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MORRIS
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED

慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

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

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



Draco Capital Limited

THE DISPOSAL

The Board announces that on 8 January 2021 (after trading hours), the Vendor (a direct wholly-owned subsidiary of the Company) and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to acquire the Sale Shares, being the entire issued share capital of the Disposal Company, for the aggregate consideration of US\$5.513 million (approximately RMB36 million). Further, it is agreed between the Vendor and the Purchaser that the Purchaser shall take the Disposal Company with the current liabilities of the Disposal Group as at the Completion Date.

Completion is subject to fulfilment and/or waiver (as the case may be) of the Conditions Precedent as set out in the sub-section headed “Conditions Precedent” below. Upon Completion, the Company ceased to own any interests in the Disposal Company. Each member of the Disposal Group will cease to be a subsidiary of the Company and their assets, liabilities and financial results will no longer be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

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

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

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

EGM

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

A circular containing, among other things, (i) further information on the Share Purchase Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders regarding the terms of the Share Purchase Agreement; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Share Purchase Agreement; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders within 15 business days after publication of this announcement.

Shareholders and potential investors should note that the Disposal is subject to the fulfilment and/or waiver (as the case may be) of the Conditions Precedent and accordingly, the Disposal may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

THE DISPOSAL

The Board announces that on 8 January 2021 (after trading hours), the Vendor (a direct wholly-owned subsidiary of the Company) and the Purchaser entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to sell, and the Purchaser agreed to acquire the Sale Shares, being the entire issued share capital of the Disposal Company, at the Consideration of US\$5.513 million (approximately RMB36 million).

THE SHARE PURCHASE AGREEMENT

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

Date

8 January 2021 (after trading hours)

Parties

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

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

Disposal Assets

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

Consideration

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

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

The Consideration has been determined after arm’s length negotiations between the parties with reference to:

- (i) the adjusted unaudited consolidated net asset value and current liabilities of the Disposal Group in the amount of approximately US\$4.705 million (approximately RMB30.724 million) and approximately US\$628,000 (approximately RMB4.101 million), respectively, as at 31 December 2020; and
- (ii) the valuation of the Land and the Buildings, being approximately US\$5.513 million (approximately RMB36 million), as accessed on the 15 November 2020 by an independent valuer appointed by the Company.

Liabilities

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

Share Charge

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

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

Conditions Precedent

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

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

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

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

Conditions Subsequent

The Disposal will be subject to the following Conditions Subsequent:

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

Completion

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

INFORMATION ABOUT THE PARTIES

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

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

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

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

REASONS FOR AND BENEFITS OF THE DISPOSAL

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

In August 2013, Morris PRC (a company owned as to 85% by Mr. Zou and 15% by Ms. Wu), entered into a lease agreement with Sihanoukville Special Economy Zone Co., Ltd. for the lease of Land. In 2016, Masia Industries entered into a supplemental agreement with Morris PRC and Sihanoukville Special Economy Zone Co., Ltd. to transfer the long-term lease rights over the Land from Morris PRC to Masia Industries with the effective date of such transfer being the date of incorporation of Masia Industries, i.e. 27 December 2013. The Group intended to use the Land for setting up a production facility. Construction of the production facility on the Land was completed in early 2018. However, the Group has never commenced any production in the Land due to the fact that the infrastructure development in the Sihanoukville Special Economic Zone (which is the responsibilities of the local government) is much slower than expected. Many of the essential infrastructure and peripheral facilities, as well as the supply chain for the sofa manufacturing are still at infant stage, which causes mass production of sofa almost impossible or otherwise very cost inefficient. For that reasons, the Board was of the view that it was not prudent and not in the best interest of the Group to commence any production in the Land. Masia Industries then sublet the Land for income since October 2018. Set out below are the extracts of the unaudited financial information of the Disposal Group for the year ended 31 December 2019 and the unaudited financial information before the waiver of the inter-company balances for the year ended 31 December 2020:

| | For the year ended 31 December 2019 (unaudited) | | For the year ended 31 December 2020 (unaudited) | |
|--------------------------|--|------------------|--|------------------|
| | <i>(US\$'000)</i> | <i>(RMB'000)</i> | <i>(US\$'000)</i> | <i>(RMB'000)</i> |
| Profit/(loss) before tax | 358 | 2,338 | 197 | 1,286 |
| Profit/(loss) after tax | 350 | 2,286 | 197 | 1,286 |

The Group has carefully reviewed its business operation and development strategy. Considering that (a) no manufacturing activities have been carried out on the Land; (b) the completion date of the essential infrastructures surrounding the Land remains unknown and hence the commencement date of full operation of the Cambodia factory; (c) the Group would like to continue to focus and develop its principal business; and (d) the global economic uncertainty and poor business environment are affecting the consumer spending worldwide on goods other than living essentials, the Group has decided to dispose of the Disposal Group, comprising mainly the land use right of the Land, to the Purchaser to increase its cash flow for daily operation of the Group in general during the period of uncertainty and future development. The Disposal provides a suitable opportunity for the Group to increase the working capital of the Group, improve the liquidity and strengthen the overall financial position of the Group. The Directors are of the view that the Disposal will not have any significant impact on the operations of the Company.

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

As at the date of this announcement, the Purchaser (a Controlling Shareholder of the Company) is directly and beneficially owned as to 85% by Mr. Zou, who is the Chairman, Chief Executive Officer and executive Director of the Company. Therefore, the Purchaser and Mr. Zou have material interests. The spouse of Mr. Shen (another executive Director of the Company) is a cousin of Ms. Wu (15% shareholder of the Purchaser and spouse of Mr. Zou). The Purchaser, Mr. Zou, Mr. Shen and their respective associate(s) are required to abstain from voting on Board level in relation to the Share Purchase Agreement and the transactions contemplated thereunder.

FINANCIAL EFFECT AND USE OF PROCEEDS

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

The Group expects to record a net gain attributable to the Disposal of approximately US\$808,000 (approximately RMB5.276 million) (before tax), which is calculated by reference to (i) the difference between the Consideration for the Disposal and the unaudited net assets of the Disposal Group as at 31 December 2020. The Company intends to utilize the net proceeds from the Disposal to replenish the Group's working capital and for future business development.

LISTING RULES IMPLICATIONS

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

As at the date of this announcement, the Purchaser (a Controlling Shareholder of the Company) is directly and beneficially owned as to: (a) 85% by Mr. Zou, an executive Director of the Company and a director of the Disposal Company; and (b) 15% by Ms. Wu, the spouse of Mr. Zou. Therefore, each of the Purchaser and its beneficial owners (i.e. Mr. Zou and Ms. Wu) is a connected person or associate of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Disposal and the transactions contemplated thereunder constitute a

connected transaction of the Company under Chapter 14A of the Listing Rules. The Disposal is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

EGM

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

A circular containing, among other things, (i) further information on the Share Purchase Agreement and the transactions contemplated thereunder; (ii) a letter from the Independent Board Committee to the Independent Shareholders regarding the terms of the Share Purchase Agreement; (iii) a letter from the Independent Financial Adviser containing their advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Share Purchase Agreement; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders within 15 business days after publication of this Announcement.

Definitions

In this announcement, the following expressions have the following meanings:

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| “associate(s)” | having the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors |
| “Business Day” | a day (other than Saturdays, Sundays and public holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted or in effect between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are open for business |

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| “BVI” | British Virgin Islands |
| “Cambodia” | the Kingdom of Cambodia |
| “Circular” | the circular of the Company to be dispatched to the Shareholders containing, among other things, details of the Disposal |
| “Company” | Morris Holdings Limited (慕容控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1575 |
| “Completion” | the completion of the Disposal |
| “Completion Accounts” | the consolidated accounts made up to 31 December 2020 and the unaudited consolidated accounts certified by the directors of the Disposal Group up to Completion Date to be true and accurate in all respects |
| “Condition Precedent” | the conditions precedent to the Completion as set out in the Share Purchase Agreement |
| “connected person(s)” | having the meaning ascribed thereto under the Listing Rules |
| “Consideration” | US\$5.513 million, being the consideration payable by the Purchaser to the Company pursuant to the Share Purchase Agreement |
| “Controlling Shareholder(s)” | having the meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the disposal of the entire issued share capital of the Disposal Company by Vendor, the Company’s wholly owned subsidiary to the Purchaser pursuant to the Share Purchase Agreement |
| “Disposal Company” | Masia Investment Limited (美亞投資有限公司), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of the Company |
| “Disposal Group” | the Disposal Company and Masia Industries |

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| “EGM” | the extraordinary general meeting of the Company to be convened to approve, among other things, the Share Purchase Agreement and the transactions contemplated thereunder |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent committee of the Board comprising all the independent non-executive Directors established to advise the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder |
| “Independent Financial Adviser” | Draco Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement and the transactions contemplated thereunder |
| “Independent Shareholders” | Shareholders other than the Purchaser and its respective associates |
| “Land” | two plots of land with an aggregate area of 59,781.978 square meters situated at Sihanoukville Special Economy Zone (柬埔寨西哈努克港經濟特區), Cambodia, which was owned by the Vendor prior to the Disposal |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Masia Industries” | Masia Industries Co., Ltd., (formerly known as Morris Zou (Cambodia) Co., Ltd.), a company incorporated in Cambodia with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of the Company |
| “Morris PRC” | 慕容集團有限公司 (Morris Group Co., Ltd*) (formerly known as 海寧蒙努集團有限公司 (Haining Mengnu Group Co., Ltd.*)), a company established in the PRC with limited liability which is owned as to 85% by Mr. Zou and 15% by Ms. Wu |

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|----------------------------|---|
| “Mr. Shen” | Mr. Shen Zhidong (沈志東), an executive Director of the Company |
| “Mr. Zou” | Mr. Zou Gebing (鄒格兵), the Chairman, Chief Executive Officer and an executive Director of the Company |
| “Ms. Wu” | Ms. Wu Xiangfei (鄔向飛), spouse of Mr. Zou |
| “PRC” | the People’s Republic of China |
| “Purchaser” | Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability, a Controlling Shareholder of the Company and the purchaser of the Disposal Company under the Disposal |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sale Shares” | 100 ordinary Shares of US\$1 each of the Disposal Company, being the entire issued share capital of the Disposal Company |
| “Share Charge” | the share charge over the Sale Shares of the Disposal Company to be executed by the Purchaser in favour of the Vendor |
| “Share Purchase Agreement” | the share purchase agreement dated 8 January 2021 entered into between the Vendor and the Purchaser in relation to the Disposal |
| “Share(s)” | ordinary share(s) of the Company having a par value of US\$0.001 each |
| “Shareholder(s)” | holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “US\$” | United States Dollars, the lawful currency of the US |
| “Vendor” | Morris International Group Limited (慕容國際集團有限公司) (formerly known as Teagle International Group Limited (天鷹國際集團有限公司)), a company incorporated in the BVI with limited liability on 27 December 2013 and a direct wholly-owned subsidiary of the Company |
| “%” | per cent |

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

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

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

Hong Kong, 8 January 2021

As at the date of this announcement, 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.