and warehousing related rent cost) and products with higher gross profit margin approximately 57.1% (excluding warehouse expenses and warehousing related rent cost) with product mix of 55% and 45% (excluding home delivery revenue) respectively. The 10% year-on-year increase in proportion of the Group's product to the Target Group's supply is based on the estimate and intention of the management of the Group. Upon Completion, the Company intends to direct the sourcing strategy of the Target Group to gradually increase the sourcing from the Group. |

| Assumptions | Bases |
|---|---|
| | For web stores, the gross profit margin in the year ending 31 December 2019 was forecasted to be at the same historical level as in the year ended 31 December 2017, which was approximately 40.5% (excluding warehouse expense and warehousing related rent cost) and approximately 35.0% (including warehouse expense and warehousing related rent cost).<br><br>Taking into account that (i) the forecast gross profit margins are taking reference to the actual gross profit margins of the Morris products and other products for the first quarter of 2018; and (ii) the proportion of product mix is taking reference to the business plan of the management of the Target Group. The Directors are of the view that the assumptions in deriving the forecasted gross margins are fair and reasonable and factually supportable.<br><br>According to the Management, the weighting of products with higher gross margin is assumed to be 35% and 45% for the years ending 31 December 2018 and 2019 respectively. Regarding web stores, the gross margin was approximately 35.0% for the year ended 31 December 2017 and was assumed to be constant throughout years ending 31 December 2018 and 2019. |
| Administrative costs | The administrative cost per shop for the year ending 31 December 2019 was estimated based on the actual administrative cost per operating shop and shop to be closed for the year ended 31 December 2017, growing at inflation rate of the U.S. of 2.57% and 2.25% as forecasted by International Monetary Fund for the years ending 31 December 2018 and 2019, respectively. |
| Rent cost per shop | The rent cost per shop for the year ending 31 December 2019 was estimated based on the actual rent cost per operating shop and shop to be closed for the year ended 31 December 2017, growing at an annual rate of 10% for the year ending 31 December 2018 and inflation rate of the U.S. of 2.25% as forecasted by International Monetary Fund for the year ending 31 December 2019. |

| Assumptions | Bases |
|---|---|
| | According to the business plan of the Target Group, under-performing stores will be closed and new stores which are larger in floor area are planned to open in the year ending 31 December 2018, the management has accordingly prepared a budget for rental expense to increase by 10% in the year ending 31 December 2018. The Director's consider that the forecast rental growth rate is consistent with the business plan of the Target Group. |
| Expected contribution of the Company's product to the Target Group's sales (45%) | Based on the financial information of the Target Group for the three months ended 31 March 2018, the gross margin of the products supplied by the Company was higher than the gross margin of other products supplied by other suppliers of the Target Group. Due to higher gross margin of the Company's products, the management of the Target Group expects to increase the proportion of the Company's products by 10% each year until the Company's products reaches 45% of the Target Group's supply for the year ending 31 December 2019.<br><br>The management of the Target Group expects the Target Group will become an exclusive retail chains for selling certain high-end product lines for the Group. As such, the Target Group will gradually decrease sourcing of sofas from other suppliers and simultaneously increase sourcing of sofas from the Company until the Company's products reaches at least 45% of the Target Group's supply for the year ending 31 December 2019. |
| Gross margin of the Company's products sold by the Target Group | The gross margin of the Company's products was based on the actual gross margin of the Company's products sold by the Target Group for the three months ended 31 March 2018 and such will maintain at same level in the year ending 31 December 2019. |

| Assumptions | Bases |
|---|---|
| | Seasonal factors have been taken into account in determining the gross profit for the forecast earnings projections. A study for seasonality of revenue was conducted, using the Target Group's revenue data over the past three years. If the month or quarter's revenue is higher than the year's average, it will be regarded as "high", otherwise it will be "low". If three consecutive year's revenue data in the same period exhibit "high", the month or quarter will be regarded as "high season"; if three consecutive year's revenue data in the same period exhibit "low", the month or quarter will be regarded as "low season"; otherwise no seasonality pattern is observed.<br><br>For monthly revenue data, "high season" pattern appeared in January, April and October; while "low season" appeared in June, August and September. For quarterly revenue data, only the third quarter could be determined as "low season", other quarters in the year didn't exhibit seasonality pattern.<br><br>For the reasons that (a) the first quarter in a year is neither "low season" nor "high season", (b) "high season" months spread out over the year, and (c) overall seasonality is not particularly obvious; thus, we are in a judgement that seasonal factors have been considered in determining the gross profit for the forecast earnings projections. |

For the above assumptions, the Directors' have taken into consideration and made reference to the following factors in assessing each of the assumptions:

| Assumptions | Factors considered |
|---|---|
| Average revenue per shop | — The historical growth of average revenue per shop of the Target Group for the year ended 31 December 2017 was approximately 16.1%.<br><br>— The average historical growth of sales of comparable companies for the year ended 31 December 2017 was approximately 4.8%. |
| Cost of sales | — The cost of sales was derived from the assumptions of the growth in revenue and gross profit margin of the Target Group. |

| Assumptions | Factors considered |
|---|---|
| Administrative costs | — Each of the retail shop has its own administration staff and is responsible for its own administrative work. The administrative work and staff of the Target Group are expected to increase as more shops are opened. Therefore, administrative cost is expected to grow in proportion with the number of shops. |
| | — The inflation rate of approximately 2.57% and 2.25% as forecasted by International Monetary Fund for the U.S. for the years ending 31 December 2018 and 2019, respectively. |
| Rent cost per shop | — All outstanding rental contracts of each of the active retail shops of the Target Group. |
| | — New shops to be opened in 2018 will be in better location and with larger floor area. |
| | — The inflation rate of approximately 2.57% and 2.25% as forecasted by International Monetary Fund for the U.S. for the years ending 31 December 2018 and 2019, respectively. |
| Expected contribution of the Company's product to the Target Group's sales (45%) | — From the financial informating of the Target Group for the three months ended 31 March 2018, the gross profit margin of the Company's products and other products were approximately 57.1% and 47.7%, excluding warehouse expenses and warehousing related rent cost respectively. Given the high gross profit margin of the Company's products, it is expected that the Target Group will continue to increase purchases of products from the Company. On the other hand, as the Company supplies sofa only, the Target Group will remain certain amount of products to be sourced from other suppliers in order to maintain the variety of products offering. Further, the products provided to the Target Group are relatively more high-end as compared to the products provided to the Company's existing customers in the U.S. and are different in terms of designs, styles and functions. As such, the products provided to the Target Group are targeting a different segment of consumers. Increasing in sales to the Target Group is a complementary step for supplying full range of sofas to consumers and thus would not affect the relationship with the Company's existing customers in the U.S.. |

| Assumptions | Factors considered |
|---|---|
| Gross margin of the Company's products sold by the Target Group | — From the financial informating of the Target Group for the three months ended 31 March 2018, the gross profit margin of the Company's products amounted to approximately 57.1% excluding warehouse expenses and warehousing related rent cost. The high gross margin was in line with the change of nature of products supplied by the Company to the Target Group. Since the beginning of 2018, the Company has been supplying more high-end self-branded sofas with stylish design and better functions and materials to the Target Group which is expected to contribute a high gross margin to the Target Group. |

In view of the above, the Directors' believe that the assumptions referred to above are fair and reasonable.

For the year ended 31 December 2017, the products sold by the Company to the Target Group were older and lower-end original brand manufacturer ("**OBM**") products which had less functions and used cheaper raw materials.

Starting from 2018, the Target Group has been sourcing and is expected to continue to source higher-end OBM sofas from the Company with stylish design and enhanced functions. Set out below are some of the features of the motion sofas which were newly developed by the Company and only started selling to the Target Group from 2018.

| Model | Functions |
|---|---|
| Pearson | It has power headrest and foot recliner, power button with USB ports. The motors are more smooth and quiet. The cover uses high-end grain leather. |
| Miguel | It is a power motion sofa. It has power foot recliner, power button with USB ports. The motors are more smooth and quiet and it is more durable than older model. |
| Stationary leather/fabric sofa | It is a newly developed sofa with arm and back support and with seat cushion which comes unassembled and is to be assembled by the end users. It has high load durability. |
| Franky | It has reversible seat cushions and with adjustable ottoman. It also has a mattress with memory foam inside the sofa. |

The Company will ensure that products sold to the Target Group are based on normal commercial terms after the Completion. The terms of products to be sold to the Target Group are no more favourable than those products sold to third party customers. In order to ensure the terms of the products sold to the Target Group by the Company are in the interest of the Company and shareholders, the chief financial officer would review the reasonableness of price in each transaction between the Group and the Target Group and compare such transaction pricing against those with independent third parties so as to ensure the price in each transaction is set based on normal commercial terms.

After the Completion of the Acquisition, the Target Group will become subsidiaries of the Company. The financial results of the Target Group will be consolidated in that of the Group. An increase in purchases of products from the Company by the Target Group will increase the profits of the Target Group only when the products are ultimately sold to the ending consumers. Thus, an increase in profit of the Target Group also represents an increase in profit of the Group. The Target Group is actually reflecting its value in the Group for every dollar made by the Target Group.

In the case that the profits of the Target Group reaches or exceeds the Profit Guarantee, which was based on the forecast profit for the year ended 31 December 2019, the Company will enjoy the upside gain of the Acquisition. On the other hand, in the case that there is any shortfall between the actual profit and the profit guarantee, the Consideration is reduced by the Profit Guarantee Payment mechanism accordingly.

The Company has adopted measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations.

— The chief financial officer of the Company shall regularly monitor the Group's transfer pricing exposure by reviewing the reasonableness of price in each transaction between the Group companies and related companies and compare such transaction pricing against those with independent third parties and shall update the Group's policies to be in compliance with the relevant laws and regulations.

— The Group will also engage its tax consultant to regularly provide trainings to its senior management relating to updates on relevant transfer pricing laws and regulations.

The Reporting Accountants has checked the arithmetical accuracy of the calculations of the profit forecast underlying the valuation on the fair value of the entire equity interest in the Target Company as at 31 March 2018.

The Directors confirm that the profit forecast underlying the valuation on the fair value of the entire equity interest in the Target Company as at 31 March 2018 has been made after due and careful enquiry.

A letter in relation to report on the profit forecast from the Board in compliance with Rule 14.62(3) of the Listing Rules and a comfort letter from the Reporting Accountants for the purpose of Rule 14.62(2) of the Listing Rules have been submitted to the Stock Exchange, the texts of which are included in Appendix III and Appendix II to this circular, respectively.

## 4. INFORMATION ON THE GROUP, THE SELLER AND THE TARGET COMPANY

### Information on the Group

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

### Information on the Seller

The Seller was established in the PRC in 2001 and is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Its principal business includes but not limited to processing and sale of clothes, knitwear and accessories and trading of non-furniture products.

### Information on the Target Company

The Target Company was incorporated in 1986 and is principally engaged in the retail business of sale of a complete line of furniture products and home furnishings in the eastern part of the U.S. The Target Group has good reputations on carrying good quality furniture products and a variety of different designed products. Its retail chain also carries semi customization services for comparatively high-end customers. As at the Latest Practicable Date, it operated 17 retail outlets in the eastern part of the U.S., located in New York, New Jersey and Connecticut.

### Financial information of the Target Group

Set out below is a summary of the key financial information of the Target Group based on the unaudited financial statements of the Target Group for the two financial years ended 31 December 2017 and the projected key financial information for the two years ending 31 December 2019, which were prepared under the IFRS:

| | **For the year ended 31 December 2016** *(US$'000)* (unaudited) | **For the year ended 31 December 2017** *(US$'000)* (unaudited) | **For the year ending 31 December 2018** *(US$'000)* (forecast) | **For the year ending 31 December 2019** *(US$'000)* (forecast) |
|---|---|---|---|---|
| Revenue | 40,768 | 37,998 | 37,760 | 45,138 |
| (Loss)/Profit before taxation and extraordinary items | (4,825) | (1,997) | 990 | 3,854 |
| (Loss)/Profit after taxation and extraordinary items | (4,965) | (1,998) | 723 | 3,045 |

| | **As at 31 December 2017** *(US$'000)* (unaudited) | **As at 31 December 2018** *(US$'000)* (forecast) | **As at 31 December 2019** *(US$'000)* (forecast) |
|---|---|---|---|
| Net liabilities | 7,910 | 7,187 | 4,142 |

Audited financial report is not required for private company by U.S. law. As such, the financial information of the Target Group for FY 2016 and FY 2017 are unaudited.

The major liabilities of the Target Group as at 31 December 2017 consisted of (i) trade payables of approximately US$11.1 million (US$8.2 million of which is non-operating liabilities, while the corresponding non-operating liabilities was approximately US$8.9 million as at 31 March 2018, which is the valuation day); (ii) customer deposits of approximately US$2.0 million; and (iii) a loan from the Seller of US$1.5 million (as part of the non-operating liabilities and remained unchanged as at 31 March 2018). The Directors have reviewed the breakdowns of the abovementioned trade payables and customer deposits and ageing analysis of the trade payables as at 31 December 2017 and confirmed that the trade payables and customer deposits arose from the ordinary course of business of the Target Group and there were no long-term trade payables other than the non-operating liabilities which have been deducted from the fair value of the Target Group.

The major liabilities of the Target Group as at 31 December 2019 will mainly consist of (i) trade payable of approximately US$11.8 million (including the non-operating liabilities of approximately US$8.9 million) which is expected to increase in line with the forecasted cost of sales except for the non-operating liabilities; and (ii) customer deposits of approximately US$2.4 million which is expected to increase with the forecasted revenue.

The chief financial officer and Directors had reviewed the financial information of the Target Group for FY2016 and FY2017 and discussed with the chief financial officer and accounting staff of the Target Group regarding certain accounting treatments and fluctuations of financial information of the Target Group for FY2016 and FY2017. No unusual account treatments and fluctuations of financial information of the Target Group were noticed during the review. Further, in view of the absence of audited financial information of the Target Group, the Directors determined that the Average Profit, which is an essential component in determining the Profit Guarantee Payment, shall be reference to the audited consolidated financial statements of the Target Group which are to be prepared by the Company's reporting accountants.

The revenue of the Target Group decreased from approximately US$40.8 million for the year ended 31 December 2016 to approximately US$38.0 million for the year ended 31 December 2017 primarily due to (i) the number of stores decreased from 25 as at 31 December 2016 to 19 as at 31 December 2017 due to the Target Group management's decision on closing down the underperforming stores; and (ii) a relocation of warehouse in 2017 which caused delay of products delivery and thus cancellation of some orders by customers of the Target Group.

The Target Group recorded a loss after taxation and extraordinary items of approximately US$5.0 million and US$2.0 million for the two years ended 31 December 2017, respectively, which were primarily due to (i) the reasons for the decrease in revenue as mentioned above; (ii) expenses incurred as compensations to landlords as a result of closing down retail stores; and (iii) the clearance of the Target Group's obsolete inventories through selling some of the products at a discount.

Based on the business plan of the Target Group as provided by the management, the number of Operating Shops (as defined in Appendix I) would increase from 14 for the year ended 31 December 2017 to 20 for the year ending 31 December 2019. The related capital expenditure is forecasted to be approximately US$133,000 and US$50,000 for the years ending 31 December 2018 and 2019, respectively. As at the date of this circular, there is no significant capital commitment from the Company into the Target Company.

As at 30 June 2018, there are 16 Operating Shops for the Target Group. Two shops were opened and started operation in New York and New Jersey in April and June 2018. According to the management of the Target Group, they have chosen preliminary locations for 4 more stores in the eastern part of the U.S. which are planned to be opened by 31 December 2018. The management of the Target Group is currently negotiating the rental terms with the landlords. The locations are chosen after considerations of (i)current locations of the Target Group's retail network; (ii) purchasing power of target customers in those locations; (iii) ease of accessibility by target customers; and (iv) number of competitor stores in those locations. Taking into account of the above, the Directors are of the view that the assumption regarding the number of Operating Shops is fair and reasonable.

Set out below is a summary of the key financial information of the Target Group by brick-and-mortar stores and web stores for the two years ended 31 December 2017:

| | **For the year ended 31 December 2016** | | **For the year ended 31 December 2017** | |
|---|---|---|---|---|
| | **brick-and-mortar stores** | **web stores** | **brick-and-mortar stores** | **web stores** |
| | *(US$)* | *(US$)* | *(US$)* | *(US$)* |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | 38,311,114 | 2,456,434 | 34,935,169 | 3,062,396 |
| Gross profit | 13,714,920 | 939,050 | 11,890,823 | 1,070,329 |
| (Loss)/Profit before tax | (4,960,165) | 135,658 | (2,163,709) | 166,621 |
| (Loss)/Profit after tax | (5,101,079) | 135,658 | (2,164,660) | 166,621 |

Set out below is the revenue breakdown of the Target Group by product type for the two years ended 31 December 2017.

| | For the year ended 31 December 2016 *(US$'000)* (unaudited) | For the year ended 31 December 2017 *(US$'000)* (unaudited) |
|---|---|---|
| Sofa products | 18,141 | 16,279 |
| Sofa beds | 7,866 | 7,433 |
| Case goods | 6,168 | 6,867 |
| Mattress | 1,076 | 1,161 |
| Decorative products and others | 1,286 | 663 |
| Delivery income | 3,883 | 3,460 |
| Ancillary service[Note] | 2,112 | 1,937 |
| Others | 236 | 198 |
| Total | 40,768 | 37,998 |

*Note:* The Target Group offers after-sales service plan for its customers. For example, the service plan includes cleaning of sofas by the Target Group.

As at 31 December 2017, the Target Group had total assets of approximately US$10.5 million and total liabilities of approximately US$18.4 million and therefore recorded net liabilities of approximately US$7.9 million. The net liabilities position was due to the accumulated losses from previous years.

The major assets of the Target Group as at 31 December 2017 consisted of (i) credit card reserve receivables of approximately US$2.7 million; (ii) showroom floor inventory of approximately US$2.6 million; and (iii) warehouse inventory of approximately US$2.7 million.

The major liabilities of the Target Group as at 31 December 2017 consisted of (i) trade payables of approximately US$11.1 million; (ii) customer deposits of approximately US$2.0 million; and (iii) a shareholder's loan of US$1.5 million.

The revenue of the Target Group attributable to the products supplied by the Group was approximately US$7.6 million for the year ended 31 December 2017, which contributed approximately 20.0% of the total revenue of the Target Group for the year ended 31 December 2017.

It is expected that the supply of the Company's products to the Target Group will contribute to approximately 35% and 45% of the revenue of the Target Group and to approximately 36% and 49.5% of the gross profit of the Target Group for the year ending 31 December 2018 and 2019, respectively.

The gross margin of the products supplied by the Group and other products for the year ended 31 December 2017 were approximately 39.4% and 47.7%, respectively. The lower gross margin of the products supplied by the Group was primarily due to the fact that the products supplied by the Group to the Target Group for the year ended 31 December 2017 were older and lower-end product which had less functions and used cheaper raw material.

Upon Completion, the Target Company will become a direct wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group's financial statement.

The original acquisition cost of the Sale Shares to the Seller was approximately US$33.4 million.

## 5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacturing and sale of sofas, sofa covers and other furniture products to customers in the U.S., while the Target Company is principally engaged in the retail business of sale of furniture products and home furnishings in the eastern part of the U.S. The Acquisition is in line with the Company's strategy of promoting its own brand and transforming from an original equipment manufacturer to an original brand manufacturer.

With the Acquisition, the Group can secure a distribution channel and obtain a greater flexibility in pricing strategies of its sofas, sofa covers and other furniture products. Given the industry expertise and the market presence that the Enlarged Group possesses in each of the manufacturing and retail businesses in their respective markets, this would create synergy effect amongst members of the Enlarged Group in the future, which the integrated business model covering the full industry chain is expected to increase the cost efficiency and enhance the competitive advantages of the Company.

Further, with the Target Company's long establish sales network and market presence, it will help to facilitate the Company's own-brand strategy by providing freedom in the Company's promotion and marketing activities and create synergy effects with the existing business of the Group.

Having considered the above, the Directors (excluding the Director who is required to abstain from voting but including the independent non-executive Directors) consider that the terms of the Acquisition are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## 6. LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios (as defined in the Listing Rules) for the Acquisition is 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction under the Listing Rules.

As at the Latest Practicable Date, the Seller is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Mr. Zou, the chairman, the chief executive officer and an executive Director of the Company, and Ms. Wu, the spouse of Mr. Zou, are each a controlling Shareholder and are therefore each a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Seller is an associate of the controlling Shareholders and therefore a connected person of the Company under the Listing Rules and the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As a result, the Sale and Purchase Agreement and the Acquisition are subject to the requirements of notification, announcement, circular and Independent Shareholders' approval under the Listing Rules.

In accordance with the Listing Rules, Mr. Zou, an director and a majority shareholder of the Seller, has abstained from voting at the Board meeting. Save as disclosed, none of the Directors has any material interest in the transaction.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Sale and Purchase Agreement and the Acquisition shall abstain from voting on the resolution(s) to approve the Sale and Purchase Agreement and the Acquisition at the EGM. As at the date of this circular, Morris Capital, being close associate of Mr. Zou and Ms. Wu, is interested in 750,000,000 Shares, representing 75% of the total issued Shares, will be required to abstain from voting on the relevant resolutions at the EGM accordingly. Save for Morris Capital, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Sale and Purchase Agreement and the Acquisition and will be required to abstain from voting on the relevant resolutions to approve the Sale and Purchase Agreement and the Acquisition at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Acquisition, and Hooray Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the Acquisition.

## 7. EGM

Set out on pages N-1 to N-2 of the circular is a notice convening the EGM to be held at Room 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong at 9:30 a.m. on Friday, 31 August 2018, at which ordinary resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

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 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.

A form of proxy for use at the EGM is enclosed. Whether or not you are 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 to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and 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.

The register of members of the Company will be closed from Tuesday, 28 August to Friday, 31 August 2018, both days inclusive, during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Company on Friday, 31 August 2018 shall be entitled to attend and vote at the EGM. In order to 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 Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Monday, 27 August 2018.

## 8. RECOMMENDATION

The Independent Board Committee, comprising Mr. Huang Wenli, Mr. Liu Haifeng, and Mr. Shao Shaomin, being all the independent non-executive Directors, has been established to advise the Independent Shareholders whether the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Hooray Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from Hooray Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 58 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 35 to 36 of this circular.

The Board considers that the terms of the Sale and Purchase Agreement and the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

## 9. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
**Morris Holdings Limited**
**Mr. Wu Yueming**
*Executive Director*

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)**

14 August 2018

*To the Independent Shareholders*

Dear Sir/Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ALL THE ISSUED AND OUTSTANDING COMMON STOCK OF JENNIFER CONVERTIBLES INC. AND NOTICE OF EXTRAORDINARY GENERAL MEETING

We have been appointed as members of the Independent Board Committee to, among others, advise you in connection with the discloseable and connected transaction contemplated under the Sale and Purchase Agreement, details of which are set out in the "Letter from the Board" in the circular dated 14 August 2018 (the "**Circular**") of which this letter forms part. Defined terms used in this letter shall have the same meanings as given to them in the Circular unless otherwise requires.

We wish to draw your attention to (i) the letter of advice from Hooray Capital, being the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Sale and Purchase Agreement and the Acquisition, which has been set out on pages 37 to 58 of the Circular; and (ii) the "Letter from the Board" which has been set out on pages 5 to 34 of the Circular.

Having considered the terms of the Sale and Purchase Agreement and the Acquisition and taken into account the advice of Hooray Capital, we are of the opinion that (1) the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) although the Acquisition is not in the ordinary and usual course of business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
**Morris Holdings Limited**

| | | |
|---|---|---|
| **Mr. Huang Wenli** | **Mr. Liu Haifeng** | **Mr. Shao Shaomin** |
| *Independent Non-Executive Director* | *Independent Non-Executive Director* | *Independent Non-Executive Director* |

*Set out below is the text of a letter received from Hooray Capital regarding the transactions contemplated under the Sales and Purchase Agreement and the Acquisition for the inclusion in this circular.*

HOORAY 好盈

14 August 2018

*To the Independent Board Committees and the Independent Shareholders,*

Dear Sirs and Madams,

# DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ALL THE ISSUED AND OUTSTANDING COMMON STOCK OF JENNIFER CONVERTIBLES INC.

## INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of, inter alia, Sale and Purchase Agreement and the Acquisition, details of which are set out in the letter from the Board contained in the circular dated 14 August 2018 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified herein.

On 4 July 2018 after trading hours, the Company (as purchaser) entered into the Sale and Purchase Agreement with the Seller (as vendor) and Mr. Zou (as warrantor) in relation to the Acquisition, pursuant to which the Company conditionally agreed to purchase and the Seller conditionally agreed to sell the Sale Shares at the Consideration of US$35 million (subject to adjustment in accordance with the Sale and Purchase Agreement), which shall be satisfied by the Company by cash. Following the completion of the Acquisition, the Target Company will become a direct wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group's financial statement.

As at the Latest Practicable Date, the Seller is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Mr. Zou, the chairman, the chief executive officer and an executive Director of the Company, and Ms. Wu, the spouse of Mr. Zou, are each a controlling Shareholder and are therefore each a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition constitutes a connected transaction of the Company and is therefore subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

**好盈融資有限公司**
**Hooray Capital Limited**
香港干諾道中148號粵海投資大廈1樓
1/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong
Tel. 電話：(852) 2159 4500 Fax. 傳真：(852) 2110 4453

## THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng has been formed to advise the Independent Shareholders to make a recommendation: (i) as to whether the Sale and Purchase Agreement and the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary and usual course of business and in the interests of the Company and the Independent Shareholders as a whole; and (ii) give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the EGM. We, Hooray Capital Limited, have been appointed to advise the Independent Board Committee in this regard.

## OUR INDEPENDENCE

As at the Latest Practicable Date, we are independent from and not connected with the Company pursuant to Rule 13.84 of the Listing Rules. We have not acted as the independent financial adviser of the Company in the past two years. We are not aware of the existence of or change in any circumstances that would affect our independence. In addition, apart from the normal professional fee payable to us by the Company in connection with our appointment as the Independent Financial Adviser, no other arrangement exists whereby we shall receive any other fees or benefits from the Company or any of its subsidiaries. Accordingly, we consider ourselves eligible to give independent advice on the terms of the Sale and Purchase Agreement and the Acquisition.

## BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular as well as the information, facts and representations provided by, opinions expressed by, and statements made by the Directors, the Company and its management.

We have assumed that all representations and information that have been provided by the Directors, for which they are solely and wholly responsible, were reasonably made after due enquiry and careful consideration and are true and accurate at the time when they were made and continue to be so up to the date of the EGM. The Company will notify the Shareholders of any material changes to such information, facts, representations, opinions and statements as soon as possible. In addition, we have no reason to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or to believe that any material facts and information has been omitted or withheld.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules. We have not, however, conducted any independent in-depth investigation into the business, affairs, financial position or the future prospects of any members of the Group and the related subject of, and parties to, the Sale and Purchase Agreement, nor have we carried out any independent evaluation or appraisal of the assets and liabilities of the Group and the Target Company, and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report prepared by the Independent Valuer, the summary of which are contained in Appendix I to the Circular.

This letter is issued as our opinion and recommendation to the Independent Board Committee and the Independent Shareholders which solely for their consideration of whether the Sale and Purchase Agreement and the Acquisition are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, in the ordinary course of business and in the interests of the Company and the Independent Shareholders as a whole. Save for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

### 1. Information of the Group

With reference to the letter from the Board, the Company acts as the holding company of the Group and its subsidiaries are principally engaged in the manufacturing and sale of sofas, sofa covers and other furniture products.

Set out below are the audited consolidated financial information of the Company for the two years ended 31 December 2017 as extracted from the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"):

| | For the year ended 31 December | |
|---|---|---|
| | **2017** | **2016** |
| | *RMB'000* | *RMB'000* |
| | (Audited) | (Audited) |
| **Revenue** | 1,199,714 | 941,617 |
| **Gross profit** | 373,706 | 270,567 |
| **Net profit** | 159,855 | 80,676 |
| **Profit attributable to owners of the Company** | 159,855 | 80,676 |

| | As at 31 December | |
|---|---|---|
| | **2017** | **2016** |
| | *RMB'000* | *RMB'000* |
| | (Audited) | (Audited) |
| **Total assets** | 1,095,870 | 1,102,005 |
| **Total liabilities** | 713,116 | 943,241 |
| **Net assets** | 382,754 | 158,764 |
| **Net assets attributable to the owners of the Company** | 382,754 | 158,764 |

As illustrated by the above table, the revenue and net profit of the Group amounted to approximately RMB1.2 billion and RMB159.9 million respectively for the year ended 31 December 2017 ("**FY2017**"), representing increases of approximately 27.4% and 98.1% respectively as compared to those for the year ended 31 December 2016 ("**FY2016**"). With reference to the 2017 Annual Report, the increased in revenue was primarily attributable to the significant increase in sales volume of both sofas and sofa covers. Sofa products continued to contribute as the major component of sales, which was in line with the Group's strategy in developing its original brand manufacturing ("**OBM**") business model. The Group has been changing its business model from original equipment manufacturing ("**OEM**") business model to OBM business model and has been increasing its focus on promoting the Group's own brand in the market during FY2017. As a result of the (i) increased in revenue; and (ii) the one-off listing expenses mostly occurred during FY2016, the net profit of the Company increased correspondingly for the FY2017.

For the financial position of the Group, as at 31 December 2017, the Group recorded a net asset value of approximately RMB382.8 million from approximately RMB158.8 million as at 31 December 2016, representing an increase of 141.1%.

**2. Information of the Seller**

The Seller was established in the PRC in 2001 and is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Its principal business includes but not limited to processing and sale of clothes, knitwear and accessories and trading of non-furniture products. As at the Latest Practicable Date, the Seller is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Mr. Zou, the chairman, the chief executive officer and an executive Director of the Company, and Ms. Wu, the spouse of Mr. Zou, are each a controlling Shareholder and are therefore each a connected person of the Company under Chapter 14A of the Listing Rules. As such, the Seller is an associate of the controlling Shareholders and therefore a connected person of the Company under the Listing Rules.

**3. Information of the Target Group**

With reference to the letter from the Board, the Target Company was incorporated in 1986 and is principally engaged in the retail business of sale of a complete line of furniture products and home furnishings in the eastern part of the U.S. The Target Group has good reputations on carrying good quality furniture products and a variety of different designed products. Its retail chain also carries semi customization services for comparatively high-end customers. As at the Latest Practicable Date, it operated 17 retail outlets in the eastern part of the U.S., located in the States New York, New Jersey and Connecticut.

Set out below is the summary of the key financial information of the Target Group for the two financial years ended 31 December 2017 and the projected key financial information for the two years ending 31 December 2018 ("**FY2018**") and 31 December 2019 ("**FY2019**"), which were prepared under the International Financial Reporting Standards:

| | **For the year ended 31 December 2016** *(US$'000)* (unaudited) | **For the year ended 31 December 2017** *(US$'000)* (unaudited) | **For the year ending 31 December 2018** *(US$'000)* (forecast) | **For the year ending 31 December 2019** *(US$'000)* (forecast) |
|---|---|---|---|---|
| Revenue | 40,768 | 37,998 | 37,760 | 45,138 |
| (Loss)/Profit before taxation and extraordinary items | (4,825) | (1,997) | 990 | 3,854 |
| (Loss)/Profit after taxation and extraordinary items | (4,965) | (1,998) | 723 | 3,045 |

| | **As at 31 December 2017** *(US$'000)* (unaudited) | **As at 31 December 2018** *(US$'000)* (forecast) | **As at 31 December 2019** *(US$'000)* (forecast) |
|---|---|---|---|
| Net liabilities | 7,910 | 7,187 | 4,142 |

The revenue of the Target Group decreased from approximately US$40.8 million for the FY2016 to approximately US$38.0 million for the FY2017. Pursuant to the indication from the Target Group, the principal reasons for the decrease from FY2016 to FY2017 was: (i) the number of stores decreased from 31 as at 1 January 2016 to 25 as at 31 December 2016 and further decreased to 19 as at 31 December 2017 due to the Target Group management's decision on closing down the underperforming stores; and (ii) there was relocation of warehouse in 2017 which caused delay of products delivery resulting in cancellation of orders by a number of customers of the Target Group.

The Target Group recorded a loss after taxation and extraordinary items of approximately US$5.0 million and US$2.0 million for the FY2016 and FY2017 respectively, which were primarily due to (i) the reasons for the decrease in revenue as mentioned above; (ii) expenses incurred as compensations to landlords as a result of closing down retail stores as mentioned above; and (iii) further discounts were offered in relation to the clearance of the Target Group's obsolete inventories through selling some of the products at discount.

Set out below is the revenue breakdown of the Target Group by product type for the FY2017:

| | For the year ended 31 December 2017 *(US$'000)* (unaudited) |
|---|---|
| Sofa products | 16,279 |
| Sofa beds | 7,433 |
| Case goods | 6,867 |
| Mattress | 1,161 |
| Decorative products and others | 663 |
| Delivery income | 3,460 |
| Ancillary service *(Note)* | 1,937 |
| Others | 198 |
| Total | 37,998 |

*Note:* The Target Group offers after-sales service plan for its customers. For example, the service plan includes cleaning of sofas by the Target Group.

Pursuant to the unaudited financial information provided by the Target Group, as at 31 December 2017, the Target Group had total assets of approximately US$10.5 million and total liabilities of approximately US$18.4 million, representing net liabilities of approximately US$7.9 million. The net liabilities position was due to the accumulated losses from previous years. It is expected that the net liabilities will decrease to approximately US$7.2 million and further decrease to approximately US$4.1 million as at 31 December 2018 and 2019. The net difference of the forecast net liabilities between 31 December 2018 and 2019 is approximately US$3.1 million, which is materially equal to the projected profit of the Target Group for FY2019.

The principal assets of the Target Group as at 31 December 2017 consisted of (i) credit card reserve receivables of approximately US$2.7 million; (ii) showroom floor inventory of approximately US$2.6 million; and (iii) warehouse inventory of approximately US$2.7 million.

The principal liabilities of the Target Group as at 31 December 2017 consisted of (i) trade payables of approximately US$11.1 million; (ii) customer deposits of approximately US$2.0 million; and (iii) shareholder's loan of US$1.5 million.

As disclosed in the letter from the Board, the number of Operating Shops (as defined in Appendix I) would increase from 14 for FY2017 to 20 for FY2019. The related capital expenditure is forecasted to be approximately US$133,000 and US$50,000 for the years ending 31 December 2018 and 2019, respectively. Pursuant to the indication by the Company, such capital expenditure will be financed by internal financial resources of the

Group by way of shareholder's loan into the Target Company upon Completion. As at the Latest Practicable Date, there is no significant capital commitment from the Company into the Target Company.

Pursuant to the information provided by the Company, gross profit margin (excluding warehouse expenses and warehousing related rent cost) of the Target Group's product supplied by the Company and by independent suppliers (including closing down retail stores) for the FY2017 were approximately 39.4% and 47.7%, respectively.

Further details of the Target Company are set out under the section headed "4. Information on the Group, the Seller and the Target Company" of the letter from the Board to the Circular.

**4. Principal terms of the Sale and Purchase Agreement**

*Date*

4 July 2018 (supplemented by a supplemental agreement dated 9 August 2018)

*Parties*

(a) Seller: 慕容集團有限公司 (Morris Group Co. Ltd.*)

(b) Purchaser: the Company

(c) Warrantor: Mr. Zou (the "**Warrantor**")

*Subject matter and the Consideration*

Subject to the satisfaction or waiver (if applicable) of all Conditions, the Company will acquire from the Seller the Sale Shares, representing all the issued and outstanding common stock of the Target Company and shall pay a total Consideration of US$35 million in cash to the Seller (subject to the Profit Guarantee Payment *(as defined below)* and any adjustment as may be mutually agreed among the Parties in writing pursuant to the Sale and Purchase Agreement) at any time prior to the second anniversary of the Completion Date (the "**Payment Period**").

Please refer to the section "2. The Sale and Purchase Agreement" from the letter from the Board in the Circular for details of the Sales and Purchase Agreement, inter alia, the Conditions, Profit Guarantee Payment *(as defined below)*, the Put Option and the Completion.

The Company intends to pay the Consideration on the following proposed payment schedule: (i) US$20 million by the end of 2018; (ii) US$10 million by 30 June 2019; and (iii) the remaining US$5 million by the end of 2019. Pursuant to the indication of the Company and as disclosed in the letter from the Board, the Directors have considered the factors including (i) balance of cash and cash equivalents as at 28 June 2018 of approximately RMB101.1 million; (ii) unutilized banking facilities as at 28 June 2018 of approximately RMB214.3 million; (iii) no significant capital commitment of the Group as at 30 June 2018; and (iv) profit guarantee payment as a protection to the Group. We are of the view that the deadline for the payment is agreed at a time after the majority of the Consideration is intended to pay, which would provide extra buffer for the Company in terms of payment in the event the intended payment schedule is not met.

The total Consideration was determined after arm's length negotiation between the Company and the Seller with reference to (i) the fair value of the entire equity interest of the Target Company as at 31 March 2018 in the amount of approximately US$35.1 million based on the valuation prepared by the Independent Valuer based on the Market-Based Approach (the "**Valuation**"); and (ii) the benefits of the Acquisition brought about to the Group upon Completion as set out in the paragraph headed "Reasons for and benefits of the Acquisition" in the letter from the Board to the Circular. The Directors (excluding the Director who is required to abstain from voting) consider that the Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

*Profit guarantee and repurchase undertaking*

Pursuant to the Sale and Purchase Agreement, the Seller, the Company and the Warrantor agreed that, for the two financial years of the Target Group ending 31 December 2019 and 31 December 2020, the Average Profit shall not be less than US$3 million (equivalent to approximately RMB$19.5 million). If the Average Profit is less than US$3 million, the Consideration shall be reduced on a dollar-for-dollar basis by an amount equivalent to the 11.67 (the "**Multiplier**") multiplied by the shortfall difference between US$3 million and the Average Profit (the "**Profit Guarantee Payment**"). Hence, the *de facto* profit guarantee per full year on an average basis provided by the Seller is US$3 million (the "**Profit Guarantee**"). The formula is as follows:

(US$3 million — Average Profit) x 11.67

Under the Consideration of US$35 million and the Profit Guarantee, the effective price-to-earnings ratio is approximately 11.67 times, which is equal to the Multiplier. For our analytical purposes, based on the current arrangement, should the Average Profit be zero, the Profit Guarantee Payment would be US$3 million multiplied by the Multiplier of 11.67, which is approximately US$35 million and is equal to the Consideration. Given the above, it is in our opinion that the Profit Guarantee Payment represents a comprehensive and objective adjustment mechanism in the Consideration that would effectively reflect the actual value of the Target Group based on the same Multiplier and the Average Profit. In addition, the basis of determining the Profit Guarantee was made with reference to the forecast earnings for the FY2019 by the Company which is in line to the valuation prepared by the Independent Valuer. In our opinion, a 2-year average is fairer to both parties because it effectively provides a longer coverage under Profit Guarantee which is in the interests of the Company, and it would even out any anomaly that may take place in one single year in the Target Company which may not be representative to analyse the profitability of the Target Company as a whole.

Therefore, it is our opinion that the Profit Guarantee under a 2-year average is in the interests of the Independent Shareholders and the Company as a whole.

Furthermore, under the repurchase undertaking as set out in the letter from the Board section headed "2. The Sale and Purchase Agreement — Repurchase Undertaking", in the event that the Target Group record an audited net loss after tax (excluding profits and losses not from the ordinary and usual course of business) in the Audited Accounts for any of the years ending 31 December 2019 and 2020, (regardless if the Average Profit meets the US$3 million profit threshold), the Put Option may be exercised by the Company (the "**Repurchase Undertaking**"). Under this scenario, it may represent the business of the Target Group is not profitable at all and the Company could consider to exercise the Put Option based on prevailing circumstance. It nevertheless provides the Company an opportunity to unwind the transaction and recoup the Consideration in full.

We note that the Audited Accounts and the Average Profit are to be prepared by the Company's accountants, where the Company would have greater control over the preparation of such information. In addition, the fact that the Average Profit covers a period of two (2) full financial years would provide a longer reviewing period for better assessment of the profitability of the Target Group. Furthermore, the Average Profit is excluding profits and losses arising not from the ordinary and usual course of business, hence the Average Profit will be reflecting the true business performance of the Target Group. As a result, it is in our opinion that the arrangement of the Audited Accounts and the calculation of the Average Profit are fair and reasonable and in the interests of the Independent Shareholders and the Company.

We have further studied the background of the Seller and Warrantor, and their respective associate, being Ms. Wu. On top of searching from open sources, we have utilized a global renowned searching agency and conducted comprehensive searches in terms of risk and compliance on each of the Seller, Warrantor and Ms. Wu. As at the Latest Practicable Date, based on our findings we are not aware of any information on each of the Seller, Warrantor and Ms. Wu that would post a material concern over their creditability to meet their potential responsibility on Profit Guarantee Payment and the Put Option.

Based on the above, inter alia, the Profit Guarantee Payment and Repurchase Undertaking, that there are sufficient and effective downside protections against unfavorable financial performance of the Target Group with acceptable personal background from the Seller and the Guarantor, it is in our opinion that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Independent Shareholders and the Company as a whole.

## 5. The Valuation

According to the Valuation Report, the Valuation as at 31 March 2018 was approximately US$35.1 million. Given the Consideration is based on, inter alia, the Valuation, we have reviewed the Valuation Report as set out in Appendix I and enquired the Independent Valuer on the methodology adopted together with the relevant basis and assumptions in arriving at the Valuation for the purpose of commenting on the Consideration.

*Valuation assumptions and bases of the assumptions*

Set out below are the bases of some of the major assumptions underlying the Valuation Report in assessing each of the assumptions:

| Assumptions | Bases |
|---|---|
| Average revenue per shop | The average revenue per shop for the FY2019 was estimated based on the actual revenue per operating shop for the FY2017, growing at an annual rate of 4.8% with reference to that of the comparable companies for the FY2017. |
| Cost of sales | Costs of sales consist of purchase cost of products, warehousing expenses and rent cost (for warehousing). As advised by the management of the Target Group, 25% of the floor area of brick-and-mortar stores are used for warehousing purpose. In light of the above, 25% of the total rent cost was allocated to cost of sales. |
| Gross profit | The gross profit (excluding warehouse expenses and warehousing related rent cost) was arrived by multiplying the revenue by the expected gross margin. Regarding brick-and-mortar stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be the weighted average of gross margins (excluding warehouse expenses and warehousing related rent cost) of products with lower and higher gross margins with reference to historical sales data. According to the Management, the weighting of products with higher gross margin is assumed to be 35% and 45% for the FY2018 and FY2019 respectively. Regarding web stores, the gross margin was approximately 35.0% for FY2017 and is assumed to be constant throughout FY2018 to FY2019. |

| | |
|---|---|
| Administrative costs | The administrative cost per shop for the FY2019 was estimated based on the actual administrative cost per operating shop and shop to be closed for the FY2017, growing at inflation rate of the U.S. of 2.57% and 2.25% as forecasted by International Monetary Fund for the years ending 31 December 2018 and 2019, respectively. |
| Rent cost per shop | The rent cost per shop (including estimated 25% floor area for warehousing purposes) for the FY2019 was estimated based on the actual rent cost per operating shop and shop to be closed for the FY2017, growing at an annual rate of 10% for the year ending FY2018 and inflation rate of the U.S. of 2.25% as forecasted by International Monetary Fund for the year ending FY2019. |
| Expected contribution of the Company's product to the Target Group's sales (45%) | Based on the financial information of the Target Group for the three months ended 31 March 2018, the gross margin (excluding warehouse expenses and warehousing related rent cost) of the products supplied by the Company was higher than the gross margin (excluding warehouse expenses and warehousing related rent cost) of other products supplied by other suppliers of the Target Group. Due to higher gross margin of the Company's products, the management of the Target Group expects to increase the proportion of the Company's products by 10% each year until the Company's products reaches 45% of the Target Group's supply for the year ending FY2019. |
| Gross margin of the Company's products sold by the Target Group | The gross margin (excluding warehouse expenses and warehousing related rent cost) of the Company's products was based on the actual gross margin (excluding warehouse expenses and warehousing related rent cost) of the Company's products sold by the Target Group for the three months ended 31 March 2018 and such will maintain at same level in the year ending FY2019. |

We considered that the set of assumptions on the forecast earnings projections are fair and reasonable with the following reasons:

- In relation to the forecasted growth of approximately 4.8% in sale per store, the average growth rate of revenue and gross margin derived from the comparable companies for FY2017 are approximately 8.0% and 1.5%, respectively. Meanwhile, the historical yearly growth of average revenue per shop for the Target Group for the FY2017 was approximately 16.1%, which was significantly higher than the forecast growth rate of 4.8%. After due and careful consideration, the Directors adopted the rate of 4.8% which is a result from the prudent assessment of the Group of 40% discount to the average growth rate of the comparable companies of 8%, which represented that the Directors are prudent in relation to the forecast of growth;

- The gross margin of the web stores is assumed to stay constant at approximately 35%, which is below the overall forecasted profit margin of FY2018 and FY2019. As such, we are satisfied to the prudent rate adopted by the Independent Valuer;

- Of the 19 stores remained with the Target Group as at 31 December 2017, only 14 remained active as at the date of valuation, and the Target Company aims to open and maintain active stores up to 20 in total by the end of FY2018;

- The rent cost per shop (including estimated 25% floor area for warehousing purposes) was assumed to be growing at an annual rate of 10% for the year ending FY2018, after the discussion with the management of the Company, the assumption of annual rental growth rate of 10% is for budgetary purposes, which is based on the strategy of replacement stores would be opened in better location with higher rental charges in FY2018. As such, it is fair to assume there will be an annual 10% increase in the rental cost for the FY2018;

- The Target Group intends to sell products with advanced specifications which would result in higher margins, where our review on the unaudited financial information of the Target Group for the 3 months ended 31 March 2018, inter alia, the gross margins of the Target Company in relation to the products supplied by the Group support this assumption; and

- Of operating expenses, the assumptions are based on historical data and common features/relationships among business scale, corresponding costs and prevailing macroeconomic conditions (i.e. inflation). It is fair and reasonable to adopt historical facts adjusted with prevalent conditions to forecast.

Of the comparable companies selected by the Independent Valuer, we observe the growth of a particular comparable, being At Home Group Incorporated, has a forecasted growth rate of approximately 25.2%, which is substantially higher than the second highest growth rate of approximately 14.2% of RH. For our prudent assessment, we therefore exclude At Home Group Incorporated from the comparables and recompute the forecast growth rate of the remaining comparables, and the result of our prudently adjusted growth rate is approximately 3.7%.

Given that the forecast growth rate of 4.8% is also a result from the prudent assessment by the management of the Group of 40% discount to the average growth rate of the selected comparable of 8%, and 4.8% is within the range of the forecast growth rate of 8% and our prudently adjusted growth rate of 3.7%, we consider the management of the Company's assessment of 4.8% growth rate is fair and reasonable.

Furthermore, financial results of the Target Group would be consolidated into the Group upon Completion. Hence, there is no transfer pricing implication from the perspective of the Shareholders as a whole save and except for tax implications, and the Company indicated that it will ensure that products sold to the Target Group will continue to be based on normal commercial terms after the Completion in this regard. The Company has currently adopted, inter alia, the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations:

(i) the chief financial officer of the Company shall regularly monitor the Group's transfer pricing exposure by reviewing the reasonableness of price in each transaction between the Group companies and related companies and compare such transaction pricing against those with independent third parties and shall update the Group's policies to be in compliance with the relevant laws and regulations; and

(ii) the Group will also engage its tax consultant to regularly provide trainings to its senior management relating to updates on relevant transfer pricing laws and regulations.

One of the assumptions for the valuation is that the proportion of products with higher gross margin would increase by 10% each year until reaching 45% for the FY2019. During the course of our review of the forecast, we have observed the following financial information and the expected product mix of the Target Company which form the basis of the forecast:

- For the FY2017, the unaudited revenue was approximately US$38.0 million and the gross profit was approximately US$13.0 million, rendering the gross profit ratio of approximately 34.1%. Please note this sum included the financials of closed down stores.

- For the FY2018, the forecasted revenue is approximately US$37.8 million and the gross profit is approximately US$14.8 million, rendering the gross profit ratio of approximately 39.3%.

- For the FY2019, the forecasted revenue is approximately US$45.1 million and the gross profit is approximately US$19.5 million, rendering the gross profit ratio of approximately 43.2%.

- For the FY2019, it is expected that the revenue from (i) the sofa products supplied by the Group is approximately US$20.3 million, accounted for approximately 45% of the revenue with an average gross margin (excluding warehouse expenses and warehousing related rent cost) of approximately 58.0%; (ii) other products supplied by independent suppliers is approximately US$21.7 million, accounted for approximately 48% of the revenue with an average gross margin (excluding warehouse expenses and warehousing related rent cost) of approximately 46.2%; and (iii) income from home delivery is approximately US$3.2 million, accounted for approximately 7% of the revenue with an average gross margin of approximately 35.0%. With reference to the Valuation Report, the revenue from the sofa products supplied by the Group of approximately US$20.3 million is a computed result from forecasted sales in FY2019 of approximately US$45.1 million based on the assumptions described in the Valuation Report multiplied by assumption of expected contribution of the company's product to the Target Group's sales of 45%.

Hence, the overall gross margin is forecasted to grow at approximately 5% per year between FY2017 and FY2019.

With reference to the Valuation Report, the annual revenue growth rate of web stores is in line with the annual growth rate of e-commerce furniture and homeware revenue in the United States for the five years ending 2020 published by Fung Global Retail & Technology. Fung Global Retail & Technology (currently known as Coresight Research, Inc) is a research and advisory firm that was found in 2016. It is based in New York and provide research and analysis services on the intersection of retail, technology and fashion. We have reviewed the scope and the projected period adopted by Fung Global Retail & Technology which is similar to the scope and projected period of the online business of the Target Group. Therefore, we are satisfied to the growth rate of 7.6% adopted by the Independent Valuer.

We have also reviewed the unaudited financial information of the Target Group for the 3 months ended 31 March 2018, inter alia, the revenue and gross margin breakdown of the products supplied by the Group to the Target Group and other products provided by other suppliers. (a) The revenue of Target Group from the products supplied by the Group was approximately US$2.5 million, accounted for approximately 29.0% of revenue with approximately 57.1% of gross profit margin excluding warehouse expenses and warehousing related rent cost; (b) the revenue of Target Group from other products supplied by independent suppliers was approximately US$5.5 million, accounted for approximately 63.6% of revenue with approximately 47.7% of gross profit margin excluding warehouse expenses and warehousing related rent cost; and (c) the revenue of Target Group from home delivery income was approximately US$0.6 million, accounted for approximately

7.4% of revenue with approximately 39.9% of gross profit margin. The unaudited gross margin (excluding warehouse expenses and warehousing related rent cost) of the Target Company for the 3 months ended 31 March 2018 in relation to the products supplied by the Group was approximately 57.3%, which corresponds to the strategies indicated by the Target Group of sourcing products with advanced specifications to sell in the Target Company, among others, heated and cooled sofas, built in blue tooth connection and speakers, wire and wireless charging capability which could result in higher profit margins than the products sold in previous years.

Pursuant to our understanding from the Company, the 10% year-on-year increase in proportion of the Group's product to the Target Group's supply is based on the estimate and intention of the management of the Group. Upon Completion, the Company intends to direct the sourcing strategy of the Target Group to gradually increase the sourcing from the Group given that the Target Company would be a wholly owned subsidiary of the Company and there would be no continuing connected transactions implication.

We have further reviewed the historical information of the Target Group in relation to the sourcing of similar products produced by independent suppliers as compared to the Company's. In FY2017, approximately 34.8% of the total products were supplied by independent suppliers where the products were similar in nature as compared to the products supplied by the Group. For the 3 months ended 31 March 2018, such percentage was dropped to approximately 27.2%. As a result, the 10% year-on-year increase is feasible with the facts stated hereinabove.

Seasonal factors have been taken into account in determining the gross profit for the forecast earnings projections. Pursuant to the indication from the Company, the Target Group experiences a relatively weak in sales for the quarter between July and September. On top of the 3-month period under study, we have also evaluated the business strategies, including pricing strategies and the associate cost-of-goods-sold, there is no material difference between the said 3-month period under study and the subsequent period. We have also reviewed the breakdown of sales of the Target Group of FY2017 by months and we concur with the Company's above assessment. Furthermore, given that the Target Group recorded a gross profit margin of approximately 44.0% for the 3 months ended 31 March 2018, which is approximately 4.7% higher than the forecasted gross margin of 39.3% for FY2018, we concur with the view of the Company that seasonal factors have been taken into consideration in terms of gross margin projection for FY2018.

*Valuation criteria and methodology*

In preparing the Valuation Report, the Independent Valuer selected market-based approach to conclude the Valuation. The market-based approach values the fair market value of business enterprise by comparing prices at which other business enterprises in a similar nature changed hands in arm's length transactions. We agree that the Market-Based Approach is one of the commonly adopted approaches for concluding valuation of companies and is also consistent with normal market practice. Therefore, it is in our opinion that it is the appropriate methodology to prepare the Valuation under the current circumstances.

Under the said approach adopted, the Valuation is principally based on price-to-earnings ratio. Other multiples such as price-to-sales may fail to reflect the differences in cost structure across comparable companies and price-to-book does not fit the Target Company which its business nature does not possess significant fixed assets. Given that the Target Group is currently loss making, it is in our opinion that forward price-to-earnings ratio ("**Forward PER**") is the appropriate valuation methodology to be adopted.

As disclosed in the Valuation Report, the Independent Valuer did not adopt the Income-Based Approach even though both Income-Based Approach and "Forward PER" methodology involve assumptions of future earnings. We concur with the Independent Valuer and it is our view that the "Forward PER" methodology has fewer forward-looking elements as compared to the Income-Based Approach, therefore in theory it is more certain. In addition, in view of the nature of the Profit Guarantee is based on FY2019 net profit, "Forward PER" methodology based on the Profit Guarantee would be appropriate to relate the projected earning to the valuation of the Target Company under the current structure of the Acquisition. For details of the valuation approaches, please refer to "8. Valuation Methodology" in the Valuation Report.

In addition, we have reviewed the selection criteria of the comparable companies:

- *The companies were principally engaged in operating furniture retail stores. Due to scarcity of comparable companies with over 90% of revenue related to furniture retail business, we have expanded our selection criteria to companies of which the revenue from furniture retail business is the largest segment;*

- *The companies have major operating segment in the U.S.;*

- *The companies had sufficient listing and operating histories; and*

- *The financial information (including the forward earnings in year 2019) of the companies was available to the public.*

Given that the Market-Based Approach adopted by the Independent Valuer focuses principally on comparing prices at which other business entities in a similar nature. The selection criteria listed above are in relation to operating segment, business nature and operating region of the Target Company, where in our opinion is sufficient to provide a fair comparison. Any over specific selection criteria may result in lack of comparable companies available which is not in the interests of comparison. As a result, it is in our opinion that the above criteria are comprehensive and representative and provide a true and fair view on the comparable companies.

Based on the criteria, we have also conducted our independent verification on selected comparable companies. We have verified the list of the comparable companies by researching, on a best effort basis, all the comparable companies that match the criteria suggested by the Independent Valuer and we conclude that no other suitable comparable company is omitted and our research results are identical to those provided by the Independent Valuer. Thus, we concluded that the list of comparable companies analysed by the Independent Valuer for the purpose of preparing the Valuation are representative and exhaustive.

The earning adopted under the Forward PER is based on the estimation of profit for the FY2019 of the respective comparable companies and the Target Company. As the forecasted earnings of the Target Group and comparable companies are of comparable period (year ending December 2019 or January 2020), and both represent the forecasted financial net profit, we consider that the basis of determining the forecasted earnings is consistent among the comparable companies. For the part of the Target Company, it is based on the management of the Company's internal projection on the Target Group for the FY2019 of US$3 million, assuming the Target Group is under the Group control, of which such profit projection is also supported by the Profit Guarantee. For the part of the comparable companies, the Independent Valuer adopted the respective earnings as stated in Bloomberg, which are respective arithmetic averages of selected broker estimates in the comparable companies. Given that it is our understanding the basis adopted by selected broker estimates for forecasting future earnings for a specific company are on the same basis that is used by the majority brokers, we are in the opinion that the adoption of the earnings of the financial FY2019 for the Target Company and the comparable companies by the Independent Valuer are fair and reasonable.

The Forward PER of the Target Company is approximately 11.67 times based on the Consideration and based on the management of the Company's internal projection on the Target Group for the FY2019 of US$3 million, assuming the Target Group is under its control (which is also supported by the Profit Guarantee). Pursuant to the Valuation Report, the Forward PER of the comparable companies ranged from 8.78 times to 21.08 times and the average Forward PER of the comparable companies is 13.60 times. The PER of the Target Company is within the range of the comparable companies and lower than the average and upper boundary of the range by 14.2% and 44.7% respectively.

Furthermore, the Independent Valuer has taken into consideration of marketability discount, control premium and non-operating liabilities in arriving the Valuation. According to the Valuation Report, control premium of 26% has been adopted to reflect the compensation of a controlling interest compared to a minority interest, for example, controlling shareholders have more power to select directors and management. The Independent Valuer has made reference to Mergerstat Control Premium Study (4th Quarter 2017), by FactSet Mergerstat, LLC., and has adopted the median control premium for the 114 mergers of 26% in arriving at the Valuation of the Target Group. Of the marketability discount, it has been adopted by the Independent Valuer to reflect the lack of marketability of the Target Group. It is because the Target Group is privately held, its ownership interest is not readily marketable compared to similar interest in public companies. The Independent Valuer has made reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2018" by Stout Risius Ross, LLC in the Valuation Report, and has adopted the median marketability discount for the 744 transactions of 15.9% in arriving at the Valuation of the Target Group.

Regarding the non-operating liabilities, the aggregate non-operating liabilities are amounted to approximately US$10.4 million as at 31 March 2018, which comprised (a) a Seller's loan to the Target Group of US$1.5 million; (b) a payable to a related company (jointly owned by the Seller and the Warrantor) (the "**Vendor A**") of approximately US$4.4 million; and (c) a payable to an independent supplier but was guaranteed by the Seller (the "**Vendor B**") of approximately US$4.5 million. The payables to Vendor A and Vendor B were presented as "accounts payable, trade" respectively, and the shareholder's loan was presented as "accrued expenses and other current liabilities", under the unaudited consolidated statement of financial position of the Target Group as at 31 March 2018. Despite the non-operating liabilities are "current liabilities" under the balance sheet, given the shareholder's loan does not have a fixed term of repayment and the payments to Vendor A and Vendor B are either owned by the Seller and the Warrantor or guaranteed by the Seller, there is no (or de facto no) fixed term of repayment, we concur that such amounts are non-operating liabilities.

It is in our opinion the above considerations and adjustments are appropriate in arriving the Valuation.

For details of the Valuation, please refer to the Valuation Report in Appendix I to the Circular.

In light of the below-average Forward PER of the Target Company and the appropriate adjustments made as stated hereinabove, based on the assumptions adopted by Independent Valuer, we agree with the Independent Valuer on the Valuation.

Having considered the above, we are of the opinion that the Valuation is fair and reasonable so far as the Independent Shareholders are concerned. Given the Consideration is substantially the same as the Valuation, we are also of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

### 6. Reasons for and benefits of the Acquisition

With reference to the letter from the Board and the 2017 Annual Report, the Board is of the opinion that the entering of the Sale and Purchase Agreement is considered to be in the interests of the Company due to the synergy effects from the Target Company's well-establish sales network, particularly when the Group is transforming from an OEM production factory to an international enterprise that integrates self-owned brand design, production and wholesale and retail business. In FY2017, the Group opened two retail flagship stores in Hong Kong and Shanghai respectively with strong marketing and brand promotion in order to build up the brand "Morrisofa" in higher-end market. The Acquisition of the Target Company can further enhance the retail business by expanding its sales network from China and Hong Kong to U.S. with the solid distribution network in eastern part of the U.S and promoting the Group's self-branded products.

In order to get a better grasp of the furniture market in the U.S., we have conducted our own independent research through publicly available information:

*(i) Increasing new home sales and monthly new residential construction*

According to the US Census Bureau, the upward new home sales trend has lasted at least for 5 years and the number of new houses sold was 689,000 in May 2018, which is increased by approximately 6.7% month-over-month ("**MoM**") and 14.1% year-over-year ("**YoY**"). Retail furniture sales are likely to keep prosperous as the US Census Bureau also indicates growth in new residential construction. The average increases in three indicators for new residential construction, which are the number of building permits, that of housing starts and that of housing completions, are approximately 13% YoY. As a result, the demand in domestic furniture market is likely to maintain in the near future.

*(ii) Growth in U.S. economy*

According to the Bureau of Economic Analysis, the US real GDP increased by 2.8% quarter-over-quarter ("**QoQ**") in the second quarter of 2018 and the QoQ growths of real GDP have been readily over 2% for 5 consecutive quarters. Other macroeconomic indicators also support the healthy US economy, such as the monthly disposable personal incomes remain positive in 2018 and the unemployment rate in 2017 has reached the lowest point at 4.4% since 2001. Benefiting from the prosperity of the overall US economy, domestic demand in retail furniture is likely to persist.

*(iii) Potential positive economic impacts from Tax Cuts and Jobs Act in 2017*

In December 2017, the US Congress passed a tax bill to lower cost of capital through the reform of both individual income and corporate income taxes, which in turn spurs local economic growth. Of individual income tax, while the current seven bracket structure remains, some marginal rates become lower, such as the top one is dropped from 39.6% to 37%. Similarly, local corporate income tax rate is reduced from a maximum tax rate to 21%. According to the Tax Foundation, the Tax Cuts and Jobs Act would boost wages by 1.5% and capital stocks by 4.8%, resulting in approximately 330,000 additional fulltime equivalent jobs. In addition, since the Target Company is incorporated and operating in the U.S., the corporate income tax cut would enjoy the reduction of the income tax to be paid by the Target Company for the financial year ending 2018.

Having considered (i) the Acquisition could create synergy effects with existing business of the Group; (ii) the Group is transforming from an OEM production factory to an OBM business model; (iii) the new home sale in the U.S. is demonstrating an upward trend and the demand in domestic furniture market is likely to maintain in the near future; (iv) the growth in U.S. economy; and (v) potential positive impacts from Tax Cuts and Jobs Act in 2017, we are of the view that the Acquisition is in the ordinary course of business of the Group, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

### 7. Continuing Connected Transactions

On 1 January 2016, Mstar International Trading (HK) Limited, an indirect wholly owned subsidiary of the Company, entered into a sales agreement with the Target Company (the "**CCT Agreement**"), pursuant to which the Group agreed to supply sofas to the Target Company. The CCT Agreement constitutes continuing connected transactions under Chapter 14A of the Listing Rules. Pursuant to the annual report of the Company for the FY2017, the sales amounts under the CCT Agreement for the 2 years ended 31 December 2017 and 2016 were approximately RMB27,009,000 and RMB30,495,000 respectively.

Pursuant to the terms of the CCT Agreement, the CCT Agreement is valid until either (i) the expiry of a period of three years from the date of the CCT Agreement or (ii) the date on which the Target Company ceases to be a connected person of the Company pursuant to the Listing Rules, whichever comes earlier. Both parties to the agreement may negotiate to extend the agreement for a further term of three years within two months before the expiry of the three-year term of the agreement unless the agreement is terminated due to the fact that the Target Company ceased to be a connected person of the Company pursuant to the Listing Rules.

Upon Completion, the Target Group will become a subsidiary of the Company. As a result, the CCT Agreement will be terminated accordingly. Despite the Company indicated that the terms of the CCT Agreements are fair and reasonable and are in the ordinary and usual course of business of the Company, it is in our opinion that it nevertheless posts a potential conflict of interest within the Company. Upon Completion, given that the CCT Agreement would be terminated, the relevant potential conflict of interest is hereby removed, and therefore it is in the interests of the Independent Shareholders and the Company as a whole.

### 8. Possible financial effects of the Equity Acquisition

With reference to the letter from the Board, upon completion of the Acquisition, the Group will hold the entire equity interest of the Target Company and the Target Company will become a direct subsidiary of the Company. As confirmed by the Directors, the financial results of the Target Company will be consolidated into the financial statements of the Group.

*(i) Earnings*

As stated in the section "1. Information of the Group" above, the revenue and the net profit of the Company for the FY2017 was approximately RMB1,199.7 million and RMB159.9 million, respectively. According to the section "3. Information of the Target Group", the revenue and the net loss of the Target Company is approximately US$38.0 million and US$2.0 million, respectively (equivalent to approximately RMB247.0 million and RMB13.0 million, respectively). Upon Completion, it is presumed that the revenue and the net profit of the Enlarged Group would be approximately RMB1,446.7 million and RMB146.9 million, respectively, as calculated by adding up the two.

*(ii) Net asset value*

As stated in the section "1. Information of the Group" above, the net asset value of the Company for the FY2017 was approximately RMB382.8 million. According to the section "3. Information of the Target Group", the net liabilities of the Target Company is approximately US$7.9 million (equivalent to approximately RMB51.4 million). Upon completion, it is presumed that the net asset value of the Enlarged Group would be approximately RMB331.3 million, as calculated by adding up the two.

*(iii) Cash flow*

As stated in the section "The Sale and Purchase Agreement — Consideration" of letter from the Board, the total Consideration is US$35 million for all the issued and outstanding common stock of the Target Company. The Company shall have right to pay the Consideration in any number of instalment and in any amount per instalment (subject to the details in the same section) at its absolute discretion during the Payment Period, provided that the Company shall be obliged to pay all outstanding amount of the Consideration to the Seller on the expiration date of the Payment Period. According to the FY2017 financial statements in the Company's annual report 2017, the cash and cash equivalents are equal to approximately RMB26.2 million.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the Completion.

## RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that:

(i) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable;

(ii) the Valuation and the Consideration are fair and reasonable;

(iii) the Acquisition allows the Group to expand into retail sector in the U.S. which will provide new business opportunity; and

(iv) it will effectively terminate the CCT Agreement which in turn avoid any potential conflict of interest,

the Sale and Purchase Agreement and the Acquisition are in the ordinary and usual course of business, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Although the Acquisition would reduce net asset value of the Enlarged Group upon completion, we are of the view that due to (i) the Acquisition provides upside potential in profits after Completion as discussed in the section "6. Reasons for and benefits of the Acquisition" above, which would in turn boost up the net asset value; (ii) the net liabilities incurred by the Target Company do not cause a significant impact on the financial position of the Enlarged Group and post no liquidity issue to the Group; and (iii) the Profit Guarantee Payment will be paid to the Company in the case that the Target Company fails to fulfil the average guaranteed profit of US$3 million in FY2019 and FY2020, and there is also a put option right granted to the Company such that the seller shall become bound to buy the Repurchase Shares at the Exit Price, which is the Consideration. As a result, we consider that the Acquisition is fair and reasonable given the potential upside but limited downside.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
for and on behalf of
**HOORAY CAPITAL LIMITED**
**Simon Ng**
*Director*

*Mr. Simon Ng is a licensed person under the SFO to engage in, among others, Type 6 (advising on corporate finance) regulated activity and has over 17 years of experience in investment banking and corporate finance.*

*Exchange rate US$1 = RMB6.5*

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14 August 2018

**Morris Holdings Limited**
Unit 6707, 67/F, The Center,
99 Queen's Road Central,
Hong Kong

Dear Sir/Madam,

**Re: Business Valuation of 100% Equity Interest in Jennifer Convertibles Inc.**

In accordance with the instructions from Morris Holdings Limited (hereinafter referred to as the "**Company**"), we have conducted a business valuation of 100% equity interest in Jennifer Convertibles Inc. and its subsidiaries (together referred to as the "**Target Group**"). We are pleased to report that we have made relevant enquiries and obtained other information which we considered relevant for the purpose of providing our valuation as at 31 March 2018 (hereinafter referred to as the "**Date of Valuation**").

This report states the purpose of valuation, scope of work, economic and industry overviews, an overview of the Target Group, basis of valuation, investigation, valuation methodology, major assumptions, information reviewed, limiting conditions, remarks and presents our opinion of value.

## 1. PURPOSE OF VALUATION

This report is prepared solely for the use of the directors and management of the Company. The Company is a public company listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 1575.HK). In addition, Roma Appraisals Limited (hereinafter referred to as "**Roma Appraisals**") acknowledges that this report may be made available to the Company for public documentation purpose only.

Roma Appraisals assumes no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely at their own risk.

## 2. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and information provided by the management of the Company, the management of the Target Group and/or their representative(s) (together referred to as the "**Management**").

In preparing this report, we have had discussions with the Management in relation to the development, operations and other relevant information of the Target Group. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Group as provided by the Management to a considerable extent.

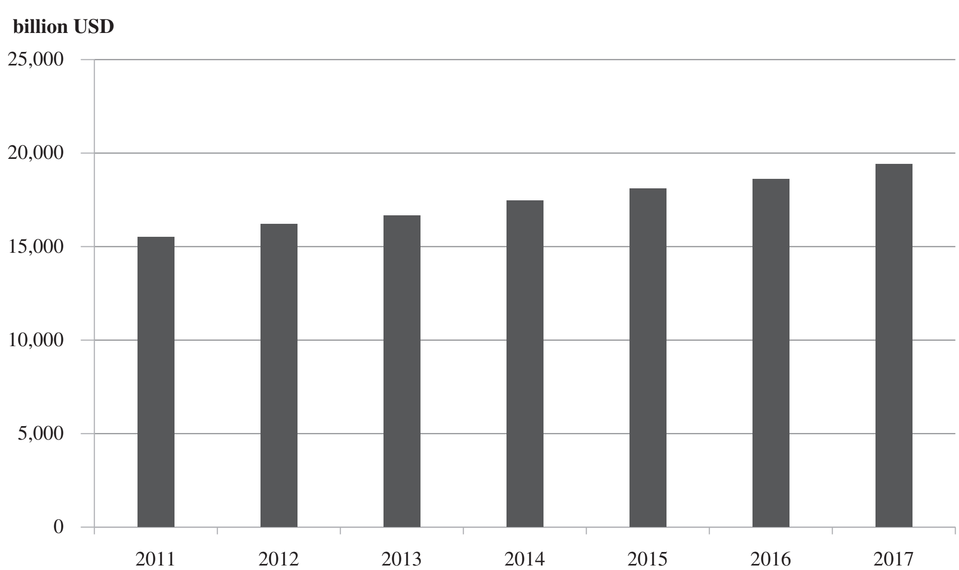
We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or a more extensive examination might disclose.

## 3. ECONOMIC OVERVIEW

### 3.1 Overview of the Economy in the United States

The United States is by far the world's largest economy. According to the United States Bureau of Economic Analysis, nominal gross domestic product ("**GDP**") showed a steady increase from USD15.5 trillion in 2011 to USD19.4 trillion in 2017. Despite the financial crisis broken out in late 2008, which affected the economy domestically and globally, the United States maintained a steady annual nominal GDP growth of approximately 3.8% between 2011 and 2017. Figure 1 shows the nominal GDP of the United States from 2011 to 2017.

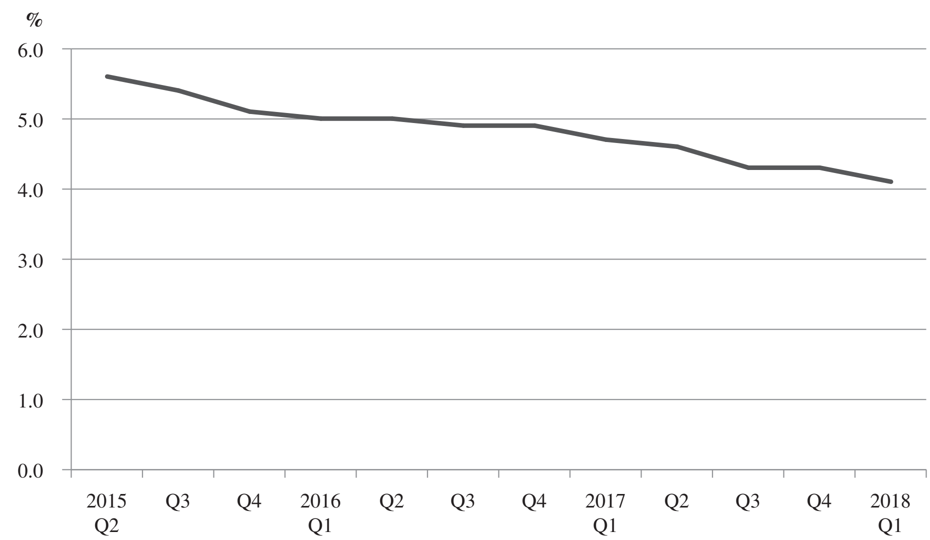
**Figure 1 — Nominal GDP of the United States from 2011 to 2017**




*Source: United States Bureau of Economic Analysis*

The economic recovery has gained momentum since 2010, with a moderate increase in the employment rate. Compared to the unemployment rate in the second quarter of 2015, the figure declined by 1.5% and amounted to 4.1% in first quarter of 2018. Figure 2 shows the unemployment rate of the United States from the second quarter of 2015 to the first quarter of 2018.

**Figure 2 — Unemployment Rate of the United States from the Second Quarter of 2015 to the First Quarter of 2018**



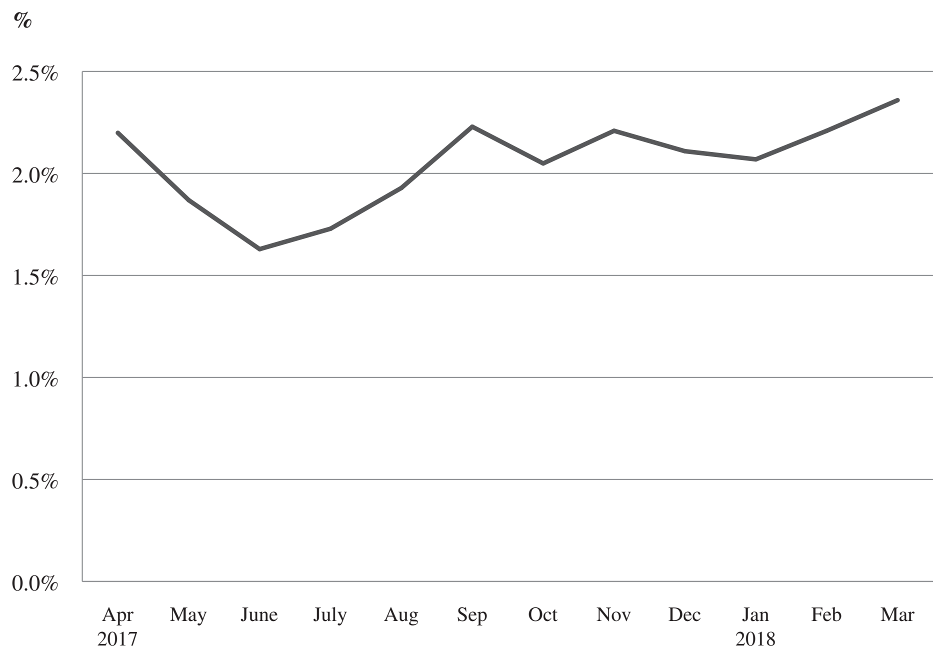

*Source: United States Bureau of Labor Statistics*

### 3.2 Inflation in the United States

According to the United States Bureau of Labor Statistics, the consumer price index ("**CPI**") for all urban consumers remained at around 1.6% to 2.7% in 2017.

The inflation rate was relatively stable in the 12 months trailing the Date of Valuation. The inflation rate fluctuated between 1.6% and 2.4% during the period. Figure 3 illustrates the year-over-year ("**YoY**") change in CPI of the United States from April 2017 to March 2018.

**Figure 3 — Year-over-year Change in CPI of the United States from April 2017 to March 2018**



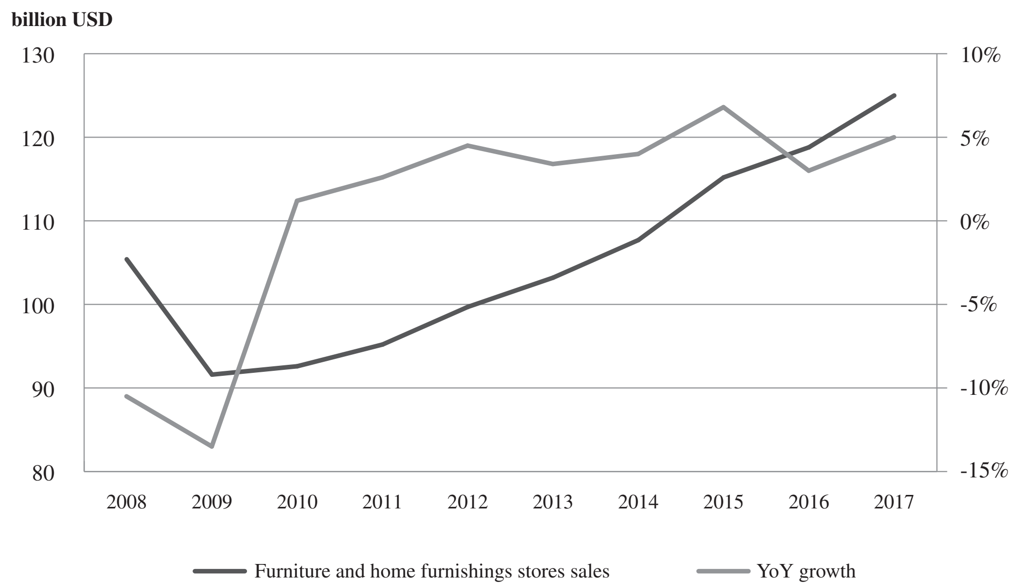

*Source: United States Bureau of Labor Statistics*

## 4. INDUSTRY OVERVIEW

### 4.1 Furniture and Home Furnishing Stores Market in the United States

According to the Bureau of Economic Analysis under the United States Department of Commerce, furniture and home furnishing stores in the United States suffered a decline in sales from 2006 to 2009. Sales figure dipped from USD120 billion to USD92 billion during the period. The business sector has been on a trend to recovery since 2009. From 2009 to 2017, the sales of furniture and home furnishing stores in the United States escalated from USD92 billion to USD126 billion, representing a cumulative annual growth rate of approximately 4%. Figure 4 illustrates the furniture and home furnishings stores sales and its year-over-year growth in the United States from 2008 to 2017.

**Figure 4 — Furniture and Home Furnishings Stores Sales and its Year-over-year Growth in the United States from 2008 to 2017**

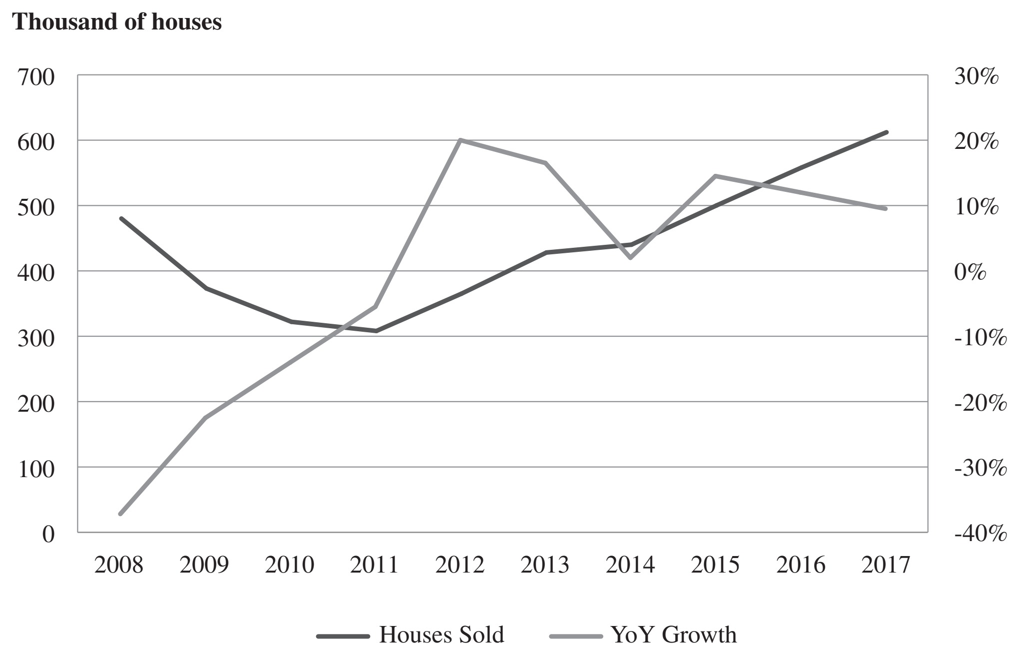



*Source: Bureau of Economic Analysis, United States Department of Commerce*

### 4.2 House Sales in the United States

According to the United States Census Bureau, the house sales in the United States plummeted during the financial crisis, experiencing an approximately 71% decline from 1 million units in 2006 to 306 thousand units in 2011. The house sales market regained its momentum shortly after and has been growing steadily since 2011. 613 thousand housing units were sold in 2017, representing an over 12% cumulative annual growth rate since the trough in 2011. The booming housing market would result in strong demand for furniture and home furnishings. Figure 5 illustrates the houses sold and year-over-year growth in the United States from 2008 to 2017.

**Figure 5 — Houses Sold and its Year-over-Year growth in the United States from 2008 to 2017**

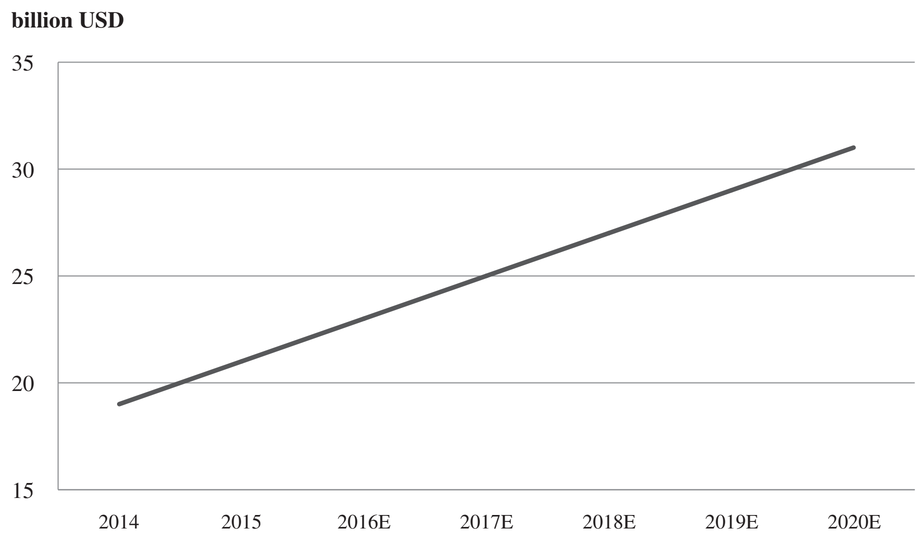



*Source: United States Census Bureau*

### 4.3 E-commerce of Furniture and Homewares in the United States

According to Fung Global Retail & Technology, furniture and homewares e-commerce in the United States stood at around USD19 billion in 2014. The revenue is expected to escalate to around USD31 billion in 2020, marking a cumulative annual growth rate of approximately 8.5%. Figure 6 illustrates the e-commerce furniture and homewares sales in the United States from 2014 to 2020 (estimate).

**Figure 6 — E-commerce Furniture and Homewares Sales in the United States from 2014 to 2020 (Estimate)**




*Source: Fung Global Retail & Technology*

The share of furniture store sales in the United States declined from 58.0% in 2012 to 55.7% in 2016 while the share of e-commerce grew from 7.6% to 11.7% in the same period. The trend is expected to continue and e-commerce furniture sales to gain importance.

## 5. OVERVIEW OF THE TARGET GROUP

The Target Group was incorporated in 1986 and is principally engaged in the retail business of sale of a complete line of furniture products and home furnishings in the eastern part of the United States. As at the date of the circular, it operated 17 retail outlets in the eastern part of the United States.

## 6. BASIS OF VALUATION

**Fair value** is defined as ''the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date''.

## 7. INVESTIGATION

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Target Group. In addition, we have made relevant inquiries and obtained further information and statistical figures regarding the economy and the industry the Target Group is participating as we considered necessary for the purpose of the valuation.

We have had discussions with the Management in relation to the development, operations and other relevant information of the Target Group. We have also consulted other sources of financial and business information. In arriving at our opinion of value, we have relied on the completeness, accuracy and representation of operational, financial and other pertinent data and information of the Target Group as provided by the Management to a considerable extent.

The valuation of the Target Group requires consideration of all pertinent factors, which may or may not affect the operation of the business and the ability to generate future investment returns. The factors considered in our valuation include, but are not necessarily limited to, the following:

- The nature and prospect of the Target Group;
- The financial condition of the Target Group;
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market;
- The business risks of the Target Group such as the ability in maintaining competent technical and professional personnel; and
- Investment returns of entities engaged in similar lines of business.

## 8. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the fair value of the Target Group, namely the Market-Based Approach, Income-Based Approach and Asset-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

### 8.1 Market-Based Approach

The Market-Based Approach values a business entity by comparing prices at which other business entities in a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication of prices of other similar business entities that have been sold recently.

The right transactions employed in analyzing indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

### 8.2 Income-Based Approach

The Income-Based Approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present value using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

### 8.3 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital ("**equity and long term debt**"). Under the Asset-Based Approach, the fair value of equity of a business entity/group refers to the fair values of various assets and liabilities on the statement of financial position of the business entity/group as at the measurement date, in which the fair value of each asset and liability was determined by reasonable valuation approaches based on its nature.

### 8.4 Business Valuation

In the process of valuing the Target Group, we have taken into account of the operation related to the nature of the industry it is participating.

The Income-Based Approach was not adopted because a lot of assumptions would have to be made and the valuation could be largely influenced by any inappropriate assumptions made. The Asset-Based Approach was also not adopted because it could not capture the future earning potential of the Target Group and therefore it could not reflect the fair value of the Target Group. We have therefore considered the adoption of the Market-Based Approach in arriving at the fair value of the Target Group.

#### *8.4.1 Forward P/E Multiple*

By adopting the guideline public company method under the Market-Based Approach, we have to determine the appropriate valuation multiples of comparable companies, in which we have considered price-to-sales ("**P/S**"), price-to-earnings ("**P/E**"), price-to-book ("**P/B**") and forward price-to-earnings ("**forward P/E**") multiples. The P/S multiple was not adopted since it cannot capture the differences in cost structure across companies. P/B multiple was not adopted because it cannot reflect the true value of companies which do not possess significant fixed assets. P/E multiple was not used because the net profit of the Target Group was negative in the trailing 12 months from the Date of Valuation. Therefore, we have considered the forward P/E multiple in the valuation for the Target Group.

The Income-Based Approach requires forecasting multiple years (usually around 5 years) of cash flows which involves more assumptions than that of the guideline public company method with forward P/E multiple, which only requires the projected earnings in 2019 in this valuation. Hence, less uncertainty is involved in the guideline public company method with forward P/E multiple and we considered it is more preferable.

Guideline public company method with P/E multiple under Market-Based Approach is a common valuation approach in which the earnings has to be at a sustainable level in order to yield a valid conclusion. As advised by the Management, the Target Group would undergo a change in business strategy which would affect the earnings of the Target Group in the long run; hence, the trailing 12 month earnings may not represent its sustainable earnings. Therefore, the projected earnings in 2019, which reflects the long-term sustainable earnings of the Target Group, and hence the forward P/E multiple, was adopted in the valuation of the Target Group.

We adopted several listed companies with business scopes and operations similar to those of the Target Group as comparable companies. To the best of our knowledge and according to the selection criteria as stated below, the shortlisted comparable companies are exhaustive. The comparable companies were selected mainly with reference to the following selection criteria:

- The companies were principally engaged in operating furniture retail stores. Due to scarcity of comparable companies with over 90% of revenue related to furniture retail business, we have expanded our selection criteria to companies of which the revenue from furniture retail business is the largest segment;
- The companies have major operating segment in the United States;
- The companies had sufficient listing and operating histories; and
- The financial information (including the forward earnings in year 2019) of the companies was available to the public.

Details of the comparable companies adopted were listed as follows:

| Company Name | Stock Code | Listing Location | Business Description |
|---|---|---|---|
| Big Lots Incorporated | BIG.US | United States | The company is a broad line closeout retailer that operates stores across the United States. The company's stores offer an assortment of merchandise, including consumables, seasonal products, furniture, housewares, toys, and gifts. |
| At Home Group Incorporated | HOME.US | United States | The company owns and operates home decor stores. The company offers furniture, home furnishings, wall decor and decorative accents, rugs, and housewares. The company serves customers throughout the United States. |
| Conn's Incorporated | CONN.US | United States | The company is a specialty retailer of consumer goods and related services. The company offers various products including furniture, specialty mattresses, home appliances, consumer electronics, and home office products through both brick-and-mortar and online retail stores. The company owns and operates stores throughout the United States. |
| Haverty Furniture Companies, Incorporated | HVT.US | United States | The company sells home furnishing products. The company offers bookcases, office chairs, file cabinets, lamps, pillows, mirrors, chests, display cabinets, and tables. The company markets its products worldwide. |

| Company Name | Stock Code | Listing Location | Business Description |
|---|---|---|---|
| RH | RH.US | United States | The company distributes home furnishing products. The company offers products such as furniture, lighting, textiles, bathware, decor, outdoor, and garden, as well as baby and child products. The company distributes its products through retail stores, catalogs, and websites. |

*Source: Bloomberg*

We have adopted the market practice to consider mainly the business natures (i.e. revenue source and geographic segment) in the comparable companies' selection process. The comparability of the magnitude of earnings, revenue and asset scale, would come in second especially the number of comparable companies is limited. In our comparable companies' selection process, we have adopted publicly listed companies which are mainly engaged in furniture retail business in the United States with financial information (including the forward earnings in year 2019) available to the public. According to the aforementioned selection criteria and under best-effort basis, we are of the opinion that it is fair and representative to adopt the following comparable companies in the valuation.

The financial information of the comparable companies is listed below:

| Company Name | Stock Code | 2019 Forward Earnings Per Share *(USD)* | Revenue as at 31 March 2018 *(USD million)* | Net Asset Value as at 31 March 2018 *(USD million)* | Percentage of Revenue Related to Furniture Retail Business *(%)* |
|---|---|---|---|---|---|
| Big Lots Incorporated | BIG.US | 4.924 | 5,270 | 15.971 | 38.45 |
| At Home Group Incorporated | HOME.US | 1.520 | 951 | 9.620 | 96 |
| Conn's Incorporated | CONN.US | 2.985 | 1,516 | 17.021 | 39.78 |
| Haverty Furniture Companies, Incorporated | HVT.US | 1.413 | 819 | 13.974 | 100 |
| RH | RH.US | 7.564 | 2,440 | (0.341) | 100 |

*Source: Bloomberg*

Gathered and computed by Bloomberg, the estimated earnings of the comparable companies represent the average of the estimated values of analyst recommendations.

As the forecasted earnings of the Target Group and comparable companies are of comparable period (year ending 31 December 2019 or 31 January 2020), and both represent the forecasted financial net profit, the basis is consistent.

The forward P/E multiples of the aforementioned comparable companies were listed as follows:

| **Company Name** | **Stock Code** | **Forward P/E Multiple** |
|---|---|---|
| Big Lots Incorporated | BIG.US | 8.78 |
| At Home Group Incorporated | HOME.US | 21.08 |
| Conn's Incorporated | CONN.US | 11.39 |
| Haverty Furniture Companies Incorporated | HVT.US | 14.13 |
| RH | RH.US | 12.60 |
| **Average** | | **13.60** |

*Source: Bloomberg*

We noted a higher forward P/E multiple for At Home Group Incorporated comparing to other comparable companies. According to Bloomberg, the current year earnings was at a similar level comparing to the past year, while the historical P/E multiple of At Home Group Incorporated has fluctuated above the forward P/E multiple of 21.08x for the past year. The high historical P/E multiple was due to the increasing share price of At Home Group Incorporated since 2017.

The forward P/E multiple of 21.08x is conservative relative to the historical P/E multiple of At Home Group Incorporated. At Home Group Incorporated met the selection criteria of comparable companies and its financial information was readily available to the public. We did not note any major anomaly regarding the share price and earnings of At Home Group Incorporated that disqualifies it as a comparable company, hence it is reasonable to include it in the calculation of the applicable forward P/E multiple.

The forward P/E multiple adopted was the average of the forward P/E multiples of the above comparable companies as at the Date of Valuation as extracted from Bloomberg. Then, we obtained the fair value of the Target Group before adjustment of non-operating assets/(liabilities) by applying the average forward P/E multiple to the forward 12-month earnings of the Target Group ending 31 December 2019 (hereinafter referred to as the "**Forward 12-Month Earnings**") of USD3,045,029 projected by the Management, which meets the guaranteed profit for the year ending 31 December 2019. The fair value of the Target Group was arrived by adjusting with the control premium, adding the non-operating assets/(liabilities) of (USD10,428,068) and adjusting with the marketability discount.

### *8.4.2 Forward 12-Month Earnings and Forecast Assumptions of The Target Group*

The following assumptions were estimated by the Management.

*8.4.2.1 Business Model and Status*

The primary revenue source of the Target Group is furniture retail income from brick-and-mortar stores and web stores in the United States.

For the year ended 31 December 2017, the Target Group has 19 brick-and-mortar stores, which comprised of (i) 14 operating shops ("Operating Shops") and (ii) 5 shops to be closed for the year ending 31 December 2018 ("Shops to be Closed"). Based on the business plan of the Target Group as provided by the Management, the number of Operating Shops would increase from 14 for the year ended 31 December 2017 to 20 for the year ending 31 December 2019.

*8.4.2.2 Profit and Loss Forecast*

| **Year Ending 31 December 2019** | | **Brick-and-mortar stores** | **Web stores** | **Total** |
|---|---|---|---|---|
| Number of Operating Shops *(Note 1)* | | 20 | / | |
| Average revenue per shop *(Note 2)* | USD'000 | 2,080 | / | |
| Rent cost per shop *(Note 3)* | USD'000 | 262 | / | |
| Administrative cost per shop *(Note 4)* | USD'000 | 237 | / | |
| **Total Revenue** *(Note 5)* | **USD'000** | **41,592** | **3,546** | **45,138** |
| Less: Cost of sales *(Note 6)* | USD'000 | 23,349 | 2,306 | 25,655 |
| Purchase cost of products *(Note 7)* | USD'000 | 19,980 | 2,110 | 22,090 |
| Warehouse expenses *(Note 8)* | USD'000 | 2,060 | 196 | 2,256 |
| Rent cost (for warehousing) *(Note 9)* | USD'000 | 1,309 | 0 | 1,309 |
| **Gross Profit** | USD'000 | 18,243 | 1,240 | 19,482 |
| Less: Rent cost (non warehousing) *(Note 9)* | USD'000 | 3,927 | 0 | 3,927 |
| Less: Selling and distribution expenses *(Note 8)* | USD'000 | 5,935 | 289 | 6,224 |
| Less: Administrative cost *(Note 10)* | USD'000 | 4,736 | 717 | 5,453 |
| Less: Depreciation | USD'000 | 23 | 0 | 23 |
| **Profit before tax** | **USD'000** | **3,621** | **233** | **3,854** |
| Less: Income tax expense *(Note 11)* | 21% | 760 | 49 | 809 |
| **Profit after tax** | **USD'000** | **2,861** | **184** | **3,045** |

*Note:* Figures may not exactly add up to rounding.

*Note 1:* The number of Operating Shops was based on the business plan of the Target Group as provided by the Management.

*Note 2:* The average revenue per shop for the year ending 31 December 2019 was estimated based on the actual revenue per Operating Shops for the year ended 31 December 2017, growing at an annual rate of 4.8% with reference to that of the comparable companies for the year ended 31 December 2017.

*Note 3:* The rent cost per shop for the year ending 31 December 2019 was estimated based on the actual rent cost per Operating Shops and Shops to be Closed for the year ended 31 December 2017, growing at an annual rate of 10% for the year ending 31 December 2018 and inflation rate of the United States of 2.25% as forecasted by International Monetary Fund for the year ending 31 December 2019.

*Note 4:* The administrative cost per shop for the year ending 31 December 2019 was estimated based on the actual administrative cost per Operating Shops and Shops to be Closed for the year ended 31 December 2017, growing at inflation rate of the United States of 2.57% and 2.25% as forecasted by International Monetary Fund for the years ending 31 December 2018 and 2019, respectively.

*Note 5:* Regarding brick-and-mortar stores, the revenue for the year ending 31 December 2019 was projected by multiplying the average revenue per shop by the number of Operating Shops for the year ending 31 December 2019. Regarding web stores, total revenue for the year ending 31 December 2019 was estimated based on the actual revenue for the year ended 31 December 2017, growing at an annual rate of 7.6%, which is the growth rate of e-commerce furniture and homewares revenues in the United States extracted from Deep Dive: Global Furniture and Homewares E-Commerce published by Fung Global Retail & Technology on 14 September 2016. We noted that there was a newer version of the research published on 26 September 2017. However, the growth rate of e-commerce furniture and homewares revenues in the United States was not available in the latest publication, hence we have adopted the latest available data extracted from the publication on 14 September 2016.

Fung Global Retail & Technology (now known as Coresight Research) conducts research and analysis and publishes in-depth reports, market overviews, daily news flashes, earnings analyses, profiles of startups and on-the-scene reports from key industry events.

*Note 6:* Costs of sales consist of purchase cost of products, warehouse expenses and rent cost (for warehousing). As advised by the Management, 25% of the floor area of brick-and-mortar stores are used for warehousing purpose. In light of the above, 25% of the total rent cost was allocated to cost of sales.

*Note 7:* Regarding brick-and-mortar stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be the weighted average of the gross margin (excluding warehouse expenses and warehousing related rent cost) of products with lower and higher margins with reference to historical sales data. According to the Management, the weighting of products with higher gross margin (excluding warehouse expenses and warehousing related rent cost) is assumed to be 35% and 45% for the years ending 31 December 2018 and 2019 respectively. Regarding web stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be constant throughout years ending 31 December 2017 to 2019.

*Note 8:* The warehouse expenses and selling and distribution expenses for the year ending 31 December 2019 were estimated with reference to the actual warehouse expenses and selling and distribution expenses as % of cost of sales for the year ended 31 December 2017.

*Note 9:* The total rent cost for the year ending 31 December 2019 was arrived by multiplying the rent cost per shop by the number of Operating Shops, in which 25% of the rent cost was allocated to cost of sales referring to Note 6.

*Note 10:* Regarding brick-and-mortar stores, the administrative cost for the year ending 31 December 2019 was arrived by multiplying the administrative cost per shop by the number of Operating Shops. Regarding web stores, the administrative expenses were assumed to grow at inflation rate of the United States of 2.25% as forecasted by International Monetary Fund for the years ending 31 December 2018 and 2019.

*Note 11:* As advised by the Management, the effective corporate tax rate has become flat at 21% according to Tax Cuts and Jobs Act since 20 December 2017.

The forecasted earnings for the year ending 31 December 2019 of approximately USD3,045,000 was the sum of forecasted earnings of brick-and-mortar stores and web stores for the year ending 31 December 2019.

8.4.2.3 *Valuer's Assessments*

We understand that the average revenue per shop, cost of sales, administrative costs and rent cost per shop are projected by the Management with reference to historical figures, which we consider a common approach for estimation. The expected number of shops and expected contribution to the Target Group's sales are set in accordance to Management's business and future marketing strategies.

The table below further showed our assessments to certain major assumptions adopted in the projection for the valuation:

| **Valuation item** | **Note** | **Our assessment** |
|---|---|---|
| Average revenue growth per shop | The average revenue per shop for the year ending 31 December 2019 was estimated based on the actual revenue per Operating Shop for the year ended 31 December 2017, growing at an annual rate of 4.8% with reference to that of the comparable companies. | The estimation was made reference to historical performance of the Target Group and comparable companies, we deem the referencing to be reasonable. |

| Valuation item | Note | Our assessment |
|---|---|---|
| The forecasted weighted average figure of gross profit margin for FY 2019 and relevant assumptions | The gross profit (excluding warehouse expenses and warehousing related rent cost) was arrived by multiplying the revenue by the expected gross margin. Regarding brick-and-mortar stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be the weighted average of gross margins of products with lower and higher gross margins with reference to historical sales data. According to the Management, the weighting of products with higher gross margin (excluding warehouse expenses and warehousing related rent cost) is assumed to be 35% and 45% for the years ending 31 December 2018 and 2019 respectively. Regarding web stores, the gross margin (excluding warehouse expenses and warehousing related rent cost) was assumed to be constant throughout years ending December 2017 to 2019. | The forecast was made reference to historical performance and the intention of the Target Group which we deem the basis to be reasonable. |

| Valuation item | Note | Our assessment |
|---|---|---|
| Revenue growth rate assumptions of brick-and-mortar stores and web stores | Regarding brick-and-mortar stores, the revenue for the year ending December 2019 was projected by multiplying the average revenue per shop by the number of Operating Shops for the year ending December 2019. The average revenue per shop for the year ending 31 December 2019 was estimated based on the actual revenue per Operating Shop for the year ended 31 December 2017, growing at an annual rate of 4.8% with reference to that of the comparable companies for the year ended 31 December 2017. Regarding web stores, total revenue for the year ending 31 December 2019 was estimated based on the actual revenue for the year ended December 2017, growing at an annual rate of 7.6%, which is the latest available growth rate of e-commerce furniture and homewares revenues in the United States published by Fung Global Retail & Technology. | The forecast was made reference to historical performance of the Target Group, historical revenue growth rate of comparable companies and the publication Deep Dive: Global Furniture and Homewares E-Commerce published by Fung Global Retail & Technology on 14 September 2016. We deem the basis to be reasonable. |

| Valuation item | Note | Our assessment |
|---|---|---|
| Rent cost growth | The rent cost for the year ending 31 December 2019 was arrived by multiplying the rent cost per shop by the number of Operating Shops. The rent cost per shop for the year ending 31 December 2019 was estimated based on the actual rent cost per Operating Shops and Shops to be Closed for the year ended 31 December 2017, growing at an annual rate of 10% for the year ending 31 December 2018 and inflation rate of the United States of 2.25% as forecasted by International Monetary Fund for the year ending 31 December 2019. | Noted the Target Group's plan and the Management has prepared a budget for rental expense to increase by 10% in the year ending 31 December 2018 based on the Management's experience and judgement, since the better location's rent cost will be at a premium than the under-performing store location. We deem the rationale to be reasonable. |

*8.4.3 Marketability Discount and Control Premium*

Compared to similar interest in public companies, ownership interest is not readily marketable for closely held companies. Therefore, the value of a share of stock in a privately held company is usually less than an otherwise comparable share in a publicly held company. With reference to the result of the restricted stock study published in "Stout Restricted Stock Study 2018" by Stout Risius Ross, LLC, a discount for lack of marketability of 15.90% was adopted in arriving at the fair value of the Target Group as at the Date of Valuation.

In addition, as we are considering the value of the Target Group from the perspective of controlling interest, a control premium of 26.00% has been adopted to reflect the higher marketability of a controlling interest compared to a minority interest with reference to the Mergerstat Control Premium Study (4th Quarter 2017), by FactSet Mergerstat, LLC.

*8.4.4 Calculation Details*

The calculation details of the Target Group using the forward P/E multiple were illustrated as follows:

| | |
|---|---|
| Forward 12-Month Earnings ending 31 December 2019 (USD) | 3,045,029 |
| Multiplied by: Average Forward P/E Multiple | 13.60 |
| **Fair Value before Applying Adjustments** | **41,398,138** |
| Adjustment of Control Premium | (1+26.00%) |
| **Fair Value after Applying Control Premium** | **52,161,654** |
| Adjusted for Non-Operating Assets/(Liabilities) | (10,428,068) |
| **Fair Value before Applying Marketability Discount** | **41,733,586** |
| Adjusted for Marketability Discount | (1–15.90%) |
| **Fair Value Obtained from Forward P/E Multiple (USD)** | **35,097,946** |
| **Fair Value on a Controlling Basis (Rounded) (USD)** | **35,100,000** |

*Note:* The total may not sum up due to rounding.

The non-operating liabilities consist of the long term payables to two vendors of approximately USD8,928,000 and the shareholder's loan of USD1,500,000. The long term payables to the two vendors have a longer payable turnover days as compared to other trade payables. Therefore it was considered as a long term liability that has to be adjusted in the valuation.

## 9. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The Target Group would be operated and developed as planned by the Management and the development would be in line with the financial projection;
- The valuation was mainly based on the projections of the future cash flows. The projections outlined in the financial information provided are assumed to be capable of reflecting future market conditions and economic fundamentals, and are assumed to be materialized;
- As advised by the Management, the total number of active shops of the Target Group shall be increased to 20 in year 2018. The number of shops was assumed to remain stable in year 2019;

- As advised by the Management, the projected average revenue per shop was based on the actual revenue per shop (excluding under-performing shops which are to be closed and one inactive shop) in the year ended 31 December 2017, growing at an annual rate of 4.8% with reference to that of comparable companies in years 2018 and 2019;

- As advised by the Management, the projected rent cost (including estimated 25% floor area for warehousing purpose) per shop was based on the actual rent cost per shop (including all active shops) in the year ended 31 December 2017. Rent cost per shop would increase by 10% for the year ending 31 December 2018 and at the rate of inflation in year 2019;

- As advised by the Management, administrative cost is expected to grow in line with the number of shops;

- As advised by the Management, warehousing expenses and selling and distribution expenses will grow at the same rate as purchase cost of products;

- As advised by the Management, the effective corporate tax rate has become flat 21% according to Tax Cuts and Jobs Act since 20 December 2017;

- As advised by the Management, the Target Group is expected to increase the proportion of sales of products with higher gross margin (excluding warehouse expenses and warehousing related rent cost);

- It was assumed that the Target Group could source its inventory with higher gross margin (excluding warehouse expenses and warehousing related rent cost) from the Company or other third party suppliers as planned by the Management;

- The latest gross margin (excluding warehouse expenses and warehousing related rent cost) of the Company's products, which contributed around 25% of the revenue of the Target Group for the year ended 31 December 2017, is higher than other third party's products. It was assumed that the Target Group would continue sourcing products with higher gross margin (excluding warehouse expenses and warehousing related rent cost) from either the Company or other third party such that the proportion of products with higher gross margin (excluding warehouse expenses and warehousing related rent cost) would increase by 10% each year until reaching 45% for the year ending 31 December 2019 as planned by the Management;

- Making reference to the gross margin (excluding warehouse expenses and warehousing related rent cost) of recent sales of the Company's products, the gross margin (excluding warehouse expenses and warehousing related rent cost) of products with higher gross margin (excluding warehouse expenses and warehousing related rent cost) is forecasted by the Management to increase to approximately 57% in the year ending 31 December 2019;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate were assumed to be successfully obtained and renewable upon expiry with minimal costs;

- There will be sufficient supply of technical staff in the industry in which the Target Group operates, and the Target Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments;

- There will be no major change in the current taxation laws in the localities in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major change in the political, legal, economic or financial conditions in the localities in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Group; and

- Interest rates and exchange rates in the localities for the operation of the Target Group will not differ materially from those presently prevailing.

## 10. INFORMATION REVIEWED

Our opinion requires consideration of relevant factors affecting the fair value of the Target Group. The factors considered included, but were not necessarily limited to, the following:

- The financial projection and development plan of the Target Group;

- The business nature of the Target Group;

- Unaudited management accounts of the Target Group;

- Historical information of the Target Group;

- Market trends of the furniture retail business;

- Economic outlook in the United States; and

- General descriptions in relation to the Target Group.

We have discussed the details with the Management on the information provided and assumed that such information is reasonable and reliable. We have assumed the accuracy of information provided and relied on such information to a considerable extent in arriving at our opinion of value.

## 11. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events or circumstances have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are assumed to be reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on the historical and/or prospective information provided by the Management and other third parties to a considerable extent in arriving at our opinion of value. The information has not been audited or compiled by us. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We would particularly point out that our valuation was based on the information such as the company background, business nature and financial information of the Target Group provided to us.

We assumed that the Management is competent and perform duties under the company regulation. Also, ownerships of the Target Group were in responsible hands, unless otherwise stated in this report. The quality of the Management may have direct impact on the viability of the businesses as well as the fair value of the Target Group.

We have not investigated the title to or any legal liabilities of the Target Group, and have assumed no responsibility for the title to the Target Group appraised.

Our conclusion of the fair value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The conclusion and various estimates may not be separated into parts, and/or used out of the context presented herein, and/or used together with any other valuation or study.

We assume no responsibility whatsoever to any person other than the directors and the Management in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely at their own risk.

No change to any item in any part of this report shall be made by anyone except Roma Appraisals. We have no responsibility for any such unauthorized change. Neither all nor any part of this report shall be disseminated to the public without the written consent and approval of Roma Appraisals through any means of communication or referenced in any publications, including but not limited to advertising, public relations, news or sales media.

This report may not be reproduced, in whole or in part, and utilized by any third parties for any purpose, without the written consent and approval of Roma Appraisals.

The working papers and models for this valuation are being kept in our files and would be available for further references. We would be available to support our valuation if required. The title of this report shall not pass to the Company until all professional fee has been paid in full.

## 12. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in United States Dollars (USD).

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Group and their associated companies, or the values reported herein.

## 13. OPINION OF VALUE

Based on the investigation stated above and on the valuation method employed, the fair value of 100% equity interest of the Target Group on a controlling basis as at the Date of Valuation, in our opinion, was reasonably stated as **USD35,100,000 (UNITED STATES DOLLARS THIRTY FIVE MILLION AND ONE HUNDRED THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
**Roma Appraisals Limited**

*The following is the text of the letter received by the Directors from the reporting accountants of our Company, Ernst & Young, prepared for the purpose of incorporation in this circular in connection with the forecast.*

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

14 August 2018

The Board of Directors
Morris Holdings Limited
Unit 6707, 67/F
The Center
99 Queen's Road Central
Hong Kong

Dear Sirs,

**REPORT FROM REPORTING ACCOUNTANTS ON FORECAST IN CONNECTION WITH THE VALUATION OF THE EQUITY INTERESTS IN JENNIFER CONVERTIBLES INC.**

We have been engaged to report on the arithmetical accuracy of the calculations of the forecast (the "Forecast") on which the valuation dated 14 August 2018 prepared by Roma Appraisals Limited in respect of the entire equity interest in Jennifer Convertibles Inc. and its subsidiaries (the "Target Group") as at 31 March 2018 is based. The valuation is set out in the circular of Morris Holdings Limited dated 14 August 2018 (the "Circular") in connection with the acquisition of the entire equity interests of the Target Group. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**Directors' responsibilities**

The directors of the Company (the "Directors") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "Assumptions"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section "Valuation" in the Letter from Board as included in the Circular.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' responsibilities**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised*) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Group. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you, as a body, as required by paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

14 August 2018

Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sirs,

**Re: Discloseable and connected transaction — Acquisition of all the issued and outstanding common stock of Jennifer Convertibles Inc.**

We refer to the valuation prepared by Roma Appraisals Limited (the "**Independent Valuer**") in relation to the valuation of Jennifer Convertibles Inc. (the "**Target Company**") as at 31 March 2018 (the "**Valuation**"). Unless the context otherwise requires, terms defined in the circular of Morris Holdings Limited dated 14 August 2018 (the "**Circular**") shall have the same meanings when used herein.

We have reviewed the forecast (the "**Forecast**") on which the Valuation is based, and have discussed the same with the Independent Valuer. We have also considered the report from Ernst & Young dated 14 August 2018 as set out in Appendix II to the Circular regarding the arithmetical accuracy of the Forecast on which the Valuation is based. The Valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

In accordance with the requirements under Rule 14.62(3) of the Listing Rules, we confirm that the Forecast have been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the board of directors of
**Morris Holdings Limited**
**Mr. Wu Yueming**
*Executive Director*

## 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 Group. 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

### (a) Disclosure of directors' and chief executive's interests and short positions in the Company

As at the Latest Practicable Date, the interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) of the Directors and chief executive of the Company which were required to be 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 they were taken or deemed to have under the provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Listing Rules, were as follows:

*(i) The Company*

| Name of Director/ chief executive | Nature of Interest | Number of securities *(Note 1)* | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Zou *(Note 2)* | Interest of controlled corporation | 750,000,000 Shares (L) | 75% |

*Note 1:* The letter "L" denotes the person's long position in such Shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou. Under the SFO, Mr. Zou will therefore be deemed, or taken to be, interested in the same number of Shares in which Morris Capital is interested.

*(ii) Morris Capital (Note 1)*

| Name of Director/ chief executive | Nature of Interest | Number of securities *(Note 2)* | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Zou Gebing | Interest of controlled corporation | 85 Shares of US$1 each (L) | 85% |

*Note 1:* Morris Capital holds more than 50% of our Shares. Therefore, Morris Capital is the holding company and an associated corporation of our Company.

*Note 2:* The letter "L" denotes the person's long position in such Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be 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 they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### (b) Disclosure of substantial shareholders' interests and short positions in the Company

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the interests and short of the persons (not being a Director or chief executive of the Company) in the Shares and underlying Shares which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

| **Shareholders** | **Nature of interest** | **Number of Shares/ underlying Shares held** *(Note 1)* | **Percentage of Shares of the Company in issue** |
|---|---|---|---|
| Morris Capital *(Note 2)* | Beneficial owner | 750,000,000 Shares (L) | 75% (L) |
| Ms. Wu *(Note 3)* | Interest of spouse | 750,000,000 Shares (L) | 75% (L) |
| RAYS Capital Partners Limited | Investment manager | 90,112,000 Shares (L) | 9.01% (L) |
| Ruan David Ching-chi | Interest of controlled corporation | 90,112,000 Shares (L) | 9.01% (L) |
| Asian Equity Special Opportunities Portfolio Master Fund Limited | Beneficial owner | 70,034,000 Shares (L) | 7.00% (L) |

*Note 1:* The letter "L" denotes the person's long position in such Shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou and 15% by Ms. Wu.

*Note 3:* Ms. Wu is the spouse of Mr. Zou. Under the SFO, Ms. Wu will therefore be deemed, or taken to be, interested in the same number of Shares in which Mr. Zou is interested.

Save as disclosed above, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and/or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

## 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with the Company or any member of the Group which is not determinable by the relevant employer within one year without payment of compensation other than statutory compensation.

## 4. DIRECTOR'S INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

Save as the transactions set out in the table below, none of the Directors 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 has any Director or their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

| Related parties | Relationship | Transaction | Consideration or annual caps |
|---|---|---|---|
| Morris PRC, a company owned as to 85% by Mr. Zou and 15% by Ms. Wu | Mr. Zou is a director of Morris PRC | Lease of properties by members of the Group (as tenants) from Morris PRC (as landlord) | RMB15 million for each of the three years ending 31 December 2020 |
| Target Company, a company wholly-owned by Morris PRC | Mr. Zou is a director of the Target Company | Sales of sofas to the Target Company (as purchaser) by the Group (as vendor) | RMB32 million for the year ending 31 December 2018 |

## 5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

## 6. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2017, the date to which the last published audited consolidated accounts of the Group were made up.

## 7. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualification of the experts who have given their opinion or advice for the inclusion in this circular:

| Name | Qualification |
|---|---|
| Roma Appraisals Limited | Independent Valuer |
| Ernst & Young | Certified Public Accountants |
| Hooray Capital | a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO |

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report, opinion (as the case may be) and the references to its name (including its qualifications) in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the experts named above did not have any shareholding in any member of the Group or any 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 of the Group which have, since 31 December 2017, being the date to which the latest published audited consolidated accounts of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 9. 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 principal place of business of the Company in Hong Kong is at Unit 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong.

(c) The principal share registrar and transfer office in the Cayman Islands is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(d) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Ms. Ho Ka Yan who is an associate member of The Hong Kong Institute of Chartered Secretaries.

(f) The English text of this circular shall prevail over the Chinese text in the event of any inconsistency.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal office hours at Unit 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong up to and including the date of the EGM:

(a) the Sale and Purchase Agreement;

(b) the letter from the Independent Board Committee dated 14 August 2018, the text of which is set out on pages 35 and 36 of this circular;

(c) the letter from Hooray Capital dated 14 August 2018, the text of which is set out on pages 37 to 58 of this circular;

(d) the Valuation Report from the Independent Valuer dated 14 August 2018, the text of which is set out in Appendix I to this circular;

(e) the letter from the Reporting Accountants dated 14 August 2018 in relation the profit forecast underlying the valuation of the Target Company as set out in Appendix II to this circular;

(f) the letter from the Board dated 14 August 2018 in relation to the profit forecast underlying the valuation of the Target Company as set out in Appendix III to this circular;

(g) the written consents referred to in the section headed "8. Qualification and Consent of Experts" in this appendix; and

(h) this circular.

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 of Morris Holdings Limited (the "**Company**") will be held at Room 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong at 9:30 a.m. on Friday, 31 August 2018 for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolution of the Company:

## ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 4 July 2018 entered into among 慕容集團有限公司 (Morris Group Co. Ltd*) (as vendor), Morris Holdings Limited (as purchaser) and Mr. Zou Gebing (as warrantor) in relation to the sale and purchase of all the issued and outstanding common stock of Jennifer Convertibles Inc. at the consideration of US$35 million (the "**Acquisition**") (a copy of which is produced to the meeting marked "**A**" and initialled by the chairman of this meeting for the purpose of identification), and all transactions contemplated under or referred to in the Sale and Purchase Agreement and in connection therewith and any other agreements or documents in connection therewith be and are hereby approved, confirmed and/or ratified; and

(b) any one director of the Company or the secretary be and is hereby authorised for and on behalf of the Company to do all such acts and things as he/she or they may in his/her or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or assist the Company to implement and/or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder and all matters incidental to, ancillary to or in connection with the Sale and Purchase Agreement and/or any further agreement or document as mentioned in paragraph (a) of this resolution and/or the transactions contemplated thereunder and all other matters incidental thereto, including agreeing and making any modification, amendments, waivers, variations or extensions of the Sale and Purchase Agreement and/or any further agreement or document as mentioned in paragraph (a) of this resolution and/or the transactions contemplated thereunder.''

Hong Kong, 14 August 2018

*Registered office:*
Cricket Square, Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

*Principal place of business in Hong Kong:*
Unit 6707, 67/F, The Center,
99 Queen's Road Central,
Hong Kong

By Order of the Board of
**Morris Holdings Limited**
**Mr. Wu Yueming**
*Executive Director*

*Notes:*

1. A shareholder of the Company entitled to attend and vote at the extraordinary general meeting (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.

2. 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.

3. The register of members of the Company will be closed from Tuesday, 28 August, to Friday, 31 August 2018, 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 Hong Kong branch share registrar, Tricor Investor Services Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 27 August 2018 for the purpose of determining shareholders' eligibility to attend and vote at the EGM.

4. A form of proxy for use at the EGM is enclosed with the circular to the shareholders.

5. 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 Hong Kong branch share registrar, Tricor Investor Services Limited of level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or adjourned meeting or poll (as the case may be).

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. The ordinary resolution set out above will be determined by way of a poll.