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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Morris Home Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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MORRIS  
HOME HOLDINGS LIMITED

### MORRIS HOME HOLDINGS LIMITED

慕容家居控股有限公司

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

**(Stock Code: 1575)**

**(1) ISSUE AND SUBSCRIPTION OF NEW SHARES  
UNDER SPECIFIC MANDATE;  
(2) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;  
AND  
(3) NOTICE OF EGM**

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Unless the context otherwise requires, capitalised terms used in this cover page have the same meanings as defined in this circular.

A letter from the Board is set out on pages 9 to 42 of this circular.

A notice convening the EGM to be held at 10:00 a.m. on Thursday, 15 September 2022 at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China is set out on pages 43 to 45 of this circular. A form of proxy for use at the EGM or any adjournment thereof (as the case may be) is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

#### PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the novel coronavirus (COVID-19) pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Limiting the number of the attendees to avoid over-crowding
- (2) Compulsory body temperature screening/checks
- (3) Compulsory wearing of face mask
- (4) Maintaining an appropriate social distancing between seats
- (5) No provision of food or beverages and no distribution of gifts

For the health and safety of the Shareholders, the Company strongly encourages Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person. Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the website of the Company at [www.morrishome.com.hk](http://www.morrishome.com.hk) and the website of the Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> for future announcements and updates on the EGM arrangements when necessary.

29 August 2022

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## DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“associate(s)”	has the meaning ascribed to it under the Takeovers Code
“Astrum”	Astrum Capital Management Limited, a licensed corporation under the SFO, licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the offer agent of the Offeror
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“Company”	Morris Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1575)
“Composite Document”	the composite offer and response document to be jointly issued by the Offeror and the Company in accordance with the Takeovers Code containing, among other things, details of the Offers, the recommendation from the Independent Board Committee to the Independent Shareholders and the Convertible Loan Creditor(s) and the advice from the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders and the Convertible Loan Creditor(s) in respect of the Offers
“Consideration”	the total consideration for the Share Subscription in the amount of HK\$81,900,000
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Convertible Loan”	the outstanding convertible loan owing to the Convertible Loan Creditor(s) in the aggregate principal amount of HK\$81,439,031 convertible into 36,684,248 new conversion Shares at the conversion price of HK\$2.22 per Share, subject to adjustment. Under the Convertible Loan, the Convertible Loan Creditor(s) has the right to convert all or any part of the outstanding principal amount of the Convertible Loan into Shares at any time prior to maturity or, in the event of a failure of payment, up to and including the date on which the Company has repaid the Convertible Loan in full
“Convertible Loan Agreement”	the convertible loan agreement dated 5 January 2018 and entered into between the Company and IFC in relation to the Convertible Loan (as may be amended from time to time)
“Convertible Loan Creditor(s)”	the lender(s) of the Convertible Loan. As at the Latest Practicable Date, the International Finance Corporation (the “IFC”, an international organisation established by articles of agreement among its member countries including the PRC and Cambodia) is the only lender of the Convertible Loan and it does not hold any Share
“Convertible Loan Offer”	subject to the Share Subscription Completion, the unconditional mandatory cash offer to be made by Astrum for and on behalf of the Offeror to acquire the Convertible Loan in accordance with the terms described in the Composite Document
“Debt Restructuring”	the restructuring of repayment terms of the outstanding Convertible Loan which has fallen due
“Deposit”	a refundable deposit in the sum of HK\$20,000,000 paid by the Offeror to the Company pursuant the terms and conditions of the Share Subscription Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 15 September 2022 for the Shareholders to consider and, if thought fit, approve, among others, the Share Subscription, the Placing and the granting of the Specific Mandate

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## DEFINITIONS

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“Encumbrances”	includes any option, right to acquire, right of pre-emption, mortgage, charge, pledge, lien, hypothecation, title retention, right of set off, claim, counterclaim, trust arrangement or other security, any equity or restriction (including any restriction imposed under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) or other adverse rights and interests of all kinds and descriptions)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Fashion Home”	Zhejiang Morris Fashion Home Co., Ltd. (浙江慕容时尚家居有限公司), a company established in the PRC with limited liabilities and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the non-executive Directors, established for the purpose of advising the Independent Shareholders and the Convertible Loan Creditor(s) in respect of the Offers and as to acceptance of the Offers
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation under the SFO to carry out Type 6 (advising on corporate finance) regulated activity as defined in the SFO, being the independent financial adviser appointed to advise the Independent Board Committee, the Independent Shareholders and the Convertible Loan Creditor(s) in respect of the Offers and as to their acceptance
“Independent Shareholders”	the Shareholders other than the Offeror and parties acting in concert with it (including Morris Capital who has given the Irrevocable Undertaking)
“Irrevocable Undertaking”	the irrevocable undertaking given by Morris Capital in favour of the Offeror that it will not, amongst others, accept the Share Offer in respect of the 666,500,000 Shares held by it

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## DEFINITIONS

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“Joint Announcement”	the announcement jointly issued by the Company and the Offeror on 5 August 2022 in relation to, amongst others, the Share Subscription, the Placing and the Offers
“Last Trading Day”	26 May 2022, being the last trading day of the Shares before the halt of trading in the Shares pending release of the Joint Announcement
“Latest Practicable Date”	24 August 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Messis Capital”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) under the SFO, the financial adviser to the Offeror in respect of the Offers
“Morris Capital”	Morris Capital Limited, a company incorporated in the British Virgin Islands with limited liability and the shares of which are held as to 85% by Mr. Zou Gebing and 15% by Ms. Wu Xiangfei
“Morris ESOP”	Morris ESOP Development Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly-owned by The Core Trust Company Limited (being the trustee appointed for the purpose of the Share Award Scheme)
“MOU”	the memorandum of understanding entered into between the Company and Mr. Tse Kam Pang on 22 April 2022 in relation to the possible subscription of Shares
“Offer Share(s)”	the Shares (other than those already owned or to be acquired by the Offeror or parties acting in concert with it) that are subject to the Share Offer
“Offeror”	Century Icon Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, being the subscriber under the Share Subscription Agreement. The ultimate beneficial owner of the Offeror is Mr. Tse Kam Pang

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## DEFINITIONS

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“Offers”	the Share Offer and the Convertible Loan Offer (as the case may be)
“Placee(s)”	any individual, professional, institutional or other investor(s) whom the Placing Agent will procure to subscribe for and/or the Placing Agent itself and/or its nominee(s) in the event that the Placing Agent is required to underwrite any of the Placing Shares pursuant to its obligations under the Placing Agreement who (including its ultimate beneficial owners) are regarded as public (as defined under the Listing Rules) and are third parties independent of and not connected with the Company and its connected persons, and not acting in concert with the Offeror and/or Morris Capital (which will be presumed to be acting in concert with the Offeror upon the Share Subscription Completion) and their respective associates and/or parties acting in concert with any of them
“Placing”	the placing of the Placing Shares pursuant to the terms and conditions of the Placing Agreement
“Placing Agent”	Forwin Securities Group Limited, a corporation licensed to carry on type 1 (dealing in securities) regulated activities under the SFO
“Placing Agreement”	the conditional placing agreement dated 5 August 2022 entered into between the Company and the Placing Agent in relation to the Placing
“Placing Completion”	completion of the Placing in accordance with the terms and conditions of the Placing Agreement
“Placing Completion Date”	the second (2nd) Business Day after all the conditions precedent under the Placing Agreement have been fulfilled or waived (as the case may be), or such other date as may be agreed by the Placing Agent and the Company in writing
“Placing Long Stop Date”	31 October 2022, or such other date as may be agreed in writing by the parties to the Placing Agreement, provided that no extension shall be made in respect thereof beyond six weeks after the passing of the resolution approving the Placing at the EGM
“Placing Price”	the placing price of HK\$0.11 per Placing Share

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## DEFINITIONS

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“Placing Share(s)”	an aggregate of 250,000,000 new Shares to be placed by the Placing Agent and issue and allotted by the Company to the Placee(s) pursuant to the terms and conditions of the Placing Agreement
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pre-restructuring”	the pre-restructuring and subsequent restructuring on a consolidated basis of the repayment schedule of the debts of the Relevant Subsidiaries in the PRC as supervised by the People’s Court of Haining City in the PRC
“Relevant Subsidiaries”	Zhejiang Apollo and Fashion Home
“RMB”	Renminbi, the lawful currency of the PRC
“Royale Home”	Royale Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1198)
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Share Award Scheme”	the restricted share award scheme adopted on 29 August 2019 by the Company for the benefit of certain eligible participants, as amended from time to time in accordance with its rules
“Share Offer”	subject to the Share Subscription Completion, the unconditional mandatory cash offer to be made by Astrum for and on behalf of the Offeror for all the Offer Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) in accordance with the Takeovers Code
“Share Offer Price”	HK\$0.063 per Offer Share
“Share Subscription”	the subscription for the Subscription Shares by the Offeror pursuant to the terms and conditions of the Share Subscription Agreement



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## DEFINITIONS

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“Share Subscription Agreement”	the conditional subscription agreement dated 26 May 2022 and entered into between the Company and the Offeror in connection with the Share Subscription, as amended and supplemented by the Supplemental Share Subscription Agreement
“Share Subscription Completion”	completion of the Share Subscription in accordance with the terms and conditions of the Share Subscription Agreement
“Share Subscription Completion Date”	the second (2nd) Business Day after all the conditions precedent under the Share Subscription Agreement have been fulfilled or waived (as the case may be), or such other date as may be agreed by the Offeror and the Company in writing
“Share Subscription Long Stop Date”	31 October 2022, or such other date as may be agreed in writing by the parties
“Share Subscription Price”	HK\$0.063 per Subscription Share
“Share(s)”	ordinary shares with a par value of US\$0.001 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Specific Mandate”	the specific mandate proposed to be considered, approved and granted by the Shareholders at the EGM to authorize the Board to allot and issue and/or deal in the Subscription Shares and the Placing Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Shares”	a total of 1,300,000,000 new Shares to be issued and allotted by the Company and subscribed by the Offeror pursuant to the Share Subscription Agreement
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance (Cap 622 of the laws of Hong Kong)
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Share Subscription Agreement”	a supplemental agreement to the Share Subscription Agreement dated 5 August 2022 entered into between the Offeror and the Company

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## DEFINITIONS

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“Surviving Provisions”	provisions in the Share Subscription Agreement relating to the Deposit, definition and interpretation, confidentiality, entire agreement and non-reliance, general provisions, notice and other communication, termination and governing laws and jurisdiction
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“US\$”	United States dollar, the lawful currency of the United States of America
“Zhejiang Apollo”	Zhejiang Apollo Leather Products Co., Ltd. (浙江阿波羅皮革製品有限公司), a company established in the PRC with limited liabilities and a wholly-owned subsidiary of the Company
“%”	per cent

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## LETTER FROM THE BOARD

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MORRIS  
HOME HOLDINGS LIMITED

### MORRIS HOME HOLDINGS LIMITED 慕容家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1575)

*Executive Directors:*

Mr. Zou Gebing (*Chairman*)  
Mr. Shen Zhidong  
Mr. Wu Yueming

*Independent non-executive Directors:*

Ms. Wu Weixia  
Mr. Tan Tianhong  
Ms. Zhao Hongyan

*Registered office:*

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

*Headquarters in the PRC:*

No. 500 Youquan Road  
Haining Economic Development Zone  
Zhejiang Province, PRC

*Principal place of business in Hong Kong:*

Room 708–709, Laford Centre  
838 Lai Chi Kok Road  
Cheung Sha Wan  
Hong Kong

29 August 2022

*To the Shareholders*

Dear Sir or Madam,

**(1) ISSUE AND SUBSCRIPTION OF NEW SHARES  
UNDER SPECIFIC MANDATE;  
(2) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;  
AND  
(3) NOTICE OF EGM**

#### INTRODUCTION

Reference is made to the Joint Announcement in relation to, among other things, the Share Subscription Agreement, the Placing Agreement and the Offers.

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## LETTER FROM THE BOARD

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### Share Subscription

On 26 May 2022, the Company entered into the Share Subscription Agreement (as amended and supplemented by the Supplemental Share Subscription Agreement) with the Offeror, pursuant to which the Company has conditionally agreed to allot and issue, and the Offeror has conditionally agreed to subscribe for 1,300,000,000 Subscription Shares at the Share Subscription Price of HK\$0.063 per Subscription Share for the total Consideration of HK\$81,900,000.

### Placing

On 5 August 2022, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to place, on a fully underwritten basis, and the Company has conditionally agreed to issue and allot, 250,000,000 Placing Shares to the Placees for the total consideration of HK\$27,500,000 pursuant to the terms and conditions set out in the Placing Agreement.

### Offers

Upon the Share Subscription Completion and the Placing Completion, the Offeror and parties acting in concert with it (including Morris Capital) will be interested in 1,966,500,000 Shares (representing 71.51% of the issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares, assuming there is no other change to the issued Shares from the Latest Practicable Date up to the Share Subscription Completion Date and the Placing Completion Date). Subject to the Share Subscription Completion and pursuant to Rule 26.1 of the Takeovers Code, upon the Share Subscription Completion, the Offeror is required to make the unconditional mandatory cash offers for all the issued Shares and all the outstanding Convertible Loan (other than those already owned or to be acquired by the Offeror and parties acting in concert with it).

The primary purpose of this circular is to provide you with, among other matters, (i) details of the Share Subscription, the Placing and the Specific Mandate; (ii) other information as required under the Listing Rules; and (iii) a notice of the EGM, to enable you to make informed decisions on whether to vote for or against such resolutions.

### THE SHARE SUBSCRIPTION

On 26 May 2022, the Company entered into the Share Subscription Agreement (as amended and supplemented by the Supplemental Share Subscription Agreement) with the Offeror, pursuant to which the Company has conditionally agreed to allot and issue, and the Offeror has conditionally agreed to subscribe for 1,300,000,000 Subscription Shares at the Share Subscription Price of HK\$0.063 per Subscription Share for the total Consideration of HK\$81,900,000.

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## LETTER FROM THE BOARD

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Set out below is a summary of the principal terms of the Share Subscription Agreement (as amended and supplemented by the Supplemental Share Subscription Agreement):

### **Date**

26 May 2022\*

### **Parties**

Issuer : The Company

Subscriber : Century Icon Holdings Limited

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Offeror and its ultimate beneficial owner(s) are parties independent of and not connected with the Company and its connected persons.

### **The Subscription Shares**

As at the Latest Practicable Date, the Company had 1,200,000,000 Shares in issue. The 1,300,000,000 Subscription Shares represent:

- (i) approximately 108.33% of the existing total number of Shares in issue;
- (ii) approximately 52.00% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares upon the Share Subscription Completion (assuming that there will be no other change in the total number of Shares); and
- (iii) approximately 47.27% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares upon the Share Subscription Completion and the Placing Shares upon the Placing Completion (assuming that there will be no other change in the total number of Shares).

The aggregate nominal value of the Subscription Shares under the Share Subscription will be US\$1,300,000 based on the nominal value of US\$0.001 per Share.

### **The Deposit**

The Offeror has agreed to pay the refundable Deposit in the sum of HK\$20,000,000 (which amounts to approximately 24.42% of the Consideration) to the Company within

\* The Share Subscription Agreement was amended and supplemented by the Supplemental Share Subscription Agreement entered into by the Company and the Offeror on 5 August 2022.

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## LETTER FROM THE BOARD

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three (3) Business Days after the date of the Share Subscription Agreement. The Deposit shall be settled by immediately available fund through bank transfer or wire transfer into a designated bank account of the Company as agreed by the Offeror (or such other means as may be agreed in writing between the Company and the Offeror). The Deposit shall be interest free and shall not be utilized by the Company before the Share Subscription Completion unless with the consent of the Offeror. Upon the Share Subscription Completion, the Deposit will be used to offset a corresponding part of the total Consideration.

As at the Latest Practicable Date, the Deposit has been paid by the Offeror to the Company in accordance with the terms and conditions of the Share Subscription Agreement.

If the conditions precedent are not satisfied (or waived) on or before the Share Subscription Long Stop Date, the Company shall within two (2) Business Days after receiving the Offeror's notice in writing refund the interest free Deposit in full to the Offeror.

### **The Share Subscription Price**

The Share Subscription Price of HK\$0.063 per Subscription Share represents:

- (i) a discount of approximately 7.35% to the closing price of HK\$0.068 per Share as quoted on the Stock Exchange on the last trading day before the date of the first announcement of the Company made pursuant to Rule 3.7 of the Takeovers Code (i.e. 20 April 2022);
- (ii) a discount of approximately 59.35% to the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on 26 May 2022, being the Last Trading Day;
- (iii) a discount of approximately 50.00% to the average of the closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.126 per Share;
- (iv) a discount of approximately 41.67% to the average of the closing price of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.108 per Share;
- (v) a discount of approximately 37.62% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of HK\$0.101 per Share;
- (vi) a discount of approximately 40.57% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of HK\$0.106 per Share; and

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## LETTER FROM THE BOARD

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- (vii) a discount of approximately 63.16% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date of HK\$0.171 per Share.

As disclosed in the annual report of the Company published on 13 May 2022, the Company had recorded audited consolidated net liabilities of approximately RMB51,171,000 as at 31 December 2021. Calculated based on 1,200,000,000 Shares in issue as at the Latest Practicable Date, the audited consolidated net liabilities value per Share is approximately RMB0.04 per Share (equivalent to approximately HK\$0.05 per Share) as at 31 December 2021.

The Share Subscription Price was determined after arm's length negotiations between the Company and the Offeror with reference to (i) the recent and historical prices of the Shares, in particular the premium over the closing price or average closing prices per Share in the last trading day and certain periods prior to the date of the MOU as illustrated below; (ii) the financial condition of the Group, in particular the loss-making position of the Group for the three consecutive financial years from 2019 and the net liabilities of the Group as at 31 December 2021 of RMB51,171,000; (iii) uncertain prospect of the businesses and viability of the Group; and (iv) the implications to the Company in respect of the provision of immediate funds to the Company for, amongst others, maintaining its operations and repayment of indebtedness.

The Share Subscription Price of HK\$0.063 per Subscription Share represents:

- (i) a discount of approximately 7.35% to the closing price of HK\$0.068 per Share as quoted on the Stock Exchange on 20 April 2022, being the last trading day before the date of the first announcement of the Company made pursuant to Rule 3.7 of the Takeovers Code; and
- (ii) a premium of approximately 1.61% to the average of the closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the last trading day before the date of the first announcement of the Company made pursuant to Rule 3.7 of the Takeovers Code (i.e. 20 April 2022) of approximately HK\$0.062 per Share.

The Directors consider that the basis in determining the Share Subscription Price and the Consideration is fair and reasonable and on normal commercial terms, and the entering into of the Share Subscription Agreement is in the interest of the Company and the Shareholders as a whole.

The net Share Subscription Price, after taking into account the estimated expenses of the Share Subscription, is approximately HK\$0.61 per Subscription Share.

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## LETTER FROM THE BOARD

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### **The Share Subscription conditions precedent**

The Share Subscription Completion is conditional upon the satisfaction (or waiver) (if applicable) of the following conditions precedent on or before the Share Subscription Long Stop Date:

- (a) the passing of resolutions by the Shareholders (or independent Shareholders, if required) at the EGM convened in accordance with the Listing Rules approving the Share Subscription and all transactions contemplated under the Share Subscription Agreement;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked or cancelled before the allotment and issue of Subscription Shares;
- (c) the Company and its affiliates having obtained all necessary approval(s) in respect of the Share Subscription Agreement and all transactions contemplated thereunder, including but not limited to all approval(s), consent(s), authorisation(s), registration(s) and filing(s) from the Board, relevant government department(s) (including but not limited to the Stock Exchange and necessary approvals under applicable national laws), authority(ies), organisation(s) or any other third parties (including creditors or persons having rights under agreements), and such approvals not having been revoked or cancelled before Share Subscription Completion;
- (d) the Offeror having obtained all necessary approvals in respect of the Share Subscription Agreement and all transactions contemplated thereunder, including but not limited to all approval(s), consent(s), authorisation(s), registration(s) and filing(s) from the board of directors of the Offeror, relevant government department(s) (including but not limited to the Stock Exchange and necessary approvals under applicable national laws), authority(ies), organisation(s) or any other third parties, and such approvals not having been revoked or cancelled before Share Subscription Completion;
- (e) there having been no government actions, court orders or legal proceedings that would cause the allotment and issue of the Subscription Shares or the Share Subscription to be illegal, restricted or prohibited before the Share Subscription Completion;
- (f) all conditions to the Placing Completion under the Placing Agreement (except for the condition in relation to the fulfilment of the conditions to the Share Subscription Completion) having been fulfilled (or waived, if applicable);



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## LETTER FROM THE BOARD

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- (g) the Offeror being satisfied with the results of its due diligence (including but not limited to legal, financial, operation and tax) on the Group;
- (h) there having been no material adverse change on the operations, assets, business prospects and financial conditions of the Group as at the Share Subscription Completion Date;
- (i) the representations, warranties and/or undertakings given by the Company under the Share Subscription Agreement remaining true, accurate, complete and not misleading in all material respects from the date of the Share Subscription Agreement to the Share Subscription Completion Date; and there having been no material breach of the Share Subscription Agreement committed by any of the parties to the Share Subscription Agreement;
- (j) the listing status of the Company on the Stock Exchange not having been revoked or cancelled at any time before the Share Subscription Completion, and the Shares remaining trading on the Stock Exchange at any time before the Share Subscription Completion (except for trading halt(s) not exceeding 10 consecutive trading days (or such other relevant period as may be agreed by the Offeror in writing) or trading halt(s) in relation to the Share Subscription and all transactions contemplated under the Share Subscription Agreement); and the Stock Exchange not having indicated that the listing status of the Company will be suspended, cancelled or revoked at any time after the Share Subscription Completion; and
- (k) there having been no change of controlling shareholder of the Company from the date of the Share Subscription Agreement to the Share Subscription Completion Date.

The Company and the Offeror have agreed to use their reasonable endeavours to the extent possible to procure the fulfilment of the conditions precedent set out above on or before the Share Subscription Long Stop Date.

Save for the conditions set out in (a) to (f) above which are not capable of being waived, all other conditions precedent are waivable by the Offeror.

As at the Latest Practicable Date, (i) the listing approval for the Subscription Shares to be granted by the Stock Exchange and the consent of the Convertible Loan Creditor(s) to the change of control of the Company pursuant to the Convertible Loan Agreement as a part of the Debt Restructuring are the only outstanding specific consents or approvals required to be obtained by the Company under the condition set out in (c) above; and (ii) there is no outstanding consent or approval required to be obtained by the Offeror under the condition set out in (d) above. As at the Latest Practicable Date, the Company is still in the process of negotiation with the IFC in relation to the Debt Restructuring (including the consent as to a change of control of the Company). Given that the obtaining of new funds

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## LETTER FROM THE BOARD

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by way of equity fundraising is a key condition and consideration in respect of the Debt Restructuring, the Directors are not aware of any material impediment to obtaining the consent of the Convertible Loan Creditor(s) to the change of control of the Company as a result of the Share Subscription.

Save as disclosed above, the Company is not aware of any other approvals or consents required for the purpose of the Share Subscription and the Specific Mandate.

As at the Latest Practicable Date, none of the conditions set out above has been fully satisfied.

If the conditions set out above are not satisfied or waived (if applicable) on or before the Share Subscription Long Stop Date, the Share Subscription Agreement shall automatically lapse with immediate effect, save for any antecedent rights and obligations and the Surviving Provisions. As at the Latest Practicable Date, none of the conditions set out above has been fully satisfied.

### **The Share Subscription Completion**

The Share Subscription Completion shall take place on the Share Subscription Completion Date subject to the satisfaction or waiver (if applicable) of all the above conditions precedent. The Share Subscription Completion and the Placing Completion are inter-conditional and shall take place simultaneously.

Upon the Share Subscription Completion, the Offeror shall pay to a bank account designated by the Company by immediately available funds through bank transfer or wiring transfer (or such other way as may be agreed between the Company and the Offeror) the net balance of the Share Subscription Price after deducting the Deposit (i.e. HK\$61,900,000).

In the event that the Share Subscription Completion does not take place on the Share Subscription Completion Date as a result of the non-performance of any of the obligations in respect of the Share Subscription Completion procedures (whether or not constituting a repudiatory breach) specified in the Share Subscription Agreement, the conforming party may by notice in writing to the breaching party elect to (i) proceed with the Share Subscription Completion to the extent possible; or (ii) delay the Share Subscription Completion to another date; or (iii) terminate the Share Subscription Agreement.

If the Offeror or the Company elects to delay the Share Subscription Completion to another date, the terms of the Share Subscription Agreement shall remain effective and such date shall be deemed to be the Share Subscription Completion Date. If the Offeror or the Company elects to terminate the Share Subscription Agreement, the further rights and obligations of each of the Offeror and the Company shall lapse immediately upon such termination, save for any antecedent rights and obligations and the Surviving Provisions.

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## LETTER FROM THE BOARD

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### **Ranking**

The Subscription Shares will be issued and allotted fully paid and will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issuance of the Subscription Shares.

### **THE PLACING**

On 5 August 2022, the Company and the Placing Agent entered into the Placing Agreement, pursuant to which the Placing Agent has conditionally agreed to place, on a fully underwritten basis, and the Company has conditionally agreed to issue and allot, 250,000,000 Placing Shares to the Placees for the total consideration of HK\$27,500,000 pursuant to the terms and conditions set out in the Placing Agreement.

Set out below is a summary of the principal terms of the Placing Agreement:

#### **Date**

5 August 2022

#### **Parties**

Issuer : The Company

Placing Agent : Forwin Securities Group Limited

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

The Placing Agent has confirmed that the Placing Agent or its nominee(s) is/are not, and to procure that each of the Placees will not be, acting in concert with the Offeror, Morris Capital (which will be presumed to be acting in concert with the Offeror upon the Share Subscription Completion) and their respective associates and/or the parties acting in concert with any of them and there will be no relationship, agreement, arrangement or understanding (whether express or implied and whether formal or informal) between the Offeror, Morris Capital, the Placing Agent (or its nominee(s)) and/or the Placees (as the case may be) and their respective ultimate beneficial owners to actively cooperate to obtain or consolidate control of the Company through subscription of the Placing Shares.

#### **Subject matter**

Pursuant to the Placing Agreement, the Placing Agent has conditionally agreed to place, on a fully underwritten basis, and the Company has conditionally agreed to issue and

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## LETTER FROM THE BOARD

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allot, 250,000,000 Placing Shares to the Placees at the Placing Price of HK\$0.11 per Placing Share.

### **Placing commission**

The Placing Agent will receive a placing commission of 4.5% of the aggregate Placing Price for the Placing Shares placed by the Placing Agent on behalf of the Company in accordance with its obligations under the Placing Agreement. The placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent and with reference to the prevailing market rate.

### **The Placing Price**

The Placing Price of HK\$0.11 per Placing Share represents:

- (i) a premium of approximately 61.76% to the closing price of HK\$0.068 per Share as quoted on the Stock Exchange on the last trading day before the date of the first announcement of the Company made pursuant to Rule 3.7 of the Takeovers Code (i.e. 20 April 2022);
- (ii) a discount of approximately 29.03% to the closing price of HK\$0.155 per Share as quoted on the Stock Exchange on 26 May 2022, being the Last Trading Day;
- (iii) a discount of approximately 12.70% to the average of the closing price of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.126 per Share;
- (iv) a premium of approximately 1.85% over the average of the closing price of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.108 per Share;
- (v) a premium of approximately 8.91% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Day of HK\$0.101 per Share;
- (vi) a premium of approximately 3.77% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 90 consecutive trading days up to and including the Last Trading Day of HK\$0.106 per Share; and
- (vii) a discount of approximately 35.67% to the closing price of the Shares as quoted on the Stock Exchange on the Latest Practicable Date of HK\$0.171 per Share.

As disclosed in the annual report of the Company published on 13 May 2022, the Company had recorded audited consolidated net liabilities of approximately RMB51,171,000 as at 31 December 2021. Calculated based on 1,200,000,000 Shares in

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## LETTER FROM THE BOARD

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issue as at the Latest Practicable Date, the audited consolidated net liabilities value per Share is approximately RMB0.04 per Share (equivalent to approximately HK\$0.05 per Share) as at 31 December 2021.

The Placing Price was arrived at after arm's length negotiations between the Company and the Placing Agent which had taken into account, among other things, the prevailing market price of the Shares and the financial and other conditions of the Company.

The net Placing Price, after taking into account the maximum placing commission and the estimated expenses of the Placing, is approximately HK\$0.104 per Placing Share.

### **The Placing Shares**

As at the Latest Practicable Date, the Company had 1,200,000,000 Shares in issue. The 250,000,000 Placing Shares represent:

- (i) approximately 20.83% of the existing total number of Shares in issue;
- (ii) approximately 17.24% of the total number of Shares in issue as enlarged by the allotment and issuance of the Placing Shares upon the Placing Completion (assuming that there will be no other change in the total number of Shares); and
- (iii) approximately 9.09% of the total number of Shares in issue as enlarged by the allotment and issuance of the Subscription Shares upon the Share Subscription Completion and the Placing Shares upon the Placing Completion (assuming that there will be no other change in the total number of Shares).

The aggregate nominal value of the Placing Shares under the Placing will be US\$250,000 based on the nominal value of US\$0.001 per Share.

### **Placees**

The Placees and their respective ultimate beneficial owners (a) shall be third parties independent of and not connected with the Company and its connected persons; and (b) shall not be parties acting in concert with the Offeror, Morris Capital (which will be presumed to be acting in concert with the Offeror under class (1) of the definition of acting in concert upon the Share Subscription Completion) and their respective associates and/or the parties acting in concert with any of them. It is expected that none of the Placees and/or the Placing Agent (or its nominee(s)) as underwriter (as the case may be) will become a substantial shareholder of the Company immediately after the Placing Completion.

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## LETTER FROM THE BOARD

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### **Ranking**

The Placing Shares will be issued and allotted fully paid and will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issuance of the Placing Shares.

### **The Placing conditions precedent**

The Placing Completion is conditional upon the satisfaction of the following conditions precedent on or before the Placing Long Stop Date:

- (a) the passing of resolutions by the Shareholders (or independent Shareholders, if required) at the EGM convened in accordance with the Listing Rules approving the Placing and all transactions contemplated under the Placing Agreement;
- (b) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Placing Shares, and such approval not having been revoked or cancelled before the issue and allotment of Placing Shares; and
- (c) all conditions to the Share Subscription Completion under the Share Subscription (except for the condition in relation to the fulfilment of the conditions to the Placing Completion) having been fulfilled (or waived, if applicable).

None of the conditions precedent above are waivable by the Placing Agent or the Company.

As at the Latest Practicable Date, none of the conditions set out above has been fully satisfied.

If the conditions set out above are not satisfied on or before the Placing Long Stop Date, the Placing Agreement shall automatically lapse with immediate effect, and no party shall have any claim against the other party, save for any antecedent breaches.

### **The Placing Completion**

The Placing Completion is expected to take place on the second Business Day after the day on which all the conditions to the Placing Completion under the Placing Agreement having been fulfilled.

The Placing Completion is expected to take place simultaneously with the Share Subscription Completion, as the Share Subscription Agreement and the Placing Agreement are inter-conditional.

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### Termination of the Placing

Notwithstanding anything contained in the Placing Agreement, if at any time on or prior to 12:00 noon on the Placing Completion Date:

- (i) there shall develop, occur or come into force, since the date of the Placing Agreement, any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospect, stock market, fiscal or political conditions, laws or regulations, regulatory or market conditions and matters and/or disasters in Hong Kong, China, the Cayman Islands or any other jurisdictions relevant to the Company or any of its subsidiaries which, in the sole and reasonable opinion of the Placing Agent, has or may be expected to have or is likely to have a material adverse effect on the business or financial conditions or prospect of the Company or its subsidiaries or the consummation of the Placing; or
- (ii) there shall develop, occur or come into force, any event, or series of events, beyond the control of the Placing Agent, including but not limited to the imposition of economic sanctions (in whatever form, directly or indirectly) in Hong Kong, China, the Cayman Islands or any other jurisdictions relevant to the Company or its subsidiaries, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreaks, escalation or adverse mutation of diseases, economic sanctions, strikes, lock-outs, natural disasters, civil commotion, riots, public disorders, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism which, in the sole and reasonable opinion of the Placing Agent, has or is likely to have a material adverse effect on the business or financial conditions or prospect of the Company and its subsidiaries or the consummation of the Placing; or
- (iii) any material breach of any of the representations and warranties set out in the Placing Agreement comes to the knowledge of the Placing Agent or any event occurs or any matter arises on or after the date of the Placing Agreement and prior to the Placing Completion Date which if it had occurred or arisen before the date of the Placing Agreement would have rendered any of such representations and warranties untrue or incorrect in any material respect or there has been a material breach by the Company of any other provisions of the Placing Agreement; or
- (iv) there shall develop, occur or come into force any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

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- (v) trading of the Shares of the Company on the Stock Exchange has been suspended for more than five Business Days except for trading halts pending announcement to be made by the Company in relation to the Placing or the Share Subscription,

then and in any such case, the Placing Agent may after consultation with the Company (to the extent that the same is reasonably practicable) terminate the Placing Agreement without liability to the Company by giving notice in writing to the Company prior to 12:00 noon on the Placing Completion Date. In the event the Placing Agent terminates the Placing Agreement pursuant to the clause above, all obligations of each of the parties under the Placing Agreement shall cease and determine and no party shall have any claim against the other party in respect of any matter arising out of or in connection with the Placing Agreement.

### **Lock-up undertaking**

The Placing Agent has unconditionally and irrevocably undertaken to the Company that, for the period of six months from the date of the Placing Completion, each of the Placees and/or the Placing Agent as underwriter (as the case may be) will not, directly or indirectly, sell, give, transfer, assign or dispose of or otherwise create any encumbrance on the Placing Shares in any form.

### **MANDATE TO ISSUE THE SUBSCRIPTION SHARES AND THE PLACING SHARES**

The Subscription Shares and the Placing Shares will be allotted and issued under the Specific Mandate to be sought from the Shareholders at the EGM.

### **APPLICATION FOR LISTING**

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Subscription Shares and the Placing Shares.

### **REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTION AND THE PLACING**

The Company is the holding company of the Group. Its subsidiaries are principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products.

### **The general operational and financial conditions of the Group**

The Company has been facing a very challenging situation since 2019 as the Group experienced immense pressure from the Sino-U.S. Trade War and the outbreak of the COVID-19 pandemic, both being unprecedented events which had brought profound disruption to businesses and supply chains at a global level.

The U.S. and Europe are major export destinations of the Group's sofas, sofa covers and other furniture products, accounting for a majority of the Group's revenue. For the three years



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ended 31 December 2021, revenue from the U.S. and Europe accounted for approximately 86.1%, 95.1% and 82.1% of the revenue of the Group, respectively. Despite the efforts made by the Group to mitigate the impact of the Sino-U.S. Trade War, including but not limited to negotiations with its U.S. customers for sharing of the tariffs and diversification of the Group's exporting business to other destinations, the revenue of the Group was adversely affected. The revenue of the Group decreased significantly by 48.7% from approximately RMB980.3 million for the financial year ended 31 December 2019 to approximately RMB502.9 million for the financial year ended 31 December 2021.

Due to the decrease in sales volume of sofa, sofa covers and other furniture products as a result of the supply-chain disruption caused by the outbreak of COVID-19 epidemic and the Sino-U.S. Trade War, the Group's key financial indicators showed a sharp decrease from 2019 to 2021. The revenue dropped from approximately RMB980.3 million in 2019 to approximately RMB502.9 million in 2021, representing a decrease of approximately 48.7%. As disclosed in the Company's annual report for the year ended 31 December 2021, the Group recorded net loss of RMB123,402,000 for the year ended 31 December 2021. The Group had been loss-making for three consecutive financial years from 2019, losses of approximately RMB140 million, RMB90 million and RMB123 million were recorded for the years ended 31 December 2019, 2020 and 2021, respectively. The Group had also recorded net liabilities of RMB51,171,000 as at 31 December 2021, as compared to net assets of RMB76,743,000 as at 31 December 2020.

As at 31 December 2021, the Group had trade and bills payables and other payables and accruals of RMB179,145,000 and RMB43,320,000, respectively. The Group's aggregate interest-bearing bank and other borrowings, lease liabilities and convertible loan liability amounted to approximately RMB64,616,000, RMB25,002,000 and RMB69,977,000, respectively, whilst its cash and cash equivalents amounted to approximately RMB13,485,000.

### **The Debt Restructuring in relation to the Convertible Loan**

The Convertible Loan with outstanding principal amount of approximately RMB69,977,000 as at the Latest Practicable Date had also matured and fallen due for repayment during the year ended 31 December 2021. The outstanding principal amount and related overdue interests on the Convertible Loan, amounting to approximately HK\$86,674,920 (equivalent to approximately RMB73,417,000) in aggregate, have not been repaid as at the Latest Practicable Date, as the Company did not have sufficient financial resources. The Company is currently in negotiation with the Convertible Loan Creditor (i.e. the IFC, as at the Latest Practicable Date) in relation to the Debt Restructuring (i.e. the restructuring of the repayment terms under the Convertible Loan). As at the Latest Practicable date, no binding agreement has been reached between the Company and the Convertible Loan Creditor (i.e. the IFC). However, the Company understands during the negotiation process that the Convertible Loan Creditor (i.e. the IFC) requires the successful Share Subscription as a condition to the Debt Restructuring in relation to the Convertible Loan.

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## LETTER FROM THE BOARD

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### **The Pre-restructuring in relation to the indebtedness of the Relevant Subsidiaries**

The extreme environment, including the outbreak of the COVID-19 pandemic and the Sino-U.S. Trade War, has adversely and seriously affected the operations and financial conditions of the Relevant Subsidiaries (i.e. Zhejiang Apollo and Fashion Home), being the previous principal manufacturing subsidiaries of the Company in the PRC. The operation and financial position of the Relevant Subsidiaries were under pressure, and the Relevant Subsidiaries have run into loss-making position in recent years, followed by a suspension of operations in 2022. Based on the audited accounts of the Relevant Subsidiaries for the year ended 31 December 2021, Zhejiang Apollo and Fashion Home recorded loss for the year of approximately RMB21,270,000 and RMB59,023,000, respectively, and net liabilities and net assets of approximately RMB20,093,000 and RMB155,798,000, respectively. In spite of Fashion Home's net asset position, its assets mainly comprise investment in subsidiaries, whose assets are substantially amount due from other group companies and are considered to have no substantive business value.

In view of the afore-mentioned macro environment and the financial condition, the Relevant Subsidiaries initiated the Pre-restructuring procedures, under which a restructuring plan for the settlement of all the indebtedness of the Relevant Subsidiaries was formulated. The Pre-restructuring procedures aims at preserving the value of intangible assets (e.g. goodwill) and maximizing the interest of the stakeholders of the Relevant Subsidiaries, and is considered to have the following benefits:

- (a) The Pre-restructuring is a unique mechanism that emphasizes efficiency and acts as a bridge to different procedures. It enables the parties to reach a consensus in the midst of a dynamic situation with a view to discovering the value of a reorganization. It could avoid the difficulties for the parties to formulate a reorganization plan that maximizes the interests of the stakeholders in light of the tight timetable under bankruptcy laws in the PRC.
- (b) The Pre-restructuring is believed to have the benefit of enhancing the certainty of a restructuring plan, as it enables stakeholders (including creditors, investors and debtors) to have sufficient time and room for negotiation, followed by the sanction of the court to ensure the enforceability of the Pre-restructuring proposal. It could facilitate the amicable negotiation among the parties and avoid the creditors directly pursuing a full-blown winding-up.
- (c) The Pre-restructuring has the benefit of realising the value of, and potential for, the Relevant Subsidiaries. The parties are free to agree to commercial arrangements in respect of the repayment timeline and amount as regards the indebtedness of the Relevant Subsidiaries, which would give the reorganisation a better chance of success.

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Set out below is the principal settlement proposal (the “**Settlement Proposal**”) of the indebtedness of the Relevant Subsidiaries pursuant to the Group’s management accounts and in view of the Pre-restructuring:

<b>Indebtedness</b>	<b>Amount</b> <i>(RMB)</i> <i>(approximately)</i>	<b>Settlement Proposal</b>
Unpaid Tax	956,924	Repayable in full within three months after court sanction of the Pre-restructuring proposal
Outstanding labour benefits and compensations	68 million	20% of such amount repayable in cash within three months after court sanction of the Pre-restructuring proposal
Amount owing to general creditors	199 million	(a) The other interest-bearing bank borrowings (including bills payable to financial institutions) shall be extended for not less than five years after court sanction of the Pre-restructuring proposal or the original repayment date (whichever is later), except that a bank may opt for receiving discounted repayment at 20% of outstanding amount within three months from court sanction.
– Amount owing to financial institutions	128 million	
– Amount owing to suppliers	71 million	
		(b) (i) For the part of indebtedness of RMB30,000 or less, payable within three months after court sanction of the Pre-restructuring proposal; and (ii) for the part of indebtedness above RMB30,000, 20% of which is repayable in cash in three months after court sanction of the Pre-restructuring proposal.
Amount owing to the Haining Government in the PRC for land lease	19.94 million	20% of such amount repayable in cash

As at the Latest Practicable Date, the Pre-restructuring proposal was passed by the requisite majority of creditors and sanctioned by the People’s Court of Haining City. Based on the Company’s communication with major customers, the Company understands that certain customers are willing to continue their business with the Company if the financial difficulties of the Company can be resolved and the production facilities can be restored by way of the Pre-restructuring (of which the Share Subscription forms a key part).

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## LETTER FROM THE BOARD

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### **Alternate fundraising opportunities explored by the Company**

The Company has been exploring various alternate fundraising opportunities. In view of the financial condition and circumstance of the Company, various bank facilities of the Group were cancelled or not renewed. The Company has made various attempts to obtain facilities from other banks, which were to no avail due to the financial position of the Company, the Company's negative cash flow position, loss making performance and the lack of suitable assets to be taken as security. The Company had tried to explore equity fundraising opportunities, including the subscription of new Shares in June 2021 and the placing of new Shares in January 2022, but most of which failed to proceed. Although the Company successfully completed a placing of shares on 23 March 2022, the proceeds raised in the sum of HK\$23.71 million is small compared to the scale of the Group's liabilities. As at the Latest Practicable Date, the net proceeds from such placing have been fully utilized. The Company had also attempted to conduct two other equity fundraising exercises involving the subscription of Shares by independent third parties, but was given to understand that, after conducting preliminary due diligence, the potential investors did not consider the Company to be a suitable target for investment, taking into account various factors, including but not limited to their investment appetite, the financial condition of the Company and the business prospects of the Company. The Company has taken into account that (A) substantial time and costs are generally required for other equity fundraising means such as rights issue or open offer as compared to placing and subscription of new Shares, as additional time is needed to (i) identify suitable underwriter(s) and to negotiate terms agreeable to the parties; (ii) prepare the requisite compliance and legal documentation, including but not limited to the underwriting agreement(s), announcement(s) and prospectus(es); (B) the uncertain response from the Shareholders, together with the fact that Morris Capital, the controlling shareholder of the Company has indicated that it will not take part in any rights issue or open offer; and (C) the imminent funding needs of the Company. The Directors are of the view that a rights issue or open offer may not serve its purpose of raising adequate funds for the Company in a short time and had focused on pursuing other more practicable and adequate options. The difficulties in recent years, which have adversely affected the Group's financials, liquidity, operations and prospects, have hindered the ability of the Company to procure rights issue or open offer from financial institutions on a fully-underwritten basis, as they have major concerns on the Group's financial condition and development. The Company had also explored sale of its assets, but nonetheless considered that it is not an appropriate option in light of the resources required by the Group to maintain a basic level of future operations the time required to recover certain receivables and amount due to the Company and the Company's pressing need for fresh funds.

### **Outlook of the business and operations of the Group following the Share Subscription Completion and the Placing Completion**

Before 2019, the Company had recorded revenue of RMB941,617,000, RMB1,416,395,000 and RMB1,610,043,000 and net profit of RMB80,676,000, RMB145,695,000 and RMB86,405,000 for the years ended 31 December 2016, 2017 and 2018, respectively. The Company considers that the short-term liquidity insufficiency represents the key obstacle

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## LETTER FROM THE BOARD

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standing in the way of the re-vitalisation of the business of the Company, which can be addressed by the injection of funds by way of the Share Subscription and the Placing.

The Board considers that the Group is in need of external financings with a view to improving the Group's financial position, reducing its debt level (including trading and financial debts) and replenishing working capital for the Company's operations. It is the Board's view that the Share Subscription and the Placing, under which the Offeror and the Placees are to be introduced as investors, represent a crucial and precious opportunity to improve the liquidity and financial position of the Group and enable it to continue as a going concern. The introduction of investors would also present a positive signal to the market and the customers, supplier and business partners of the Group, which is conducive to the continuing operations and stability of the Company. There is expected to be a turnaround from net liabilities to net assets immediately after the Share Subscription Completion, the Placing Completion and the completion of the Pre-restructuring and the Debt Restructuring. The gearing ratio is also expected to be improved immediately after the Share Subscription Completion, the Placing Completion and the completion of the Pre-restructuring and the Debt Restructuring.

The net proceeds of the Share Subscription and the Placing will be used to repay indebtedness of the Group under the Convertible Loan and make settlements for the Relevant Subsidiaries' indebtedness under the Pre-restructuring. For more details on the use of proceeds from the Share Subscription and the Placing for the Group, please refer to the section headed "Use of Proceeds" of this circular.

The Offeror is wholly-owned by Mr. Tse Kam Pang, who has extensive experience and connections in the furniture sales and manufacturing industry in the PRC. The Group may be able to leverage the support of its new controlling shareholder to resolve its financial difficulties and optimize and further develop its existing business in the PRC.

Despite the Company recorded a decline in revenue and a net loss since 2019, the Company considers that it is experiencing a temporary reduction or suspension of operations due to market conditions as a result of the unprecedented events including the outbreak of COVID-19 epidemic and the Sino-U.S. Trade War. The Board considers that the Company has a continuing business which is viable and sustainable and has adequate substance, and will have sufficient operation and assets to warrant a continued listing after the Share Subscription Completion and the Placing Completion, after considering the following factors:

***(a) Business objective, strategy and plan***

The principal business activities of Group comprise the manufacturing and sales of sofas, sofa covers and other furniture products. The Group has created valuable and strong retail furniture brands, namely "MorriSofa" and "JENNIFER FURNITURE by MORRIS", which, in the long-term, will provide sustainable business for the Group. The Group considers that marketability of its branded products is the key to the long-term success of its business, and has devoted more time and effort to improve its product image, quality and style, and to enhance the product value for consumers. With the Group's continuous

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focus on the reach and development, it is recognised as a high technology enterprise, and its research house has been awarded as a recognised research centre at the provincial level.

It is the Group's plan to continue to pursue its existing principal activities after the Share Subscription Completion and the Placing Completion. The Group is confident that upon the resolution of the temporary debt and liquidity setbacks through the Pre-restructuring and the Debt Restructuring, the Group will be able to resume operation at a normal level and gradually restore its business and realize its full potential.

The Offeror is wholly-owned by Mr. Tse Kam Pang, who has extensive experience and connections in the furniture sales and manufacturing industry in the PRC. The Group will be able to leverage the support of its new controlling shareholder to resolve its financial difficulties and optimize and further develop its existing business in the PRC.

The Group also plans to implement a series of cost control measures in view of the generally high operating and non-operating costs incurred by the Group (including administrative expenses in the sum of RMB112.7 million for the year ended December 2021).

***(b) Business model***

The Group has been manufacturing its products in its production facilities located in Haining, Zhejiang Province, the PRC.

The Relevant Subsidiaries are the principal manufacturing subsidiaries of the Company, which are engaged in the manufacture and sale of sofa covers and upholstered sofas. The two Relevant Subsidiaries manufacture sofa and sofa cover, which are then sold to end customers through the Group's distribution networks.

The Group has recently streamlined its management structure, implemented a new cost control system, improved evaluation mechanism on suppliers' quotations, modified its supply chain and outsourcing structure, and reviewed its quality control functions. It is ready to generate healthy revenue once the new funds from the Share Subscription and the Placing are in place and the materialization of the Pre-restructuring and the Debt Restructuring.

In view of the temporary disruption of operations of the Relevant Subsidiaries, the Company implemented contingency measures in order to maintain its operations. In order to alleviate the situation and diversify its production channels, the Group has outsourced certain of its manufacturing process to selected external manufacturers and shifted certain manufacturing capacities to another PRC manufacturing subsidiary of the Company (i.e. Zhejiang Muhua Home Co. Ltd. (浙江慕華家居有限公司)).

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The Group will be able to further restore the production capabilities upon the successful completion of the Pre-structuring, after which the Relevant Subsidiaries will be able to resume its normal operations. The Group has been advised by its customers that they are prepared to continue engaging in business cooperations with the Group after the completion of the Pre-restructuring. The Group considers that the Relevant Subsidiaries possess valuable intangible assets which will be of great contribution to the Group upon the resumption of operations.

As of the Latest Practicable Date, the Group has a total of one flagship showroom, one self-operated retail store, 35 franchise stores across different provinces in Mainland China. In Hong Kong, the Group has a total of four self-operated retail stores (with another two opening soon) and seven points of consignment sales. Leveraging its international clientele and marketing experience, the Group has been capturing and, is well positioned to capture, overseas businesses in the future.

*(c) Operating scale, management expertise and scale of staff or manpower*

The Group has a large labour base and is supported by a substantial scale of manpower. As of 31 December 2021, the Group employed 1,070 employees, including employees involved in the operation function of the Group and supporting and administrative staff. The Pre-structuring has provided an opportunity for the Group to streamline its human resources structure.

In spite of the temporarily disruption of the operations of the Relevant Subsidiaries, the manufacturing subsidiary to which the Group has recently shifted certain manufacturing capacities, Zhejiang Muhua Home Co. Ltd. (浙江慕華家居有限公司), had more than 300 employees as at the Latest Practicable Date. The Group keeps contact with and understands that the experienced and long-serving senior personnel previously employed by the Relevant Subsidiaries are prepared to serve the Group upon the resumption of operations of the manufacturing division to a normal level after the completion of the Pre-restructuring. The Relevant Subsidiaries are located in Haining city, Zhejiang province, where there are a large number of skilled workers. As a result, the Directors believe that the manufacturing of the Company can be recovered in time upon the materialization of the Share Subscription, the Placing and the Pre-restructuring.

The senior management team of the Group has extensive industry experience including raw materials sourcing, manufacturing, staff training and development, accounting, sales and marketing and financial management. After the Share Subscription Completion and the Placing Competition, the Offeror will gain a controlling stake in the Company. The Offeror is wholly-owned by Mr. Tse Kam Pang, who has extensive experience in the manufacture and sale of furniture business. It is expected that the reputation, experience, insight and extended connections and resources of Mr. Tse Kam Pang will create synergy and add value to the business of the Group.

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## LETTER FROM THE BOARD

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***(d) Size and diversity of customer base and source of supply***

The Company has been in negotiation with customers who have confidence in the product offerings of the Group. Such customers indicated that they are prepared to engage in business cooperation with the Company upon the successful completion of the Pre-restructuring. Such customers generally only procure products from an internally maintained list of suppliers which have been accessed (including factory inspection) and recognised for meeting their standards (as to, for example, production capabilities and quality control etc.).

***(e) Infrastructure and other functions in support of the operations***

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”) 2013 framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The Group’s PRC operations and facilities have implemented ISO9001, ISO14001 and OHSAS18001 in June 2019. Relevant staff of the Group have extensive experience in quality control in relation to the upholstered sofa market. The quality control personnel of the Group are responsible for monitoring the quality control system and ensuring that the quality of the Group’s products meets the standards and customers’ requirements.

***(f) Business prospect***

It is the Board’s view that the Pre-restructuring, the Debt Restructuring together with the Share Subscription and the Placing would help to Group to resolve its temporary financial difficulties and to gradually resume its operations to a normal level. The Company considers that the business of the Group is supported by proper infrastructure, with appropriate supply and sales functions and is led by experienced personnel. The Company has also in place processes and controls up to industry standard.

The Company will have sufficient assets to support its operations. The Group’s production operations are labour intensive. Most of the production process are carried out by skilled labour with relatively simple machine and equipment such as electric clippers, foam-filling machines, sewing machines marking machine etc.. Since the listing of the Company in 2017, the Company has been operating under a light fixed assets model. The Company has not owned any production facilities since its listing in 2017. All the production processes of the Company have been conducted in leased properties of the Group.

The Board is also of the view that the Group’s business is clearly value adding to customers and have demonstrable competitive advantages. The Group is one of the leading and long-established manufacturers of sofas and sofa covers in the PRC sofa export industry. The



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## LETTER FROM THE BOARD

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Group has an integrated business model, consolidating the most critical functions of design, research and development, manufacturing, and sales and marketing. A majority of the Group's products are self-designed. The Group has obtained many achievements including obtaining the recognition of High Technology Enterprise granted by the Science Technology Department of Zhejiang Province (浙江省科學技術廳), the Department of Finance of Zhejiang Province (浙江省財政廳) and the State Administration of Taxation of Zhejiang Province (浙江省國家稅務局) etc. The Company believes that the Share Subscription, the Placing and subsequent managerial changes will open a new leaf for the Group's established business.

The Group is in significant financial difficulties and its ability to continue as a going concern is dependent upon the continued availability of adequate finance to the Group. The fresh funds to be raised from the Share Subscription and the Placing are key elements as to whether or not the Group's rescue plan will turn out to be successful. The Company understands that creditors (including the IFC and creditors of the Relevant Subsidiaries) and customers of the Group are closely observing the results of the implementation of the rescue plan, and may take further actions at their discretion (including taking out legal proceedings such as winding up petitions) should the rescue plan fail or be materially delayed.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of each of the Share Subscription Agreement and the Placing Agreement are negotiated after arm's length negotiation, on normal commercial terms and the Share Subscription and the Placing are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### USE OF PROCEEDS

The gross proceeds from the Share Subscription and the Placing will be in aggregate approximately HK\$109.4 million. The net proceeds after deducting all relevant costs and expenses of the Share Subscription and the Placing are estimated to be approximately HK\$105.4 million.

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## LETTER FROM THE BOARD

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The Company intends to apply the net proceeds to be raised from the Share Subscription and the Placing in the following manner:

**(a) Repayment of indebtedness**

As to approximately HK\$100 million (representing approximately 94.88% of the net proceeds) for repayment of indebtedness:

- As to approximately HK\$43.5 million (representing approximately 41.27% of the net proceeds) for repayment of indebtedness under the Pre-restructuring.
- As to approximately HK\$56.5 million (representing approximately 53.61% of the net proceeds) for the partial repayment of the overdue amount under the Convertible Loan.

**(b) Replenishment of general working capital**

As to approximately HK\$5.4 million (representing approximately 5.12% of the net proceeds) for general working capital of the Group.

The Directors confirm that the utilization of the net proceeds from the Share Subscription and the Placing as set out above will not involve payment of funds to Shareholders.

### **EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, the Company had (i) a total of 1,200,000,000 Shares in issue; and (ii) outstanding Convertible Loans in the principal amount of HK\$81,439,031 convertible into 36,684,248 Shares (representing approximately 3.06% of the total number of Shares in issue). Save for the above, the Company did not have any other Shares, outstanding warrants, options, derivatives or other securities carrying conversion or subscription rights into Shares.

## LETTER FROM THE BOARD

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Share Subscription Completion and the Placing Completion (assuming there is no other change in the total number of Shares); and (iii) immediately upon the Share Subscription Completion and the Placing Completion (assuming full conversion of the Convertible Loan and there is no other change in the total number of Shares):

Name of the Shareholder	As at the		Immediately upon the Share		Immediately upon the Share	
	Latest Practicable Date		Subscription Completion and		Subscription Completion and	
			the Placing Completion		the Placing Completion	
			(assuming there is no other		(assuming full conversion of	
			change in the total		the Convertible Loan and	
			number of Shares)		there is no other change in	
					the total number of Shares)	
	Number of	Approximate	Number of	Approximate	Number of	Approximate
	Shares	%	Shares	%	Shares	%
<b>The Offeror and parties</b>						
acting in concert with it						
(including Morris Capital						
which will be presumed to						
be acting in concert with						
the Offeror upon the Share						
Subscription Completion)						
The Offeror ( <i>Note 1</i> )	–	–	1,300,000,000	47.27	1,300,000,000	46.65
Morris Capital ( <i>Notes 1 &amp; 2</i> )	666,500,000	55.54	666,500,000	24.24	666,500,000	23.92
<b>Sub-total</b>	666,500,000	55.54	1,966,500,000	71.51	1,966,500,000	70.57
Morris ESOP ( <i>Note 3</i> )	75,812,000	6.32	75,812,000	2.76	75,812,000	2.72
<b>Public Shareholders</b>						
The Convertible Loan						
Creditor(s)	–	–	–	–	36,684,248	1.32
The Placees	–	–	250,000,000	9.09	250,000,000	8.97
Other Public Shareholders	457,688,000	38.14	457,688,000	16.64	457,688,000	16.42
<b>Total</b>	<u>1,200,000,000</u>	<u>100.00</u>	<u>2,750,000,000</u>	<u>100.00</u>	<u>2,786,684,248</u>	<u>100.00</u>

*Notes:*

- Upon the Share Subscription Completion, each of the Offeror and Morris Capital will hold 20% or more of the issued share capital of the Company. Therefore, they will be presumed to be acting in concert under class (1) of the definition of persons acting in concert under the Takeovers Code.

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## LETTER FROM THE BOARD

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2. Morris Capital is owned as to 85% of its shares by Mr. Zou Gebing (who is the chairman and chief executive officer of the Company and an executive Director) and as to 15% of its shares by Mr. Zou Gebing's spouse, Ms. Wu Xiangfei. Under Part XV of the SFO, Mr. Zou Gebing is therefore deemed, or taken to be, interested in the Shares held by Morris Capital.
3. Morris ESOP is wholly-owned by The Core Trust Company Limited, being the trustee appointed for the purpose of the Share Award Scheme (the "Trustee"). As at the Latest Practicable Date, the Trustee and its ultimate beneficial owner(s) are independent of and not connected with the Offeror or parties acting in concert with it. As at the Latest Practicable Date, there is no outstanding award granted by the Company under the Share Award Scheme. The Board expects that no award will be granted under the Share Award Scheme until the Share Subscription Completion.

### EQUITY FUNDRAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any equity fundraising activities in the past twelve months before Latest Practicable Date:

Date of announcement	Fundraising activity	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds
25 February 2022	Placing of 200,000,000 new shares at a price of HK\$0.12 per placing Share under general mandate, which was completed on 23 March 2022	HK\$23.71 million	Repay debts and replenish the working capital of the Group	Approximately HK\$23.71 million (representing all of the net proceeds raised) has been utilized for repaying debts, administrative costs and replenishing the working capital of the Group.
18 January 2022	Placing of 200,000,000 new shares at a price of HK\$0.175 per placing Share under general mandate, which was terminated on 11 February 2022	Not Applicable	Repay debts and replenish the working capital of the Group	Not Applicable

### POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS

As at the Latest Practicable Date, save for the 666,500,000 Shares (representing 55.54% of the issued Shares) held by Morris Capital which will be presumed to be acting in concert with the Offeror under class (1) of the definition of acting in concert upon the Share Subscription Completion, the Offeror and parties acting in concert with it is not interested in any Share. Upon the Share Subscription Completion and the Placing Completion, the Offeror and parties acting in concert with it (including Morris Capital) will be interested in 1,966,500,000 Shares

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## LETTER FROM THE BOARD

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(representing 71.51% of the issued Shares as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares, assuming there is no other change to the issued Shares from the Latest Practicable Date up to the Share Subscription Completion Date and the Placing Completion Date).

Subject to the Share Subscription Completion and pursuant to Rule 26.1 of the Takeovers Code, upon the Share Subscription Completion, the Offeror is required to make the unconditional mandatory cash offers for all the issued Shares and all the outstanding Convertible Loan (other than those already owned or to be acquired by the Offeror and parties acting in concert with it).

### **Securities of the Company**

As at the Latest Practicable Date, the Company has a total of 1,200,000,000 Shares in issue. As at the Latest Practicable Date, the Company had outstanding Convertible Loans in the principal amount of HK\$81,439,031 convertible into 36,684,248 Shares (representing approximately 3.06% of the total number of Shares in issue) at the conversion price of HK\$2.22 per Share. Save for the above, the Company does not have any other Shares, outstanding warrants, options, derivatives or other securities carrying conversion or subscription rights into Shares.

Subject to the Share Subscription Completion and the Placing Completion, assuming there is no further change in the total number of issued Shares, there will be 2,750,000,000 Shares in issue as a result of the issuance and allotment of the Subscription Shares and the Placing Shares. Upon the Share Subscription Completion and the Placing Completion, the Offeror will be interested in 1,300,000,000 Shares (representing approximately 47.27% of the total number of Shares in issue as enlarged by the allotment and issue of the Subscription Shares and Placing Shares).

### **Terms of the Offers**

Upon the Share Subscription Completion, Astrum, on behalf of the Offeror in compliance with the Takeovers Code, will make the Offers to acquire all the Offer Shares and all the Convertible Loan pursuant to Rule 13 of the Takeovers Code on the terms to be set out in the Composite Document to be issued in accordance with the Takeovers Code on the following basis:

#### ***The Share Offer***

For every Offer Share held . . . . . HK\$0.063 in cash

The Share Offer will be extended to all Independent Shareholders in accordance with the Takeovers Code.

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## LETTER FROM THE BOARD

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The Share Offer Price of HK\$0.063 per Offer Share is equal to the Share Subscription Price per Subscription Share under the Share Subscription Agreement.

The Offer Shares to be acquired under the Share Offer shall be fully paid and free from all Encumbrances and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Share Offer is made, that is, the date of despatch of the Composite Document.

As at the Latest Practicable Date, no dividend has been paid or declared by the Company on the Shares and the Convertible Loan, and it is advised by the Board that no dividend is expected to be declared on the Shares and the Convertible Loan during the Offer Period.

### *The Convertible Loan Offer*

For every HK\$1 principal amount of the Convertible Loan . . . . . HK\$0.0284 in cash

The Convertible Loan Offer will be extended to the Convertible Loan Creditor(s) in accordance with the Takeovers Code.

The Convertible Loan will be acquired fully-paid and free from all Encumbrances of any nature and together with all rights now or hereafter attaching or accruing to them as at the date on which the Convertible Loan Offer is made, that is, the date of despatch of the Composite Document.

The Convertible Loan Offer will apply to the outstanding principal amount of the Convertible Loan on the date on which the Convertible Loan Offer is made and will not apply to any outstanding principal amount of the Convertible Loan which is or has been converted into Shares prior to the close of the Convertible Loan Offer.

The proposed offer price for the Convertible Loan is HK\$0.0284 for every HK\$1 principal amount of the Convertible Loan, determined in accordance with Rule 13 of the Takeovers Code and Practice Note 6 as the “see-through” consideration for the Convertible Loan, being the number of new Shares which the Convertible Loan could be convertible into (i.e. approximately 36,684,248 new conversion Shares) multiplied by the Share Offer Price of HK\$0.063 per Offer Share, valuing the total Convertible Loan Offer at approximately HK\$2,311,108.

Please refer to the Joint Announcement for further information of the Offers.

### **IRREVOCABLE UNDERTAKING IN RELATION TO THE SHARE OFFER**

As at the Latest Practicable Date, Morris Capital holds 666,500,000 Shares, representing approximately 55.54% of the total issued Shares.

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## LETTER FROM THE BOARD

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Morris Capital has entered into the Irrevocable Undertaking, pursuant to which it has unconditionally and irrevocably undertaken to the Offeror that: (i) it will not accept the Share Offer in respect of the 666,500,000 Shares held by it or sell any of the 666,500,000 Shares held by it to the Offeror or the parties acting in concert with the Offeror under the Share Offer; (ii) it will not take any other action to make the 666,500,000 Shares held by it available for acceptance under the Share Offer; and (iii) it (a) will hold the 666,500,000 Shares held by it until, and (b) will not sell, transfer, dispose of or create or agree to create any Encumbrance of or otherwise create any interests on the 666,500,000 Shares held by it before, the close of the Offers.

Morris Capital has also undertaken to the Offeror that it shall not: (i) sell, transfer, charge, encumber, grant any option or lien over or otherwise dispose of any interest in any of the 666,500,000 Shares held by it; (ii) accept, in respect of the 666,500,000 Shares held by it, any share offer or other transaction made in competition with or which might otherwise frustrate, impede or delay the Offers; or (iii) solicit, directly or indirectly, any other offer in competition with the Offeror, whether conditionally or unconditionally (by whatever means the same is to be implemented) nor enter into any negotiation to such effect.

The Irrevocable Undertaking will cease upon the close of the Offers or the lapse of the Offers or the withdrawal of the Offers in accordance with the Takeovers Code or the Offeror announces that it does not intend to proceed with the Offers.

### INFORMATION ON THE COMPANY AND THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability and the principal activity of the Company is investment holding. The Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products.

Set out below is a summary of the audited consolidated financial results of the Group for the years ended 31 December 2020 and 2021, prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2021</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)
Revenue	502,932	606,363
Net loss before tax	(120,286)	(87,840)
Net loss after tax	(123,402)	(90,730)

The audited net assets of the Group as at 31 December 2020 was RMB76,743,000 and the audited net liabilities of the Group as at 31 December 2021 was RMB51,171,000.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE OFFEROR

The Offeror is a company incorporated under the laws of the British Virgin Islands with limited liability. It is principally engaged in investment holding. The Offeror is wholly-owned by Mr. Tse Kam Pang, who is also the sole director of the Offeror.

Mr. Tse Kam Pang is a founder, the chairman and an executive director of Royale Home, a company the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1198). He is also a controlling shareholder of Royale Home who is deemed to be interested in approximately 74.86% of the issued share capital of Royale Home. He previously held the position of Deputy Managing Director in another public listed company in Hong Kong. He has over 30 years of experience in the international trade and China trade business. Mr. Tse Kam Pang is a vice chairman of Hong Kong Furniture Association and has extensive experience in the manufacture and sale of furniture business. It is expected that the reputation, experience, insight and extended connections of Mr. Tse Kam Pang will create synergy in respect of the business of the Group.

### INFORMATION ON THE PLACING AGENT

The Placing Agent is a corporation licensed to carry on type 1 (dealing in securities) regulated activities under the SFO.

### FUTURE INTENTIONS OF THE OFFEROR REGARDING THE COMPANY AND THE GROUP

Upon the Share Subscription Completion and the Placing Completion, the Offeror will become a controlling shareholder of the Company. The Offeror considers and confirms that it is intended that the Group will continue with its existing principal business following the Share Subscription Completion and the Placing Completion.

The Offeror will conduct a review on the existing principal businesses and the financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. In this regard, the Offeror may look into business opportunities and consider whether any asset disposals, asset acquisitions, business divestment, fundraising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential and sustainability of the Group. Should such corporate actions materialise, further announcement(s) will be made in accordance with the Listing Rules as and when appropriate. As at the Latest Practicable Date, the Offeror has no intention or concrete plans for any acquisition of assets and/or business, nor any intention to dispose of any assets and/or existing business by the Group.

Save as disclosed above, the Offeror has no intention to introduce any major changes to the existing business of the Group or redeploy the fixed assets of the Group other than in its ordinary course of business.



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## LETTER FROM THE BOARD

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In addition to the proposed change as mentioned in the section headed “Proposed Change to Board Composition” in this circular, the Offeror may further review the composition of the Board and senior management of the Company upon or after the close of the Offers. As at the Latest Practicable Date, the Offeror has no intention to discontinue the employment of any of the Group’s employees.

### **PROPOSED CHANGE TO BOARD COMPOSITION**

As at the Latest Practicable Date, the Board comprises three (3) executive Directors, namely Mr. Zou Gebing, Mr. Shen Zhidong and Mr. Wu Yueming; and three (3) independent non-executive Directors, namely Ms. Wu Weixia, Mr. Tan Tianhong and Ms. Zhao Hongyan.

It is intended that seven (7) candidates will be nominated by the Offeror for appointment as seven (7) new Directors of a Board comprising 13 Directors. The composition of the Board (i.e. the number of executive Directors, non-executive Directors or independent non-executive Directors) will be provided and confirmed by the Offeror upon or after the close of the Offers.

The Offeror will, upon the Share Subscription Completion and the Placing Completion, be a controlling shareholder entitled to propose resolutions at general meeting(s) of the Company under the articles of association of the Company. The suitability of the candidates nominated by the Offeror upon or after the close of the Offers will be subject to the approval of the Board and the review of the nomination committee of the Company with reference to an array of factors in compliance with the Company’s articles of association and the Listing Rules. For the purpose of optimizing corporate governance of the Company, the Offeror and the Company may subsequently agree to other Board compositions.

The Offeror may further review the composition of the Board and the senior management of the Company upon or after the close of the Offers. Details of the actual change of the Board composition and biographical information of new Directors to be appointed will be further announced by the Company as and when appropriate in accordance with the Takeovers Code and the Listing Rules.

Any change to the Board composition will be made in compliance with the Takeovers Code and the Listing Rules.

### **PUBLIC FLOAT AND MAINTAINING THE LISTING STATUS OF THE COMPANY**

The Offeror intends the issued Shares to remain listed on the Stock Exchange upon the close of the Offers.

Pursuant to the Listing Rules, if, at the closing of the Offers, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a level of sufficient public float is attained.

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## LETTER FROM THE BOARD

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The Offeror will undertake to the Stock Exchange to take appropriate steps as soon as possible following the close of the Offers to ensure that sufficient public float (i.e. not less than 25% of the issued Shares) exists in the Shares after the close of the Offers.

### LISTING RULES IMPLICATIONS

Based on the closing price of HK\$0.155 per Share on the Last Trading Day, the theoretical value dilution in respect of the Share Subscription and the Placing is approximately 30.71%. With reference to Rule 7.27B of the Listing Rules, the Share Subscription and the Placing would result in a theoretical dilution effect of 25% or more within a 12-month period. However, in light of (i) the debt position of the Company (including the substantial unpaid amounts in relation to the Convertible Loan and the indebtedness of the Relevant Subsidiaries); (ii) the loss-making position of the Company for three consecutive years since 2019; and (iii) the net liabilities recorded by the Company of approximately RMB51 million as at 31 December 2021; the Share Subscription and the Placing form part of a rescue proposal for the Company (including the Debt Restructuring and the Pre-restructuring). Pursuant to Note 2 to Rule 7.27B of the Listing Rules, the Company has consulted the Stock Exchange regarding the Share Subscription and the Placing and the Stock Exchange agrees that the Company has demonstrated that there are exceptional circumstances for the purpose of Rule 7.27B of the Listing Rules and the Company can proceed with the Share Subscription and the Placing.

### EGM

The EGM will be convened and held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Thursday, 15 September 2022 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve resolutions relating to (a) the Share Subscription Agreement and the transactions contemplated thereunder; (b) the Placing Agreement and the transactions contemplated thereunder; and (c) the granting of the Specific Mandate. A notice convening the EGM are set out on pages 43 to 45 of this circular.

Whether or not you propose to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

No existing Shareholder has a material interest in the Share Subscription, the Placing and the Specific Mandate and therefore no Shareholder is required to abstain from voting in relation to the resolutions on the Share Subscription Agreement, the Placing Agreement and the transactions contemplated thereunder and the granting of the Specific Mandate to be proposed at the EGM. The Offeror and/or the parties acting in concert with it do not and will not at the EGM hold any Shares and accordingly will not be entitled to vote on any resolutions at the EGM.

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## LETTER FROM THE BOARD

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Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Therefore, all resolutions proposed at the EGM shall be voted by poll. The poll results will be announced in accordance with Rule 13.39(5) of the Listing Rules after the conclusion of the EGM.

### COMPOSITE DOCUMENT

Subject to the Share Subscription Completion and the Placing Completion, if the Offers materialize, it is the intention of the Offeror and the Company that the offer document from the Offeror and the offeree board circular from the Company be combined into a composite offer and response document and be jointly despatched by the Offeror and the Company to the Independent Shareholders and the Convertible Loan Creditor(s) in accordance with the requirements of the Takeovers Code after the Share Subscription Completion and the Placing Completion take place.

In accordance with Rule 8.2 of the Takeovers Code, the Composite Document containing, amongst other things: (i) details of the Offers (including the expected timetable and terms of the Offers); (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders and the Convertible Loan Creditor(s) in relation to the Offers; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders and the Convertible Loan Creditor(s) in relation to the Offers, together with the relevant forms of acceptance and transfer, are required to be despatched to the Independent Shareholders and the Convertible Loan Creditor(s) within 21 days of the date of the Joint Announcement or such later date as the Executive may approve. As the making of the Offers is subject to the Share Subscription Completion, an application has been made to the Executive under Note 2 to Rule 8.2 of the Takeovers Code for the Executive's consent to extend the deadline for despatch of the Composite Document.

### RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms and conditions of the Share Subscription Agreement, the Placing Agreement and the transactions contemplated thereunder were arrived at after arm's length negotiation and are on normal commercial terms, and the Share Subscription, the Placing and the Specific Mandate are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Share Subscription, the Placing and the Specific Mandate.

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## LETTER FROM THE BOARD

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### 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 (other than that relating to the Offeror and parties acting in concert with it) contained in this circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

### WARNING

**Shareholders should note that the Share Subscription Agreement, the Placing Agreement and the transactions contemplated thereunder are subject to the fulfillment and/or waiver, as applicable, of the conditions precedent under the Share Subscription Agreement and the Placing Agreement. As such, the Share Subscription and the Placing may or may not proceed.**

**The Offers will be made only if the Share Subscription Completion and the Placing Completion take place. Accordingly, the Offers may or may not be made. The issue of this circular does not in any way imply that the Offers will be made.**

**The Directors make no recommendation as to the fairness or reasonableness of the Offers or as to the acceptance of the Offers in this circular, and strongly recommend the Independent Shareholders and the Convertible Loan Creditor(s) not to form a view on the Offers unless and until they have received and read the Composite Document, including the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Offers and the letter of advice from the Independent Financial Adviser to the Independent Board Committee, the Independent Shareholders and the Convertible Loan Creditor(s) in respect of the Offers.**

**Shareholders and potential investors of the Company are (i) reminded to monitor the announcements to be made by the Company or jointly by the Offeror and the Company in respect of the progress of the Offers; and (ii) advised to exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.**

Yours faithfully,  
For and on behalf of the Board  
**Morris Home Holdings Limited**  
**Zou Gebing**  
*Chairman*

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## NOTICE OF EGM

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MORRIS  
HOME HOLDINGS LIMITED

### MORRIS HOME HOLDINGS LIMITED 慕容家居控股有限公司

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

**(Stock Code: 1575)**

#### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of Morris Home Holdings Limited (the “**Company**”) will be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Thursday, 15 September 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company.

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the share subscription agreement (the “**Share Subscription Agreement**”, as amended and supplemented by a supplemental share subscription agreement entered into by the Company and the Offeror on 5 August 2022, a copy of which is tabled at the EGM and marked “A” and initialed by the chairman of the EGM for the purpose of identification) entered into between the Company as issuer, and Century Icon Holdings Limited (the “**Offeror**”) as subscriber on 26 May 2022 in relation to the subscription by the Offeror of an aggregate of 1,300,000,000 shares in the Company (the “**Subscription Share(s)**”) at the subscription price of HK\$0.063 per Subscription and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified; and
- (b) any one or more of the directors of the Company (the “**Directors**”) be and is/are hereby authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in his/her/their opinion, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Share Subscription Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in his/her/their opinion, in the interests of the Company.”

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## NOTICE OF EGM

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2. **“THAT:**
- (a) the placing agreement (the **“Placing Agreement”**), a copy of which is tabled at the EGM and marked “B” and initialed by the chairman of the EGM for the purpose of identification) entered into between the Company as issuer, and Forwin Securities Group Limited (the **“Placing Agent”**) as placing agent on 5 August 2022 in relation to the placing, on a fully underwritten basis, by the Placing Agent of 250,000,000 shares in the Company (the **“Placing Share(s)”**) to placees (the **“Placees”**) at the placing price of HK\$0.11 per Placing Share and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified; and
  - (b) any one or more of the Directors be and is/are hereby authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which, in his/her/their opinion, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Placing Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in his/her/their opinion, in the interests of the Company.”
3. **“THAT** conditional upon The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in the Subscription Shares and the Placing Shares, the Directors be and are hereby unconditionally granted a specific mandate (the **“Specific Mandate”**) to allot and issue an aggregate of 1,300,000,000 Subscription Shares and 250,000,000 Placing Shares to the Offeror and the Placees pursuant to the Share Subscription Agreement and the Placing Agreement as fully paid shares of the Company, provided that (i) the Specific Mandate shall be in addition to and shall not prejudice nor revoke the any general or other special mandate(s) which has/have been granted or may from time to time to the Directors by the shareholders of the Company; and (ii) such Subscription Shares and Placing Shares ranking *pari passu* amongst themselves and with all other fully shares of the Company in issue as at the date of allotment and issue thereof in all respects.”

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

Hong Kong, 29 August 2022

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## NOTICE OF EGM

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*Registered Office:*

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

*Principal place of business in Hong Kong:*

Room 708–709, Laford Centre  
838 Lai Chi Kok Road  
Cheung Sha Wan  
Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the EGM may appoint one or more proxy(ies) (if he/she/it is the holder of two or more shares) to attend and on a poll, vote instead of him/her/it at the EGM. A proxy need not be a shareholder of the Company.
2. A form of proxy for use at the EGM is enclosed herewith. The form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be under seal or the hand of an officer, attorney or other person duly authorised.
3. In order to be valid, a form of proxy must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof) not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the EGM (or any adjournment thereof) if they so wish.
4. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share of the Company as if he/she/it was solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, the vote of that one of the said persons so present whose name stands first on the register of members in respect of such share shall be accepted to the exclusion of the votes of the other joint holders.
5. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 13 September 2022 to Thursday, 15 September 2022, both days inclusive, during which no share transfers can be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 September 2022.
6. To safeguard the health and safety of the Shareholders and to prevent the spreading of the novel coronavirus (COVID-19) pandemic, the following precautionary measures will be implemented at the EGM: (i) limiting the number of the attendees to avoid over-crowding; (ii) compulsory body temperature screening/checks; (iii) compulsory wearing of face mask; (iv) maintaining an appropriate social distancing between seats; and (v) no provision of food or beverages and no distribution of gifts.

For the health and safety of the Shareholders, the Company strongly encourages shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their forms of proxy by the time specified above, instead of attending the EGM in person.

7. If a tropical cyclone warning signal number 8 or above is hoisted, or "extreme conditions" caused by super typhoons or a black rainstorm warning is/are in effect any time after 8:00 a.m. on the date of the EGM, the EGM will not be held on that date but will be postponed to a later date. If the EGM is postponed, the Company will post an announcement on the website of the Company and the Stock Exchange to notify Shareholders of the date, time and venue of the rescheduled meeting.