
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.

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



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)

**CONTINUING CONNECTED TRANSACTIONS
AND REVISED ANNUAL CAPS
IN RELATION TO THE 2020 LEASE RENEWAL AGREEMENT,
RE-ELECTION OF DIRECTOR
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING
Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Draco Capital Limited

Capitalized terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 8 to 22 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps is set out on page 23 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps is set out on pages 24 to 42 of this circular.

A notice convening the EGM to be held on Wednesday, 23 September 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.

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.

3 September 2020

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	8
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	23
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	24
APPENDIX I — GENERAL INFORMATION	I-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“2016 Lease Agreements”	the lease agreements entered into by Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International and Zhejiang Apollo Leather Products (as tenants) and Morris PRC (as landlord) for the lease of the 2016 Leased Properties for a term of ten years from 1 January 2016 to 1 January 2026
“2016 Leased Properties”	collectively, Properties A, B, C and D
“2017 Lease Agreements”	the lease agreements entered into by Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International (as tenants) and Morris PRC (as landlord) for the lease of the 2017 Leased Properties for a term of three years from 17 March 2017 to 16 March 2020
“2017 Leased Properties”	collectively, Properties E, F, G, H, I and J
“2020 CCT Announcement”	the announcement of the Company dated 8 July 2020 in relation to the 2020 Lease Renewal Agreement and the Revised Annual Caps
“2020 Lease Agreements”	the lease agreements to be entered into by Zhejiang Morris Trendy (as tenant) and Morris PRC (as landlord) for the lease of the 2020 Leased Properties for a term of three years, subject to and after the obtaining of the approval from the Independent Shareholders
“2020 Lease Renewal Agreement”	the lease renewal agreement dated 8 July 2020 entered into by Zhejiang Morris Trendy (as tenant) and Morris PRC (as landlord) (as modified and supplemented by the Supplemental Agreement) to agree on the signing of the 2020 Lease Agreements subject to the obtaining of the approval from the Independent Shareholders
“2020 Leased Properties”	collectively, Properties E, F, G and H

DEFINITIONS

“associate(s)”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“CCT Resolution”	the relevant resolution to be proposed at the EGM to approve the 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) and the Revised Annual Caps
“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
“controlling shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“COVID-19 Outbreak”	the outbreak of the COVID-19 epidemic, also known as the novel Coronavirus epidemic or SARS-CoV-2, which was declared a pandemic on 11 March 2020
“Director(s)”	the director(s) of the Company
“Draco Capital” or “Independent Financial Adviser”	Draco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the CCT Resolution
“EGM”	the extraordinary general meeting of the Company convened to be held on Wednesday, 23 September 2020 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve the CCT Resolution and the Re-election of Director

DEFINITIONS

“EGM Notice”	the notice of the EGM set out on pages EGM-1 to EGM-3 of this circular
“Group”	the Company and its subsidiaries
“Haining EDZ”	Haining Economic Development Zone, Haining City, Zhejiang Province, the PRC
“Haining Morris Home Gallery”	海寧慕容世家家居有限公司 (Haining Morris Home Gallery Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company which was merged into Zhejiang Morris Trendy on 22 October 2018
“Haining Morris International”	海寧慕容國際家居有限公司 (Haining Morris International Home Furnishings Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company which was merged into Zhejiang Morris Trendy on 22 October 2018
“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 established by the Board, comprising all the independent non-executive Directors, to advise the Independent Shareholders on the CCT Resolution
“Independent Shareholders”	Shareholders other than (a) Morris PRC, Mr. Zou and their respective associates (including Morris Capital), and (b) any other Shareholders who have a material interest in the CCT Resolution and are required by the Listing Rules to abstain from voting on the CCT Resolution at the EGM
“Independent Valuer”	the independent valuer engaged by the Group to assess the market rents of the 2020 Lease Properties

DEFINITIONS

“JCI”	Jennifer Convertibles Inc., a company incorporated in the US and a wholly-owned subsidiary of the Company prior to the JCI Disposal Completion
“JCI Disposal”	the disposal of JCI by the Company to Morris PRC as triggered by the exercise of the JCI Put Option
“JCI Disposal Completion”	the completion of the JCI Disposal
“JCI EGM”	the extraordinary general meeting which was held by the Company on 21 July 2020 to consider and approve the JCI Put Option and the JCI Receivables Disposal
“JCI Put Option”	the put option right granted by Morris PRC in 2018 and exercised by the Company on 31 March 2020, requiring Morris PRC to repurchase JCI for the consideration of US\$35 million (HK\$273 million)
“JCI Receivables”	the trade and loan receivables in the aggregate sum of RMB99.1 million (HK\$107.7 million) due from JCI to the Group prior to the JCI Disposal
“JCI Receivables Disposal”	the disposal of the JCI Receivables by the Group to Morris PRC, taking place simultaneously with the JCI Disposal
“Latest Practicable Date”	31 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained 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 and a substantial and controlling shareholder of the Company
“Morris PRC”	慕容集團有限公司 (Morris Group Co., Ltd*) (formerly known as 海寧蒙努集團有限公司 (Haining Mengnu Group Co., Ltd.*)), a company established in the PRC with limited liability and the landlord of the leases under 2020 Lease Agreements

DEFINITIONS

“Mr. Shen”	Mr. Shen Zhidong (沈志東), an executive Director of the Company
“Mr. Zou”	Mr. Zou Gebing (鄒格兵), the Chairman, Chief Executive Officer and an executive Director of the Company
“Ms. Wu”	Ms. Wu Xiangfei (鄔向飛), spouse of Mr. Zou
“PRC”	the People’s Republic of China
“Property A”	the premises with a leased area of 40,226.08 sq.m. situated at No. 120 Longxing Road, Haining EDZ
“Property B”	the premises with a leased area of 19,990.35 sq.m. situated at No. 115 Shuanglian Road, Haichang Street, Haining City
“Property C”	the premises with a leased area of 39,312 sq.m. situated at No. 500 Youquan Road, Haining EDZ
“Property D”	the premises with a leased area of 1,000 sq.m. situated at No. 500 Youquan Road, Haining EDZ
“Property E”	the premises with a leased area of 4,608 sq.m. situated at No. 500 Youquan Road, Haining EDZ for exhibition hall use
“Property F”	the premises with a leased area of 9,300 sq.m. situated at No. 500 Youquan Road, Haining EDZ for research and development center and exhibition hall use
“Property G”	the premises with a leased area of 40,474 sq.m. situated at No. 500 Youquan Road, Haining EDZ for factory, office, dormitory and canteen use
“Property H”	the premises with a leased area of 20,532 sq.m. situated at No. 120 Longxing Road, Haining EDZ for factory use
“Property I”	the premises with an area of 19,723 sq.m. situated at No. 20 Shidai Road, Haining EDZ

DEFINITIONS

“Property J”	the premises with an area of 6,400 sq.m. situated at No. 20 Shidai Road, Haining EDZ
“Re-election of Director”	the ordinary resolution to be proposed at the EGM to approve the re-election of Mr. Qian Jun as an independent non-executive Director of the Company
“Renewal Period”	the leasehold period as renewed by the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), being the three years commencing on 17 March 2020 and ending on 16 March 2023
“Revised Annual Caps”	the revised annual caps for the Group’s aggregate rental payments payable to Morris PRC under the 2020 Lease Agreements (when aggregated with the 2016 Lease Agreements) of RMB16,020,000, RMB21,622,000, RMB21,622,000 and RMB10,194,000 for the years ending 31 December 2020, 2021, 2022 and 2023, respectively
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Future 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
“sq.m”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	having the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Supplemental Agreement”	the supplemental agreement dated 21 August 2020 entered into by Zhejiang Morris Trendy and Morris PRC to modify and supplement the 2020 Lease Renewal Agreement by changing the Renewal Period to the three-year period between 17 March 2020 and 16 March 2023 and re-fixing the Revised Annual Cap for the year ending 31 December 2023
“US”	the United States of America
“US\$”	United States dollar(s), the lawful currency of the U.S.
“Zhejiang Apollo Leather Products”	浙江阿波羅皮革製品有限公司 (Zhejiang Apollo Leather Products Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company
“Zhejiang Morris Trendy” or “Haining Gelin Furniture”	浙江慕容時尚家居有限公司 (Zhejiang Morris Trendy Home Co., Ltd.), formerly known as 海寧格林家具有限公司 (Haining Gelin Furniture Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company and the surviving entity of the merger with Haining Morris Home Gallery and Haining Morris International
“%”	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 and HK\$1.00 = RMB0.92, respectively. The exchange rates are for illustration purposes 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 purposes 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.*

LETTER FROM THE BOARD



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

Executive Directors:

Mr. Zou Gebing
Mr. Zeng Jin
Mr. Shen Zhidong
Mr. Wu Yueming

Registered office:

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

Independent non-executive Directors:

Mr. Liu Haifeng
Mr. Chu Guodi
Mr. Qian Jun

Principal place of business:

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

3 September 2020

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND REVISED ANNUAL CAPS
IN RELATION TO THE 2020 LEASE RENEWAL AGREEMENT
AND
RE-ELECTION OF DIRECTOR**

INTRODUCTION

Reference is made to: (a) the 2020 CCT Announcement dated 8 July 2020 in relation to the 2020 Lease Renewal Agreement constituting continuing connected transactions for the Company and the Revised Annual Caps; (b) the Company's announcement dated 21 August 2020 regarding the signing of the Supplemental Agreement to modify and supplement the 2020 Lease Renewal Agreement by changing the Renewal Period to the three-year period between 17 March 2020 and 16 March 2023 and re-fixing the Revised Annual Cap for the year ending 31 December 2023; and (c) the Company's announcement dated 31 July 2020 regarding the appointment of Mr. Qian Jun as an independent non-executive Director.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information of the 2020 Lease Renewal Agreement and the Revised Annual Caps and the Re-election of Director; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps; (iv) other information prescribed by the Listing Rules; and (v) the EGM Notice.

THE 2020 LEASE RENEWAL AGREEMENT

Background of the 2016 Lease Agreements

Reference is made to the section headed “CONNECTED TRANSACTIONS” on pages 229 to 235 of the Company’s prospectus dated 30 December 2016 (the “Prospectus”) containing details of the 2016 Lease Agreements dated 1 January 2016 entered into Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International and Zhejiang Apollo Leather Products (as tenants) and Morris PRC (as landlord) for the leases of the 2016 Leased Properties for factory, direct sale store and office use for a term of ten years from 1 January 2016 to 1 January 2026, both days inclusive.

Details of the 2016 Lease Agreements are as follows:

Premises	Tenants	Use of property	Lease area (sq.m.)	Annual rents (RMB)
Property A	Zhejiang Apollo Leather Products	Production plants and office	40,226.08	2,896,277.76
Property B	Haining Gelin Furniture	Production plants and office	19,990.35	1,439,305.20
Property C	Haining Morris Home Gallery	Production plants and office	39,312.00	2,830,464.00
Property D	Haining Morris International	Direct sale store and office	1,000.00	<u>72,000.00</u>
			Total:	<u>7,238,046.96</u>

As disclosed in the Prospectus, the annual caps for the 2016 Lease Agreements were originally fixed at RMB7,238,046.96 for the three years ended 31 December 2016, 2017 and 2018. Since the relevant percentage ratios under the Listing Rules in respect of the 2016 Lease Agreements were, on an annual basis, less than 5% at the time of the Prospectus, the transactions contemplated by the 2016 Lease Agreements were exempt from circular and independent shareholders’ approval requirements but were only subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

In addition, as disclosed in the Prospectus, having considered (i) the proposed use of the 2016 Leased Properties; (ii) that the operation of the Group was expected to be longer than three years; (iii) that long-term nature of the 2016 Lease Agreements would prevent the occurrence of relocation costs and any unnecessary initial investment costs; and (iv) that lease agreements of short duration may give rise to uncertainties on the stability of production and be disadvantageous to the Group from commercial perspective, the Company was of the view (with which the sponsor concurred) that it was normal business practice for the Company to enter into the 2016 Lease Agreements of a term which is longer than three years.

Background of the 2017 Lease Agreements

Reference is made to the Company's announcement dated 17 March 2017 (the "**2017 CCT Announcement**") regarding the 2017 Lease Agreements entered into by Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International (as tenants) and Morris PRC (as landlord) for the leases of the 2017 Leased Properties for factory, exhibition hall, dormitory, canteen, office and research and development center use for a term of three years from 17 March 2017 to 16 March 2020, both days inclusive.

Details of the 2017 Lease Agreements are as follows:

Premises	Tenants	Use of property	Lease area (sq.m.)	Annual rents (RMB)
Property E	Haining Morris International	Exhibition hall	4,608.00	331,776.00
Property F	Haining Gelin Furniture	Research and development center and exhibition hall	9,300.00	669,600.00
Property G	Haining Morris Home Gallery	Factory, office, dormitory and canteen	40,474.00	2,914,128.00
Property H	Haining Morris Home Gallery	Factory	20,532.00	1,478,304.00
Property I	Haining Gelin Furniture	Factory	19,723.00	1,420,056.00
Property J	Haining Morris International	Factory	6,400.00	<u>460,800.00</u>
			Total:	<u>7,274,664.00</u>

As disclosed in the 2017 CCT Announcement, as a result of the entering into of the 2017 Lease Agreements, the annual caps for the Group's aggregate rental payments payable to Morris PRC were revised to RMB15,000,000 for the four years ended 31 December 2017, 2018, 2019 and 2020. Since the relevant percentage ratios under the Listing Rules in respect of the 2017 Lease Agreements (when aggregated with the 2016 Lease Agreements) were, on an annual

LETTER FROM THE BOARD

basis, less than 5% at the time of the 2017 CCT Announcement, the transactions contemplated by the 2017 Lease Agreements (when aggregated with the 2016 Lease Agreements) were exempt from circular and independent shareholders' approval requirements but were only subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

PRINCIPAL TERMS OF THE 2020 LEASE RENEWAL AGREEMENT

On 8 July 2020, Zhejiang Morris Trendy entered into the 2020 Lease Renewal Agreement with Morris PRC (as modified and supplemented by the Supplemental Agreement) to agree on the renewal of the leases of the 2020 Leased Properties and to set out the terms of the 2020 Lease Agreements to be entered into after the obtaining of approval from the Independent Shareholders.

The principal terms of the 2020 Lease Renewal Agreement are set out below:

Date

8 July 2020, as modified and supplemented by the Supplemental Agreement dated 21 August 2020.

Parties

- (1) Morris PRC (as landlord); and
- (2) Zhejiang Morris Trendy (as tenant).

Morris PRC is a company established in the PRC with limited liability and owned as to 85% by Mr. Zou (the Chairman, the Chief Executive Officer and an executive Director of the Company) and as to 15% by Ms. Wu (spouse of Mr. Zou). Based on the information provided by Morris PRC, its scope of business includes the sales and distribution of clothing and household products, investment holdings and property development.

Zhejiang Morris Trendy is a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company and the surviving entity of the merger with Haining Morris Home Gallery and Haining Morris International. As a result of the merger which took place on 22 October 2018, Zhejiang Morris Trendy has become the tenant of all the 2017 Leased Properties in succession of Haining Morris Home Gallery and Haining Morris International. Zhejiang Morris Trendy was formerly known as "Haining Gelin Furniture Co., Ltd." and was renamed to its current name on 5 September 2017. Zhejiang Morris Trendy is principally engaged in the manufacturing, sales and distribution of sofas, sofa covers and other furniture products.

LETTER FROM THE BOARD

Key renewal terms

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that:

- (1) The leases of Properties I and J were allowed to lapse by mutual agreement at the end of the three-year period of the 2017 Lease Agreements on 16 March 2020 without compensation to each others.
- (2) Subject to the approval of the CCT Resolution by the Independent Shareholders, the 2020 Lease Agreements be entered into between Zhejiang Morris Trendy and Morris PRC to renew the leases of the 2020 Leased Properties (i.e. Properties E to H) for the Renewal Period, being the three years commencing on 17 March 2020 and ending on 16 March 2023.
- (3) The old rental rates of the 2020 Leased Properties as fixed in the 2017 Lease Agreements shall continue to apply, accrue and be payable by Zhejiang Morris Trendy to Morris PRC between 17 March 2020 and the day immediately preceding the date of signing of the 2020 Lease Agreements.
- (4) If the CCT Resolution is voted down by the Independent Shareholders at the EGM, then: (a) Zhejiang Morris Trendy shall move out from Properties E to H on or before 31 December 2020 at its own costs; and (b) Zhejiang Morris Trendy is still bound to pay rent under the old rental rates to Morris PRC in respect of Properties E to H between the date of the EGM and up to 31 December 2020.

Condition precedent

The 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) are subject to the approval of the Independent Shareholders. Upon the approval of the CCT Resolution by the Independent Shareholders at the EGM, Zhejiang Morris Trendy shall enter into separate 2020 Lease Agreements for each of the 2020 Leased Properties.

Renewal of leasehold period

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that the leasehold period for the 2020 Leased Properties shall be renewed for three years commencing on 17 March 2020 and ending on 16 March 2023.

Notwithstanding the above, under the terms of the 2020 Lease Agreements, Zhejiang Morris Trendy (as tenant) is entitled to serve a notice to Morris PRC to terminate any or all of the leases unilaterally at any time earlier than the expiry of the Renewal Period, if Zhejiang Morris Trendy considers in its absolute discretion that the 2020 Leased Properties

LETTER FROM THE BOARD

cannot fulfill its production and operational requirements. Morris PRC, on the other hand, has no right to terminate the leases earlier than the expiry of the Renewal Period.

In addition, Zhejiang Morris Trendy (as tenant) shall have the right to serve a written notice to Morris PRC to request for further renewal of the leases at least three months before the expiry of the Renewal Period. If Zhejiang Morris Trendy exercises such right of renewal, it shall enjoy a priority right to be awarded further lease renewals (unless Morris PRC intends to retain the premises for self-use and is no longer offering the premises to lease), provided always that the annual rents on further renewals shall be adjusted by reference to the then prevailing market rent and all other terms being equal as compared to competing tenancy offers.

Due to the right of unilateral early termination by Zhejiang Morris Trendy, the Company does not expect that the leases as renewed by the 2020 Lease Agreements would be recognized as right-of-use assets in the Group's consolidated statement of financial position. The accounting treatment of the 2017 Lease Agreements and the lease payments as short-term lease has been agreed with the Company's auditors. As the early termination right of the Group as tenant as contained in the 2020 Lease Agreements is essentially the same as the 2017 Lease Agreements, the Company expects that the same accounting treatment will be carried over to the 2020 Lease Agreements when they are signed in due course.

The 2020 Leased Properties

The leases of the 2020 Leased Properties renewed under the 2020 Lease Agreements were Properties E, F, G and H.

For the avoidance of doubt, the leases of Properties I and J were allowed to lapse by mutual agreement at the end of the three-year period of the 2017 Lease Agreements on 16 March 2020, as these premises were no longer required for the Group's operations.

Rents

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that the annual rents for the 2020 Leased Properties shall: (a) remain as the old rental rates of the 2020 Leased Properties as fixed in the 2017 Lease Agreements between 17 March 2020 and the day immediately preceding the date of signing of the 2020 Lease Agreements; and (b) increase to the revised annual rate of RMB14,383,488 (HK\$15,634,226) between the date of signing of the 2020 Lease Agreements and up to 16 March 2023. The revised annual rents of the 2020 Leased Properties agreed under the 2020 Lease Renewal Agreement were arrived at after arm's length negotiations between Zhejiang Morris Trendy and Morris PRC by reference to the prevailing market rent for similar properties in neighboring areas at which the 2020 Leased Properties are located.

LETTER FROM THE BOARD

Set out below are the comparison of the annual rents of the 2020 Leased Properties as fixed by the 2017 Lease Agreements and as proposed for the 2020 Lease Agreements:

Premises	Use of property	Lease area (sq.m.)	Old annual rents under 2017 Lease Agreements (RMB)	New annual rents under 2020 Lease Agreements (RMB)
Property E	Exhibition hall	4,608.00	331,776	884,736
Property F	Research and development center and exhibition hall	9,300.00	669,600	1,785,600
Property G	Factory, office, dormitory and canteen	40,474.00	2,914,128	7,771,008
Property H	Factory	20,532.00	<u>1,478,304</u>	<u>3,942,144</u>
Total:			<u>5,393,808</u>	<u>14,383,488</u>

The revised rental rate for Properties E to H under the 2020 Lease Agreements increased by approximately 166.67% when compared with the old rental rate under the 2017 Lease Agreements. This increase is generally in line with the increase of market rental rates of industrial and factory premises in Haining City, which is believed to relate to (inter alia) the following factors: (a) the general increase in rents of industrial premises between 2017 and 2019 from major to second-tier cities in China; (b) the privileged location of Haining City being located at the center of the prospering economy in Yangtze River Delta; and (c) the materialization of one-hour living circle with Hangzhou City, a major technology and e-commerce hub in eastern China, through the connection of high-speed Hangzhou-Haining Intercity Railway which commenced construction in 2017 and is scheduled for completion in 2021.

Under the terms of the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), the rents for the 2020 Leased Properties for the entire Renewal Period, currently estimated to be in the amount of RMB38,992,830 (being the aggregate of the pro-rata rents under the old rate between 17 March 2020 and the day immediately preceding the date of signing of the 2020 Lease Agreements, the pro-rata rents under the new rate between the date of signing of the 2020 Lease Agreements and 31 December 2020, two full-year rents for the years ending 31 December 2021 and 2022, and the pro-rata rents between 1 January 2023 and the date of termination of 16 March 2023, assuming that the date of signing of the 2020 Lease Agreements is 1 September 2020), shall be payable by way of advance lump-sum on the date of signing of the 2020 Lease Agreements. This advance lump-sum rental payment is expected to be funded by internal resources of the Group. For the purpose of this paragraph, 1 September 2020 was used in the calculations for illustration purpose only, and the effective date of change of rent should depend on the actual date of signing of the 2020 Lease Agreements (which shall in turn be on or after the date of EGM, subject to the obtaining of Independent Shareholders' approval).

LETTER FROM THE BOARD

For the avoidance of doubt, the 2016 Lease Agreements are continuing until 1 January 2026, and the annual rents for the 2016 Leased Properties (i.e. Properties A to D) are unchanged at RMB7,238,046.96. Under the terms of the 2016 Lease Agreements, the annual rent of the 2016 Leased Properties is payable in advance on or before 31 January of each calendar year during the lease period.

Other terms of the leases

Under the 2020 Lease Renewal Agreement, it was agreed by Zhejiang Morris Trendy and Morris PRC that the 2020 Lease Agreements shall also contain the following terms and conditions:

1. Zhejiang Morris Trendy (as tenant) shall have the right of first refusal if the 2020 Leased Properties are offered for sale by Morris PRC.
2. Zhejiang Morris Trendy shall be responsible for any repair and maintenance expenses, safety regulations expenses and utility expenses during the Renewal Period.
3. The performance of the leases are subject to the occurrence of force majeure events, such as changes in laws and regulations, government orders or any other special reasons beyond the control of either parties.

HISTORICAL TRANSACTION AMOUNTS AND HISTORICAL ANNUAL CAPS

As explained in the sections headed “Background of the 2016 Lease Agreements” and “Background of the 2017 Lease Agreements” of the Letter from the Board of this circular, the historical transaction amounts and historical annual caps for the connected leases between the Group (as tenants) and Morris PRC (as landlord), on an aggregate basis, were as follows:

	For the year ended 31 December				For the seven months ended
	2016	2017	2018	2019	31 July
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
		<i>(Notes 1 and 2)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Transaction amount	7,238,046.96	13,017,916.96	14,512,710.96	14,512,710.96	7,742,000
Annual caps	not applicable	15,000,000.00	15,000,000.00	15,000,000.00	not applicable

Notes:

1. The transaction amount for the year ended 31 December 2017 was the aggregate of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the pro-rata rents for the 2017 Leased Properties between 17 March 2017 and 31 December 2017 in the sum of approximately RMB5,779,870.
2. The annual caps for 2017 and 2018 were originally fixed at RMB7,238,046.96 at the time of initial public offerings of the Company in December 2016, but were increased to RMB15,000,000 for the reasons set out in the Company’s announcement dated 17 March 2017.
3. The transaction amount for the seven months ended 31 July 2020 was the aggregate of: (a) the pro-rata rents for the 2016 Leased Properties between 1 January 2020 and 31 July 2020 of RMB4,212,000; (b) the pro-rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; and (c) the pro-rata rents for the 2020 Leased Properties between 1 January 2020 and 31 July 2020 of approximately RMB3,139,000 under the old rates.

LETTER FROM THE BOARD

RENTAL PAYMENT FOR PROPERTIES E TO H

If the rental increase as proposed by the 2020 Lease Renewal Agreement is voted down by the Independent Shareholders at the EGM, Zhejiang Morris Trendy will be allowed to remain at Properties E to H under the old rental rates until 31 December 2020, in which case the transaction amount under the connected leases for the year ending 31 December 2020 would be approximately RMB13,022,854.96 which is calculated by the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; (b) the pro-rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; and (c) the rents for Properties E to H for the whole year of approximately RMB5,393,808 under the old rates, which is still within the permitted annual cap of RMB15,000,000 as contemplated by the 2017 CCT Announcement.

The rents payable by Zhejiang Morris Trendy to Morris PRC for Properties E to H under the old rental rate for the six months after the end of the contractual term of 16 March 2020 (i.e. until 16 September 2020, for illustration purpose only) are in the amount of approximately RMB2,712,000 (HK\$2,947,000). As all applicable ratios are less than 5% and the rental payment is less than HK\$3 million, the transaction would have been fallen under the de minimis transaction threshold under Rule 14A.76(1)(c) and is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules, even if the CCT Resolution is voted down by the Independent Shareholders at the EGM.

The rents payable by Zhejiang Morris Trendy to Morris PRC for Properties E to H under the old rental rate from 17 March 2020 up to 31 December 2020 are in the amount of approximately RMB4,274,000 (HK\$4,645,000). As all applicable ratios are less than 5% and the rental payment is less than HK\$10 million, the transaction would have been fallen under both de minimis transaction thresholds under Rule 14A.76(2)(a) and (b) and is subject to disclosure but exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, even if the CCT Resolution is voted down by the Independent Shareholders at the EGM.

REVISED ANNUAL CAPS

To cater for the proposed rental increase as contemplated by the 2020 Lease Renewal Agreement and subject to approval by Independent Shareholders, the annual cap for the transaction value of the connected leases will have to be revised. The Revised Annual Caps is proposed to be set at RMB21,622,000 for each of the two financial years ending 31 December 2021 and 2022, being the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the increased annual rents for the 2020 Leased Properties of RMB14,383,488.

On 21 August 2020, the Supplemental Agreement was entered into by Zhejiang Morris Trendy and Morris PRC to modify and supplement the 2020 Lease Renewal Agreement by changing the Renewal Period to the three-year period between 17 March

LETTER FROM THE BOARD

2020 and 16 March 2023. To cater for the change in the Renewal Period, the Revised Annual Cap for the year ending 31 December 2023 was re-fixed at RMB10,194,000, being the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the pro-rata rents for the 2020 Leased Properties between 1 January 2023 and the date of termination on 16 March 2023 in the sum of approximately RMB2,955,511.

Assuming that the rental increases for the 2020 Leased Properties were to take effect on 1 September 2020, it is projected that the transaction value of the connected leases for the year ending 31 December 2020 would be approximately RMB16,020,000 which is calculated by the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; (b) the pro-rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; (c) the pro-rata rents for the 2020 Leased Properties between 1 January 2020 and 31 August 2020 of approximately RMB3,596,000 under the old rates; and (d) the pro-rata rents for the 2020 Leased Properties between 1 September 2020 and 31 December 2020 of approximately RMB4,795,000 under the new rates. The Revised Annual Cap is therefore proposed to be set at RMB16,020,000 for the year ending 31 December 2020. For the purpose of this paragraph, 1 September 2020 was used in the calculations for illustration purpose only, and the effective date of change of rent should depend on the actual date of signing of the 2020 Lease Agreements (which shall in turn be on or after the date of EGM, subject to the obtaining of Independent Shareholders' approval).

REASONS FOR AND BENEFITS OF THE LEASES

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

The Directors believe that the Group needs to: (a) maintain its production facilities to meet its purchase orders; (b) maintain its exhibition halls to display products to customers and potential customers; (c) maintain its direct sale stores to provide sales and customer services; (d) maintain its research and development center to keep up with new designs and new products; (e) maintain its offices to provide administrative and management support to the Group's operations in China; and (f) maintain its dormitories and ancillary facilities for the welfare of the Group's staff in China. As the 2016 Leased Properties and the 2020 Leased Properties are conveniently located adjacent to each others in the operation center of the Group in Haining City, the Company is of the view that management efficiency can be achieved by renewing the leases of the 2020 Leased Properties. In addition, relocation costs can be saved by the Group by continuing to lease the 2020 Leased Properties.

The revised annual rents of the 2020 Leased Properties as proposed for the 2020 Lease Renewal Agreement and the 2020 Lease Agreements were arrived at after arm's length negotiations between Zhejiang Morris Trendy and Morris PRC with reference to the prevailing market rent for similar properties in neighboring areas at which the 2020 Leased Properties are located. The terms of the 2020 Lease Agreements (including the rental period, notice period for termination, terms for renewal, apportionment of costs and expenses and force majeure clauses) are largely in line with the terms of leases of premises of similar size and use and rental period in China with independent third parties. The Company noticed that it is not uncommon for independent third party landlords of mid to

LETTER FROM THE BOARD

long-term leases of industrial premises to ask for advance payment of rentals to better secure the landlord from the risk of non-payment, especially if the tenant wants to ask for early termination right. Therefore, on balance, the Company is of the view that the advance payment of the annual rents for the 2020 Leased Properties for the entire three-year Renewal Period is fair and reasonable, because the Company will also enjoy other rights under the 2020 Lease Agreements (such as the first right of refusal on the sale and leasehold renewal of the properties, together with the right to terminate the leases unilaterally at any time earlier than the expiry of the Renewal Period).

Mr. Zou (the Chairman, Chief Executive Officer and an executive Director of the Company) is the 85% shareholder of Morris PRC. 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 2020 Lease Renewal Agreement and the 2020 Lease Agreements and the Revised Annual Caps, 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 2020 Lease Renewal Agreement and the 2020 Lease Agreements and the Revised Annual Caps.

LISTING RULES IMPLICATIONS

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 (the Chairman, Chief Executive Officer and an executive Director of the Company) and 15% by Ms. Wu (spouse of Mr. Zou). In addition, Mr. Zou is a substantial and controlling shareholder of the Company due to his 85% and Ms. Wu's 15% shareholding interests in Morris Capital. Accordingly, Morris PRC is a connected person or associate of connected person of the Company, and the transactions contemplated under the 2020 Lease Renewal Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios with respect to the Revised Annual Caps is more than 5%, the 2020 Lease Renewal Agreement and the Revised Annual Caps are subject to the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the 2020 CCT Announcement, on 8 July 2020, the Independent Board Committee comprising all the then independent non-executive Directors, namely, Mr. Liu Haifeng, Mr. Pang Wing Hong ("**Mr. Pang**") and Mr. Chu Guodi, was established to advise the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps. On 31 July 2020, concurrently with the resignation of Mr. Pang and the appointment of Mr. Qian Jun ("**Mr. Qian**") as independent non-executive Director, Mr. Qian joined the Independent Board Committee in replacement of Mr. Pang. Draco Capital has been appointed as the Independent Financial Adviser to advise the Independent Board

LETTER FROM THE BOARD

Committee and the Independent Shareholders regarding the 2020 Lease Renewal Agreement and the Revised Annual Caps.

RE-ELECTION OF DIRECTOR

Reference is made to the Company's announcement dated 31 July 2020 in relation to the appointment of Mr. Qian Jun as an independent non-executive Director of the Company. As disclosed in the said announcement, Mr. Qian's appointment is subject to retirement and re-election at the next general meeting of the Company. Accordingly, Mr. Qian will retire from office at the EGM and, being eligible, offer himself for re-election. The appointment of Mr. Qian and the Re-election of Director were recommended by the Nomination Committee of the Company by reference to Mr. Qian's background, expertise and experience, having regard to the Board Diversity Policy of the Company taking into consideration different diversity factors such as gender, age, cultural and educational background, skills and professional experience, knowledge, length of service and time devotion.

Set out below are the biographical details of Mr. Qian:

Mr. Qian, aged 36, is a practicing member of the Chinese Institute of Certified Public Accountants since 2012 with 8 years extensive practising experience in accounting field. He obtained Bachelor of Economics degree from Fudan University, Shanghai, China in 2007. He is currently the department manager of Zhejiang Zhengjian Certified Public Accountants Co., Limited in China.

Mr. Qian has entered into a letter of appointment with the Company on 31 July 2020. There is no specific term or proposed length of service for Mr. Qian as an independent non-executive Director but Mr. Qian will be subject to retirement and re-election at the next general meeting of the Company in accordance with the articles of association of the Company. Pursuant to the letter of appointment, Mr. Qian is entitled to receive a remuneration of HK\$180,000 per annum which has been reviewed by the Remuneration Committee and determined with reference to his duties and responsibilities as well as remuneration benchmarks in the industry and the prevailing market conditions. Mr. Qian has confirmed to the Company that he meets the independence criteria as set out in Rule 3.13 of the Listing Rules.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Mr. Qian has not served in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (ii) Mr. Qian does not hold any other positions in the Company or any of its subsidiaries; (iii) Mr. Qian does not have any relationship with any Director, senior management, substantial shareholder or controlling shareholder of the Company; (iv) Mr. Qian does not have any interest in the securities of the Company within the meaning of Part XV of the SFO; and (v) the Board is not aware of any information which is required to be disclosed pursuant to of Rule 13.51(2) of the Listing Rules and any other matters that need to be brought to the attention of the Shareholders.

LETTER FROM THE BOARD

ABSTAINING FROM VOTING BY INTERESTED SHAREHOLDERS

Pursuant to the Listing Rules, any Shareholder who has a material interest in the 2020 Lease Renewal Agreement and the Revised Annual Caps (including Morris PRC, Mr. Zou and their respective associates) would be required to abstain from voting for the CCT Resolution 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 (a company 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 CCT Resolution at the EGM. To the best knowledge, information and belief of the Company, save for Morris Capital, the Directors are not aware of any other Shareholders who have a material interest in the 2020 Lease Renewal Agreement and the Revised Annual Caps or are required to abstain from voting for the CCT Resolution. The Directors are not aware of any Shareholders who have a material interest in the re-election of Mr. Qian Jun as Director or are required to abstain from voting for the Re-election of Director.

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 2020 Lease Renewal Agreement and the Revised Annual Caps and the Re-election of Director. The EGM Notice convening the EGM to be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Wednesday, 23 September 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.

LETTER FROM THE BOARD

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 Outbreak, 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 Thursday, 17 September 2020 to Wednesday, 23 September 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 Wednesday, 16 September 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 Wednesday, 16 September 2020.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are of the opinion that: (i) the terms of the 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) are on normal commercial terms and are fair and reasonable; (ii) the Revised Annual Caps are fair and reasonable; and (iii) the continuing connected transactions contemplated under the 2020 Lease Renewal Agreement and the 2020 Lease Agreements are and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders (including the Independent 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 the resolution(s) to approve the 2020 Lease Renewal Agreement and the Revised Annual Caps.

The Directors consider that the Re-election of Director is in the best interest of the Company and its Shareholders and recommend the Shareholders to vote in favor of the Re-election of Director at the EGM.

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 2020 Lease Renewal Agreement and the Revised Annual Caps to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully

By order of the Board

Morris Holdings Limited

Zou Gebing

*Chairman, Chief Executive
Officer & Executive Director*

Wu Yueming

Executive Director



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED
慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

3 September 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND REVISED ANNUAL CAPS
IN RELATION TO THE 2020 LEASE RENEWAL AGREEMENT**

We have been appointed to form an independent board committee to consider and advise you on the 2020 Lease Renewal Agreement and the Revised Annual Caps, details of which are set out in the circular issued by the Company to the Shareholders dated 3 September 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 sections concerning the 2020 Lease Renewal Agreement and the Revised Annual Caps in the letter from the Board and the letter of advice from the Independent Financial Adviser set out on pages 8 to 22 and pages 24 to 42 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 2020 Lease Renewal Agreement and the Revised Annual Caps and having taken into consideration the advice of the Independent Financial Adviser set out on pages 24 to 42 of the Circular, we concur with the view of the Independent Financial Adviser and consider that: (i) the terms of the 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) are on normal commercial terms and are fair and reasonable; (ii) the Revised Annual Caps are fair and reasonable; and (iii) the continuing connected transactions contemplated under the 2020 Lease Renewal Agreement and the 2020 Lease Agreements are and will be conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 2020 Lease Renewal Agreement and the Revised Annual Caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Liu Haifeng
*Independent non-executive
Director*

Mr. Chu Guodi
*Independent non-executive
Director*

Mr. Qian Jun
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

3 September 2020

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

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND REVISED ANNUAL CAPS IN RELATION TO THE 2020 LEASE RENEWAL AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the 2020 Lease Renewal Agreement and the proposed annual caps thereof for the years ending 31 December 2020, 2021, 2022 and 2023 (the “**Annual Caps**”), details of which are set out in the Letter from the Board contained in the circular dated 3 September 2020 to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

On 8 July 2020, Zhejiang Morris Trendy entered into the 2020 Lease Renewal Agreement with Morris PRC (as modified and supplemented by the Supplemental Agreement dated 21 August 2020) to agree on the renewal of the leases of the 2020 Leased Properties and to set out the terms of the 2020 Lease Agreements to be entered into after the obtaining of approval from the Independent Shareholders.

As at the Latest Practicable Date, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Morris PRC is ultimately and beneficially

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

owned as to 85% by Mr. Zou (the Chairman, Chief Executive Officer and an executive Director) and 15% by Ms. Wu (spouse of Mr. Zou). In addition, Mr. Zou is a substantial and controlling shareholder of the Company due to his 85% and Ms. Wu's 15% shareholding interests in Morris Capital. Accordingly, Morris PRC is a connected person or associate of connected person of the Company, and the transactions contemplated under the 2020 Lease Renewal Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios with respect to the Revised Annual Caps is more than 5%, the 2020 Lease Renewal Agreement and the Revised Annual Caps are subject to the annual review, annual reporting, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened at which the Independent Shareholders will consider and, where appropriate, approve the 2020 Lease Renewal Agreement (and the transactions contemplated thereunder) and the Revised Annual Caps. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, Morris Capital (a company owned as to 85% by Mr. Zou and 15% by Ms. Wu) holds 750,000,000 Shares, representing 75% of the issued share capital of the Company. Morris Capital would abstain from voting in the EGM of the Company on the CCT Resolution. To the best knowledge, information and belief of the Company, save for Morris Capital, the Directors are not aware of any other Shareholders who have a material interest in the 2020 Lease Renewal Agreement and the Revised Annual Caps or are required to abstain from voting for the CCT Resolution.

As disclosed in the 2020 CCT Announcement, on 8 July 2020, the Independent Board Committee, comprising Mr. Liu Haifeng, Mr. Pang Wong Hong ("**Mr. Pang**") and Mr. Chu Guodi, all the then independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the 2020 Lease Renewal Agreement (and the transactions contemplated thereunder) and the Revised Annual Caps and as to how to vote at the EGM regarding the CCT Resolution. On 31 July 2020, concurrently with the resignation of Mr. Pang and the appointment of Mr. Qian Jun ("**Mr. Qian**") as independent non-executive Director, Mr. Qian joined the Independent Board Committee in replacement of Mr. Pang. We, Draco Capital Limited have been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) and the Revised Annual Caps.

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment as detailed in this circular of the Company dated 3 September 2020 (the "**Circular**"). we have not acted as a financial adviser or an independent financial adviser to the Company and its associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group and its associates. We are not aware of any relationship or interest between us and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

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

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. Specifically, we have reviewed/obtained/discussed with the Directors and/or management of the Group (as the case may be) the following documents or regarding the following issues:

1. the Circular;
2. the 2016 Lease Agreements and the 2017 Lease Agreements;
3. the 2020 Lease Renewal Agreement (which includes the unsigned draft of the 2020 Lease Agreements as an appendix);
4. the fair rent letter in respect of 2020 Leased Properties prepared by the Independent Valuer;
5. the engagement letter entered into between the Company and the Independent Valuer;
6. the invoices regarding the payment for rentals for the 2017 Leased Properties under the 2017 Lease Agreement;
7. the register of rents paid to connected persons by the Group prepared by the finance department of the Company;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

8. other lease agreements entered into among other independent third parties provided by the Company in respect of similar properties in neighboring areas of the same city;
9. the “Connected Transactions Management Manual” of the Company;
10. the internal control measures regarding the Continuing Connected Transactions;
11. the basis for determining the Annual Caps and relevant calculations;
12. advance payment of rentals arrangement requested by independent third party landlords of mid to long-term leases of industrial premises;
13. the reasons for and benefits of the leases under the 2020 Lease Renewal Agreement; and
14. the calculations regarding the relocation costs and initial investment costs for new premises should Zhejiang Morris Trendy moves out from the 2020 Leased Properties.

We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that the information provided to us may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subjects of, and parties to, the 2020 Lease Renewal Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and we do not have any obligation to update, revise or reaffirm this opinion.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and reasons for the Continuing Connected Transactions

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.

Background of the 2016 Lease Agreements

Reference is made to the section headed “CONNECTED TRANSACTIONS” on pages 229 to 235 of the Company’s prospectus dated 30 December 2016 (the “Prospectus”) containing details of the 2016 Lease Agreements dated 1 January 2016 entered into by Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International and Zhejiang Apollo Leather Products (as tenants) and Morris PRC (as landlord) for the leases of the 2016 Leased Properties for factory, direct sale store and office use for a term of ten years from 1 January 2016 to 1 January 2026, both days inclusive.

Details of the 2016 Lease Agreements are as follows:

Premises	Tenants	Use of property	Lease area (sq.m.)	Annual rents (RMB)
Property A	Zhejiang Apollo Leather Products	Production plants and office	40,226.08	2,896,277.76
Property B	Haining Gelin Furniture	Production plants and office	19,990.35	1,439,305.20
Property C	Haining Morris Home Gallery	Production plants and office	39,312.00	2,830,464.00
Property D	Haining Morris International	Direct sale store and office	1,000.00	72,000.00
			Total:	<u>7,238,046.96</u>

As disclosed in the Prospectus, the annual caps for the 2016 Lease Agreements were originally fixed at RMB7,238,046.96 for the three years ended 31 December 2016, 2017 and 2018. Since the relevant percentage ratios under the Listing Rules in respect of the 2016 Lease Agreements were, on an annual basis, less than 5% at the time of the Prospectus, the transactions contemplated by the 2016 Lease Agreements were exempt from circular and independent shareholders’ approval requirements but were only subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, as disclosed in the Prospectus, having considered (i) the proposed use of the 2016 Leased Properties; (ii) that the operation of the Group was expected to be longer than three years; (iii) that long-term nature of the 2016 Lease Agreements would prevent the occurrence of relocation costs and any unnecessary initial investment costs; and (iv) that lease agreements of short duration may give rise to uncertainties on the stability of production and be disadvantageous to the Group from commercial perspective, we noted that the Company was of the view (with which the sponsor concurred) that it was normal business practice for the Company to enter into the 2016 Lease Agreements of a term which is longer than three years.

Background of the 2017 Lease Agreements

Reference is also made to the Company’s announcement dated 17 March 2017 (the “**2017 CCT Announcement**”) regarding the 2017 Lease Agreements entered into by Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International (as tenants) and Morris PRC (as landlord) for the leases of the 2017 Leased Properties for factory, exhibition hall, dormitory, canteen, office and research and development center use for a term of three years from 17 March 2017 to 16 March 2020, both days inclusive.

Details of the 2017 Lease Agreements are as follows:

Premises	Tenants	Use of property	Lease area (sq.m.)	Annual rents (RMB)
Property E	Haining Morris International	Exhibition Hall	4,608.00	331,776.00
Property F	Haining Gelin Furniture	Research and development center and exhibition hall	9,300.00	669,600.00
Property G	Haining Morris Home Gallery	Factory, office, dormitory and canteen	40,474.00	2,914,128.00
Property H	Haining Morris Home Gallery	Factory	20,532.00	1,478,304.00
Property I	Haining Gelin Furniture	Factory	19,723.00	1,420,056.00
Property J	Haining Morris International	Factory	6,400.00	460,800.00
			Total:	<u>7,274,664.00</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the 2017 CCT Announcement, as a result of the entering into of the 2017 Lease Agreements, the annual caps for the Group's aggregate rental payments payable to Morris PRC were revised to RMB15,000,000 for the four years ended 31 December 2017, 2018, 2019 and 2020. Since the relevant percentage ratios under the Listing Rules in respect of the 2017 Lease Agreements (when aggregated with the 2016 Lease Agreements) were, on an annual basis, less than 5% at the time of the 2017 CCT Announcement, the transactions contemplated by the 2017 Lease Agreements (when aggregated with the 2016 Lease Agreements) were exempt from circular and independent shareholders' approval requirements but were only subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

The 2020 Lease Renewal Agreement

On 8 July 2020, Zhejiang Morris Trendy entered into the 2020 Lease Renewal Agreement with Morris PRC (as modified and supplemented by the Supplemental Agreement) to agree on the renewal of the leases of the 2020 Leased Properties and to set out the terms of the 2020 Lease Agreements to be entered into after the obtaining of approval from the Independent Shareholders.

The principal terms of the 2020 Lease Renewal Agreement are set out below:

Date

8 July 2020, as modified and supplemented by the Supplemental Agreement dated 21 August 2020

Parties

- (1) Morris PRC (as landlord); and
- (2) Zhejiang Morris Trendy (as tenant).

Morris PRC is a company established in the PRC with limited liability and owned as to 85% by Mr. Zou (the Chairman, the Chief Executive Officer and an executive Director) and as to 15% by Ms. Wu (spouse of Mr. Zou). Based on the information provided by Morris PRC, its scope of business includes the sales and distribution of clothing and household products, investment holdings and property development.

Zhejiang Morris Trendy is a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company and the surviving entity of the merger with Haining Morris Home Gallery and Haining Morris International. As a result of the merger which took place on 22 October 2018, Zhejiang Morris Trendy has become the tenant of all the 2017 Leased Properties in succession of Haining Morris Home Gallery and Haining Morris International. Zhejiang Morris Trendy was formerly known as "Haining Gelin Furniture Co., Ltd." and was renamed to its current name on 5 September 2017, Zhejiang Morris Trendy is principally engaged in the manufacturing, sales and distribution of sofas, sofa covers and other furniture products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Key renewal terms

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that:

- (1) The leases of Properties I and J were allowed to lapse by mutual agreement at the end of the three-year period of the 2017 Lease Agreements on 16 March 2020 without compensation to each others.
- (2) Subject to the approval of the CCT Resolution by the Independent Shareholders, the 2020 Lease Agreements be entered into between Zhejiang Morris Trendy and Morris PRC to renew the leases of the 2020 Leased Properties (i.e. Properties E to H) for the Renewal Period being the three years commencing on 17 March 2020 and ending on 16 March 2023.
- (3) The old rental rates of the 2020 Leased Properties as fixed in the 2017 Lease Agreements shall continue to apply, accrue and be payable by Zhejiang Morris Trendy to Morris PRC between 17 March 2020 and the day immediately preceding the date of signing of the 2020 Lease Agreements.
- (4) If the CCT Resolution is voted down by the Independent Shareholders at the EGM, then: (a) Zhejiang Morris Trendy shall move out from Properties E to H on or before 31 December 2020 at its own costs; and (b) Zhejiang Morris Trendy is still bound to pay rent under the old rental rates to Morris PRC in respect of Properties E to H between the dates of the EGM and up to 31 December 2020.

Condition precedent

The 2020 Lease Renewal Agreement and the transactions contemplated thereunder (including the 2020 Lease Agreements) are subject to the approval of the Independent Shareholders. Upon the approval of the CCT Resolution by the Independent Shareholders at the EGM, Zhejiang Morris Trendy shall enter into separate 2020 Lease Agreements for each of the 2020 Leased Properties.

Renewal of leasehold period

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that the leasehold period for the 2020 Leased Properties shall be renewed for three years commencing on 17 March 2020 and ending on 16 March 2023.

Notwithstanding the above, under the terms of the 2020 Lease Agreements, Zhejiang Morris Trendy (as tenant) is entitled to serve a notice to Morris PRC to terminate any or all of the leases unilaterally at any time earlier than the expiry of the Renewal Period, if Zhejiang Morris Trendy considers in its absolute discretion that the 2020 Leased Properties cannot fulfill its production and operational requirements (“**Zhejiang Morris Trendy’s Unilateral Early Termination Right**”). Morris PRC, on the other hand, has no right to terminate the leases earlier than the expiry of the Renewal Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, Zhejiang Morris Trendy (as tenant) shall have the right to serve a written notice to Morris PRC to request for further renewal of the leases at least three months before the expiry of the Renewal Period (“**Zhejiang Morris Trendy’s Further Renewal Right**”). If Zhejiang Morris Trendy exercises such right of renewal, it shall enjoy a priority right to be awarded further lease renewals (unless Morris PRC intends to retain the premises for self-use and is no longer offering the premises to lease), provided always that the annual rents on further renewals shall be adjusted by reference to the then prevailing market rent and all other terms being equal as compared to competing tenancy offers.

Due to Zhejiang Morris Trendy’s Unilateral Early Termination Right, the Company does not expect that the leases as renewed by the 2020 Lease Agreements would be recognized as right-of-use assets in the Group’s consolidated statement of financial position. We noted that the accounting treatment of the 2017 Lease Agreements and the lease payments as short-term lease has been agreed with the Company’s auditor. Given the Unilateral Early Termination Right is essentially the same as the 2017 Lease Agreement, we concur with the Company that the same accounting treatment will be carried over to the 2020 Lease Agreements when they are signed in the course.

The 2020 Leased Properties

The leases of the 2020 Leased Properties renewed under the 2020 Lease Agreements were Properties E, F, G and H.

For the avoidance of doubt, the leases of Properties I and J were allowed to lapse by mutual agreement at the end of the three-year period of the 2017 Lease Agreements on 16 March 2020, as these premises were no longer required for the Group’s operations.

Rents

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that the annual rents for the 2020 Leased Properties shall: (a) remain as the old rental rates of the 2020 Leased Properties as fixed in the 2017 Lease Agreements between 17 March 2020 and the day immediately preceding the date of signing of the 2020 Lease Agreements; and (b) increase to the revised annual rate of RMB14,383,488 (HK\$15,634,226) between the date of signing of 2020 Lease Agreements and up to 16 March 2023. The revised annual rents of the 2020 Leased Properties agreed under the 2020 Lease Renewal Agreement were arrived at after arm’s length negotiations between Zhejiang Morris Trendy and Morris PRC by reference to the prevailing market rent for similar properties in neighboring areas at which the 2020 Leased Properties are located.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are the comparison of the annual rents of the 2020 Leased Properties as fixed by the 2017 Lease Agreements and as proposed for the 2020 Lease Agreements:

Premises	Use of property	Lease area (sq.m.)	Old annual rents under 2017 Lease Agreements (RMB)	New annual rents under 2020 Lease Agreements (RMB)
Property E	Exhibition hall	4,608.00	331,776	884,736
Property F	Research and development center and exhibition hall	9,300.00	669,600	1,785,600
Property G	Factory, office, dormitory and canteen	40,474.00	2,914,128	7,771,008
Property H	Factory	20,532.00	<u>1,478,304</u>	<u>3,942,144</u>
	Total:		<u>5,393,808</u>	<u>14,383,488</u>

We noted that the revised rental rate for Properties E to H under the 2020 Lease Agreements increased by approximately 166.67% when compared with the old rental rate under the 2017 Lease Agreements. As discussed with the Company, this increase is generally in line with the increase of market rental rates of industrial and factory premises in Haining City, which is believed to relate to (inter alia) the following factors: (a) the general increase in rents of industrial premises between 2017 and 2019 from major to second-tier cities in China; (b) the privileged location of Haining City being located at the center of the prospering economy in Yangtze River Delta; and (c) the materialization of one-hour living circle with Hangzhou City, a major technology and e-commerce hub in eastern China, through the connection of high-speed Hangzhou-Haining Intercity Railway which commenced construction in 2017 and is scheduled for completion in 2021. In relation to the above, we have performed works in respect of the market rental assessment relating to the 2020 Leased Properties performed by the Independent Valuer, researched the location of Haining City in the PRC and studied relevant news and publications in relation to the development of Haining City and the construction schedule of high-speed Hangzhou-Haining Intercity Railway. As such, we consider the rents under the 2020 Lease Agreements are in line with the market despite such increase in rental rate from the 2017 Lease Agreements.

Under the terms of the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), the annual rents for the 2020 Leased Properties for the entire Renewal Period in the amount of RMB38,992,830 (being the aggregate of the pro-rata rents under the old rate between 17 March 2020 and the day immediately preceding the date of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

signing of the 2020 Lease Agreements, the pro-rata rents under the new rate between the date of signing of the 2020 Lease Agreements and 31 December 2020, two full-year rents for the years ending 31 December 2021 and 2022, and the pro-rata rents between 1 January 2023 and the date of termination of 16 March 2023, assuming that the date of signing of the 2020 Lease Agreements is 1 September 2020), shall be payable by way of advance lump-sum on the date of signing of the 2020 Lease Agreements. This advance lump-sum rental payment is expected to be funded by internal resources of the Group. For the purpose of this paragraph, 1 September 2020 was used in the calculations for illustration purpose only, and the effective date of change of rent should depend on the actual date of signing of the 2020 Lease Agreements (which shall in turn be on or after the date of EGM, subject to the obtaining of Independent Shareholders' approval).

For the avoidance of doubt, the 2016 Lease Agreements are continuing until 1 January 2026, and the annual rents for the 2016 Leased Properties (i.e. Properties A to D) are unchanged at RMB7,238,046.96. Under the terms of the 2016 Lease Agreements, the annual rent of the 2016 Leased Properties is payable in advance on or before 31 January of each calendar year during the lease period.

Other terms of the leases

Under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement), it was agreed by Zhejiang Morris Trendy and Morris PRC that the 2020 Lease Agreements shall also contain the following terms and conditions:

1. Zhejiang Morris Trendy (as tenant) shall have the right of first refusal if the 2020 Leased Properties are offered for sale by Morris PRC (“**Zhejiang Morris Trendy’s First Refusal Right**”).
2. Zhejiang Morris Trendy shall be responsible for any repair and maintenance expenses, safety regulations expenses and utility expenses during the Renewal Period.
3. The performance of the leases are subject to the occurrence of force majeure events, such as changes in laws and regulations, government orders or any other special reasons beyond the control of either parties.

We noted that the Group has engaged the Independent Valuer to assess the market rents of the 2020 Leased Properties for internal reference to the Board. According to the fair rent letter prepared by the Independent Valuer dated 3 September 2020 (the “**Fair Rent Letter**”), the Independent Valuer was of the opinion that the commercial terms, including the rents under each of the relevant Lease Agreements are fair and reasonable and in line with market rental levels for similar premises in similar locations as at the valuation date of 22 June 2020.

We have performed work as required under Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 8(v) of the HKEx Guidance Letter HKEx-GL76-14 in respect of the rental assessment of the 2020 Leased Properties performed by the Independent Valuer, including discussing with the Independent Valuer as to its experience in rental assessment for properties

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

in the PRC similar to that of the 2020 Leased Properties and its relationship with the Group and other parties to the 2020 Lease Renewal Agreement, and reviewing the terms of the Independent Property Valuer's engagement for the rental assessment, in particular its scope of work. We understand that the Independent Valuer is a member of the Royal Institution of Chartered Surveyors and has experience in a number of market rents assessment engagements that are similar to those of the rental assessment of the 2020 Leased Properties. Furthermore, we understand that Mr. Nick Kung, the director of the Independent Valuer and the signor of the Fair Rent Letter, is a member of Royal Institution of Chartered Surveyors, Registered Valuer of the Royal Institution of Chartered Surveyors, member of the Hong Kong Institution of Surveyors with over 20 years of experience in real estate industry and asset valuation sector covering the PRC. As such, we are of the view that the Independent Valuer is qualified, experienced and competent in performing the rental assessment and to form a reliable opinion in respect of the rental value of the 2020 Leased Properties.

We have reviewed the engagement letter entered into between the Company and the Independent Valuer and noted that the scope of work was appropriate for the Independent Valuer to provide the opinion of value required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by it in the Fair Rent Letter. We have interviewed the Independent Valuer by phone and the Independent Valuer confirmed us that apart from normal professional fees payable to it in connection with its engagement for the rental assessment of the 2020 Leased Properties, no arrangements exist whereby it will receive any fee or benefit from the Group and its associates. We have enquired with the Independent Valuer as to its independence from the Group and were given a written confirmation that the Independent Valuer is a third party independent of the Company and its connected persons. The Independent Valuer also confirmed us that it was not aware of any relationship or interest between it and the Company or any other party that would be reasonably considered to affect its independence to act as an independent valuer for the Company. We have also discussed with the Independent Valuer and management of the Company regarding the representations made by the Company to the Independent Property Valuer and noted that those representations made are in accordance with our knowledge.

We have reviewed the Fair Rent Letter in respect of the 2020 Leased Properties prepared by the Independent Valuer and discussed with the Independent Valuer the methodology, basis and assumptions adopted in arriving at the market rent of the 2020 Leased Properties as at 22 June 2020. We understand from the Independent Valuer that the Fair Rent Letter was prepared in compliance with The HKIS Valuation Standards 2017, The International Valuation Standards (effective in 31 January 2020), where applicable, and under generally accepted valuation procedures and practices. The Independent Valuer advised us that direct comparison method was adopted in arriving at the market rents of the 2020 Leased Properties given the nature of use and other particulars of the 2020 Leased Properties and the availability of comparable market transactions. We noted that in assessing the market rents, the Independent Valuer has considered the current market condition for rents of the types of properties involved and their locations, examined comparable rentals of similar properties in the nearby vicinity of the 2020 Leased Properties, and assessed market rents on the basis of market rent, being defined as the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The details of the comparable rentals used by the Independent Valuer (the “**Valuation Comparable**”) are set out in the following table.

Valuation Comparables	Asked/ transacted GFA <i>(sq.m)</i>	Date of transaction/ asking	Rents <i>(RMB per sq.m)</i>
Comparable A	1,400	Q2/2020	0.77/day
Comparable B	2,000	Q2/2020	0.77/day
Comparable C	1,500	Q2/2020	0.77/day
Comparable D	4,100	Q2/2020	0.67/day
Comparable E	2,700	Q2/2020	0.53/day
Comparable F	5,100	Q2/2020	16/month
Comparable G	11,000	Q2/2020	22/month
Comparable H	11,000	Q2/2020	13/month
Comparable I	26,000	Q2/2020	0.67/day
Comparable J	12,000	Q2/2020	16/month
Comparable K	30,000	Q2/2020	15/month
Comparable L	55,000	Q2/2020	15/month

We have discussed with the Independent Valuer the selection criteria of, and reviewed, the Valuation Comparables for assessing the market rents of the 2020 Leased Properties. We discussed with the Independent Valuer in relation to the property nature and locations of Properties E, F, G, H and noted that those properties are located in adjacent areas and of general industrial use, which could be used as production base, warehouse, staff quarters and office. Thus, we consider selecting comparables with similar industrial use for comparison with the 2020 Leased Properties. The selection criteria of the Valuation Comparables include (i) plants and/or buildings of industrial use located in the vicinity of the 2020 Leased Properties; and (ii) dates of the transactions/asking prices falling within the period of the 2nd quarter of 2020 which is the date of the Fair Rent Letter. We understand from the Independent Valuer that criterion (i) is set for limiting the Valuation Comparables which are comparable to the 2020 Leased Properties in terms of nature and location, and criterion (ii) is set to ensure the Valuation Comparables fall within a reasonable time frame to reflect the current market rents. We further understand from the Independent Valuer that adjustment factors including size, location and building quality have been considered in assessing the market rents of the 2020 Leased Properties. Given the Valuation Comparables are current asking price/transactions with property located in the vicinity of the 2020 Leased Properties with similar nature, we concur with the view of the Independent Valuer that the Valuation Comparables used in assessing the market rents of the 2020 Leased Properties are fair and representative samples for comparison with the 2020 Leased Properties. We also understand from the Independent Valuer that it had reviewed the photos of the sites and made relevant enquiries and searches for the purpose of the assessment and no irregularities were noted during the course of the assessment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the methodology applied by the Independent Valuer is one of the generally accepted procedures and practices of professional surveyors and is in compliance with the standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards Council, we consider that the methodology and basis adopted by the Independent Property Valuer for determining the market rents of the 2020 Leased Properties is appropriate.

Having considered (i) the qualifications and experience of the Independent Valuer; (ii) the methodology, basis and assumptions adopted in arriving at the market rent of the 2020 Leased Properties in the Fair Rent Letter; and (iii) that the unit rent of the 2020 Leased Properties of RMB16 per square meter per month is within the range of unit rents of the Valuation Comparables, we consider the revised annual rents of the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement) in respect of the 2020 Leased Properties are fair and reasonable and in line with the current and expected rental levels for similar premises in similar locations as set out in the Fair Rent Letter prepared by the Independent Valuer which have been arrived at after considering the current market condition for rents of the types of properties involved and their locations as well as rentals of similar properties in the vicinity of each of the subject premises.

Meanwhile, we have also reviewed and compared the terms of the 2020 Lease Renewal Agreements (as modified and supplemented by the Supplemental Agreement) and the 2020 Lease Agreements with other lease agreements entered into among other independent third parties provided by the Company in respect of similar properties in neighboring area at the same cities which we considered are fair and representative samples, and noted that (i) the rents for the 2020 Leased Properties under the 2020 Lease Renewal Agreement are within the range of the rents of the comparable transactions; and (ii) the notice period for termination under the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement) of 3 months are similar which is regarded as a norm as compared to the comparable transactions. However, Morris PRC has no right to terminate the leases of 2020 Leased Properties earlier than the expiry of the Renewal Period under the 2020 Lease Agreements while it appeared that both landlords and tenants generally have equal termination rights under the comparable transactions.

Although we noted that the payment of the rents for the 2020 Leased Properties for the entire Renewal Period, i.e. three years, has to be made upon the signing of the 2020 Lease Agreements, we have also discussed with the management of the Company and noted that it is not uncommon for independent third party landlords of mid to long-term leases of industrial premises to ask for advance payment of rentals to better secure the landlord from the risk of non-payment, especially if the tenant wants to ask for early termination right and we notice that some Valuation Comparables also contain clauses requiring the advance lump-sum payment for rent of up to one year. The 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement) meanwhile offers favorable terms of Zhejiang Morris Trendy's Unilateral Early Termination Right, Zhejiang Morris Trendy's Further Renewal Right and Zhejiang Morris Trendy's First Refusal Right to the Group which are also not commonly seen in usual tenancy agreement for industrial use in the area. In view of the above, we concur with the Directors that the advance lump-sum payment on the date of signing of the 2020 Lease Agreements is fair and reasonable and in the interest of the Company and Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, we noted that the Group needs to: (a) maintain its production facilities to meet its purchase orders; (b) maintain its exhibition halls to display products to customers and potential customers; (c) maintain its direct sale stores to provide sales and customer services; (d) maintain its research and development center to keep up with new designs and new products; (e) maintain its offices to provide administrative and management support to the Group's operations in China; and (f) maintain its dormitories and ancillary facilities for the welfare of the Group's staff in China by entering into the 2020 Lease Renewal Agreement and the 2020 Lease Agreements. We have also discussed with the management of the Group and acknowledged that the occurrence of relocation costs and initial investment costs for new premise should Zhejiang Morris Trendy moves out of 2020 Leased Properties may result in a significant impact on the financial and instability of the operation and of the Group. Having considered the long term commitment for the sustainability of the Group, we concur with the Directors that the terms of the 2020 Lease Renewal Agreements (as modified and supplemented by the Supplemental Agreement) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2. Internal control measures

As discussed with the Directors, the Company is committed to adopting the following internal control measures to ensure the terms of the 2020 Lease Renewal Agreement is adhered to:

- (a) upon obtaining the approval by the Independent Shareholders on the Continuing Connected Transactions and the Annual Caps, the finance and compliance departments and relevant personnel of the Company shall ensure that the Continuing Connected Transactions will strictly adhere to the terms and conditions set out therein;
- (b) the finance department and relevant personnel of the Company shall be responsible for continuously monitoring and reviewing the pricing terms and actual transaction amounts under each of the Lease Agreements. The relevant personnel of the Company shall monitor the Continuing Connected Transactions and ensure all transactions contemplated under the 2020 Lease Renewal Agreement are entered into on normal commercial terms or better, are fair and reasonable, and are carried out pursuant to the terms of the 2020 Lease Renewal Agreement;
- (c) the independent non-executive Directors will review the Continuing Connected Transactions entered/to be entered into pursuant to the 2020 Lease Renewal Agreement to ensure all such transactions are entered into on normal commercial terms or better, on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and are carried out in accordance with the terms of the 2020 Lease Renewal Agreement; and
- (d) the auditor of the Company will conduct an annual review on the pricing and actual transaction amounts of the Continuing Connected Transactions entered/to be entered into pursuant to the 2020 Lease Renewal Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed the above internal control measures with management of the Company and reviewed the “Connected Transactions Management Manual” provided by the Company (the “**CT Manual**”), and are satisfied that the internal control measures stated above, together with those set out in the CT Manual, are sufficient to ensure the fairness of the terms under the 2020 Lease Renewal Agreement.

We understand from management of the Company that the rentals under the 2020 Lease Agreements payable to the Group represent the prevailing market rents of similar natures in neighboring areas based on available property rental market comparables and as negotiated and agreed by the parties on an arm’s length basis. The Company also engaged the Independent Valuer to review the property lease agreements in respect of the 2020 Leased Properties and reviewed the site photos and researched the relevant properties in order to ensure the terms of the lease agreements are fair and reasonable to the Group and consistent with the prevailing market levels or practice for rental properties of similar status in similar locations as of the date of execution. We have reviewed the register of rents paid to connected persons by the Group prepared by the finance department of the Company and noted that the transaction amounts were properly recorded and monitored so as to ensure the annual caps would not be exceeded. We have also reviewed the invoices regarding the entire payment of rentals for the 2017 Leased Properties under the 2017 Lease Agreements for the term of three years from 17 March 2017 to 16 March 2020 and noted that the payments were made in accordance with the respective lease agreements. Based on the above, we are of the view that the pricing and payment of the historical transactions conducted in respect of the 2020 Leased Properties have been determined and conducted in accordance with the relevant pricing principles and internal control procedures of the Company.

With the implementation of the abovementioned internal control measures, we believe that the Continuing Connected Transactions will be conducted on normal commercial terms and on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

HISTORICAL TRANSACTION AMOUNTS AND HISTORICAL ANNUAL CAPS

As explained in the section headed “Background of the 2016 Lease Agreements” and “Background of the 2017 Lease Agreements” of the Letter from the Board of this circular, the historical transaction amounts and historical annual caps for the connected leases between the Group (as tenants) and Morris PRC (as landlord), on an aggregate basis, were as follows:

		For the year ended 31 December			For the seven months ended
	2016	2017	2018	2019	31 July 2020
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
		<i>(Note 1 & 2)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Transaction amount	7,238,046.96	13,017,916.96	14,512,710.96	14,512,710.96	7,742,000
Annual caps	not applicable	15,000,000.00	15,000,000.00	15,000,000.00	not applicable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Notes:

1. The transaction amount for the year ended 31 December 2017 was the aggregate of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the pro-rata rents for the 2017 Leased Properties between 17 March 2017 and 31 December 2017 in the sum of approximately RMB5,779,870.
2. The annual caps for 2017 and 2018 were originally fixed at RMB7,238,046.96 at the time of initial public offerings of the Company in December 2016, but were increased to RMB15,000,000 for the reasons set out in the Company's announcement dated 17 March 2017.
3. The transaction amount for the seven months ended 31 July 2020 was the aggregate of: (a) the pro-rata rents for the 2016 Leased Properties between 1 January 2020 and 31 July 2020 of RMB4,212,000; (b) the pro-rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; and (c) the pro-rata rents for the 2020 Leased Properties between 1 January 2020 and 31 July 2020 of approximately RMB3,139,000 under the old rates.

We noted that the historical amounts for the year ended 31 December 2017, 2018 and 2019 remained at RMB13,017,916.96, RMB14,512,710.96 and RMB14,512,710.96 respectively, which have not exceeded the annual caps of RMB15,000,000 in any of the abovementioned financial years.

RENTAL PAYMENT FOR PROPERTIES E TO H

If the rental increase as proposed by the 2020 Lease Renewal Agreement is voted down by the Independent Shareholders at the EGM, Zhejiang Morris Trendy will be allowed to remain at Properties E to H under the old rental rates until 31 December 2020, in which case the transaction amount under the connected leases for the year ending 31 December 2020 would be approximately RMB13,022,854.96 (HK\$14,155,277) which is calculated by the rounded sum of (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; (b) the pro rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; and (c) the rents for Properties E to H for the whole year of approximately RMB5,393,808 under the old rates, which is still within the permitted annual cap of RMB15,000,000 as contemplated by the 2017 CCT Announcement.

The rents payable by Zhejiang Morris Trendy to Morris PRC for Properties E to H under the old rental rate for the six months after the end of the contractual term of 16 March 2020 (i.e. until 16 September 2020, for illustration purpose only) are in the amount of approximately RMB2,712,000 (HK\$2,947,000). As all applicable ratios are less than 5% and the rental payment is less than HK\$3 million, the transaction would have been fallen under the de minimis transaction threshold under Rule 14A.76(1)(c) and is fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules, even if the CCT Resolution is voted down by the Independent Shareholders at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The rents payable by Zhejiang Morris Trendy to Morris PRC for Properties E to H under the old rental rate from 17 March 2020 up to 31 December 2020 are in the amount of approximately RMB4,274,000 (HK\$4,645,000). As all applicable ratios are less than 5% and the rental payment is less than HK\$10 million, the transaction would have been fallen under both de minimis transaction thresholds under Rule 14A.76(2)(a) and (b) and is subject to disclosure but exempt from shareholders' approval requirement under Chapter 14A of the Listing Rules, even if the CCT Resolution is voted down by the Independent Shareholders at the EGM.

REVISED ANNUAL CAPS

To cater for the proposed rental increase as contemplated by the 2020 Lease Renewal Agreement and subject to approval by Independent Shareholders, the annual cap for the transaction value of the connected leases will have to be revised. The Revised Annual Caps is proposed to be set at RMB21,622,000 (HK\$23,502,173) for each of the two financial years ending 31 December 2021 and 2022, being the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the increased annual rents for the 2020 Leased Properties of RMB14,383,488.

On 21 August 2020, the Supplemental Agreement was entered into by Zhejiang Morris Trendy and Morris PRC to modify and supplement the 2020 Lease Renewal Agreement by changing the Renewal Period to the three-year period between 17 March 2020 and 16 March 2023. To cater for the change in the Renewal Period, the Revised Annual Cap for the year ending 31 December 2023 was re-fixed at RMB10,194,000, being the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; and (b) the pro-rata rents for the 2020 Leased Properties between 1 January 2023 and the date of termination on 16 March 2023 in the sum of approximately RMB2,955,511.

Assuming that the rental increases for the 2020 Leased Properties were to take effect on 1 September 2020, it is projected that the transaction value of the connected leases for the year ending 31 December 2020 would be approximately RMB16,020,000 (HK\$17,413,043) which is calculated by the rounded sum of: (a) the annual rents for the 2016 Leased Properties of RMB7,238,046.96; (b) the pro-rata rents for Properties I and J between 1 January 2020 and the date of termination on 16 March 2020 in the sum of approximately RMB391,000; (c) the pro-rata rents for the 2020 Leased Properties between 1 January 2020 and 31 August 2020 of approximately RMB3,596,000 under the old rates; and (d) the pro-rata rents for the 2020 Leased Properties between 1 September 2020 and 31 December 2020 of approximately RMB4,795,000 under the new rates. The Revised Annual Cap is therefore proposed to be set at RMB16,020,000 (HK\$17,413,043) for the year ending 31 December 2020. For the purpose of this paragraph, 1 September 2020 was used in the calculations for illustration purpose only, and the effective date of change of rent should depend on the actual date of signing of the 2020 Lease Agreements (which shall in turn be on or after the date of EGM, subject to the obtaining of Independent Shareholders' approval).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that (i) the Revised Annual Caps represent the exact amount of aggregate rentals payable by the Group to Morris PRC under the 2016 Lease Agreements and the 2020 Lease Agreements for the premises in each of the years ending 31 December 2020, 2021, 2022 and 2023 respectively which reflect the prevailing market rent level for the 2020 Leased Properties as supported by the Fair Rent Letter prepared by the Independent Valuer; (ii) the Revised Annual Caps are constant and properly compiled and prepared in accordance with the terms of the 2016 Lease Agreements and the 2020 Lease Agreements; and (iii) the historical amounts for the continuing connected transaction under the 2016 Lease Agreements and 2017 Lease Agreements have not exceeded the historical annual caps, we concur with the Directors that the Revised Annual Caps are fair and reasonable and in the interests of the Company and Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, and the terms of the 2020 Lease Renewal Agreement, 2020 Lease Agreement and the Revised Annual Caps are on normal commercial terms and 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. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, and we ourselves also recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the transactions contemplated under the 2020 Lease Renewal Agreements and the Annual Caps thereof.

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

Notes:

- (i) Mr. Kevin Choi is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 9 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures of the Company

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

Name of Director	Capacity in which the Shares are held	Long position in number of Shares	Approximate percentage of shareholding
Mr. Zou (<i>Note 1</i>)	Interest of controlled corporation	750,000,000	75.00%

Note:

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

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

3. COMPETING INTERESTS

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

4. MATERIAL ADVERSE CHANGE

As disclosed in the Company's announcements dated 22 and 31 March 2020, the Group's furniture retail business in the United States operated by JCI was heavily hit by the COVID-19 Outbreak. With the increase of infected people in the United States including the eastern states where JCI's retail network is situated, some non-essential retailers have closed their shops to curb the spread of the Epidemic. Other non-essential retailers which tried to remain open suffered unprecedented decline in sales. In the third week of March 2020, the Group received reports from JCI's management that some of their shops recorded next-to-nil sales. In the circumstances, JCI's management has decided to close all the retail shops of JCI in the United States.

Save and except the adverse financial situation of JCI 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.

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

Save for the transactions set out below, none of the Directors: (a) was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group, nor (b) had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member

of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Company were made up):

Counter-parties	Transactions	Transaction value or annual caps
Morris PRC	The lease of properties by Morris PRC (as landlord) to the Group (as tenant). For details, please see the Letter from the Board of this circular.	Annual cap of rental payment of originally RMB15,000,000 for the year ending 31 December 2020, which was proposed to be revised to RMB16,020,000, RMB21,622,000, RMB21,622,000 and RMB10,194,000 for the years ending 31 December 2020, 2021, 2022 and 2023, respectively.
JCI	The JCI Receivables owed by JCI to the Group, comprising trade receivables due to sales of sofa and interest-free, repayable-on-demand loan receivables. For details, please see the Company's circular dated 3 July 2020.	JCI Receivables in the aggregate sum of RMB99.1 million (HK\$107.7 million) being owed by JCI to the Group prior to the JCI Disposal. The disposal of the JCI Receivables was approved at the JCI EGM on 21 July 2020 and completed subsequently.
Morris PRC	The exercise of the JCI Put Option by the Company to require Morris PRC to repurchase JCI, and the simultaneous disposal of the JCI Receivables by the Company to Morris PRC. For details, please see the Company's circular dated 3 July 2020. Following the JCI Disposal Completion, JCI and the JCI Receivables will be owned by Morris PRC.	The consideration for the repurchase of JCI is US\$35 million (HK\$273 million). The consideration for the JCI Receivables Disposal is the fair value of the Receivables (which is assessed as nil) plus RMB1, together with a 99.99% outcome sharing entitlement on the outcome of the recovery actions. The JCI Disposal was approved at the JCI EGM on 21 July 2020 and completed subsequently.

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

6. EXPERTS AND CONSENTS

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

Name	Qualification
Draco Capital Limited, the Independent Financial Adviser	A licensed corporation carrying out Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the experts named above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, each of the experts named above did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, each of the experts named above did not have any direct or indirect interest in any assets which have been acquired or disposed of or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up).

7. DIRECTORS' SERVICE CONTRACTS

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

8. MATERIAL CONTRACTS

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

- (a) the option notice dated 31 March 2020 regarding the Company's exercise of the JCI Put Option to require Morris PRC to repurchase JCI for the consideration of US\$35 million (HK\$273 million); and
- (b) the disposal agreement dated 19 June 2020 regarding the disposal of certain land and construction in progress by the Group for the consideration of RMB95.7 million (HK\$104 million).

9. MISCELLANEOUS

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

10. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019;
- (c) the material contracts referred to in the paragraph headed “MATERIAL CONTRACTS” in this appendix;
- (d) the “Letter from the Board”, the text of which is set out on pages 8 to 22 of this circular;
- (e) the written consents referred to in the section headed “EXPERTS AND CONSENTS” in this appendix;
- (f) the Company’s circular dated 3 July 2020 in relation to the JCI Put Option and JCI Receivables Disposal;
- (g) the directors’ service contracts referred to in the paragraph headed “DIRECTORS’ SERVICE CONTRACTS” in this appendix; and
- (h) this circular.

NOTICE OF EGM



MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Morris Holdings Limited (the “Company”) will be held at Conference Room, No. 500 Youquan Road, Haining City, Jiaxing City, Zhejiang Province, China on Wednesday, 23 September 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 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the renewal of leases for three years under the 2020 Lease Agreements), their forms and substance and execution and the implementation of the transactions contemplated thereunder, be and are hereby approved, ratified and confirmed in all respects;
- (b) the Revised Annual Caps for the Group’s aggregate rental payments payable to Morris PRC under the 2020 Lease Agreements (when aggregated with the 2016 Lease Agreements) of RMB16,020,000, RMB21,622,000, RMB21,622,000 and RMB10,194,000 for the years ending 31 December 2020, 2021, 2022 and 2023 be and are hereby approved, ratified and confirmed in all respects; and
- (c) the Directors be and are hereby generally and unconditionally authorized to do all such acts or things and execute and deliver all such documents, deeds, instruments and agreements (including the fixing of common seal) which they consider necessary, desirable or expedient to give effect to the 2020 Lease Renewal Agreement (as modified and supplemented by the Supplemental Agreement) and the transactions contemplated thereunder (including the

NOTICE OF EGM

2020 Lease Agreements) and the Revised Annual Caps, 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. To approve the re-election of Mr. Qian Jun as an independent non-executive Director.

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

Hong Kong, 3 September 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. Capitalized terms used in this notice of EGM and the form of proxy shall have the same meanings as defined in the circular of the Company dated 3 September 2020 dispatched to the shareholders of the Company and available on the websites of the Company and The Stock Exchange of Hong Kong Limited.
2. A shareholder of the Company entitled to attend and vote at the 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.
3. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.
4. The register of members of the Company will be closed from Thursday, 17 September 2020 to Wednesday, 23 September 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 Wednesday, 16 September 2020 for the purpose of determining shareholders’ eligibility to attend and vote at the EGM.
5. A form of proxy for use at the EGM is enclosed with the circular to the shareholders. In order to be valid, a proxy form together with the power of attorney or other authority (if any) under which it is signed or a notorially 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.

NOTICE OF EGM

6. Completion and return of a proxy form will not preclude a shareholder from attending and voting in person if he is subsequently able to be present and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the resolutions set out in this notice will be voted on at the EGM by way of poll.
8. To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the meeting including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.
9. As at the date of this notice, the executive Directors are Mr. Zou Gebing, Mr. Zeng Jin, Mr. Shen Zhidong and Mr. Wu Yueming; and the independent non-executive Directors are Mr. Liu Haifeng, Mr. Chu Guodi and Mr. Qian Jun.