THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, 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 Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, the licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED
慕容控股有限公司

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

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF PUT OPTION TO REQUIRE THE SELLER TO REPURCHASE ALL THE ISSUED COMMON STOCK OF JENNIFER CONVERTIBLES INC.
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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

AJS 安捷融資

AJ Corporate Finance Limited

Terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 6 to 23 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 24 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 49 of this circular.

A notice convening the EGM to be held on Tuesday, 21 July 2020 at 10:00 a.m. at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjournment thereof if you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

3 July 2020

Page

In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

"Acquisition"	the acquisition of the Target Shares by the Company from Morris PRC pursuant to the Acquisition Agreement, which was completed on 31 August 2018
"Acquisition Agreement"	the sale and purchase agreement dated 4 July 2018 entered into among the Company, Morris PRC and the Warrantor in relation to the Acquisition
"associate(s)"	having the meaning ascribed thereto under the Listing Rules
"Audited Accounts"	the audited consolidated financial statements (comprising balance sheet and profit and loss account) of the Target Group for the years ending 31 December 2019 and 2020
"Audited Financial Information of the Target Group"	the audited financial information (comprising balance sheet and profit and loss account for the Group's consolidation purposes only) of the Target Group
"Average Profit"	the average of the audited consolidated net profit (or loss) after tax of the Target Group (excluding profits and losses not arising from the ordinary and usual course of business) as shown in the Audited Accounts for the two years ending 31 December 2019 and 2020, targeted at US$3 million under the terms of the Acquisition Agreement
"Board"	the board of Directors
"Company	Morris Holdings Limited (慕容控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1575
"connected person(s)"	having the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition in the amount of US$35 million (HK$273 million)
"controlling shareholder(s)"	having the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company

"Disposal"	the disposal of the Target Group by the Company to Morris PRC as triggered by the exercise of the Put Option by the Company
"Disposal Completion"	the completion of the Disposal
"EGM"	the extraordinary general meeting of the Company convened to be held on Tuesday, 21 July 2020 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve the exercise of the Put Option and the Receivables Disposal
"EGM Notice"	the notice of the EGM set out on pages EGM-1 to EGM-3 of this circular
"Exit Price"	the consideration of the Disposal in the amount of US$35 million (HK$273 million), which is equivalent to the Consideration of the Acquisition
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all independent non-executive Directors, namely, Mr. Liu Haifeng, Mr. Pang Wing Hong and Mr. Chu Guodi, which was established to advise the Independent Shareholders regarding the exercise of the Put Option and the Receivables Disposal
"Independent Financial Adviser" or "AJ Corporate Finance"	AJ Corporate Finance Limited, a licensed corporation carrying out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the exercise of the Put Option and the Receivables Disposal

"Independent Shareholders"	Shareholders other than (a) Morris PRC, the Warrantor and their respective associates (including Morris Capital), and (b) any other Shareholders who has a material interest in the exercise of the Put Option and the Receivables Disposal and are required by the Listing Rules to abstain from voting on the resolution(s) approving the exercise of the Put Option and the Receivables Disposal at the EGM
"Latest Practicable Date"	26 June 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Morris Capital"	Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability which is owned as to 85% by Mr. Zou and 15% by Ms. Wu, and a substantial and controlling shareholder of the Company holding 750,000,000 Shares (representing 75% of the issued share capital of the Company) as at the Latest Practicable Date
"Morris PRC" or "Seller"	慕容集團有限公司 (Morris Group Co., Ltd*) (formerly known as 海寧蒙努集團有限公司 (Haining Mengnu Group Co., Ltd.*)), a company established in the PRC with limited liability which is owned as to 85% by Mr. Zou and 15% by Ms. Wu, the vendor under the Acquisition and the purchaser under the Disposal and the Receivables Disposal
"Mr. Shen"	Mr. Shen Zhidong (沈志東), an executive Director of the Company
"Ms. Wu"	Ms. Wu Xiangfe (鄔向飛), spouse of Mr. Zou
"Option Notice"	the written notice delivered from the Company to Morris PRC on 31 March 2020 exercising the Put Option
"PRC"	the People's Republic of China

"Profit Guarantee Payment"	the payment liable to be made by Morris PRC on demand of the Company to adjust the Consideration downwards if the Average Profit is less than US$3 million, being an amount equivalent to the shortfall difference between US$3 million and the Average Profit multiplied by the multiplier of 11.67
"Put Option"	the put option right granted by Morris PRC to the Company under the Acquisition Agreement, under which the Company may require Morris PRC to repurchase the Target Shares at the Exit Price if the Target Group records an audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for any of the two years ending 31 December 2019 or 2020
"Receivables"	the trade and loan receivables in the aggregate sum of RMB99.1 million due from the Target Group to the Remaining Group
"Receivables Disposal"	the proposal regarding the disposal of the Receivables by the Remaining Group to Morris PRC
"Remaining Group"	the Group excluding the Target Group
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of the Company having a par value of US$0.001 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	having the meaning ascribed thereto under the Listing Rules
"Target Company"	Jennifer Convertibles Inc., a company incorporated in the US and a wholly-owned subsidiary of the Company prior to the Disposal Completion
"Target Group"	the Target Company and its subsidiaries

"Target Shares"	all the issued and outstanding common stock of the Target Company
"Unaudited Management Accounts"	the unaudited management accounts (comprising balance sheet and profit and loss account) of the Target Group for the year ended 31 December 2019
"US"	the United States of America
"US$"	United States Dollars, the lawful currency of the US
"Warrantor" or "Mr. Zou"	Mr. Zou Gebing (鄒格兵), the Chairman, Chief Executive Officer and an executive Director of the Company
"%"	per cent.

In this circular, amounts denominated in US$ and RMB have been converted into HK$ at the exchange rates of US$1.00 = HK$7.80, HK$1.00 = RMB0.88 as at 31 December 2018 and 30 June 2019, HK$1.00 = RMB0.89 as at 31 December 2019, HK$1.00 = RMB0.84 during the year ended 31 December 2018, HK$1.00 = RMB0.86 during the six months ended 30 June 2019 and HK$1.00 = RMB0.88 during the year ended 31 December 2019. The exchange rates are for illustration purpose only and do not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.

* *In this circular, the English transliteration of the Chinese names, where indicated, are included for identification purpose only, and should not be regarded as the official English names of such Chinese names. In the event of any inconsistency, the Chinese names shall prevail.*

MORRIS HOLDINGS LIMITED
慕容控股有限公司

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

Executive Directors:
Mr. Zou Gebing
Mr. Zeng Jin
Mr. Shen Zhidong
Mr. Wu Yueming

Independent non-executive Directors:
Mr. Liu Haifeng
Mr. Pang Wing Hong
Mr. Chu Guodi

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

Principal place of business:
Unit 2001, 20/F
Citicorp Centre
18 Whitfield Road,
Causeway Bay
Hong Kong

3 July 2020

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF PUT OPTION TO REQUIRE THE SELLER TO REPURCHASE ALL THE ISSUED COMMON STOCK OF JENNIFER CONVERTIBLES INC.

INTRODUCTION

Reference is made to: (i) the Company's announcement dated 4 July 2018 (the "**Acquisition Announcement**") and the Company's circular dated 14 August 2018 (the "**Acquisition Circular**") in relation to the Acquisition of the Target Company from Morris PRC; and (ii) the Company's announcement dated 31 March 2020 (the "**Disposal Announcement**") in relation to the exercise of the Put Option to require Morris PRC to repurchase the Target Company and the Receivables Disposal.

The purpose of this circular is to provide you with, among other things, (i) further information of the exercise of the Put Option and the Receivables Disposal; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders; (iv) other information prescribed by the Listing Rules; and (v) the EGM Notice.

BACKGROUND

On 4 July 2018, the Company entered into the Acquisition Agreement with Morris PRC pursuant to which the Company acquired from Morris PRC all the issued and outstanding common stock of the Target Company for the Consideration of US$35 million (HK$273 million). The Target Company is principally engaged in the retail business of sale of furniture products and home furnishings in the eastern part of the US, operating 19 retail outlets in New York, New Jersey and Connecticut. The Acquisition was completed on 31 August 2018.

Under the terms of the Acquisition Agreement, if the Target Group records an audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for any of the two years ending 31 December 2019 or 2020, the Company may serve an Option Notice to exercise the Put Option and to require Morris PRC to repurchase the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

Based on the Unaudited Management Accounts of the Target Group for the year ended 31 December 2019, the Target Group was expected to record a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million (HK$23.4 million) for the two years ending 31 December 2019 and 2020. After considering the Unaudited Management Accounts and the management's report on the situation of the Target Group, the Directors are of the view that: (a) given the Coronavirus outbreak since January 2020 causing disruptions to the supply chain of the Target Group, the Directors do not expect, barring unforeseen circumstances, any reasonable prospect for the Target Group to turnaround from loss-making to profit-making in 2020; (b) based on the loss-making situation of the Target Group, it is beneficial for the Company to stop loss as soon as possible; (c) it is therefore fair and reasonable and in the interests of the Company and its shareholders as a whole to exercise the Put Option now, rather than to wait for one more year; and (d) due to the severe shortfall represented by the expected loss in the Unaudited Management Accounts as compared to the Average Profit, there is no added benefit for the Company to wait for the finalization of the Audited Accounts of the Target Group for the year ended 31 December 2019 before serving the Option Notice, subject to the consent of Morris PRC.

The Company entered into amicable negotiation with Morris PRC, who indicated that it is prepared to waive the requirement of insisting the Company to wait for the Audited Accounts and to allow the Company to serve the Option Notice on the basis of the Unaudited Management Accounts. Accordingly, on 31 March 2020, the Company served the Option Notice on Morris PRC and the Warrantor stating its decision to exercise the Put Option to require Morris PRC to repurchase the Target Shares at the Exit Price. The Option Notice was accepted by Morris PRC and the Warrantor on the same date.

Since then, the Audited Financial Information of the Target Group for the year ended 31 December 2019 was finalized for the purpose of consolidation into the Group's audited consolidated financial statements which was published by the Company on 8 May 2020. The audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of the Target Group for the year ended 31 December 2019 was in the amount of RMB35.3 million (HK$40.1 million), which was slightly less than the expected loss of RMB42.0 million (HK$47.6 million) as disclosed in the Disposal Announcement due to closing adjustments made during the audit process.

THE OPTION NOTICE

The principal terms of the Disposal pursuant to the exercise of the Put Option shall be as follows:

Date of Option Notice

31 March 2020

Parties to the Disposal

(1) The Company (as seller under the Disposal);

(2) Morris PRC (as purchaser under the Disposal); and

(3) Mr. Zou (as warrantor to guarantee the performance of the obligations of Morris PRC under the Disposal).

Morris PRC was the seller in the Acquisition and is now the purchaser under the Disposal. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Morris PRC is ultimately and beneficially owned as to 85% by Mr. Zou and 15% by his spouse, Ms. Wu. Mr. Zou is the Chairman, Chief Executive Officer and an executive Director of the Company. In addition, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, Morris Capital (a substantial and controlling shareholder holding 750,000,000 Shares, representing 75% of the issued share capital of the Company) is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Accordingly, each of Morris PRC and its ultimate beneficial owner (i.e. Mr. Zou and Ms. Wu) and the Warrantor (i.e. Mr. Zou) is a connected person or associate of connected person of the Company.

The Put Option

Under the terms of the Acquisition Agreement, Morris PRC (as vendor of the Target Company under the Acquisition) has irrevocably granted to the Company (as purchaser of the Target Company under the Acquisition) the Put Option to sell, and to require Morris PRC to buy, all (but not part only) of the Target Shares, if the Target Group records an audited net loss after tax (excluding profits and losses not from the ordinary and usual course of business) in the Audited Accounts for any of the years ending 31 December 2019 and 2020 (regardless of whether the Average Profit meets the US$3 million profit threshold).

Under the terms of the Acquisition Agreement, the Put Option may be exercised by the Company on any date during the period of three months from the date of the issuance of the Audited Accounts for the relevant year by the delivery of the Option Notice to Morris PRC. In this regard, as explained above, Morris PRC has waived the requirement of insisting the Company to wait for the Audited Accounts and has allowed the Company to serve the Option Notice on 31 March 2020 on the basis of the Unaudited Management Accounts.

Details of the Put Option are already set out in the section headed "Sale and Purchase Agreement — Repurchase Undertaking" in the Acquisition Announcement and the Letter from the Board of the Acquisition Circular.

The Exit Price

Under the terms of the Acquisition Agreement, once the Option Notice is served, Morris PRC shall be bound to buy the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

Under the terms of the Acquisition Agreement, the Consideration was payable by the Company to Morris PRC in cash at any time prior to the second anniversary of the date of completion of the Acquisition, i.e. by 31 August 2020 (the "**Payment Period**"). The Company shall have the right to pay the Consideration in any number of installment, in any amount per installment and at any time during the Payment Period. The Consideration is only due for payment on the expiry of the Payment Period. Up to the date of serving of the Option Notice on 31 March 2020, the Company has only paid US$20 million to Morris PRC, and the remaining balance of the Consideration in the amount of US$15 million remained outstanding. No interest has been or would be charged on the unpaid balance of the Consideration, as the Payment Period has yet to expire.

Upon the serving of the Option Notice, the Company is no longer obliged to pay the unpaid balance of the Consideration to Morris PRC. This unpaid balance of US$15 million (HK$117 million) shall be set off against the Disposal Consideration of US$35 million (HK$273 million), resulting in a net payment due and payable by Morris PRC in the amount of US$20 million (HK$156 million) upon the Disposal Completion (the "**Net Exit Price Payment**").

Disposal Completion

Under the terms of the Acquisition Agreement, once the Option Notice is served, the Target Shares shall be sold by the Company free from encumbrances but together with all interests attached or attaching, accrued or accruing thereto after the date of the Disposal Completion. On Disposal Completion: (a) the Company shall deliver to Morris PRC a stock certificate evidencing the Target Shares, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank; and (b) Morris PRC shall pay the Exit Price to the Company (or as the Company may direct) in US$ by way of bankers' draft.

Under the terms of the Acquisition Agreement, once the Option Notice is served, the Disposal Completion shall take place on the date falling 20 business days after the service of the Option Notice. In compliance of the Listing Rules, since the exercise of the Put Option is subject to the approval of the Independent Shareholders at the EGM, the Company has agreed with Morris PRC to defer the Disposal Completion to a date falling not later than 20 business days after the date of the EGM. Save and except for the obtaining of the Independent Shareholders' approval for the Disposal at the EGM, the Disposal is not subject to any other conditions precedent.

After the Disposal Completion, all the members of the Target Group will cease to be subsidiaries of the Company and the results of the Target Group will no longer be consolidated into the Group's financial statements.

Other terms applicable to the exercise of the Put Option

Under the terms of the Acquisition Agreement, Morris PRC shall be responsible for all costs and expenses to be incurred for and incidental to the sale and purchase of the Target Shares on the exercise of the Put Option.

Under the terms of the Acquisition Agreement, the Company shall be entitled to either exercise the Put Option or to demand the Profit Guarantee Payment, but not both. For the avoidance of doubt, if the exercise of the Put Option proceeds to the Disposal Completion, the Company will no longer be entitled to demand the Profit Guarantee Payment.

Since the Profit Guarantee Payment depends on the Average Profit for the two years ending 31 December 2019 and 2020, the Company will not be in the position to demand the Profit Guarantee Payment until the determination of the Audited Accounts of the Target Group for the year ending 31 December 2020 in or around March 2021. In the light of the loss-making position of the Target Group, the Directors are of the view that it is fair and reasonable and in the interests of the Company and its shareholders as a whole to stop loss by exercising the Put Option now, rather than to wait for one more year before demanding any Profit Guarantee Payment. In any event, the Exit Price receivable by the Company through the exercise of the Put Option was pre-agreed at US$35 million (HK$273 million), which is already at the upper limit of the maximum adjustment permissible under the mechanisms of the Profit Guarantee Payment contemplated by the Acquisition Agreement.

REASONS FOR AND BENEFITS OF THE EXERCISE OF THE PUT OPTION

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

The Target Company is principally engaged in the retail business of sale of furniture products and home furnishings in the eastern part of the US, operating 19 retail outlets in New York, New Jersey and Connecticut. Since the completion of the Acquisition in August 2018, the performance of the Target Group has not lived up to the Company's expectation due to the adverse impact caused by the Sino-US trade war narrowing the profit margin due to the partial sharing of the tariffs. Based on the Audited Financial Information of the Target Group, the Target Group recorded a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of RMB35.3 million (HK$40.1 million) for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million (HK$23.4 million) for the two years ending 31 December 2019 and 2020.

China is one of the important sources of products and parts in the supply chain of the Target Group. Since the commencement of the Chinese New Year holiday in late January 2020, many factories in China remained shut as a result of the extension of holiday period as ordered by the PRC Government. Since January 2020, transportation in China has been severely affected by traffic restriction in an effort to contain the outbreak of the novel Coronavirus epidemic (the "**Epidemic**"). This has caused the worsening of consumer sentiment and the disruption to the global supply chain, posing uncertainties as to whether the financial performance of the Target Group for the rest of the year will be able to compensate the losses incurred during the supply chain disruption. Given the above situation, the Directors do not expect, barring unforeseen circumstances, any reasonable prospect for the Target Group to turnaround from loss-making to profit-making in 2020.

As disclosed in the Company's announcement dated 22 March 2020, the furniture retail business of the Target Group in the United States was heavily hit by the Epidemic. With the increase of infected people in the United States including the eastern states where the Target Group's retail network is situated, some non-essential retailers have closed their shops to curb the spread of the Epidemic. Other non-essential retailers which tried to remain open suffered unprecedented decline in sales. In the third week of March 2020, the Group received reports from the management of the Target Group that some of their shops recorded next-to-nil sales. In the circumstances, the management of the Target Group has decided to close all the retail shops of the Target Group in the United States. It is uncertain as to how long this situation will last, as the estimate by the market on the duration ranges from anything between three and eighteen months. The prospect of the Target Group has now become more uncertain than ever.

The Put Option was designed to provide an opportunity to the Company to unwind the transaction and recoup the Consideration in full if the business of the Target Group turns out to be unprofitable. The terms of the Put Option were pre-agreed in the Acquisition Agreement, which was determined after arm's length negotiation between Morris PRC and the Company at the time of the Acquisition. The Exit Price is equivalent to the Consideration for the Acquisition, enabling the Company to recoup the Consideration in full. The terms of the Put Option were already disclosed in the Acquisition Announcement and the Acquisition Circular, and were approved as part of the Acquisition by the Independent Shareholders at the extraordinary general meeting of the Company held on 31 August 2018.

In the light of the reasons stated above and the cash inflow to be derived from the Net Exit Price Payment upon the Disposal Completion, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser, but excluding Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are of the view that although the exercise of the Put Option and the Disposal are not considered to be in the ordinary and usual course of business of the Group, the terms of the Disposal (including the Exit Price) are fair and reasonable, on normal commercial terms and that the exercising of the Put Option and the Disposal are in the interests of the Company and its Shareholders (including the Independent Shareholders) as a whole. Although the Exit Price was agreed in July 2018, the Directors are of the view that the Exit Price is fair and reasonable, taking into account the latest business operation and financial position of the Target Group.

The Company has to bear the net loss of the Target Group incurred for the year ended 31 December 2019, as the Exit Price only enable the Group to recoup the original acquisition cost but will not enable the Group to recoup the loss suffered by the Target Group between the Acquisition and the Disposal. That having said, the Target Group was under the management control of the Group during such period of time, making it unfair to make Morris PRC to bear the consequence of business decisions made by the Company. In addition, it was the intention at the time of the Acquisition that the Company had the protection of the Put Option if the profitability is under-achieved, but there is no upward adjustment of consideration such that Morris PRC did not have the upside of any over-achievement of profitability. Accordingly, the Directors are of the view that the Exit Price is fair and reasonable and in the interest of the Company and its Shareholders although it does not enable the Group to recoup the loss by the Target Group during the period of the Group's control and consolidation.

Mr. Zou (the Chairman, Chief Executive Officer and an executive Director of the Company) is the 85% shareholder of Morris PRC and the Warrantor under the Disposal. The spouse of Mr. Shen (another executive Director) is a cousin of Ms. Wu (15% shareholder of Morris PRC and spouse of Mr. Zou). Mr. Zou and Mr. Shen abstained from voting on Board level regarding the exercise of Put Option and the Disposal, due to Mr.

Zou's material interest in the transactions. Save for Mr. Zou and Mr. Shen, no other Director regarded himself to have a material interest or perceived conflict in the transactions which requires him to disclose his interest and/or to abstain from voting on Board level regarding the exercise of Put Option and the Disposal.

The Company intends to utilize the Net Exit Price Payment receivable from Morris PRC in the amount of US$20 million (HK$156 million) upon the Disposal Completion to replenish the Group's working capital and to repay debts and liabilities of the Group when they fall due.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the US with limited liability and is principally engaged in the retail business of sale of furniture products and home furnishings in the US. Prior to the Disposal, all the issued and outstanding common stock of the Target Company are owned by the Company.

Set out below is a summary of the key financial information of the Target Group based on the Audited Financial Information of the Target Group for the two years ended 31 December 2018 and 2019 and the unaudited financial information of the Target Group for the year ended 31 December 2017 and the six months ended 30 June 2019:

	For the year ended 31 December 2017 *(RMB'000)* *(unaudited)*	**For the year ended 31 December 2018** *(RMB'000)* *(audited)* *(Note 2)*	**For the six months ended 30 June 2019** *(RMB'000)* *(unaudited)*	**For the year ended 31 December 2019** *(RMB'000)* *(audited)* *(Notes 1 and 2)*
Revenue	243,690	214,062	97,297	208,514
Loss before tax	(13,785)	(21,518)	(7,524)	(35,215)
Loss after tax	(13,932)	(21,570)	(7,589)	(35,281)

	As at 31 December 2017 *(RMB'000)* *(unaudited)*	**As at 31 December 2018** *(RMB'000)* *(audited)* *(Note 2)*	**As at 30 June 2019** *(RMB'000)* *(unaudited)*	**As at 31 December 2019** *(RMB'000)* *(audited)* *(Notes 1 and 2)*
Total assets	67,076	73,830	65,991	241,932
Net liabilities	(42,595)	(67,586)	(75,272)	(111,622)

Notes:

1. The losses before and after tax of the Target Group for the year ended 31 December 2019 and the net liabilities of the Target Group as at 31 December 2019 presented here did not take into account the impairment of the Receivables as at 31 December 2019 in the accounts of the Remaining Group. For the avoidance of doubt, no waiver is or will be granted by the Remaining Group (or Morris PRC, following the Receivables Disposal) in favour of the Target Group regarding the Receivables. Morris PRC and the Warrantor have irrevocably undertaken in writing to the Company that each of them would use its best endeavour to continue to pursue after the Target Group to seek to recover the Receivables and will forthwith distribute the 99.99% Outcome Sharing Entitlement in favour of the Company if and when Morris PRC successfully recovers any of the Receivables.

2 The Audited Financial Information of the Target Group were extracted from the underlying financial statements which formed the basis of the consolidation of the audited consolidated financial statements of the Group for the two years ended 31 December 2018 and 2019. No individual audit reports are required by the Hong Kong Companies Ordinance to be prepared for the accounts of the Target Group.

The significant increase in the total assets of the Target Group as at 31 December 2019 was due to the recognition of right-of-use assets of leased properties of the Target Group in the amount of RMB173,628,000. The increase in total assets is, however, counter-balanced by the recognition of corresponding lease liabilities of RMB161,328,000 as non-current liabilities and RMB34,976,000 as current liabilities.

FINANCIAL IMPACT OF THE DISPOSAL

As at 31 December 2019, the total assets attributable to the Target Group constituted approximately 18.0% of the Group's total assets. As the Target Group recorded net loss and net liabilities and the Company can recoup the Consideration in full by exercising the Put Option, the Directors are of the view that the Disposal will help to reduce the loss and improve the cash and financial position of the Group.

During the two years ended 31 December 2018 and 2019, the revenue contributed by the Target Group constituted approximately 13.3% and 21.3% of the Group's total revenue. As the Target Group and the Remaining Group operate independently of each other, the Directors do not expect that the Disposal will cause any material adverse impact to the business operations of the Group.

Prior to 20 March 2020, the Remaining Group has been supplying furniture products to the Target Group. In the light of the management's decision on the shop closure in the US as disclosed in the Company's announcement dated 22 March 2020, no supply of goods has taken place since 20 March 2020, nor will any supply of goods take place beyond the Disposal Completion. Save for the supply of goods and the owing of the Receivables from the Target Group to the Remaining Group which will be dealt with in the manner described in the section headed "CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF RECEIVABLES FROM THE TARGET GROUP" in the letter from the Board of this circular, the Company is not aware of any other ongoing transactions between the Remaining Group and the Target Group which would constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing

Rules beyond the Disposal Completion. The Company has no intention to resume the supply of goods to the Target Group after the Disposal Completion. If there is any change to this intention giving rise to any connected transactions or continuing connected transactions for the Company, the Company will re-comply with the requirements under Chapter 14A of the Listing Rules.

Your attention is drawn to Appendix I of this circular containing the unaudited pro forma financial information of the Remaining Group, the calculations of the pro forma gain on disposal and the accountant's report on the pro forma financial information (the "**Pro Forma Statement**"). Based on the Pro Forma Statement, assuming that the completion of the exercise of the Put Option and the Receivables Disposal had taken place as at 31 December 2019, the Disposal Completion was expected to result in: (i) the total assets of the Remaining Group being decreased by approximately RMB272.7 million; (ii) the total liabilities of the Remaining Group being decreased by approximately RMB294.7 million; and (iii) the pro forma net assets of the Remaining Group being increased from approximately RMB197.0 million to approximately RMB219.0 million, representing an increase of net asset value of RMB22 million.

CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF RECEIVABLES FROM THE TARGET GROUP

No capital contribution has been made by the Company to the Target Group between the completion of the Acquisition and the date of serving of the Option notice. As at the Latest Practicable Date, the Target Group owed two inter-company accounts to the Remaining Group (i.e. the Receivables) in the aggregate sum of RMB99.1 million, comprising trade receivables arising from the supply of sofas in the ordinary and usual course of business of the Group and loan receivables advanced by the Group to meet the working capital requirements of the Target Group, both being interest-free, unsecured and repayable-on-demand and in each case when the Target Group was wholly-owned by the Group. The opening balance of the Receivables at the time of completion of the Acquisition in August 2018 was approximately RMB25.4 million. The quarterly movements in the Receivables after the completion of the Acquisition are summarized as follows: (a) an increase of approximately RMB7.6 million in the third quarter of 2018; (b) an increase of approximately RMB50.3 million in the fourth quarter of 2018; (c) a decrease of approximately RMB7.3 million in the first quarter of 2019; (d) an increase of approximately RMB2.3 million in the second quarter of 2019; (e) an increase of approximately RMB13.4 million in the third quarter of 2019; (f) an increase of approximately RMB7.3 million in the fourth quarter of 2019; and (g) an increase of approximately RMB0.1 million in the first quarter of 2020. As a result of these movements which added up to approximately RMB73.7 million for the entire period during which the Target Group was controlled and managed by the Group, the Receivables ended up with the balance of approximately RMB99.1 million both on 20 March 2020 and up to now.

The majority of the increase in the balance of Receivables (i.e. RMB50.3 million out of RMB73.7 million, or approximately 68.2%) took place in the fourth quarter of 2018, when the businesses of the Target Group were in an expansion mode soon after the completion of the Acquisition. The Company did not expect to have the Receivables impaired, nor did it expect to exercise the Put Option, at the time when the Receivables were created.

In the light of the management's decision on the shop closure in the US as disclosed in the Company's announcement dated 22 March 2020, the Group has not supplied any sofas or advanced new loans to the Target Group since 20 March 2020, nor does it intend to supply any sofas or advance any new loans to the Target Group from 20 March 2020 onward, regardless of whether the exercise of the Put Option and the Disposal proceed to completion.

The Exit Price only covers the consideration for the disposal of the Target Company and does not cover these Receivables. The credit arising from these Receivables were extended or advanced by the Group to the Target Group by way of intra-group transactions when the Target Group was wholly-owned by the Group.

Given the net current liabilities and loss-making situation of the Target Group and the outbreak of Coronavirus epidemic giving rise to the decision of closing all the furniture retail shops of the Target Group in the US as disclosed in the Company's announcement dated 22 March 2020, the Directors are of the view that there is high uncertainty as to whether these Receivables are fully recoverable by the Group from the Target Group. In the circumstances, the Receivables have been fully impaired.

The terms of the Acquisition Agreement are silent on how these Receivables should be dealt with if the Put Option is exercised. However, given that the Target Group is already in a distressed financial position, the Company does not intend to allow the Receivables to be continued to be owed by the Target Group to the Remaining Group after the Disposal Completion.

Proposal on the Receivables Disposal

After careful internal consideration and with the consent of Morris PRC, the Company put forward the following proposal regarding the disposal of the Receivables by the Remaining Group to Morris PRC (i.e. the Receivables Disposal) for the Independent Shareholders to consider and, if thought fit, approve at the EGM. The terms of the proposal on the Receivables Disposal were set out in writing and served by the Company at Morris PRC on 31 March 2020 at the same time as the Option Notice was served, and was acknowledged in writing by Morris PRC at the same time when the Option Notice was acknowledged by it on 31 March 2020.

The cash consideration for the Receivables Disposal (the "**Receivables Cash Consideration**") is the fair value of the Receivables (the "**Fair Value**") assessed by the Directors and the management of the Company and reviewed by an independent valuer to be engaged by the Company (the "**Independent Valuer**"), plus the nominal sum of RMB1, payable on the completion of the Receivables Disposal. As explained below, the Company engaged Graval Consulting Limited as the Independent Valuer to conduct an assessment on the expected credit loss ("**ECL**") of the Receivables and concluded that the ECL should be RMB99.0 million, which is almost the entire principal amount of the Receivables. Therefore, the Directors' assessment of the Fair Value of the Receivables is nil, and the Receivables Cash Consideration is RMB1.

Subsequent to the Receivables Disposal, the Company is further entitled to receive a contingent consideration based on the proportional entitlement (the "**Outcome Sharing Entitlement**") to share a fixed proportion of 99.99% of any cash repayment by the Target Group or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC over the Receivables, after deducting (a) all post-disposal recovery costs incurred by Morris PRC; and (b) the Receivables Cash Consideration.

Completion of the Receivables Disposal is subject to, and shall take place within 20 business days after, the approval of the Receivables Disposal by the Independent Shareholders at the EGM. Under the terms of the Receivables Disposal agreed by the parties to the Option Notice, the Company shall have the right to be informed as to the conduct of the recovery action and the right of veto as to the final decision on compromise or settlement of the quantum of the recovered sum. In addition, Morris PRC and the Warrantor have irrevocably undertaken in writing to the Company that each of them would use its best endeavour to continue to pursue after the Target Group to seek to recover the Receivables and will forthwith distribute the 99.99% Outcome Sharing Entitlement in favour of the Company if and when Morris PRC successfully recovers any of the Receivables.

Reasons for and benefits of the Receivables Disposal

Taking into account the distressed financial situation of the Target Group and the uncertain prospect of the full recovery of the Receivables, it may not be cost-effective for the Company to spend legal costs in the pursuit of recovery actions against the Target Group. The terms of the Receivables Disposal would enable the Company to maintain an influence and sharing on the continual recovery actions, while shifting the burden of time and cost of the recovery actions to Morris PRC. Accordingly, the Directors are of the view that although the Receivables Disposal is not considered to be in the ordinary and usual course of business of the Group, the terms of the Receivables Disposal (including the Receivables Consideration and the mechanisms of the Outcome Sharing Entitlement) are fair and reasonable and that the Receivables Disposal are in the interests of the Company and its Shareholders as a whole.

The Receivables Disposal is independent of the exercise of the Put Option and not inter-conditional with each other. If the Put Option and Disposal are approved but the Receivables Disposal is voted down by the Independent Shareholders at the EGM, the Company intends to serve a notice of repayment to demand immediate repayment of the Receivables by the Target Company on the date of the Disposal Completion.

Summary of the ECL assessment on the Receivables

The Fair Value of the Receivables is assessed by the Company's management by applying HKFRS 9 Financial Instruments to measure the impairment using the ECL model. In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly: (i) an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating; (ii) significant deterioration in external market indicators of credit risk; (iii) any existing or forecast adverse changes that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; (iv) any actual or expected significant deterioration in the operating results of the debtor; and (v) any actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Due to the deterioration of the financial performance and position of the Target Group during the year ended 31 December 2019, particularly: (a) the prolonged and continuous loss-making and current liabilities position which failed to turnaround as originally anticipated; and (b) the continuous pressure on profit margin due to sharing of tariffs on goods imported by US from China as a result of the Sino-US trade tension, the management has come to the view that the risk of debtor-specific credit loss is high and the recoverability of the Receivables from the Target Group is highly uncertain. Accordingly, the Receivables were fully impaired as of 31 December 2019. The loss allowance for ECL arising from the full impairment of the Receivables amounted to approximately RMB99.0 million was eliminated by way of intra-group accounts during consolidation, since the Target Group was wholly-owned by the Company as at 31 December 2019.

The management's ECL assessment on the Receivables has been reviewed by Graval Consulting Limited, the Independent Valuer. The Independent Valuer has reviewed information and materials furnished by the management of the Company, public source information, the research report issued by a reputable credit agency in January 2020 and the aggregate metrics by rating category by them, and the financial statements of the Target Group for 2018 and 2019, In addition, the Independent Valuer had discussions with the management of the Company on the Receivables and the credit status of the Target Company. Based on the information provided by the management of the Company, as there is a significant increase in credit risk for the Receivables since initial recognition, general approach was adopted to measure lifetime ECL by using the probability-weighted loss default model using probability of default, loss given default, exposure at default and discount factor, which is adjusted for forward-looking estimates if applicable. By reference to the research materials of the credit agency, the Target Company was assigned the credit profile of C. The exposure is high on default since the Receivables are not fortified by any collateral. In addition, the Target Company kept making operating losses and was in net liabilities position as at the assessment date. Therefore, it is expected that the recovery rate of the Receivables would be minimal. In the circumstances, the Independent Valuer assessed the expected credit loss of the Receivables at the entire carrying value of the Receivables at RMB99.0 million, which is consistent with the Board's full impairment on the Receivables as of 31 December 2019 and the Board's assessment on the Fair Value of the Receivables at nil.

Combined effect of the Disposal and the Receivables Disposal

Your attention is drawn to Appendix I of this circular containing the Pro Forma Statement. Based on the Pro Forma Statement, assuming that the completion of the exercise of the Put Option and the Receivables Disposal had taken place as at 31 December 2019, the Disposal Completion was expected to result in: (i) the total assets of the Remaining Group being decreased by approximately RMB272.7 million; (ii) the total liabilities of the Remaining Group being decreased by approximately RMB294.7 million; and (iii) the pro forma net assets of the Remaining Group being increased from approximately RMB197.0 million to approximately RMB219.0 million, representing an increase of net asset value of RMB22 million.

Given the distressed financial situation of the Target Group, the Directors are of the view that there is high uncertainty as to whether these Receivables are fully recoverable by the Group from the Target Group, regardless of whether the Put Option is exercised and whether the Receivables Disposal proceeds to completion. As explained in the section headed "REASONS FOR AND BENEFITS OF THE EXERCISE OF THE PUT OPTION" in the letter from the Board of this circular, it is in the best interest of the Company to cut loss on the Target Group by putting it back to Morris PRC and recouping the Consideration for the Acquisition in full. Although the Company can choose to keep the Receivables and is legally entitled to continue to pursue after the Target Group for the repayment of the Receivables, the prospect of the successful recovery not only depend on legal entitlement but also on the financial means of the Target Group. In this regard, the Company noticed that the Target Group is currently under net liabilities and loss-making position. Therefore, after balancing all relevant factors as set out in the letter from the Board of this circular and notwithstanding the fact the Receivables Disposal is expected to result in a reduction in the net asset value of the Company, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser, but excluding Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are still of the view that it is fair and reasonable and in the interests of the Company and its Shareholders (including the Independent Shareholders) as a whole to put forward the Disposal and the Receivables Disposal together.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the exercise of the Put Option (when aggregated with the Receivables Disposal) are all under 25%, the exercise of the Put Option and the Receivables Disposal constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules. In addition, as Morris PRC and the Warrantor are connected persons of the Company, the exercise of the Put Option and the Receivables Disposal constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The exercise of the Put Option and the Receivables Disposal are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Liu Haifeng, Mr. Pang Wing Hong and Mr. Chu Guodi, was established to advise the Independent Shareholders regarding the exercise of the Put Option and the Receivables Disposal. AJ Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the exercise of the Put Option and the Receivables Disposal.

ABSTAINING FROM VOTING BY INTERESTED SHAREHOLDERS

Pursuant to the Listing Rules, any Shareholder who has a material interest in the exercise of the Put Option and the Receivables Disposal (including Morris PRC, the Warrantor and their respective associates) would be required to abstain from voting for the resolution to approve the exercise of the Put Option and the Receivables Disposal at the EGM.

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

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

EGM

The EGM is convened to be held for the purposes of considering and, if thought fit, approving the exercise of the Put Option and the Receivables Disposal. The EGM Notice convening the EGM to be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Tuesday, 21 July 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. The form of proxy for use at the EGM is enclosed with this circular and published at the website of the Stock Exchange at www.hkex.com.hk and the Company's website at http://www.morrisholdings.com.hk.

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

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

PRECAUTIONARY MEASURES AT THE EGM

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

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

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

BOOK CLOSURE FOR DETERMINING VOTING ENTITLEMENTS AT THE EGM

The register of members of the Company will be closed from Monday, 20 July 2020 to Tuesday, 21 July 2020, both days inclusive, during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Company after the latest time of lodge of 4:30 p.m. on Friday, 17 July 2020 shall be entitled to attend and vote at the EGM. In order to be entitled to attend and vote at the EGM, all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 17 July 2020.

RECOMMENDATION

The Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) consider that although the exercise of the Put Option and the Receivables Disposal are not considered to be in the ordinary and usual course of business of the Group, the exercise of the Put Option and the Receivables Disposal, as a whole, are fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote for both resolution(s) to approve the exercise of the Put Option and the Receivables Disposal.

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

ADDITIONAL INFORMATION

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

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

WARNING

The Disposal Completion and the Receivables Disposal are subject to condition precedent, namely, the obtaining of approval of Independent Shareholders at the EGM. Therefore, the Disposal as triggered by the exercise of the Put Option and the Receivables Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

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

MORRIS HOLDINGS LIMITED
慕容控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1575)

3 July 2020

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF PUT OPTION TO REQUIRE THE SELLER TO REPURCHASE ALL THE ISSUED COMMON STOCK OF JENNIFER CONVERTIBLES INC.

We have been appointed to form an independent board committee to consider and advise you on the exercise of the Put Option and the Receivables Disposal, details of which are set out in the circular issued by the Company to the Shareholders dated 3 July 2020 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 6 to 23 and pages 25 to 49 of the Circular, respectively, and the additional information set out in the appendices to the Circular.

Having taken into account the background of and reasons for the exercise of the Put Option and the Receivables Disposal and having taken into consideration the advice of the Independent Financial Adviser set out on pages 25 to 49 of the Circular, we concur with the view of the Independent Financial Adviser and consider that although the exercise of the Put Option and the Receivables Disposal are not considered to be in the ordinary and usual course of business of the Group, the exercise of the Put Option and the Receivables Disposal, as a whole, are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of both resolutions to be proposed at the EGM to approve the exercise of the Put Option and the Receivables Disposal.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Liu Haifeng	**Mr. Pang Wing Hong**	**Mr. Chu Guodi**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the letter of advice from AJ Corporate Finance Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

AJ CORPORATE FINANCE LIMITED
Units 08-09, 39/F
COSCO Tower
183 Queen's Road Central
Hong Kong

Date: 3 July 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF PUT OPTION TO REQUIRE THE SELLER TO REPURCHASE ALL THE ISSUED COMMON STOCK OF JENNIFER CONVERTIBLES INC.

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the exercise of the Put Option and the Receivables Disposal. Details of the exercise of the Put Option and the Receivables Disposal are set out in the circular issued by the Company to the Shareholders dated 3 July 2020 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the circular of the Company dated 14 August 2018 and the Circular.

Under the terms of the Acquisition Agreement, if the Target Group records an audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for any of the two years ending 31 December 2019 or 2020, the Company may serve an option notice to exercise the Put Option and to require Morris PRC to repurchase the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

On 31 March 2020, the Company served the Option Notice on Morris PRC and the Warrantor stating its decision to exercise the Put Option to require Morris PRC to repurchase the Target Shares at the Exit Price. The Option Notice was accepted by Morris PRC and the Warrantor on the same date.

In addition, on 31 March 2020, the Company put forward the proposal in relation to the Receivables Disposal and it was acknowledged by Morris PRC. As stated in the Letter from the Board of the Circular, as at the Latest Practicable Date, the Receivables have been fully impaired by the Company after considering the assessment on the expected credit loss of the Receivables as at 31 December 2019 (the "**Assessment**") by an independent valuer (the "**Independent Valuer**"). As stated in the Letter from the Board of the Circular, the consideration for the disposal of the Receivables (the "**Receivables Cash Consideration**") is the fair value of the Receivables (the "**Fair Value**") to be assessed by the Directors and the management team of the Company after taking into account of the Assessment, plus the nominal sum of RMB1, payable on the completion of the Receivables Disposal.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the exercise of the Put Option (if aggregated with the Receivables Disposal) are all under 25%, the exercise of the Put Option and the Receivables Disposal constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules. In addition, as Morris PRC was held as to 85% by Mr. Zou being the Chairman, Chief Executive Officer and an executive Director of the Company, and 15% by Ms. Wu being the spouse of Mr. Zou. Morris PRC and the Warrantor are connected persons of the Company, the exercise of the Put Option and the Receivables Disposal constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The exercise of the Put Option and the Receivables Disposal are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Liu Haifeng, Mr. Pang Wing Hong and Mr. Chu Guodi, was established to consider and make recommendations to the Independent Shareholders on whether the terms of the Put Option and the Receivables Disposal are fair and reasonable as far as the Independent Shareholders are concerned; and whether the exercise of the Put Option and the Receivables Disposal are in the interests of the Company and the Shareholders as whole; and as to how to vote at the EGM regarding the relevant resolution(s) to be proposed at the EGM to approve the exercise of the Put Option and the Receivables Disposal. We, AJ Corporate Finance, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, there were no engagements between the Company and AJ Corporate Finance. As at the Latest Practicable Date, there were no relationships or interests between AJ Corporate Finance Limited on one hand and the Company, Morris PRC, the Warrantor or their respective core connected persons, close associates or associates on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the exercise of the Put Option and the Receivables Disposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Morris PRC, the Warrantor or their respective core connected persons, close associates or associates.

BASIS OF OUR OPINION

In formulating our opinion, we have reviewed, among other things, the Acquisition Agreement, the annual report of the Company for the year ended 2019 (the "**2019 Annual Report**"), the annual report of the Company for the year ended 2018 (the **2018 Annual Report**"), the unaudited management accounts of the Target Group for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 prepared in accordance with the Hong Kong Financial Reporting Standards, the Assessment in relation to the expected credit loss of the Receivables, the unaudited pro forma financial information of the Remaining Group as set out in Appendix I to the Circular prepared by HLB Hodgson Impey Cheng Limited, the Company's auditors and the information as set out in the Circular. We have discussed the business and future prospects of the Group as they may be affected by the exercise of the Put Option and the Receivables Disposal with the management of the Group.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and the Directors have confirmed to us in writing that all information and representations provided by the Directors and management of the Group, for which they are solely and wholly responsible, are true, accurate and complete in all material aspects and will remain so up to the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in the Circular in connection with the exercise of the Put Option and the Receivables Disposal were reasonably made after due and careful inquiry. The Directors have also confirmed to us in writing that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have not, however, conducted any independent investigation into the business and affairs of the Remaining Group or the Target Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Put Option and the Receivables Disposal are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and whether the exercise of the Put Option and the Receivables Disposal are in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background of the transaction

After trading hours on 4 July 2018, the Company (as purchaser) entered into the Acquisition Agreement with Morris PRC (as vendor) and Mr. Zou (as warrantor) in relation to the Acquisition, pursuant to which the Company conditionally agreed to purchase and Morris PRC conditionally agreed to sell the Target Shares at the Consideration of US$35 million.

Subject to the Acquisition Agreement, Morris PRC, the Company and the Warrantor had agreed that, for the two financial years of the Target Group ended 31 December 2019 and ending 31 December 2020, the Average Profit shall not be less than US$3 million. If the Average Profit is less than US$3 million, Morris PRC shall on demand of the Company make the Profit Guarantee Payment to the Company.

In addition, subject to the Acquisition Agreement, Morris PRC had irrevocably granted to the Company an option to sell, and to require Morris PRC to buy, all (but not part only) of the Target Shares on terms set out in the Acquisition Agreement. In the event the Target Group shall record an audited net loss after tax (excluding profits and losses not from the ordinary and usual course of business) in the Audited Accounts for any of the years ending 31 December 2019 and 2020, the Put Option may be exercised by the Company on any date during the period of three months from the date of the issuance of the Audited Accounts for the relevant year by the delivery of an option notice to Morris PRC. Upon service of the option notice, Morris PRC shall become bound to buy the Target Shares at the price and in accordance with the Acquisition Agreement.

According to the Put Option, the purchase price of the Target Shares by Morris PRC shall be the Exit Price. The Target Shares shall be sold free from any encumbrances and the Disposal Completion shall take place on the date falling 20 business days after the service of the Option Notice. However, in compliance of the Listing Rules, since the exercise of the Put Option is subject to the approval of the Independent Shareholders at the EGM, the Company has agreed with Morris PRC to defer the Disposal Completion to a date falling not later than 20 business days after the date of the EGM.

Based on the Unaudited Management Accounts of the Target Group for the year ended 31 December 2019, the Target Group was expected to record a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million for the two years ending 31 December 2019 and 2020. After considering the Unaudited Management Accounts and the management's report on the situation of the Target Group, the Directors are of the view that: (a) given the Epidemic which broke out since January 2020 causing disruptions to the supply chain of the Target Group, the Directors do not expect, barring unforeseen circumstances, any reasonable prospect for the Target Group to turnaround from loss-making to profit-making in 2020; (b) based on the loss-making situation of the Target Group, it is beneficial for the Company to stop loss as soon as possible; (c) it is therefore fair and reasonable and in the interests of the Company and its Shareholders as a whole to exercise the Put Option as soon as practicable, rather than to wait for one more year; and (d) due to the severe shortfall represented by the expected loss in the Unaudited

Management Accounts as compared to the Average Profit, there is no added benefit for the Company to wait for the finalization of the Audited Accounts of the Target Group for the year ended 31 December 2019 before serving the Option Notice, subject to the consent of Morris PRC.

The Company entered into amicable negotiation with Morris PRC, who indicated that it would be prepared to waive the requirement of insisting the Company to wait for the Audited Accounts and to allow the Company to serve the Option Notice on the basis of the Unaudited Management Accounts. Accordingly, on 31 March 2020, the Company served the Option Notice on Morris PRC and the Warrantor stating its decision to exercise the Put Option to require Morris PRC to repurchase the Target Shares at the Exit Price. The Option Notice was accepted by Morris PRC and the Warrantor on the same date.

Since then, the Audited Financial Information of the Target Group for the year ended 31 December 2019 was finalized for the purpose of consolidation into the Group's audited consolidated financial statements which was published by the Company on 8 May 2020. The net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of the Target Group for the year ended 31 December 2019 was in the amount of RMB35.3 million (HK$40.1 million), which was RMB6.7 million less than the expected loss of RMB42.0 million (HK$47.6 million) as disclosed in the Disposal Announcement due to closing adjustments made during the audit process.

Separately, as at 20 March 2020, the Target Group owed the following Receivables to the Remaining Group:

(a) trade receivables in the amount of RMB52.7 million arising from the supply of sofas in the ordinary and usual course of business of the Group; and

(b) loan receivables in the amount of RMB46.4 million, being interest-free, repayable-on-demand loan advanced by the Group to meet the working capital requirements of the Target Group.

As stated in the Letter from the Board in the Circular, the opening balance of the Receivables at the time of completion of the Acquisition in August 2018 was approximately RMB25.4 million. The quarterly movements in the Receivables after the completion of the Acquisition are summarized as follows: (a) an increase of approximately RMB7.6 million in the third quarter of 2018; (b) an increase of approximately RMB50.3 million in the fourth quarter of 2018; (c) a decrease of approximately RMB7.3 million in the first quarter of 2019; (d) an increase of approximately RMB2.3 million in the second quarter of 2019; (e) an increase of approximately RMB13.4 million in the third quarter of 2019; (f) an increase of approximately RMB7.3 million in the fourth quarter of 2019; and (g) an increase of approximately RMB0.1 million in the first quarter of 2020. As a result of these movements which added up to approximately RMB73.7 million for the entire period during which the Target Group was controlled and managed by the Group, the Receivables ended up with the balance of approximately RMB99.1 million both on 20 March 2020 and up to now.

The majority of the increase in the balance of Receivables (i.e. RMB50.3 million out of RMB73.7 million, or approximately 68.2%) took place in the fourth quarter of 2018, when the businesses of the Target Group were in an expansion mode soon after the completion of the Acquisition.

In the light of the management's decision on the shop closure in the US as disclosed in the Company's announcement dated 22 March 2020, the Group has not supplied any sofas or advanced new loans to the Target Group since 20 March 2020, nor does it intend to supply any sofas or advance any new loans to the Target Group from 20 March 2020 onward, regardless of whether the exercise of the Put Option and the Disposal proceed to completion.

The terms of the Acquisition Agreement are silent on how these Receivables should be dealt with if the Put Option is exercised. However, given that the Target Group is already in a distressed financial position, the Company does not intend to allow the Receivables to be continued to be owed by the Target Group to the Remaining Group after the Disposal Completion.

On 31 March 2020, the Company put forward the proposal to sell the Receivables to Morris PRC. The Receivables Cash Consideration is the Fair Value, plus the nominal sum of RMB1, payable on the completion of the Receivables Disposal which is subject to, and shall take place within 20 business days after, the approval of the Receivables Disposal by the Independent Shareholders at the EGM.

Subsequent to the Receivables Disposal, the Company is further entitled to receive a contingent consideration based on the proportional entitlement (the "**Outcome Sharing Entitlement**") to share a fixed proportion of 99.99% of any cash repayment by the Target Group or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC over the Receivables, after deducting (a) all post-disposal recovery costs incurred by Morris PRC; and (b) the Receivables Cash Consideration. In addition, under the terms of the Receivables Disposal agreed by the parties to the Option Notice, the Company shall have the right to be informed as to the conduct of the recovery action and the right of veto as to the final decision on compromise or settlement of the quantum of the recovered sum.

2. Principal business activities and financial information of the Group

The Group is principally engaged in the manufacturing of sofas and sofa covers in the PRC. The Group has also developed sofa retail channels in the PRC, Hong Kong, the United Kingdom and the U.S. The Group operates business through three models and two segments, the three models namely (i) original equipment manufacture (OEM), which customer provides design, specifications and sample for production; (ii) original design product (ODM), which design and development with customer's general concept for production; and (iii) original brand production (OBM), which the Group designs and evaluates new conceptual design model sofas and let customer to choose preferred model for production. The two segments namely, (A) retail segment and (B) manufacturing segment.

The following is a summary of the financial performance of the Group for the years ended 31 December 2019 and 31 December 2018, respectively, as extracted from the 2019 Annual Report and the 2018 Annual Report:

	Year ended 31 December	
	2019	**2018**
RMB '000	*(Audited)*	*(Audited)*
Revenue	980,298	1,610,043
Gross profit	103,087	428,044
(Loss)/profit before income tax	(178,943)	100,286
(Loss)/profit for the period	(140,690)	86,405
(Loss)/profit attributable to owners of the Company	(140,436)	86,405

For the year ended 31 December 2019, the Group achieved a revenue of approximately RMB980.3 million, representing a decline of approximately 39.1% from the same period of 2018. The revenue decline was mainly due to the decrease in sales of sofas, sofa covers and other furniture products in North America market under the Sino-US trade war. The Group's loss attributable to equity owners for the year ended 31 December 2019 amounted to approximately RMB140.4 million, as compared with a profit of RMB86.4 million from the same period of 2018.

The Group's gross profit decreased by approximately RMB324.9 million or approximately 75.9%, from RMB428.0 million in 2018 to RMB103.1 million in 2019. The gross profit margin was approximately 10.5% in 2019, significantly decreased from approximately 26.6% in 2018.

Set out below is the breakdown of the revenue in respect of the retail segment and the manufacturing segment for the financial years 2019 and 2018:

	Year ended 31 December	
	2019	**2018**
RMB'000	*(Audited)*	*(Audited)*
Retail segment	241,860	222,448
Manufacturing segment (excluded internal sales)	738,438	1,387,595

For the financial years 2019 and 2018, revenue of the Group was mainly attributable to the manufacturing segment (75.3% for the financial year 2019 and 86.2% for the financial year 2018).

A summary of the financial position of the Group as at 31 December 2019 and 31 December 2018 as extracted from the 2019 Annual Report and the 2018 Annual Report is set out below:

	Year ended 31 December	
	2019	**2018**
RMB'000	*(Audited)*	*(Audited)*
Total assets	1,344,964	1,432,152
Total liabilities	1,147,997	1,064,831
Interest-bearing bank borrowings	220,815	142,197
Cash and cash equivalents	71,046	123,928
Equity attributable to owners of the Company ("**Total Equity**")	197,229	367,321
Gearing ratio (total interest-bearing bank borrowings/Total Equity)	112.0%	38.7%

The Group had total assets value of approximately RMB1,345.0 million and RMB1,432.2 million as at 31 December 2019 and 2018 respectively, and total liabilities of approximately RMB1,148.0 million and RMB1,064.8 million as at 31 December 2019 and 2018 respectively. Cash and cash equivalent amounted to approximately RMB71.0 million as at 31 December 2019. Gearing ratio substantially increased to 112.0% as at 31 December 2019 from 38.7% as at 31 December 2018.

3. Information of the Target Group

(a) Background information of the Target Company

The Target Company is a company incorporated in the U.S. It is principally engaged in retail business of sale of complete line furniture products and home furnishings, including sofa products, sofa bed, case goods, mattress, decorative products and semi customization services for comparatively high-end customers in the eastern part of U.S.

On 31 August 2018, the Group successfully acquired all the issued and outstanding common stock of the Target Company and it became the Group's North America sales arm. At the time of acquisition, the Target Group operated 19 retail outlets in the eastern part of the U.S., located in New York, New Jersey and Connecticut. However, given the current development of the COVID-19 pandemic, the business of the Target Group has been heavily affected. As stated in the Company's announcement dated 22 March 2020, some non-essential retailers are closing their shops to curb the spread of the pandemic and other non-essential retailers which tried to remain open suffered unprecedented decline in sales.

In the circumstances, the management of the Target Group has decided to close the retail shops in the United States. As at the Latest Practicable Date, the Target Group has operated 19 retail outlets, all of which have been closed for business.

(b) Financial information of the Target Group

Set out below are certain financial information of the Target Group, which are extracted from the Audited Financial Information of the Target Group for the two years ended 31 December 2019:

Profit and Loss Items	**For the year ended 31 December 2019** *(Note)* *RMB'000*	**For the year ended 31 December 2018** *RMB'000*
Revenue	208,514	214,062
Net loss before tax	(35,215)	(21,518)
Net loss after tax	(35,281)	(21,570)

Balance Sheet Items	As at 31 December 2019 *(Note)* *RMB'000*	As at 31 December 2018 *RMB'000*
Total assets	241,932	73,830
Total liabilities	(353,554)	(141,416)
Net liabilities	(111,622)	(67,586)

Note: The losses before and after tax of the Target Group for the year ended 31 December 2019 and the net liabilities of the Target Group as at 31 December 2019 presented here did not take into account the impairment of the Receivables as at 31 December 2019 in the accounts of the Remaining Group. For the avoidance of doubt, no waiver is or will be granted by the Remaining Group (or Morris PRC, following the Receivables Disposal) in favour of the Target Group regarding the Receivables. Morris PRC and the Warrantor have irrevocably undertaken in writing to the Company that each of them would use its best endeavour to continue to pursue after the Target Group to seek to recover the Receivables and will forthwith distribute the 99.99% Outcome Sharing Entitlement in favour of the Company if and when Morris PRC successfully recovers any of the Receivables.

The Audited Financial Information of the Target Group were extracted from the underlying financial statements which formed the basis of the consolidation of the audited consolidated financial statements of the Group for the two years ended 31 December 2018 and 2019. No individual audit reports are required by the Hong Kong Companies Ordinance to be prepared for the accounts of the Target Group.

As set out in the table above, the Target Group recorded a net loss after tax of approximately RMB35.3 million for the year ended 31 December 2019 and net loss after tax approximately RMB21.6 million for the year ended 31 December 2018. The increase in losses was mainly due to the continuous pressure on profit margin due to sharing of tariffs on goods imported by the U.S. from the PRC as a result of the Sino-U.S. trade tension.

The Target Company recorded net liabilities of RMB111.6 million and RMB67.6 million as at 31 December 2019 and 31 December 2018, respectively.

Of the Target Group's total liabilities of RMB353.6 million as at 31 December 2019, trade payable in the amount of RMB51.2 million and loans payable in the amount of RMB47.8 million were due to the Group. As advised by the Company, as at 20 March 2020, the amount of such trade payable and loans payable due to the Group were RMB52.7 million and RMB46.4 million respectively.

4. Recent development of the US market in which the Target Group is operated

As a typical black swan event, the COVID-19 outbreak took the world by complete surprise. On 12 March 2020, World Health Organization announced COVID-19 outbreak a pandemic ("**Pandemic**").

The outbreak of the Pandemic during early 2020 caused a nationwide shutdown of factory manufacturing in the PRC as well as logistic facilities were suspended during February 2020. Although production gradually resumed from late February 2020 onwards, given the delay in getting workers back to the production plants due to health quarantine requirements and travel restrictions, production has been resuming at a pace that was much slower than expected. Given the role and importance of the PRC as the primary producer of high value products and components, such reduction of production capabilities severely disrupted the supply of products and components globally which in turn caused a material adverse effect on the consumer sector. The supply of the products of the Target Group has also inevitable been affected seriously.

Despite significant efforts to contain the spread of the Pandemic, it continued to spread globally during the first quarter of 2020. The U.S., being one of the countries with the highest number of confirmed cases and fatalities in the world, is being seriously affected by the Pandemic. It is introducing a host of challenges to the U.S. industrial manufacturers, especially those that depend on workers whose jobs cannot be carried out remotely. According to a survey conducted by the National Association of Manufacturers in relation to the impact of the Pandemic on supply chain and operations between 28 February and 9 March 2020, 35.5% of respondents said they were facing supply chain disruptions, more than 53.0% of manufacturing firms anticipated a change in their operations in the coming months and more than 78% said that uncertainty incidental to the Pandemic was likely to have a negative financial impact on their businesses. Apart from anticipating slowdowns and reduced customer demand, some of the respondents even implemented business continuity plans that included curtailed travel, workplace sanitation, restricted face-to-face interactions and staggered shifts. As the spread of the Pandemic deepened in the U.S., these grim expectations became a reality amid plummeting oil prices and demand, supply chain bottlenecks, spending slowdowns and jitters over the credit markets.

In order to effectively contain the spread of the Pandemic, various states in the U.S. have rolled out policy measures which included, amongst others, social distancing and density reduction requirements. For example, in the State of New York where the Target Group has business operations, an Executive Order was made by the Governor which prohibited non-essential gatherings of individuals and the operations of all non-essential businesses statewide from 8 p.m. on 22 March 2020 until further notice.

Apart from more rigorous cleaning protocols, retailers including some home furnishing retailers across the U.S. are addressing the issue with reduced opening hours and even short-term closings, and several major retailers are even electing to fully cease physical store operations as confirmed cases of the Pandemic in the country continued to rise. For example, on March 13, Glossier and Patagonia both announced that they would close stores, prompting a flood of retailers to follow suit, including mall brands like Abercrombie & Fitch and Urban Outfitters and athletic companies like Nike. Amid the spread of the Pandemic and the resulting nationwide lockdown in the U.S., there have been significant impacts on consumer behaviour, product demand and services availability.

The U.S. labour market also saw drastic changes as confirmed cases of the Pandemic in the country continued to rise. The number of initial jobless claim in the U.S. surged from approximately 211,000 and approximately 282,000 for the weeks ended 7 March 2020 and 14 March 2020, respectively to approximately 3,307,000 and approximately 6,867,000 for the weeks ended 21 March 2020 and 28 March 2020, respectively, and the total number of initial jobless claim in the U.S. between 29 March 2020 and 20 June 2020 was 37,076,000. The unemployment rate in the U.S. increased from 3.5% in February 2020 to 4.4% in March 2020 and then to 14.7% and 13.3% in April 2020 and May 2020, respectively.

As the unemployment rate in the U.S. has no notable signs of improvement and the nationwide lockdown resulting from the Pandemic is still subsisting without any certainty of full relaxation in the immediate future, it is expected that the business conditions in the U.S. will remain highly uncertain going forward. With the worsening condition of the U.S. labour market, it is expected that consumer spending in the U.S. will be substantially curtailed as consumers will be financially conservative which will, in turn, seriously affect all consumer industries and thereby seriously affecting the U.S. economy as a whole. According to International Data Corporation, growth estimates for global retail in 2020 will be halved from forecasts prior to the Pandemic. Although different sectors would suffer different levels of impact, it is expected that fashion, furniture, and electronics retailers will be hit hardest as consumers forego discretionary purchases in favour of stocking up on food and household supplies.

Unless there are notable signs that the Pandemic is weakening and/or that the social distancing and/or density reduction requirements will be relaxed, the timing of recovery of the U.S. economy remains highly uncertain and the outlook of the U.S. economy will be rendered weak by the prevailing consumer behaviour and business conditions. As a result, the prospect of the business of the Target Group is not considered optimistic in the near future.

5. Principal terms of the Disposal

Principal terms of the Disposal pursuant to the exercise of the Put Option are summarised below. Further details are set out in the section headed "The Option Notice" in the Letter from the Board contained in the Circular:

(a) Date of Option Notice

31 March 2020

(b) Parties to the Disposal

(1) The Company (as seller under the Disposal);

(2) Morris PRC (as purchaser under the Disposal); and

(3) Mr. Zou (as warrantor to guarantee the performance of the obligations of Morris PRC under the Disposal).

(c) The Put Option

Pursuant to the Acquisition Agreement, the Company has exercised the Put Option. Based on the Audited Financial Information of the Target Group, it recorded a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of RMB35.3 million for the year ended 31 December 2019. In accordance with the Acquisition Agreement, the Put Option may be exercised by the Company on any date during the period of three months from the date of the issuance of the Audited Accounts for the relevant year by the delivery of an option notice to Morris PRC. As such, the Group is only able to exercise the Put Option at the earliest time once the audited financial statements of the Target Group for the year ended 31 December 2019 is issued which is estimated to be around mid-May. In this regard, Morris PRC has agreed to give concession to the Group that it has waived the requirement of exercising the Put Option after the issue of the audited financial statements of the Target Group and has allowed the Company to serve the Option Notice on 31 March 2020 on the basis of the unaudited management accounts of the Target Group for the year ended 31 December 2019. We concur with the Directors' view that the exercise of the Put Option prior to the release of the audited financial statements of the Target Group for the year ended 31 December 2019 is in the interest of the Company as (i) it is considered to be beneficial to the Company that it can exercise the Put Option and therefore receive the cash consideration earlier and (ii) based on the Audited Financial Information of the Target Group, the Target Group recorded a net loss of approximately RMB35.3 million for the year ended 31 December 2019 and net liabilities of approximately RMB111.6 million as at 31

December 2019, the financial situation of which is similar to that as set out in the unaudited financial information available to the Company when it decided to exercise the Put Option.

(d) The Exit Price

The Exit Price is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

Up to the date of serving of the Option Notice on 31 March 2020, the Company has paid US$20 million to Morris PRC in respect of the Acquisition, and the remaining balance of the Consideration in the amount of US$15 million remained outstanding which is due by the second anniversary of the date of completion of the Acquisition. No interest has been or would be charged on the unpaid balance of the Consideration, as the payment period has yet to expire.

Therefore, the Exit Price will be in two parts: (i) Upon the serving of the Option Notice, the Company is no longer obliged to pay the unpaid balance of the Consideration to Morris PRC. This unpaid balance of US$15 million (HK$117 million) shall be set off against the Disposal Consideration of US$35 million (HK$273 million); and (ii) a payment due and payable by Morris PRC in the amount of US$20 million (HK$156 million) to the Company upon the Disposal Completion. This will result in the Company receiving a cash consideration of US$20 million and releasing of a payment obligation of US$15 million.

The Exit Price was agreed between Morris PRC and the Company in the Acquisition Agreement and is equal to the amount of the consideration for the Acquisition. It is noted that the financial situation of the Target Group has been worsening after the completion of the Acquisition. The Target Group recorded (i) net loss after tax of approximately RMB35.3 million, RMB21.6 million and RMB13.9 million for the year ended 31 December 2019, 31 December 2018 and 31 December 2017 respectively; and (ii) net liabilities of approximately RMB111.6 million, RMB67.6 million and RMB42.6 million as at 31 December 2019, 31 December 2018 and 31 December 2017 respectively.

We would like to draw Shareholders' attention that Morris PRC, other than the Exit Price, will not take up (i) the net loss of the Target Group for the year ended 31 December 2019 of approximately RMB35 million (the "**Net Loss**"), and (ii) the Group's impairment loss of the Receivables of RMB99 million (the "**Impairment Loss**"), which were considered as part of the cost of the Remaining Group in its investment in the Target Company for the period from the completion of the Acquisition of the Target Group to the date of exercise of the Put Option.

We consider that the Net Loss and the Impairment Loss were incurred during the time when the Target Group was controlled, managed and operated by the Group, and as such it is normally expected that such results should be borne by the shareholder during that material time, i.e. the Company.

Pursuant to the Acquisition Agreement, the Put Option arrangement serves as a protection for the Company to get back the consideration under the Acquisition Agreement if the Target Company records net loss after tax for the year ending 31 December 2019 or 31 December 2020. Without the Put Option arrangement, it is uncertain whether the Company can negotiate a price that is equal or better than the Exit Price for the disposal of the Target Group given the fact that the Target Group is currently in a net loss position and a net liabilities state and that the financial performance and financial position of the Target Group has been deteriorating since the completion of the Acquisition. As such, we consider the Exit Price (being the full amount of the consideration of the Acquisition) is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(e) Disposal Completion

Under the terms of the Acquisition Agreement, once the Option Notice is served, the Disposal Completion shall take place on the date falling 20 business days after the service of the Option Notice. However, in compliance of the Listing Rules, since the exercise of the Put Option is subject to the approval of the Independent Shareholders at the EGM, the Company has agreed with Morris PRC to defer the Disposal Completion to a date falling not later than 20 business days after the date of the EGM. Save and except for the obtaining of the Independent Shareholders' approval for the Disposal at the EGM, the Disposal is not subject to any other conditions precedent.

(f) Other terms applicable to the exercise of the Put Option

Under the terms of the Acquisition Agreement, the Company shall be entitled to either exercise the Put Option or to demand the Profit Guarantee Payment, but not both. For the avoidance of doubt, if the exercise of the Put Option proceeds to the Disposal Completion, the Company will no longer be entitled to demand the Profit Guarantee Payment. In any event, the upper limit of the maximum amount could be received by the Group under the Profit Guarantee Payment is the Exit Price.

6. Reasons for and benefits of the exercise of the Put Option

The Target Company is principally engaged in the furniture retail business and, immediately prior to the exercise of the Put Option, operated 19 retail outlets in New York, New Jersey and Connecticut of the eastern part of the US.

The Acquisition was completed in August 2018 but against the backdrop of the Sino-U.S. trade war which began in 2018, tariffs were imposed on a wide range of products including furniture products that were imported to the U.S. from the PRC and as a result of the partial sharing of the tariffs, the profit margin of the Target Group was severely narrowed and hence its performance was not living up to the expectations of the Company.

Based on the Audited Financial Information of the Target Group, the Target Group recorded a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of RMB35.3 million for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million for the two years ending 31 December 2019 and 2020.

The recent global outbreak of the Pandemic has not just disrupted the global supply chain which severely affected the supply of inventory for the Target Group's normal business operations, but also has an material adverse impact on the demand side of the Target Group's products, given that the retail outlets of the Target Group are mainly located in the eastern part of the U.S, which is an area recording a significant number of infected people. As stated in the Letter from the Board of the Circular, in the third week of March 2020, the Group received reports from the management of the Target Group that some of their shops recorded next-to-nil sales. As advised by the management team of the Company, the Target Group has decided to close all the retail shops of the Target Group in the United States and currently there are no plans to reopen the shops as it is uncertain as to how long this situation will last and as the furniture retail market outlook is highly uncertain.

In view of the unsatisfactory performance of the Target Group, the Directors have considered to find ways to minimise the loss arising from the Target Group. The Put Option was designed to provide an opportunity to the Company to unwind the transaction and recoup the Consideration if the business of the Target Group turns out to be unprofitable, and therefore, the Company has exercised the Put Option with a view to minimising its losses to the largest extent possible. As a result of the exercise of the Put Option, the Company is able to receive a cash consideration of US$20 million, and release its obligation to pay the outstanding consideration of the Acquisition of US$15 million, which is considered to be beneficial to the cashflow position of the Company, in particular under the current economic environment which is facing severe challenge resulting from the Pandemic.

7. Principal terms of the Receivables Disposal

The principal terms of the Receivable Disposal are summarized below. Further details are set out in the section of "Proposal on the Receivables Disposal" in the Letter from the Board contained in the Circular.

(a) Subject of the Receivables Disposal

An aggregate amount of receivable of RMB99.1 million due from the Target Group to the Group as at 20 March 2020, comprising

(i) trade receivables in the amount of RMB52.7 million arising from the supply of sofas in the ordinary and usual course of business of the Group; and

(ii) loan receivables in the amount of RMB46.4 million, being interest-free, repayable on demand loan advanced by the Group to the Target Group to meet the working capital requirement of the Target Group.

As advised by the Directors and the management of the Company, the Remaining Group has not supplied any sofas or advance any new loans to the Target Group since 20 March 2020.

(b) Consideration

The Company put forward a proposal to dispose of the Receivables to Morris PRC for a consideration of the fair value of the Receivables assessed by the Directors and the management of the Company taking into account of the Assessment, plus the nominal sum of RMB1.

As stated in the Letter from the Board contained in the Circular, the fair value of the Receivables as assessed by the Directors after considering the Assessment is RMB0, and as such, the consideration of the Receivables Disposal is RMB1.

(c) Other terms

In addition to the consideration of the Receivables of RMB1, the Company is entitled to a contingent consideration (the "**Contingent Consideration**"). The Contingent Consideration will be a proportion of 99.99% of any cash repayment by the Target Company or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC, after deducting (i) all post disposal recovery costs incurred by Morris PRC; and (ii) RMB1 being the consideration of the Receivables Disposal.

Morris PRC and the Warrantor have undertaken to the Company that each of them will use best endeavours to continue pursue after the Target Group to seek to recover the Receivables, and will forthwith distribute the 99.99% Outcome Sharing Entitlement in favour of the Company if and when Morris PRC successfully recovers any of the Receivables.

The Company and Morris PRC have also agreed that the Company shall have the right to be informed as to the conduct of the recovery action and the right of veto as to the final decision on compromise or settlement of the quantum of the recovered sum.

(d) Completion

Completion of the Receivables Disposal shall take place within 20 business days after the approval of the Receivable Disposal by the Independent Shareholders at the EGM.

8. Reasons for the Receivables Disposal

As the terms of the Acquisition Agreement are silent on how the Receivables should be dealt with if the Put Option is exercised, the Company, after considering the distressed financial position of the Target Group, has put forward the proposal of Receivables Disposal to Morris PRC with an aim to settling the issue of the outstanding Receivables due from the Target Company upon the Disposal Completion.

The Directors consider that it is highly uncertain as to the recovery of the Receivables, and it is not cost-effective for the Company to incur legal costs in the pursuit of recovery actions against the Target Group. The Directors are of the view that, through the Receivables Disposal, the Company could at the same time maintain an influence and sharing on the continual recovery actions while shifting the burden of time and cost of the recovery actions to Morris PRC.

Although, if without the Receivables Disposal, the Company can choose to keep the Receivables and is legally entitled to continue to pursue after the Target Group for the repayment of the Receivables, the prospect of the successful recovery not only depend on legal entitlement but also on the financial situation of the Target Group. In this regard, the Company noticed that the Target Group is under net liabilities and loss-making position for the past three financial years. As advised by the management team of the Company, despite the Company's repeated attempts to follow up with the Target Group with a view to recovering the Receivables in the past few months, the Target Group was unable to commit as the Target Group's business is vulnerable and highly uncertain given the adverse economic conditions as a result of the Pandemic. In addition, even if the Target Group manages to repay its loans and payables to its creditors, we have been advised by the management team of the Company that the Receivables are ranking pro rata with other general creditors of the Target Group, such that the prospect of meaningfully recovering the Receivables from the Target Group in its current state is quite small. As such, the Receivables have been fully impaired in the accounts of the Company, irrespectively of whether the Disposal and the Receivables Disposal could proceed to completion.

Despite the fact that the Receivables Disposal is expected to result in a reduction in the net asset value of the Remaining Group, the impact of which was already substantially reflected in the financial statements of the Group as at 31 December 2019 as the Receivables of RMB99.0 million was fully impaired in the financial statements as at 31 December 2019. Having taken into account the distressed financial situation of the Target Group as well as the unlikely prospect of full recovering the Receivables at this point in time, the Receivables Disposal would be a more cost-effective alternative for the Company as compared to spending legal costs in the pursuit of recovery actions against the Target Group. Furthermore, given that (i) Morris PRC and the Warrantor have irrevocably undertaken in writing to the Company that each of them would use its best endeavour to continue to pursue after the Target Company to seek the recovery of the Receivables and will forthwith distribute the 99.99% Outcome Sharing Entitlement in favour of the Company if and when Morris PRC successfully recovers any of the Receivables and (ii) the Company is entitled to Outcome Sharing Entitlement to share a fixed proportion of 99.99% of any cash repayment by the Target Group or cash proceeds of enforcement outcome recovery actions taken by Morris PRC over the Receivables, after deducting (a) all post disposal recovery costs incurred by Morris PRC; and (b) the consideration of Receivables Disposal of RMB1, we agree that, under the Receivables Disposal, although only nominal amount of consideration of RMB1 could be received at the outset by the Company, the Company is able to maintain an influence and share any recovery amount by Morris PRC without incurring time cost and legal cost in such recovery actions.

9. Assessment in relation to the Receivables

Pursuant to the Receivables Disposal, the consideration for the Receivables Disposal would be the fair value of the Receivables assessed by the Directors and the management of the Company, having taken into account an assessment of an expected credit loss of the Receivables conducted by the Independent Valuer. The Independent Valuer appointed by the Company has prepared an assessment (the "**Assessment**") to assess the expected credit loss of the Receivables and concluded that the expected credit loss of the Receivables is RMB99.0 million as at 31 December 2019 and hence the Directors' assessment of the fair value of the Receivables is RMB0.

We note that the Independent Valuer has prepared the Assessment for the Directors and management of the Company for accounting purpose. As such, the full amount of the Receivables as at 31 December 2019 of RMB99.0 million was fully impaired in the Company's audited financial statements as at 31 December 2019. The Independent Valuer has considered two generally accepted approaches to measure the expected credit losses, which are (i) simplified approach for lifetime expected credit losses and (ii) general approach which recognises lifetime expected credit losses or 12-month expected credit losses, depending on the level of credit risk.

As advised by the Independent Valuer, under each approach, a number of methods are available to assess the expected credit losses, mainly including but not limited to (i) the use of provisional matrix based on historical loss pattern or customer bases (i.e. ageing reports), which is adjusted for forward-looking estimates if applicable; and (ii) the use of probability-weighted loss default model ("**PD Model**") using probability of default ("**PD**"), loss given default ("**LGD**"), exposure at default ("**EAD**") and discount factor, which is adjusted for forward-looking estimates if applicable.

Based on the information provided by the management of the Company, and as there is a significant increase in credit risk for the Receivables since initial recognition, the Independent Valuer decided to adopt general approach to measure lifetime expected credit losses by using the PD Model.

As stated in the Letter from the Board of the Circular and by reference to the research materials of the credit agency, the credit profile of the Target Company was presumed to be C by the Independent Valuer. The exposure is high on default since the Receivables are not fortified by any collateral. In addition, the Target Company kept making operating losses and was in net liability position as at 31 December 2019. Therefore, it is expected that the recovery rate of the Receivables would be minimal. As such, the Independent Valuer assessed the expected credit loss of the Receivables at the entire carrying value of the Receivables at RMB99.0 million.

In conducting the Assessment, the Independent Valuer has made the following assumptions:

(i) There is no fixed maturity of the Receivables and it would be disposed of shortly, such that the effect of discounting of time value is considered as minimal;

(ii) Since the Target Company continued to incur operating losses in its business with a negative net asset value, it is believed that this situation would not be improved in the short run. Therefore, the management of the Company expected that the probability of default would be substantial with a minimal recovery rate in case of default;

(iii) There is no material observable change in future economic conditions, events and environment; and

(iv) The adopted loss rate and/or default probability are representative to reflect the impact from multiple repayment scenarios of the creditors based on the historical credit status information provided by the management of the Company and sourced from public sources.

Based on the investigation and analysis stated above, the Independent Valuer is of the opinion that the expected credit loss of the Receivables as at 31 December 2019 was RMB99.0 million. The Receivables as at the Latest Practicable Date was RMB99.1 million and such amount is not substantially different from that as at 31 December 2019. The fair value of the Receivables is therefore considered by the Directors as RMB0.

We note that the Assessment is for the Directors and management of the Company for accounting purpose. As advised by the management of the Company and the Directors, based on the Assessment, the Directors have decided to fully impaired the amount of the Receivables in the Company's financial statement as at 31 December 2019. We consider that the Assessment conducted by the Independent Valuer on the possibility of default in relation to the Receivables provides a basic foundation for the assessment of the fair value of the Receivables. Besides the Assessment, in order to look into the recoverability, we have also discussed with the Directors and the management of the Company about some items set out in the Audited Financial Information of the Target Group as at 31 December 2019, which included:

(i) Inventory of approximately RMB31 million, whether it can be cash out depends on the business situation of the Target Company, the short term prospect of which was discussed in the section headed "Recent development of the US market in which the Target Group is operated";

(ii) Trade and bills receivables of approximately RMB1.7 million, prepayment, deposits and other receivables of approximately RMB31 million and pledged deposits together with cash and cash equivalent of approximately RMB1.6 million, whereas the aggregate amount of trade and bills payables, contract liabilities and other payables was approximately RMB47.8 million.

Having considered the above and the overall financial position of the Target Group, in particular, based on the Audited Financial Information of the Target Group as at 31 December 2019, the Target Group was in a net current liabilities of approximately RMB126.6 million and a net liabilities of approximately RMB111.6 million, we share the same view of the Directors and the management of the Company that the repayment ability of the Target Group for the Receivables is highly uncertain and hence, the recoverability of the Receivables is considered very low.

10. Financial Impact of the Disposal and the Receivables Disposal

Upon Completion, the Target Group will cease to be subsidiaries of the Group and their respective assets and liabilities and profits and losses will no longer be consolidated into the financial statements of the Group.

Set out in Appendix I to this circular is the unaudited pro forma financial information of the Remaining Group which illustrates the effect of the completion of the Disposal and the Receivables Disposal on the assets and liabilities of the Group, assuming the Disposal and the Receivables Disposal had taken place on 31 December 2019.

(a) Effects on the net asset value

As set out in the unaudited pro forma consolidated statement of financial position of the Remaining Group in Appendix I to this Circular, (i) the total assets of the Remaining Group will decrease by approximately RMB272.7 million; and (ii) the total liabilities of the Remaining Group will decrease by approximately RMB294.7 million, assuming that the completion of the exercise of the Put Option and the Receivables Disposal had taken place as at 31 December 2019. Accordingly, the pro forma net assets of the Remaining Group as at 31 December 2019 would have increased from approximately RMB197.0 million to approximately RMB219.0 million, representing an increase of net asset value of RMB22 million.

(b) Effects on the earnings

As stated in the Letter from the Board of the Circular, the Target Group recorded a net loss after tax of approximately RMB13.9 million, RMB21.6 million and RMB35.3 million for the year ended 31 December 2017, the year ended 31 December 2018 and the year ended 31 December 2019 respectively. Given that the Target Group is continuously loss making for the past three financial years, we agree with the Directors' view that the Disposal would not have material adverse impact on the Group's earning capability.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Remaining Group in note 4 of Appendix I, assuming the Disposal and the Receivables Disposal had taken place on 31 December 2019, the Group would have an increase of pro forma retained earnings of approximately RMB207.1 million as a result of the completion of the Disposal and the Receivables Disposal. Shareholders may refer to note 4 of Appendix I to this circular for details of calculation of such increase of pro forma retained earnings.

In addition, as stated in the Letter from the Board of the Circular, during the two years ended 31 December 2018 and 2019, the revenue contributed by the Target Group constituted approximately 13.3% and 21.3% of the Group's total revenue. As the Target Group and the Remaining Group operate independently of each other, the Directors do not expect that the Disposal will cause any material adverse impact to the business operations of the Group.

(c) Effect on cash position

Pursuant to the Disposal, the Group will receive a consideration of US$35 million, in the form of US$20 million in cash, and settlement of the unpaid balance of US$15 million which is originally due to pay during the payment period in accordance with the Acquisition Agreement. As such, the Group will receive US$20 million as well as need not pay out US$15 million, which is considered to have a positive impact on the cashflow of the Group.

(d) Conclusion

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix I to the Circular, in particular, as a result of the Disposal and the Receivables Disposal, (i) the pro forma net assets of the Remaining Group as at 31 December 2019 would have increased by RMB22 million, (ii) the Remaining Group would have an increase of pro forma retained earnings on the Disposal and the Receivables Disposal of approximately of RMB207.1 million and (iii) it will have a positive impact on the cash position of the Remaining Group, and after taking into consideration the factors as discussed under the sections, including but not limited to, "Background of the transaction", "Principal terms of the Disposal", "Reasons for and benefits of the exercise of the Put Option", "Principal terms of the Receivables Disposal", and "Reasons for the Receivables Disposal" in this letter, we consider that even though the exercise of the Put Option and the Receivables Disposal are not considered to be in the ordinary and usual course of business of the Group and the terms of the Receivables Disposal are not on normal commercial terms, the Disposal and the Receivables Disposal are in the interests of the Company and the Shareholders as a whole and their terms and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders as concerned.

Shareholders should note that the aforementioned analyses and the unaudited pro forma consolidated statement of financial position of the Remaining Group in Appendix I to this circular are for illustrative purposes only and do not purport to represent how the financial position of the Remaining Group will be upon the Completion.

11. Combined effect of the Disposal and the Receivables Disposal

Shareholders should note that the transactions put forward for the Independent Shareholders to consider and, if thought fit, approve at the EGM include (i) the exercise of the Put Option and the Disposal; and (ii) the Receivables Disposal. The Receivables Disposal is independent of the exercise of the Put Option and not inter-conditional with each other. If the Put Option is approved but the Receivables Disposal is voted down by the Independent Shareholders at the EGM, the Company intends to serve a notice of repayment to demand immediate repayment of the Receivables by the Target Company on the date of the Disposal Completion.

Morris PRC, the Warrantor and their respective associates would be required to abstain from voting of the resolution to approve the exercise of the Put Option and the Receivables Disposal at the EGM. As stated in the Letter from the Board of the Circular, as at the Latest Practicable Date, Morris Capital (owned as to 85% by Mr. Zou and 15% by Ms. Wu) is interested in 750,000,000 Shares, representing 75% of the issued share capital of the Company and it has undertaken to the Company that it will abstain from voting for the resolution(s) regarding the exercise of the Put Option and the Receivables Disposal at the EGM.

Appendix I to the Circular sets out the proforma financial information of the Remaining Group which illustrates the effect of the completion of the Disposal and the Receivables Disposal on the assets and liabilities of the Group, assuming the Disposal and the Receivables Disposal had taken place on 31 December 2019. Financial impact of the Disposal has been discussed in the section headed "Financial Impact of the Disposal and the Receivables Disposal" in the Circular. As the Receivables have been fully impaired in the accounts of the Group which is already reflected in the financial position of the Group as at 31 December 2019, the impact of the Receivables Disposal on the Remaining Group of the increase of RMB1 is set out and explained in note 6 of the proforma financial information of the Remaining Group. If, in future, there is recovery of any amount of the Receivables by Morris PRC, such amount would be shared by the Company pursuant to the Outcome Sharing Entitlement, and the sharing amount would be recorded as reversal of impairment loss by the Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that even though the exercise of the Put Option and the Receivables Disposal are not considered to be in the ordinary and usual course of business of the Group and the terms of the Receivables Disposal are not on normal commercial terms, the exercise of the Put Option and the Receivables Disposal are in the interests of the Company and its Shareholders as a whole and their terms are fair and reasonable as far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we also recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Disposal and the Receivables Disposal.

Yours faithfully,
for and on behalf of
AJ Corporate Finance Limited

Venus Choi	**Felix Chan**
Managing Director	*Executive Director*

Note:

Ms. Venus Choi is a licensed person registered with the SFC and a responsible officer of AJ Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance industry.

Mr. Felix Chan is a licensed person registered with the SFC and a responsible officer of AJ Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance industry.

A. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is a summary of illustrative unaudited pro forma consolidated statement of assets and liabilities and related notes (the "**Unaudited Pro Forma Financial Information**"), in connection with the proposed disposal of the Jennifer Convertibles Inc. and its subsidiaries (the "**Target Group**") by Morris Holdings Limited (the "**Company**") to 慕容集團有限公司 (Morris Group Co., Ltd*) ("**Morris PRC**") as triggered by the exercise of the put option right granted by Morris PRC to the Company ("**Put Option**") (collectively referred to as "**Disposal**") and the proposed disposal of the trade and loan receivables due from the Target Group to the Company and its subsidiaries (the "**Group**") immediately after the completion of the Disposal (collectively referred to as the "**Remaining Group**") as at 31 December 2019 (collectively referred to as the "**Receivable Disposal**"). The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the assets and liabilities of the Group immediately after completion of the Disposal and the Receivable Disposal at 31 December 2019 as if the Disposal and the Receivable Disposal had been completed on 31 December 2019. The Unaudited Pro Forma Financial Information is prepared based on the published annual report of the Group for the year ended 31 December 2019, after giving effect to the pro forma adjustments described in the notes.

The Unaudited Pro Forma Financial Information is prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and has been prepared by the directors of the Company (the "**Directors**") for illustrative purposes only.

Narrative descriptions of the unaudited pro forma adjustments that are directly attributable to the Disposal and the Receivable Disposal, and factually supportable are summarised in the accompanying notes to the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial information of the Remaining Group had the Disposal and the Receivable Disposal been completed as of the specified dates or any other dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the annual report of the Group for the year ended 31 December 2019 and other financial information included elsewhere in this Circular.

* In this Appendix, the English transliteration of the Chinese name, where indicated, is included for identification purpose only, and should not be regarded as the official English name of such Chinese name. In the event of any inconsistency, the Chinese name should prevail.

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Unaudited pro forma consolidated statement of assets and liabilities of the Remaining Group

	The Group at 31 December 2019	Pro forma adjustments						The Remaining Group at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	*(Note 6)*	
Non-current assets								
Property, plant and equipment	71,480	(2,725)						68,755
Right-of-use assets	227,972	(173,628)						54,344
Contingent consideration receivables	234,425		(234,425)				–*	–*
Deferred tax assets	9,020							9,020
	542,897							132,119
Current assets								
Inventories	169,509	(31,043)						138,466
Trade and bills receivables	217,018	(1,735)						215,283
Prepayments, deposits and other receivables	212,217	(31,160)						181,057
Amount due from a shareholder	–					343		343
Amount due from a related company	–			104,501	(104,501)	63,959	–*	63,959
Pledged deposits	132,277	(1,056)						131,221
Cash and cash equivalents	71,046	(585)		139,336				209,797
	802,067							940,126
Current liabilities								
Trade and bills payables	389,334	(19,469)						369,865
Contract liabilities	24,844	(18,522)						6,322
Other payables and accruals	63,240	(9,798)						53,442
Amount due to a shareholder	10,107	(10,450)				343		–
Amount due to related companies	80,310	(99,011)			(104,501)	63,959	99,011	39,768
Interest-bearing bank borrowings	220,815							220,815
Warranty provision	4,689							4,689
Lease liabilities	46,504	(34,976)						11,528
Convertible loan	99,986							99,986
Income tax payables	18,969							18,969
	958,798							825,384
Net current (liabilities)/assets	(156,731)							114,742
Total assets less current liabilities	386,166							246,861

* *The balance represents an amount less than RMB1,000.*

	The Group at 31 December 2019	Pro forma adjustments						The Remaining Group at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4(a))*	*(Note 4(b))*	*(Note 5)*	*(Note 6)*	
Non-current liabilities								
Deferred tax liabilities	2,888							2,888
Convertible loan	9,602							9,602
Lease liabilities	176,709	(161,328)						15,381
	189,199							27,871
Net assets	196,967							218,990

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the consolidated statement of financial position as at 31 December 2019 of the Group for the year ended 31 December 2019 as set out in the annual report for the year ended 31 December 2019.

2. The adjustments represent the exclusion of assets and liabilities of the Target Group as if the Disposal had taken place on 31 December 2019 for the unaudited pro forma consolidated statement of assets and liabilities.

3. The adjustment represents derecognition of contingent consideration receivables of approximately RMB234,425,000 due to the Group will not demand the profit guarantee payment upon the exercise of the put option.

4. (a) The adjustment represents Disposal consideration of RMB243,837,000 (equivalent to US$35,000,000) upon the completion of the Disposal.

   For the purpose of preparing the Unaudited Pro Forma Financial Information, the total consideration payable by the purchaser for the Disposal of approximately RMB139,336,000 (equivalent to approximately US$20,000,000) is the net amount of Disposal consideration of RMB243,837,000, set off against unpaid balance of RMB104,501,000 (equivalent to approximately US$15,000,000). The total consideration payable by Morris PRC shall pay by way of bankers' draft.

   (b) The adjustment represents the unpaid balance of approximately RMB104,501,000 (equivalent to US$15,000,000) payable by the Company to Morris PRC under the terms of the acquisition agreement entered by the Company and Morris PRC in relation to acquisition of Target Group dated 14 July 2018.

   For illustration purpose, the pro forma gain on Disposal, which represents the excess of (i) consideration arising from the Disposal; over (ii) the net identified liabilities attributable to the owner of the Disposal Group; taking to account of (iii) the cumulative exchange difference reclassified from exchange reserve to profit or loss upon the Disposal minus (iv) the contingent consideration receivables, is calculated as follows:

	RMB'000
Consideration arising from the Disposal	243,837
Add: Net identified liabilities attributable to the owner of the Disposal Group	111,622
Add: Cumulative exchange difference reclassified from exchange reserve to profit or loss upon the Disposal	12,974
Less: Contingent consideration receivables	(234,425)
Pro forma gain on Disposal through profit or loss	134,008
Add: Realised gain from transfer other reserve to retained earnings	172,116*
Total increase of pro forma retained earnings on Disposal	306,124
Less: Impairment loss on Receivables Disposal	(99,011)
Total increase of pro forma retained earnings on Disposal and Receivables Disposal	207,113

* The "other reserve" was calculated by adding (a) the "effect of merger of an entity under common control" in the amount of approximately RMB198,462,000; to (b) the "effect on contingent consideration receivables" in the amount of approximately RMB214,507,000; minus (c) the "acquisition of an entity under common control" in the amount of approximately RMB240,853,000.

The exercise of the Put Option and the Receivables Disposal constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The final gain or loss on the Disposal may be different from the amount described above and would be subject to the carrying amount of the assets and liabilities of the Target Group on the date of the Disposal.

5. After taking into account the overall effect of all unaudited pro forma adjustments related to the Disposal, the Remaining Group will end up recording a negative "amount due to related companies", which can be sub-divided into an "amount due from a related company", an "amount due from a shareholder" and an "amount due to a related company". The purpose of this adjustment is to reallocate the amounts due-from and due-to to their proper presentation in the asset side and the liability side, respectively.

6. The adjustment represent inter-company balances elimination. Given that the Group proposed to sell the trade and loan receivables due from the Target Group to the Remaining Group amounted approximately RMB99.0 million which is fully impaired by the Group as at 31 December 2019, to Morris PRC at the fair value plus the nominal sum of RMB1. Although the Group is further entitled to receive a contingent consideration based on the proportional entitlement to share a fixed proportion of any cash repayment by the Target Group or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC. The Group considered that the recoverable amount of contingent consideration receivables is unpredictable and remote, hence the Group only recognize RMB1 in the unaudited pro forma financial information.

7. In this unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2019 and related notes, amounts denominated in US$ have been converted into RMB at the exchange rate of US$1.00 = RMB6.97 as at 31 December 2019 for illustration purposes only.

8. Other than the adjustments in relation to the disposal set out in the notes above, no other adjustment have been made to the Unaudited Pro Forma Financial Information to reflect any other transactions of the Group and the Target Group entered into subsequent to 31 December 2019.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the text of a report received from HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular

HLB 國衛會計師事務所有限公司 HODGSON IMPEY CHENG LIMITED

31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of Morris Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Morris Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Section B of Appendix I on pages I-2 to I-5 of the circular dated 3 July 2020 of circular (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix I to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the proposed disposal of the Jennifer Convertibles Inc. and its subsidiaries (the "**Target Group**") by the Company to 慕容集團有限公司 (Morris Group Co., Ltd*) and the proposed disposal of trade and loan receivables due from the Target Group to the Group after disposal on the Group's consolidated statement of assets and liabilities as at 31 December 2019 as if the transactions had taken place at 31 December 2019. As part of this process, information about the Group's consolidated statement of assets and liabilities as at 31 December 2019 has been extracted by the directors of the Company from the Group's audited consolidated financial statements for the year ended 31 December 2019, on which an auditor's report has been published.

* The English transliteration of the Chinese name is shown for identification purpose only.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 3 July 2020

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

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

Name of Director	Capacity in which the Shares are held	Long position in number of Shares	Approximate percentage of shareholding
Mr. Zou *(Note 1)*	Interest of controlled corporation	750,000,000	75%

Note:

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

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company which were notified to the Company and the Stock Exchange or recorded in the Section 352 Register as aforesaid.

3. MATERIAL ADVERSE CHANGE

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

Save and except the adverse financial situation of the Target Group as disclosed in the Company's announcements dated 22 and 31 March 2020, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up.

4. COMPETING INTERESTS

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

5. DIRECTORS' SERVICE CONTRACTS

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

6. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

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

Counter-parties	Transactions	Transaction value or annual caps
Morris PRC	Lease of properties by Morris PRC (as landlord) to the Group (as tenant). For details please see the Company's continuing connected transactions announcement dated 17 March 2017	RMB15 million for the year ending 31 December 2020
Target Company	Receivables owed by the Group to the Target Company, comprising trade receivables due to sales of sofa and interest-free, repayable-on-demand loan receivables. For details please see the letter from the Board of this circular.	As at the Latest Practicable Date, Receivables in the aggregate sum of RMB99.1 million were owed by the Target Company to the Group.

As explained in the letter from the Board of this circular, transactions between the Target Group and the Remaining Group were intra-group transactions prior to the Disposal Completion but will become continuing connected transactions if they are not terminated beyond the Disposal Completion. In the light of the management's decision on the shop closure in the US as disclosed in the Company's announcement dated 22 March 2020, no supply of goods has taken place since 20 March 2020, nor will any supply of goods take place beyond the Disposal Completion. Given that the Target Group is already in a distressed financial position, the Company does not intend to allow the Receivables to be continued to be owed by the Target Group to the Remaining Group after the Disposal Completion. If the Put Option and Disposal are approved but the Receivables Disposal is voted down by the Independent Shareholders at the EGM, the Company intends to serve a notice of repayment to demand immediate repayment of the Receivables by the Target Company on the date of the Disposal Completion.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
AJ Corporate Finance Limited, the Independent Financial Adviser	A licensed corporation carrying out type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Graval Consulting Limited	Independent valuer

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

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

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

8. DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) the memorandum and articles of association of the Company;

(b) the "Letter from the Board", the text of which is set out on pages 6 to 23 of this circular;

(c) the "Letter from the Independent Board Committee", the text of which is set out on page 24 of this circular;

(d) the "Letter from the Independent Financial Adviser", the text of which is set out on pages 25 to 49 of this circular;

(e) the directors' service contracts referred to in the paragraph headed "Directors' Service Contracts" in this appendix;

(f) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;

(g) the Acquisition Agreement;

(h) the Option Notice, containing the written terms of the Receivables Disposal; and

(i) this circular.

MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Morris Holdings Limited (the "**Company**") will be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Tuesday, 21 July 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the exercise of the put option right (the "**Put Option**") of the Company to sell (the "**Disposal**"), and require Morris Group Co., Ltd. ("**Morris PRC**") to repurchase, all the issued and outstanding common stock of Jennifer Convertibles Inc. (the "**Target Company**") at a consideration which is equivalent to the consideration already paid by the Company, granted by Morris PRC in favour of the Company pursuant to the sale and purchase agreement dated 4 July 2018 entered into between the Company, Morris PRC and Mr. Zou Gebing (the "**Warrantor**"), and the option notice dated 31 March 2020 (the "**Option Notice**") served by the Company at Morris PRC and the Warrantor, be and are hereby approved and ratified; and

(b) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the exercise of the Put Option and the Disposal, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company."

2. "**THAT**:

(a) the proposed disposal (the "**Receivables Disposal**") by the Company to Morris PRC of receivables (the "**Receivables**") owed by the Target Company and its subsidiaries (collectively, the "**Target Group**") to the Company and its subsidiaries (except the Target Group) (the "**Remaining Group**") at the consideration of: (i) a cash consideration (the "**Receivables Cash Consideration**") equivalent to the fair value of the Receivables to be assessed and reviewed by an independent valuer, plus the nominal sum of RMB1, payable on the completion of the Receivables Disposal; plus (ii) a contingent consideration equivalent to a proportional entitlement (the "**Outcome Sharing Entitlement**") to share a fixed proportion of 99.99% of any cash repayment by the Target Group or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC over the Receivables subsequent to the Receivables Disposal, after deducting all post-disposal recovery costs incurred by Morris PRC and the Receivables Cash Consideration, the detailed terms of which being set out in writing in the Option Notice served by the Company and acknowledged and accepted by Morris PRC and the Warrantor on 31 March 2020, be and is hereby approved and ratified; and

(b) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, instruments and agreements which they consider necessary, desirable or expedient to give effect to the transactions contemplated by the Receivables Disposal, and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interests of the Company."

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

Hong Kong, 3 July 2020

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

Principal place of business in Hong Kong:
Unit 2001, 20/F
Citicorp Centre
18 Whitfield Road, Causeway Bay
Hong Kong

Notes:

1. A shareholder of the Company entitled to attend and vote at the extraordinary general meeting (the "**EGM**") is entitled to appoint one or more proxies, if holding two or more shares, to attend and vote on his behalf. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.

3. The register of members of the Company will be closed from Monday, 20 July 2020 to Tuesday, 21 July 2020, both days inclusive, during which period no transfer of shares will be effected. As such, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 17 July 2020 for the purpose of determining shareholders' eligibility to attend and vote at the EGM.

4. A form of proxy for use at the EGM is enclosed with the circular to the shareholders. In order to be valid, a proxy form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.

5. Completion and return of a proxy form will not preclude a shareholder from attending and voting in person if he is subsequently able to be present and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the resolutions set out in this notice will be voted on at the EGM by way of poll.

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

8. As at the date of this notice, the executive Directors are Mr. Zou Gebing, Mr. Zeng Jin, Mr. Shen Zhidong and Mr. Wu Yueming; and the independent non-executive Directors are Mr. Liu Haifeng, Mr. Pang Wing Hong and Mr. Chu Guodi.