

November 1, 2017

International Finance Corporation
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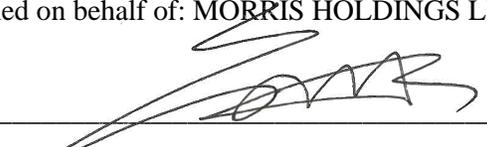
Attention: Mr. Prasad Gopalan

Summary of Investment Information (SII) for MORRIS HOLDINGS LIMITED
Project ID 40057

We hereby confirm that we reviewed the SII document, dated November 1, 2017 in relation to the above project. Please take this letter to confirm that:

- We approve the text of the SII and confirm that the text is consistent with our project plans;
- We have no objection to the release of the SII to IFC's Board of Directors;
- We have no objection to the SII being made available to interested parties (including the general public) through appropriate World Bank Group country offices and via the IFC website. We understand that if the SII needs to be updated, the revised text will be issued to us for prior approval

Signed on behalf of: MORRIS HOLDINGS LIMITED

By:  _____

Print Name: Zou Gebing

Title: Executive Director

Description of the Project (Summary Of Investments)

Morris Holdings Limited (“Morris” or the “Company”) is a publicly listed company and a global leader in the upholstered sofa industry. With a market capitalization of approximately US\$200 million and 2016 sales of approximately US\$141.5 million, the Company is the second largest upholstered sofa manufacturer in China in terms of export value to the U.S. Morris integrates the functions of design, research and development, manufacturing, online and off line sales, and after sales services. The proposed IFC investment will support Morris’ capacity expansion program for i) additional production facilities and working capital in both Cambodia and China in order to address production bottlenecks and growing demand and ii) refinancing of short term debt (together, the “Project”).

Associated Advisory Services Engagement

None.

Project Sponsor and Shareholders of Project Company

Morris is 75% owned by Morris Capital Limited, a British Virgin Islands-incorporated holding company which is owned 85% by the Mr. ZOU Gebing (the “Sponsor”) and 15% by his wife Ms. WU Xiangfei. The other 25% of Morris is owned by public shareholders.

Total Project Cost and Amount and Nature of IFC’s Investment

The total Project cost is estimated to be approximately US\$103.5 million. IFC’s proposed investment is a convertible loan of up to HK\$200 million (approximately US\$26 million equivalent).

Project Location

The Project is expected to be located in 500 Youquan Road, Haining, Zhejiang 314400, People’s Republic of China and in 212km National Road No. 4, Prey Nob District, Sihanoukville, Cambodia.

Expected Development Impact of the Project

At the project level, the following key development impacts are expected:

- ***South-South Investment and Higher Operational Efficiencies:***
 - *Cambodia:* The Project entails the transfer of knowledge and technical expertise as well as foreign direct investment from China to Cambodia, developing a stronger South-South value chain in the forestry and wood products sector. As a supplier to demanding U.S. and Canadian markets with stringent industry standards, Morris is well-placed to disseminate these practices to less developed countries. The adoption of best industry practices is expected to strengthen technological capacity and bring process improvements to the furniture industry in Cambodia, improving competitiveness at a larger scale than what is currently prevalent in the country.
 - *China:* In addition, the China component of the Project will help the Company achieve even greater economies of scale in China, leading to more competitive products for domestic consumption as well as export markets. The planned expansion in China is expected to increase the Company’s production by 30%.

- **Employment Generation and Standards Setting:**

- *Cambodia:* The transfer of export-quality furniture manufacturing knowledge and technology from China to Cambodia will go hand in hand with creating jobs in Cambodia and improving the skill base of the local labor force, thus raising overall productivity in the sector. The Project is expected to help create viable long term skilled and semi-skilled direct labor opportunities for approximately 800 people at the Cambodian operating facility as well as additional employment along the supply chain. The Project is also expected to help the Company pursue an ethical work program and contribute to improved labor conditions in Cambodia through the application of IFC's Performance Standards.
- *China:* A sizeable number of direct jobs will also be created in China as a result of the Project. The Company's operations are fairly labor-intensive and the new facilities will require about 2,200 new employees. Over the longer term, the number of jobs and their skills level may evolve if the Company undertakes the recommended automatization which would improve resource use efficiencies.

The Project has the potential to generate market level impacts by supporting the development of the nascent furniture industry in Cambodia and helping to integrate the country into more diversified global value chains. In particular:

- Cambodian industrial production is characterized by a narrow base, low level of technological sophistication, low value addition, and high concentration in only a few sectors (notably textiles and footwear, which represent approximately 80% of merchandise exports). Against this backdrop, a Chinese company diversifying its manufacturing base to Cambodia would help a country which is eager to both move up the manufacturing value chain as well as diversify over-reliance on textiles and garments. To help the country's manufacturing sector, Cambodian authorities have established the new Industrial Development Policy (IDP) 2015-2015, which provides a roadmap to boost investment and broaden the manufacturing base.
- The proposed Project would build a new production facility in Sihanoukville Special Economic Zone (SSEZ) in line with IDP's vision. By undertaking a phased approach that starts with textile-based production (sofa covers) the Company is utilizing Cambodia's existing comparative advantages but is planning to invest in training and skill-building necessary to transition to furniture manufacturing and assembly. A successful outcome of the project is expected to demonstrate to international investors that Cambodia is a viable place of origin for high quality furniture and potentially attract new players. Furthermore, the Project is expected to have a positive impact on the local economy by upgrading the domestic manufacturing industry, diversifying exports, and integrating the country into new global value chains, thus strengthening its resilience to economic shocks.

IFC's Assessment of the Governance Risks to Development Impacts

Low.

IFC's Expected Role & Additionality

- 1) **Access To Long Term Finance:** The Company relies on short term loans and equity to fund its operations. The Company's balance sheet is currently not big enough to attract many commercial lenders, and thus the IFC long term financing is expected to act as a catalyst to bring in other potential investors. In addition, IFC's C Loan will be the first convertible debt for the Company and represent a

new instrument in the Company's capital structure. With IFC's long term, appropriately structured capital, Morris would be able to further expand without incurring excessive liquidity risks, better match the investment payback period, and create more stability in its financing.

- 2) ***Environmental and Social (E&S) Standards Setting:*** Through this Project, the Company is expected to adopt and implement appropriate standards in labor management, production, as well as supply chains and raw material procurement, particularly those between China and Cambodia, thus enhancing traceability and sustainable resource use.
- 3) ***Local Presence in Cambodia:*** Morris is new to operating in Cambodia, while IFC has a long presence in the country and could help introduce the Company to local financial institutions and other potential business partners.
- 4) ***Credibility and Positive Signaling:*** Some firms in China, especially those listed overseas, including in Hong Kong, have recently been accused of improper financial disclosures and governance issues. IFC's support to Morris may send a positive signal to the market about its operations and enhance its credibility with potential partners.

Environmental and Social Categorization Rationale - Environment Category (B - Limited)

Key E&S issues associated with this project are related to the Company's organizational capacity and competence and implementation of an environmental & social management system (ESMS) to manage E&S risks in its current China, and future Cambodia operations. Associated risks include the need to have a robust ESMS in place to manage potential labor and biodiversity issues associated with Morris' primary suppliers; management of life and fire safety; efficiency of water and energy use; effective reuse, recycling and disposal of solid wastes; and, ensuring good labor and working conditions are applied in its operations. The Project has a limited number of potential adverse E&S impacts, which can be avoided or mitigated by adhering to Good International Industry Practice (GIIP), generally recognized performance standards, guidelines, and design criteria. This Project is classified as Category B in accordance with IFC's Policy on Environmental and Social Sustainability.

Description of Main Environmental & Social Risks and Impacts of the Project

Please refer to the Environmental and Social Review Summary (ESRS) linked to this project SII in the IFC's project disclosure website.

Environmental and Social Action Plan

Refer to the E&S Action Plan tab in the ESRS on the SPI (publishing) site.

For inquiries and comments about the project contact

Company:	Morris Holdings Limited
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Local access of project documentation

China location: Morris Holdings Limited, 500 Youquan Road, Haining, Zhejiang 314400, People's Republic of China.

Cambodia location: Morris Holdings Limited, 212km National Road No. 4, Prey Nob District, Sihanoukville, Cambodia.

For inquiries and comments about IFC

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