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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)

CONVERTIBLE LOAN FROM INTERNATIONAL FINANCE CORPORATION AND DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Sole Coordinator



CONVERTIBLE LOAN AGREEMENT

After trading hours on 5 January 2018, the Company entered into the Convertible Loan Agreement with IFC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, the Convertible Loan in an aggregate principal amount of HK\$200,000,000 at an interest rate of 1.25% per annum above 6 months HIBOR.

Subject to the terms of the Convertible Loan Agreement, IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan into Conversion Shares at an initial Conversion Price of HK\$2.22 per Share (subject to adjustments as set out in the Convertible Loan Agreement) at any time after the date of the Disbursement and prior to the Maturity Date, provided that if the Company fails to repay any part of the Convertible Loan on the Maturity Date in accordance with the terms of the Convertible Loan Agreement, IFC may continue to exercise its right to convert all or any part of the outstanding principal amount of the Convertible Loan up to and including the date on which the Company has repaid the Convertible Loan in full.

On the assumption that the Convertible Loan would be converted into Conversion Shares in full at the Conversion Price of HK\$2.22 per Share, the aggregate principal amount of the Convertible Loan of HK\$200,000,000 is convertible into approximately 90,090,090 Conversion Shares, which represent approximately 9.01% of the issued share capital of the Company as at the date of this announcement and approximately 8.26% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (without taking into account any Shares which may be issued by the Company after the date of this announcement including but not limited to Shares which may fall to be issued pursuant to the exercise of options under the Share Option Scheme).

SHARE RETENTION AND UNDERTAKING AGREEMENT

As one of the conditions to the Disbursement, each of Mr. Zou, Ms. Wu, Morris PRC and IFC have entered into the Share Retention and Undertaking Agreement pursuant to which, among others, Mr. Zou, one of our controlling shareholders, has undertaken to at all times maintain his controlling stake (being not less than 51% interests) in the Company and Morris PRC and not to transfer his shares in Morris Capital or Morris PRC if, giving effect to such transfer, Mr. Zou will not be able to maintain his controlling stake in the Company or Morris PRC mentioned above for so long as any part of the Convertible Loan is outstanding or any amount is available for Disbursement under the Convertible Loan Agreement and for so long as IFC holds any equity securities of the Company.

The net proceeds of the Convertible Loan (after deducting the fees and expenses in relation to obtaining the Convertible Loan) are estimated to be approximately HK\$196,500,000, which are intended to be utilised to finance the Company's capacity expansion program for (i) additional production facilities and working capital in Cambodia and the PRC; and (ii) refinancing of short term debt.

The Conversion Shares will be allotted and issued under the General Mandate.

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

IMPLICATIONS UNDER THE LISTING RULES

Each of Mr. Zou, an executive Director, and Ms. Wu is a controlling shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Pursuant to the Personal Guarantee Agreement, each of Mr. Zou and Ms. Wu is required to provide a guarantee in favour of IFC of the obligations of the Company, Mr. Zou and Ms. Wu owed to IFC under or in connection with the IFC Financing Documents. The provision of such guarantee (and thus financial assistance) by such connected persons of the Company constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given that (i) no security over the assets of the Group is granted to Mr. Zou and Ms. Wu in respect of the grant of the financial assistance by them in relation to the guarantee under the Personal Guarantee Agreement, (ii) such grant of financial assistance is for the benefit of the Company, and (iii) the grant of such financial assistance is on normal commercial terms (or better to the Company), such grant of financial assistance is fully exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

As Mr. Zou, a controlling shareholder of the Company, is required to maintain a specified minimum holding in the share capital or equity interest of the Company, Morris PRC and Morris Capital pursuant to the Share Retention and Undertaking Agreement, this announcement is also made pursuant to Rule 13.18 of the Listing Rules. The Company will comply with Rule 13.21 of the Listing Rules for so long as the Share Retention and Undertaking Agreement continues to remain in effect.

Completion of the issue of the Conversion Shares is subject to fulfilment of certain conditions as stated in the Convertible Loan Agreement. As the issue of the Conversion Shares may or may not take place, Shareholders and prospective investors are reminded to exercise caution when dealing in the Shares.

INTRODUCTION

After trading hours on 5 January 2018, the Company entered into the Convertible Loan Agreement with IFC, pursuant to which IFC agreed to lend, and the Company agreed to borrow, the Convertible Loan in an aggregate principal amount of HK\$200,000,000.

CONVERTIBLE LOAN AGREEMENT

The principal terms of the Convertible Loan Agreement are summarized below:

Date:	5 January 2018
Parties:	(i) IFC, as lender; and (ii) the Company, as borrower
Principal Amount:	HK\$200,000,000
Interest:	The outstanding principal of the Convertible Loan will bear interest at a rate of 1.25% per annum above 6 months HIBOR. Interest period of the Convertible Loan shall be a period of six months in each case beginning on an Interest Payment Date and ending on the day immediately before the next following Interest Payment Date, except that the first interest period shall begin on the date of the Disbursement and end on the day immediately before the next following Interest Payment Date. Interest shall accrue from day to day, be pro-rated on the basis of a 365-day year for the actual number of days in the relevant interest period and be payable in arrears on the Interest Payment Date immediately following the end of that interest period or, if earlier, in respect of any portion of the Convertible Loan repaid, prepaid or converted into Conversion Shares, the date of such repayment, prepayment or conversion as applicable.
Disbursement:	The Company may request one Disbursement for the full amount of the Convertible Loan by delivering to IFC a disbursement request, at least 10 Business Days prior to the proposed date of the Disbursement.
Maturity Date:	The date falling on the fifth anniversary of the date of the Convertible Loan Agreement.
Repayment:	Subject to any repayment to be made on the First Repayment Instalment Date as set out below, the outstanding principal amount of the non-converted portion of the Convertible Loan shall be repaid on the Maturity Date together with the Redemption Premium.

If at least 50% of the Convertible Loan as at the date of the Disbursement has not been converted into Conversion Shares in accordance with the terms of the Convertible Loan Agreement by the date falling on the fourth anniversary of the date of the Convertible Loan Agreement (“**First Repayment Instalment Date**”), the Company shall repay 50% of the non-converted portion of the Convertible Loan outstanding as at the First Repayment Instalment Date on the First Repayment Instalment Date.

Any portion of the Convertible Loan not converted into Conversion Shares in accordance with the Convertible Loan Agreement prior to its repayment or prepayment shall be repaid or prepaid in accordance with the Convertible Loan Agreement together with the Redemption Premium.

Prepayment: The Company may not voluntarily prepay the Convertible Loan or any part thereof unless expressly permitted under the Convertible Loan Agreement.

Upon a Change of Control, IFC may serve a written notice on the Company requiring the Company to prepay any portion or all of the outstanding principal amount of the Convertible Loan, together with accrued interest, the Redemption Premium, Increased Costs (if any) and all other amounts then due and payable under the Convertible Loan Agreement within 10 days of the date of the written notice.

Conversion: IFC has the right to convert all or any part of the outstanding principal amount of the Convertible Loan into Conversion Shares at any time after the date of the Disbursement and prior to the Maturity Date, provided that if the Company fails to repay any part of the Convertible Loan on the Maturity Date in accordance with the terms of the Convertible Loan Agreement, IFC may continue to exercise its right to convert all or any part of the outstanding principal amount of the Convertible Loan up to and including the date on which the Company has repaid the Convertible Loan in full.

Conversion Price: The Conversion Price is initially HK\$2.22 per Share, subject to customary adjustments as set forth in the Convertible Loan Agreement and summarised below.

The Conversion Price of HK\$2.22 per Share represents:

- (i) a premium of approximately 29.82% of the closing price of HK\$1.71 per Share as quoted on the Stock Exchange on 5 January 2018, being the date of the Convertible Loan Agreement;
- (ii) a premium of approximately 28.18% of the average closing price of HK\$1.732 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Convertible Loan Agreement; and

- (iii) a premium of approximately 29.22% of the average closing price of HK\$1.718 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of the Convertible Loan Agreement.

The initial Conversion Price of HK\$2.22 per Share is equal to a premium of 30% of the volume weighted average trading price for 30 trading days prior to the date of the Convertible Loan Agreement) which was arrived at after arm's length negotiations between the Company and IFC.

First mandatory conversion:

IFC must convert 50% of the then outstanding principal amount of the Convertible Loan if on any date ("**First Mandatory Conversion Trigger Date**") after the date of the Disbursement the following conditions are met:

- (i) the closing price of the Shares is at least 70% higher than the Conversion Price for at least 20 trading days in the period of 30 consecutive trading days ending on the trading day immediately preceding the First Mandatory Conversion Trigger Date; and
- (ii) the average daily trading volume of the Shares for the immediately preceding 6 months prior to the First Mandatory Conversion Trigger Date is not less than three times the total number of Shares held by IFC (taking into account any Shares to be held by IFC after such first mandatory conversion) divided by the number of trading days in the immediately preceding two month prior to the First Mandatory Conversion Trigger Date,

provided that if (ii) above cannot be met, the Company shall procure that a block trade sale be arranged prior to the proposed date of conversion in respect of all of such Conversion Shares at a price representing, net of all costs and expenses, no lower than 90% of the 30-Day Average Market Price as at the First Mandatory Conversion Trigger Date and on such other terms and conditions and timetable acceptable to IFC; otherwise there will not be any mandatory conversion.

Second mandatory conversion:

IFC must convert all of the then outstanding principal amount of the Convertible Loan if on any date ("**Second Mandatory Conversion Trigger Date**") after the conversion of the Convertible Loan into Conversion Shares pursuant to the first mandatory conversion as set out in the paragraph headed "First Mandatory Conversion" above the following conditions are met:

- (i) the closing price of the Shares is at least 100% above the Conversion Price for at least 20 trading days in the period of 30 consecutive trading days ending on the trading day immediately preceding the Second Mandatory Conversion Trigger Date; and

- (ii) the average daily trading volume of the Shares for the immediately preceding 6 months prior to the Second Mandatory Conversion Trigger Date is no less than three times the total number of Shares held by IFC (taking into account any Share to be held by IFC after such second mandatory conversion) divided by the number of trading days in the immediately preceding two month prior to the Second Mandatory Conversion Trigger Date,

provided that if (ii) above cannot be met, the Company shall procure that a block trade sale be arranged prior to the proposed date of conversion in respect of all of such Conversion Shares at a price representing, net of all costs and expenses, no lower than 90% of the 30-Day Average Market Price as at the Second Mandatory Conversion Trigger Date and on such other terms and conditions and timetable acceptable to IFC; otherwise there will not be any mandatory conversion.

Ranking of the Conversion Shares: The Conversion Shares will rank *pari passu* with and, carry the same rights in all respects as, the other Shares in issue.

Anti-dilution adjustments: The Conversion Price will from time to time be adjusted upon the occurrence of certain events, including the following:

- (i) consolidation, subdivision or reclassification of the Shares;
- (ii) capitalisation issue of Shares;
- (iii) issue of Shares by way of scrip dividend where the Current Market Price exceeds the amount of the relevant cash dividend or the relevant part thereof and which would not constitute a distribution;
- (iv) dividend or distribution (whether of cash or assets in species) to holders of Shares;
- (v) issue of any Shares to all or substantially all holders of the Shares as a class by way of rights, of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares at a price less than the Current Market Price;
- (vi) issue of any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares) to all or substantially all holders of Shares as a class by way of rights, of options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares);

- (vii) issue of (otherwise than as mentioned in (v) above) Shares (other than Conversion Shares or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in (v) above) of options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares at a price less than the Current Market Price;
- (viii) issue of (otherwise than as mentioned in (v), (vi) and (vii) above) any securities which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company upon conversion, exchange or subscription at a consideration which is less than the Current Market Price;
- (ix) any modification of the rights of conversion, exchange or subscription attached to any such securities as mentioned in (viii) above (other than in accordance with the terms of such securities) so that the consideration per Share is less than the Current Market Price;
- (x) issue, sale or distribution of any securities in connection with an offer pursuant to which holders of Shares generally are entitled to participate in arrangements whereby such securities may be acquired from them (except where the Conversion Price falls to be adjusted in (v), (vi), (vii), and (viii) above);
- (xi) the occurrence of a Merger Event; and
- (xii) the occurrence of any other events not falling under (i) to (ix) above but where upon the opinion of the Company or IFC an adjustment to the Conversion Price should be made. In the event of the occurrence of (xii), the Company shall consult an independent expert which will determine the adjustment to the Conversion Price which is fair and reasonable in the circumstances.

Guarantee

All amounts owing to IFC under the Convertible Loan Agreement shall be guaranteed by the controlling shareholders' guarantee by Mr. Zou and Ms. Wu in favour of IFC of all debt and monetary liabilities of the Company, Mr. Zou and Ms. Wu owed to IFC under or in relation to the IFC Financing Documents.

Under the Personal Guarantee Agreement, for so long as any part of the Convertible Loan remains available for Disbursement or outstanding and for so long as IFC holds any equity securities of the Company:

- (a) each of Mr. Zou and Ms. Wu has undertaken not to sell, transfer, lease or otherwise dispose of, either in a single transaction or in a series of transactions, related or otherwise, all or substantially all of his or her assets, including but without limitation, any of the equity interests in Morris PRC or shares of Morris Capital, without the prior written consent of IFC, provided that Mr. Zou may dispose of his shareholding in Morris Capital and equity interest in Morris PRC so long as Mr. Zou maintains his controlling stake (being not less than 51% interests) in the Company and Morris PRC; and

- (b) each of Mr. Zou and Ms. Wu has undertaken to procure that Morris PRC will not, without the prior written consent of IFC, (i) sell, transfer, lease or otherwise dispose of, either in a single transaction or in a series of transactions, related or otherwise, all or any part of the assets held by it unless the relevant asset to be disposed of falls under certain categories of assets set out in the Share Retention and Undertaking Agreement; or (ii) create or permit to exist any lien on any property, revenues or other assets, present or future, of Morris PRC unless the financial debt of Morris PRC to be secured by the relevant lien, individually and when aggregated with the total amount of the then existing financial debt of Morris PRC, does not exceed 65% of the total asset value of Morris PRC as stated in the then most recently delivered financial information of Morris PRC on a pro forma basis taking into account such financial debt.

Share Retention and Undertaking Agreement

As one of the conditions to the Disbursement, each of Mr. Zou, Ms. Wu, Morris PRC and IFC have entered into the Share Retention and Undertaking Agreement pursuant to which, among others, Mr. Zou, one of our controlling shareholders, has undertaken to maintain at all times his controlling stake (being not less than 51% interests) in the Company and Morris PRC and not to transfer his shares in Morris Capital or Morris PRC if, giving effect to such transfer, Mr. Zou will not be able to maintain his controlling stake in the Company or Morris PRC mentioned above for so long as any part of the Convertible Loan is outstanding or any amount is available for Disbursement under the Convertible Loan Agreement and for so long as IFC holds any equity securities of the Company.

Under the Share Retention and Undertaking Agreement, Morris PRC undertakes that for so long as any part of the Convertible Loan is outstanding or any amount is available for Disbursement under the Convertible Loan Agreement and for so long as IFC holds any equity securities of the Company, it shall not (and each of Mr. Zou and Ms. Wu undertakes to procure that Morris PRC will not), without the prior written consent of IFC, (a) sell, transfer, lease or otherwise dispose of, either in a single transaction or in a series of transactions, related or otherwise, all or any part of the assets held by it unless the relevant asset to be disposed of falls under certain categories of assets set out in the Share Retention and Undertaking Agreement; or (b) create or permit to exist any lien on any property, revenues or other assets, present or future, of Morris PRC unless the financial debt of Morris PRC to be secured by the relevant lien, individually and when aggregated with the total amount of the then existing financial debt of Morris PRC, does not exceed 65% of the total asset value of Morris PRC as stated in the then most recently delivered financial information of Morris PRC on a pro forma basis taking into account such financial debt.

CONDITIONS OF DISBURSEMENT OF THE CONVERTIBLE LOAN

The obligation of IFC to make Disbursement is subject to the fulfilment of a number of conditions, including the following conditions that:

- (i) all IFC Financing Documents and the Policy Agreement have been entered into and are effective (except for the Policy Agreement which will become effective on the date on which IFC first acquires any equity securities of the Company including any Shares);
- (ii) IFC has received a certificate of incumbency and authority (in the form as set out in the Convertible Loan Agreement) from the Company together with copies of the corporate documents of the Company referred to in the certificate of incumbency and authority;

- (iii) the Company has obtained, and provided to IFC copies of, all necessary authorisations including, among others: (a) approval from the Stock Exchange for the issuance, listing and dealing of the Conversion Shares upon conversion of the Convertible Loan; (b) approval and execution of the IFC Financing Documents and the Policy Agreement; (c) approval of the Company's operations and financial plan as set out in the Convertible Loan Agreement; (d) approval of remittance to IFC or its assigns of all monies payable in respect of the IFC Financing Documents and the Policy Agreement; (e) shareholders' resolution providing a sufficient general mandate for the issuance of the Conversion Shares if fully converted; and (f) board's resolutions of the Company and shareholders' resolutions of Morris PRC approving the IFC Financial Documents and the Policy Agreement;
- (iv) IFC has received a legal opinion from IFC's counsels in the Cayman Islands and the PRC and, if requested by IFC, concurred in by counsel for the Company covering matters relating to the transactions contemplated by the Convertible Loan Agreement as IFC may reasonably request;
- (v) IFC has received a certification from the chief financial officer of the Company confirming that, as at a date within 60 days prior to the date of Disbursement, the Company is in compliance with the affirmative covenant that the accounting and control system, management information system and books of accounts and other records adequately reflect truly and fairly the financial conditions of the Company and its subsidiaries and such are in conformity with applicable accounting standards and containing a brief description of the systems and records in place;
- (vi) IFC has received copies of all insurance policies required pursuant to the Convertible Loan Agreement, and a certification of the Company's insurers or insurance agents confirming that such policies are in full force and effect and all premiums then due and payable under those policies have been paid;
- (vii) IFC has received all fees which are required to be paid before the date of the Disbursement as specified in the Convertible Loan Agreement;
- (viii) IFC has received the reimbursement of all invoiced fees and expenses of IFC's counsels in connection with, among others, (where applicable) the preparation, execution, issue, registration, delivery of the IFC Documents and the Policy Agreement and any other documents related to any of the IFC Documents and the Policy Agreement or confirmation that those fees and expenses have been paid directly to those counsel;
- (ix) IFC has received a copy of the authorisation to the auditors of the Company authorising them, to the extent not in contravention of any applicable laws, regulations and rules on inside information, to communicate directly with IFC regarding the Group's accounts and operations;
- (x) the Company has (i) completed a social and environment assessment and delivered to IFC an action plan; (ii) agreed on the form of an annual monitoring report; (iii) implemented an environmental and social management system acceptable to IFC; and (iv) complied with all matters set forth in the action plan required to be completed prior to the date of Disbursement;
- (xi) IFC has received a copy of each of the lease agreements entered into between any of the Company's subsidiaries with Morris PRC;
- (xii) no event of default and no potential event of default as set out in the Convertible Loan Agreement has occurred and is continuing;

- (xiii) the proceeds of the Disbursement are not to be used for the purpose other than the Company's capacity expansion program for additional production facilities and working capital in Cambodia and the PRC and refinancing of short term debt, or for expenditures in the territories of any country which is not a member of the World Bank Group or for goods procured in or services supplied from any such country;
- (xiv) nothing has occurred since the date of the Convertible Loan Agreement which has or could reasonably be expected to have a Material Adverse Effect;
- (xv) the Company has not incurred any material loss or liability (except such liabilities as may be incurred in accordance with the Convertible Loan Agreement) since the date of the Convertible Loan Agreement;
- (xvi) the representations and warranties made by the Company under the Convertible Loan Agreement remain true and correct in all material respects on and as at the date of the Disbursement;
- (xvii) the Company would not, after giving effect to the Disbursement, be in violation of its memorandum and articles of association, any provisions contained in any document which it is a party or by which it is bound, or any law, rules, regulation, authorisation, or agreement or other document binding on it directly or indirectly limiting or otherwise restricting its borrowing or guarantee power or authority or its ability to borrow or guarantee;
- (xviii) IFC has received a warning notice to individual guarantor (with a form of acknowledgement) to each of Mr. Zou and Ms. Wu and if applicable, his or her independent legal adviser pursuant to the Code of Banking Practice of Hong Kong, the relevant circular issued by The Hong Kong Association of Banks and the Law Society of Hong Kong, duly acknowledged by each of Mr. Zou and Ms. Wu;
- (xix) IFC has received evidence that the Personal Guarantee Agreement has been duly registered with the State Administration of Foreign Exchange of the PRC ("SAFE") or, in the event that SAFE does not accept the registration, evidence that each of Mr. Zou and Ms. Wu has used his or her best endeavours to complete such registration (together with an explanation of the basis on which SAFE refuses to accept the registration); and
- (xx) IFC has received all necessary information and documents it or its counsel in the PRC deems necessary (acting reasonably) to complete its due diligence on all liens in respect of assets of Morris PRC.

APPLICATION FOR LISTING

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

USE OF PROCEEDS

The net proceeds of the Convertible Loan (after deducting the fees and expenses in relation to obtaining the Convertible Loan) are estimated to be approximately HK\$196,500,000, which are intended to be utilised to finance the Company's capacity expansion program for (i) additional production facilities and working capital in Cambodia and the PRC; and (ii) refinancing of short term debt.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

On the assumption that the Convertible Loan would be converted into Conversion Shares in full at the Conversion Price of HK\$2.22 per Share and there is no adjustment to the Conversion Price pursuant to the Convertible Loan Agreement, the aggregate principal amount of the Convertible Loan of HK\$200,000,000 is convertible into approximately 90,090,090 Conversion Shares, which represent approximately 9.01% of the issued share capital of the Company as at the date of this announcement and approximately 8.26% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (without taking into account any Shares which may be issued by the Company after the date of this announcement including Shares which may fall to be issued pursuant to the exercise of options under the Share Option Scheme).

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, assuming that there is no change in the issued share capital of the Company prior to the conversion of the Convertible Loan, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) assuming full conversion of the Convertible Loan at the Conversion Price of HK\$2.22 per Share and there is no adjustment to the Conversion Price pursuant to the Convertible Loan Agreement, will be as follows:

	As at the date of this announcement		Assuming full conversion of the Convertible Loan at the Conversion Price of HK\$2.22 per Share	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Morris Capital Limited (<i>Note 1</i>)	750,000,000	75	750,000,000	68.80
RAYS Capital Partners Limited (<i>Note 2</i>)	90,112,000	9.01	90,112,000	8.27
IFC	–	–	90,090,090	8.26
Other Shareholders	159,888,000	15.99	159,888,000	14.67
Total	<u>1,000,000,000</u>	<u>100</u>	<u>1,090,090,090</u>	<u>100</u>

Notes:

- (1) Morris Capital Limited is owned as to 85% by Mr. Zou and 15% by Ms. Wu. As Mr. Zou owns 85% of the issued share capital of Morris Capital Limited, he is deemed to be interested in the 750,000,000 Shares owned by Morris Capital Limited by virtue of the SFO. Ms. Wu is the spouse of Mr. Zou. Under the SFO, Ms. Wu will also therefore be deemed, or taken to be, interested in the same number of shares in which Mr. Zou is interested.
- (2) Mr. Ruan David Ching-chi holds 50% of RAYS Capital Partners Limited which holds 90,112,000 Shares. Among the 90,112,000 Shares, 70,034,000 Shares are held through Asian Equity Special Opportunities Portfolio Master Fund Limited. By virtue of the SFO, Mr. Ruan David Ching-chi is deemed to be interested in the 90,112,000 Shares in which RAYS Capital Partners Limited is interested.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CONVERTIBLE LOAN AGREEMENT

As the proceeds of the Convertible Loan will be utilised to finance the Company's capacity expansion program for (i) additional production facilities and working capital in Cambodia and the PRC; and (ii) refinancing of short term debt, the Directors are of the view that the entering into of the Convertible Loan Agreement would allow the Company to raise additional funds for the Group's business. Furthermore, it is contemplated that the capital base of the Company would be enlarged and strengthened upon conversion of the Convertible Loan (in part or in full).

The Directors (including the independent non-executive Directors) consider that the terms of the Convertible Loan Agreement (including, but without limitation to, the interest and the initial Conversion Price) are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

POLICY AGREEMENT

As one of the conditions to the Disbursement, the Company and IFC have entered into the Policy Agreement which will become effective as of the date on which IFC first acquires any equity securities of the Company including any Shares, whether by way of conversion of any part of the Convertible Loan into Shares under the Convertible Loan Agreement or otherwise, and shall continue in force with respect to IFC until such time as IFC no longer holds any equity securities of the Company.

Pursuant to the Policy Agreement, the Company will give certain covenants and undertakings to IFC in respect of, among others, (i) prohibition of Sanctionable Practices with respect to the operations, activities and facilities (including the design, construction, operation, maintenance, management and monitoring thereof, as applicable) of the Group; (ii) implementation of an action plan concerning specific social and environmental measures to be undertaken by the Group and periodic review of the form of an annual monitoring report in relation to specific social, environmental and developmental impact information in respect of the existing and future operations, activities and facilities of the Group in the Cayman Islands, Cambodia, PRC, Hong Kong and the British Virgin Islands; (iii) prohibition on the engagement of the Group in any of the activities listed in the list of prohibited activities set forth in an annexure to the Policy Agreement or their amendment of the aforesaid action plan concerning specific social and environmental measures in any material respect without the prior written consent of IFC; (iv) prohibition of activities prohibited by resolutions of the United Nations Security Council under Chapter VII of the United Nations Charter; (v) prohibition of transactions with or transmission of funds through Shell Banks; (vi) insurance coverage; and (vii) provision of information to IFC including information concerning AML/CFT.

Furthermore, the Company will have certain reporting and disclosure obligations. Such reporting and disclosure obligations include, among others, that the Company shall, subject to the Listing Rules and other applicable laws, notify IFC in accordance with the Policy Agreement:

- (i) upon becoming aware of any litigation or investigations or proceedings which have or may reasonably be expected to have a Material Adverse Effect;
- (ii) upon becoming aware of any criminal investigations or proceedings against the Company or any related party; and
- (iii) upon occurrence of any social, labour, health and safety, security or environmental incident, accident or circumstance having, or which could reasonably be expected to have, a Material Adverse Effect, a material adverse social and/or environmental impact, or material adverse impact on the implementation of the transaction or on carrying on of operations by the Group in accordance with IFC's performance standards on social and environmental sustainability.

GENERAL MANDATE TO ALLOT AND ISSUE THE CONVERSION SHARES UPON CONVERSION OF THE CONVERTIBLE LOAN

At the annual general meeting of the Company held on 31 May 2017, a general mandate was approved by the Shareholders (“**General Mandate**”) pursuant to which the Company is authorised to allot, issue and deal with a maximum of 200,000,000 Shares.

Prior to the date of this announcement, no Shares or convertible securities have been issued by the Company pursuant to the General Mandate. The Conversion Shares, being a maximum of 90,090,090 Shares to be issued upon the conversion of the Convertible Loan in full based on the initial Conversion Price of HK\$2.22 per Share, will be allotted and issued under the General Mandate. Accordingly, the issue of Conversion Shares is not subject to approval by the Shareholders.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save for the offer of Shares pursuant to the listing of the Shares on the Main Board of the Stock Exchange on 12 January 2017, being the date on which dealings in the Shares first commenced on the Main Board of the Stock Exchange, the Company has not conducted any equity fund raising activities (including securities convertible into equity securities of the Company) in the past twelve months prior to the date of this announcement.

INFORMATION ON THE GROUP AND IFC

The Group is principally engaged in the manufacturing and sale of sofas, sofa covers and other furniture products.

IFC, a sister organization of the World Bank and member of the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. Working with more than 2,000 businesses worldwide, it uses its capital, expertise, and influence to create markets and opportunities in the toughest areas of the world. In the financial year of 2017, IFC delivered a record US\$19.3 billion in long term financing for developing countries, leveraging the power of the private sector to help end poverty and boost shared prosperity.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, IFC is a third party independent of the Company and its connected persons.

IMPLICATIONS UNDER THE LISTING RULES

Each of Mr. Zou, an executive Director, and Ms. Wu is a controlling shareholder of the Company and is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Pursuant to the Personal Guarantee Agreement, each of Mr. Zou and Ms. Wu is required to provide a guarantee in favour of IFC of the obligations of the Company, Mr. Zou and Ms. Wu owed to IFC under or in connection with the IFC Financing Documents. The provision of such guarantee (and thus financial assistance) by such connected persons of the Company constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given that (i) no security over the assets of the Group is granted to Mr. Zou and Ms. Wu in respect of the grant of the financial assistance by them in relation to the guarantee under the Personal Guarantee Agreement, (ii) such grant of financial assistance is for the benefit of the Company, and (iii) the grant of such financial assistance is on normal commercial terms (or better to the Company), such grant of financial assistance is fully exempted from the reporting, announcement and independent shareholders’ approval requirements pursuant Rule 14A.90 of the Listing Rules.

As Mr. Zou, a controlling shareholder of the Company, is required to maintain a specified minimum holding in the share capital or equity interest of the Company, Morris PRC and Morris Capital pursuant to the Share Retention and Undertaking Agreement, this announcement is also made pursuant to Rule 13.18 of the Listing Rules. The Company will comply with Rule 13.21 of the Listing Rules for so long as the Share Retention and Undertaking Agreement continues to remain in effect.

Completion of the issue of the Conversion Shares is subject to fulfilment of certain conditions precedent as stated in the Convertible Loan Agreement. As the issue of the Conversion Shares may or may not complete, Shareholders and prospective investors are reminded to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expression shall, unless the context requires otherwise, have the following meanings:

“30-Day Average Market Price”	in respect of a Share on a particular date, the average closing price for one Share (being a Share carrying full entitlement to dividend) for the 30 consecutive trading days ending on the trading day immediately preceding such date, provided that: (i) if there is any direct or indirect trading of the Share by the Company, Mr. Zou, Ms. Wu, or any of their Affiliate (or any Person executing the trade on their behalf) on any of such 30 consecutive trading day period, such 30 consecutive trading day period shall end instead on the trading day immediately preceding the date of first such trade by such Person; and (ii) if at any time during the 30 consecutive trading day period, the Shares have been quoted ex-dividend and during some other part of that period the Shares have been quoted cum-dividend then: (a) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares have been quoted cum-dividend shall be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or (b) if the Shares to be issued in such circumstances do rank for the dividend in question, the quotations on the dates on which the Shares have been quoted ex-dividend shall be deemed to be the amount thereof increased by such similar amount; and provided further that if the Shares on each of such 30 consecutive trading days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share
“Affiliate”	any Person directly or indirectly controlling, controlled by or under common control with, the Company (for purposes of this definition, “control” means the power to direct the management or policies of a Person, directly or indirectly, whether through the ownership of shares or other securities, by contract or otherwise, provided that the direct or indirect ownership of 26% or more of the voting share capital of a Person is deemed to constitute control of that Person and “controlling” and “controlled” have corresponding meanings)

“AML/CFT”	anti-money laundering and combating the financing of terrorism
“Board”	the board of Directors
“Business Day”	a day when banks are open for business in Hong Kong and New York
“Cambodia”	the Kingdom of Cambodia
“Change of Control”	any of the following: <ul style="list-style-type: none"> (i) at any time and for any reason, Mr. Zou ceases to directly or indirectly own at least 51%, of both the economic and voting interests in the share capital of the Company (determined on a fully diluted basis); (ii) any person or group other than Mr. Zou shall have obtained the power (whether or not exercised) to elect a majority of the board of directors of Morris Capital; (iii) any person or group other than Morris Capital shall have obtained the power (whether or not exercised) to elect a majority of the Board; (iv) the Board shall cease to consist of a majority of continuing directors; or (v) a change of control or similar event shall occur as provided in any other loan or preferred stock documentation relating to the Company
“Company”	Morris Holdings Limited(慕容控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto in the Listing Rules
“Conversion Price”	the price per Share, which initially is HK\$2.22, subject to adjustments as set forth in the Convertible Loan Agreement and summarized in this announcement
“Conversion Shares”	the Shares to be allotted and issued by the Company to IFC upon a conversion of the Convertible Loan (or the relevant part thereof) in accordance with the terms and conditions of the Convertible Loan Agreement
“Convertible Loan”	the convertible loan in the aggregate principal amount of HK\$200,000,000 to be made available by IFC to the Company pursuant to the Convertible Loan Agreement, or as the context requires, its principal amount from time to time outstanding

“Convertible Loan Agreement”	the convertible loan agreement dated 5 January 2018 and entered into between the Company and IFC in relation to the Convertible Loan
“Current Market Price”	in respect of a Share on a particular date, the average closing price for one Share (being a Share carrying full entitlement to dividend) for the five consecutive trading days ending on the trading day immediately preceding such date, provided that: (i) if there is any direct or indirect trading of Shares by the Company, Mr. Zou, Ms. Wu or any of their Affiliate (or any Person executing the trade on behalf of the aforementioned Persons) on any of such five consecutive trading day period, such 5 consecutive trading day period shall instead end on the trading day immediately preceding the date of first such trade by such Person; and (ii) if at any time during five consecutive trading day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then (a) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares have been quoted cum-dividend shall be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or (b) if the Shares to be issued in such circumstances do rank for the dividend in question, the quotations on the dates on which the Shares have been quoted ex-dividend shall be deemed to be the amount thereof increased by such similar amount; and provided further that if the Shares on each of such five consecutive trading days have been quoted cumdividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share
“Director(s)”	director(s) of the Company
“Disbursement”	any disbursement of the Convertible Loan
“Group”	the Company and its subsidiaries
“HIBOR”	the Hong Kong interbank offered rate for deposits in HK\$ administered by the Hong Kong Association of Banks
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFC”	International Finance Corporation, an international organisation established by articles of agreement among its member countries including the PRC and Cambodia
“IFC Financing Documents”	the Convertible Loan Agreement, the Personal Guarantee Agreement and the Share Retention and Undertaking Agreement

“Increased Costs”	the amount certified in a certificate provided by IFC to be the net incremental costs of, or reduction in return to, IFC in connection with the making or maintaining of the Convertible Loan that result from (i) any change in any applicable law or regulation or directive (whether or not having the force of law) or in its interpretation or application by any authority charged with its administration; or (ii) compliance with any request from, or requirement of, any central bank or other monetary or other authority; which, in either case, after the date of the Convertible Loan Agreement (a) imposes, modifies or makes applicable any reserve, special deposit or similar requirements against assets held by, or deposits with or for the account of, or loans made by, IFC; (b) imposes a cost on IFC as a result of IFC having made the Convertible Loan or reduces the rate of return on the overall capital of IFC that it would have achieved, had IFC not made the Convertible Loan; (c) changes the basis of taxation on payments received by IFC in respect of the Convertible Loan (otherwise than by a change in taxation of the overall net income of IFC); or (d) imposes on IFC any other condition regarding the making or maintaining of the Convertible Loan
“Interest Payment Date”	15 March and 15 September in each year
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Material Adverse Effect”	a material adverse effect on (i) the business, operations, property, liabilities, condition (financial or otherwise), prospects of the Group or the carrying on of the Group’s business or operations; (ii) the implementation of the Company’s capacity expansion program for additional production facilities and working capital in Cambodia and the PRC and refinancing of short term debt or its financial plan as stipulated in the Convertible Loan Agreement; or (iii) the ability of the Group to comply with its obligations under the Convertible Loan Agreement or under any other IFC Financing Documents or Policy Agreement
“Maturity Date”	the date falling on the fifth anniversary of the date of the Convertible Loan Agreement

“Merger Event”	in respect of any Shares, any (i) reclassification or change of Shares that results in a transfer of or an irrevocable commitment to transfer all outstanding Shares to another entity or person; (ii) consolidation, amalgamation, merger or binding share exchange of the Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which the Company is the continuing entity and which does not result in a reclassification or change of all of the Shares outstanding); (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 10% or more of the outstanding Shares that could result in a transfer of or an irrevocable commitment to transfer such Shares (other than the Shares owned by such other entity or person); or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50% of the outstanding Shares immediately following such event
“Morris Capital”	Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability on 21 May 2015, one of our controlling shareholders and owned as to 85% by Mr. Zou and 15% by Ms. Wu
“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 on 26 June 2001 and owned as to 85% by Mr. Zou and as to 15% by Ms. Wu
“Mr. Zou”	Mr. Zou Gebing (鄒格兵), the chairman, chief executive officer, an executive Director and a controlling shareholder of the Company
“Ms. Wu”	Ms. Wu Xiangfei (鄔向飛), the spouse of Mr. Zou
“Person”	any natural person, corporation, company, partnership, firm, voluntary association, joint venture, trust, unincorporated organisation, authority or any other entity whether acting in an individual, fiduciary or other capacity
“Personal Guarantee Agreement”	the guarantee dated 5 January 2018 and entered into among Mr. Zou and Ms. Wu and IFC for the guarantee provided by Mr. Zou and Ms. Wu in favour of IFC of the obligations of the Company, Mr. Zou and Ms. Wu under or in connection with the IFC Financing Documents
“Policy Agreement”	the policy agreement dated 5 January 2018 and entered into between the Company and IFC

“PRC”	the People’s Republic of China, which for the purpose of this announcement and for geographical reference only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Redemption Premium”	an amount equal to 3.25% per annum of such portion of the principal amount of the Convertible Loan to be repaid or prepaid in respect of the period beginning on the date of the Disbursement and ending on the day immediately before the date of repayment or prepayment
“Sanctionable Practices”	any corrupt practice, fraudulent practice, coercive practice, collusive practice or obstructive practice, as those terms are defined and interpreted in accordance with the anti-corruption guidelines which are included in an annexure to the Convertible Loan Agreement or, as the context requires, the Policy Agreement
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of the Company, having a par value of US\$0.001 each
“Shareholder(s)”	the shareholder(s) of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 10 December 2016
“Share Retention and Undertaking Agreement”	the share retention and undertaking agreement dated 5 January 2018 and entered into among Mr. Zou, Ms. Wu, Morris PRC and IFC pursuant to which, among others, Mr. Zou undertakes to maintain his controlling stake in Morris PRC and the Company for so long as any part of the Convertible Loan is outstanding or any amount is available for Disbursement under the Convertible Loan Agreement and for so long as IFC holds any equity securities of the Company
“Shell Bank”	a bank incorporated in a jurisdiction in which it has no physical presence and which is not an Affiliate of a regulated bank or a regulated financial group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America

“World Bank Group” individually or collectively, the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes

“%” per cent

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 5 January 2018

As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Chen Guohua, Mr. Zeng Jin and Mr. Shen Zhidong; and the independent non-executive Directors are Mr. Shao Shaomin, Mr. Huang Wenli and Mr. Liu Haifeng.