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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: 01575)

**CONTINUING CONNECTED TRANSACTIONS – REVISION OF
ANNUAL CAPS OF THE EXISTING LEASE AGREEMENTS
AND THE NEW LEASE AGREEMENTS**

We refer to the section headed “CONNECTED TRANSACTIONS – NON-EXEMPT CONTINUING CONNECTED TRANSACTION” in the Company’s prospectus dated 30 December 2016 (the “Prospectus”) in relation to, among other things, the Existing Lease Agreements entered into by Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International (each as tenant) and Morris PRC (as landlord) for lease of Existing Leased Properties located in Haining, Zhejiang Province, PRC for factory, direct sale store and office use. Unless otherwise stated, capitalised terms used herein shall have the same meaning ascribed in the Prospectus.

The Board announces that on 17 March 2017, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International (each as tenant) entered into New Lease Agreements with Morris PRC (as landlord) for the lease of New Leased Properties located in Haining, Zhejiang Province, PRC for factory, exhibition hall, dormitory, canteens, office and research and development center use for a term of three years commencing from 17 March 2017 and expiring on 16 March 2020.

The Board expects that the Original Annual Caps will not be sufficient for the leases of Existing Leased Properties and New Leased Properties entered into between Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International (each as tenant) and Morris PRC (as landlord) for the financial years ending 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020. The Board therefore has approved the revision of the Original Annual Caps in relation to Existing Lease Agreements to the Revised Annual Caps for the Existing Lease Agreements and the New Lease Agreements in an amount of RMB15,000,000, RMB15,000,000, and RMB15,000,000, and RMB15,000,000 respectively, for each of the financial years ending 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020.

LISTING RULES IMPLICATIONS

The tenants are indirect wholly-owned subsidiaries of the Company. As at the date of this announcement, the entire issued share capital of Morris PRC is owned by Mr. Zou and Ms. Wu. Accordingly, Morris PRC is an associate of Mr. Zou and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the New Lease Agreements constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules when the proposed annual cap is exceeded. As all the applicable percentage ratios with respect to the Revised Annual Caps are more than 0.1% and less than 5%, the Existing Lease Agreements and the New Lease Agreements are subject to the annual reviews, annual reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

As Mr. Zou and Ms. Wu own the entire issued share capital of Morris PRC, Mr. Zou may be regarded as having material interests in the continuing connected transactions under the New Lease Agreements. Accordingly, Mr. Zou had abstained from voting on the board resolutions in connection with the continuing connected transactions under the New Lease Agreements and the revision of the annual caps in respect of the Existing Lease Agreements and New Lease Agreements.

INTRODUCTION

The Existing Lease Agreements entered into by Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International (each as tenant) and Morris PRC (as landlord) for the lease of Existing Leased Properties for factory, direct sale store and office use. However, the area of Existing Leased Properties is insufficient to meet the production requirements of the Group. The Board announces that on 17 March 2017, the Tenants entered into New Lease Agreements with Morris PRC for the lease of New Leased Properties for factory, exhibition hall, dormitory, canteen, office and research and development center use for a term of three years commencing from 17 March 2017 and expiring on 16 March 2020.

THE NEW LEASE AGREEMENTS

Location	Term	Tenant	Landlord	Usage	Lease Area (sq.m.)	Rent per annum (RMB)
Shidai Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Gelin Furniture	Morris PRC	Factory	19,723.00	1,420,056.00
Youquan Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Gelin Furniture	Morris PRC	Research and development center and Exhibition hall	9,300.00	669,600.00
Longxing Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Morris Home Gallery	Morris PRC	Factory	20,532.00	1,478,304.00
Youquan Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Morris Home Gallery	Morris PRC	Factory, office, dormitory and canteen	40,474.00	2,914,128.00
Youquan Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Morris International	Morris PRC	Exhibition hall	4,608.00	331,776.00
Shidai Road	17 March 2017 to 16 March 2020 (both days inclusive)	Haining Morris International	Morris PRC	Factory	6,400.00	460,800.00
Total						<u>7,274,664.00</u>

Besides the above information, all New Lease Agreements also included the below terms and conditions:

1. The three-year rent shall be payable in advance without deduction or set off on 17 March 2017;
2. The Tenants could renew the New Lease Agreements unilaterally at the then prevailing market rent upon expiry by three months' prior notice;
3. The Tenants have the right of first refusal if the New Leased Properties are offered for sale;
4. The Tenants could terminate the New Lease Agreements unilaterally if they consider that the New Leased Properties cannot fulfill their production and operational requirements;
5. Morris PRC would bear all the relocation expenses if the Tenants are required to move out of the New Leased Properties either (i) upon expiry of the New Lease Agreements, the Tenants and Morris PRC are not able to reach an agreement to extend the New Lease Agreements; or (ii) upon early termination of the New Lease Agreements;

6. The Tenants shall also be responsible for or pay on demand (i) the repair and maintenance expenses of the New Leased Properties; (ii) the safety regulations expenses; and (iii) the consumption of utility expenses; and
7. If Morris PRC is unable to continue to perform the New Lease Agreements due to the modification of the laws and regulations of the PRC Government or other special reasons, Morris PRC shall notify the Tenants three months in advance and bear the expenses incurred by the Tenants.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW LEASE AGREEMENTS

The Directors believe that the Group needs to increase capacity to tackle increased purchase orders. As the New Leased Properties are conveniently located adjacent to the Group's existing production facilities, this would allow easier management of the New Leased Properties. Therefore, the New Lease Agreements were entered into between Morris PRC and Tenants after arm's length negotiations with reference to the prevailing market rent for comparable premises in the vicinity. Three-years rent are paid in advance on 17 March 2017, as certain discount to the prevailing market rent is given to the Tenants.

REVISION OF THE ORIGINAL ANNUAL CAPS

Historical rent per annum of the Existing Lease Agreements

	Rental expenses for the year ended 31 December 2016 (RMB)
Existing Lease Agreements	
Zhejiang Apollo Leather Products Lease Agreement	2,896,277.76
Haining Gelin Furniture Lease Agreement	1,439,305.20
Haining Morris Home Gallery Lease Agreement	2,830,464.00
Haining Morris International Lease Agreement	<u>72,000.00</u>
Total	<u><u>7,238,046.96</u></u>

The actual rental expenses of the Existing Lease Agreements for the year ended 31 December 2016 had not exceeded the Original Annual Caps.

Revision of Original Annual Caps for the Existing Lease Agreements to Revised Annual Caps for the Existing Lease Agreements and New Lease Agreements and basis of determination

Taking into account of: (a) the historical rent per annum of the Existing Lease Agreements and (b) the rent per annum of the New Lease Agreements, the Board expects that the Original Annual Caps will not be sufficient for the leases of Existing Leased Properties and New Leased Properties entered into between Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International (each as tenant) and Morris PRC (as landlord) for the financial years ending 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020. The Board therefore has approved the revision of the Original Annual Caps in relation to the Existing Lease Agreements to the Revised Annual Caps for the Existing Lease Agreements and the New Lease Agreements in an amount of RMB15,000,000, RMB15,000,000, RMB15,000,000 and RMB15,000,000 respectively, for each of the financial years ending 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020.

DIRECTORS' VIEW

The Directors (including the independent non-executive Directors but excluding the Director who abstained from voting) are of the opinion that:

- (i) the terms of the New Lease Agreements are on normal commercial terms;
- (ii) the Revised Annual Caps are fair and reasonable; and
- (iii) the continuing connected transactions contemplated under the New Lease Agreements are and have been entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules when the proposed annual cap is exceeded. As all the applicable percentage ratios with respect to the Revised Annual Caps are more than 0.1% and less than 5%, the Existing Lease Agreements and the New Lease Agreements are subject to the annual review, annual reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

The entire issued share capital of Morris PRC is owned by Mr. Zou and Ms. Wu. Accordingly, Morris PRC is an associate of Mr. Zou and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the New Lease Agreements constitute continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As Mr. Zou and Ms. Wu own the entire issued share capital of Morris PRC, Mr. Zou may be regarded as having material interests in the continuing connected transactions under the New Lease Agreements. Accordingly, Mr. Zou had abstained from voting on the board resolutions in connection with the continuing connected transactions under the New Lease Agreements and the revision of the annual caps in respect of the Existing Lease Agreements and New Lease Agreements.

GENERAL INFORMATION

The Group

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

Zhejiang Apollo Leather Products, being an indirect wholly-owned subsidiary of the Company, is principally engaged in the manufacturing and sales of sofa covers.

Haining Gelin Furniture, being an indirect wholly-owned subsidiary of the Company, is principally engaged in the manufacturing and sales of upholstered sofas.

Haining Morris Home Gallery, being an indirect wholly-owned subsidiary of the Company, is principally engaged in the manufacturing and sales of upholstered sofas.

Haining Morris International, being an indirect wholly-owned subsidiary of the Company, is principally engaged in the trading of other furniture products.

Morris PRC

The principal business activity of Morris PRC is sales of fur and leather clothes, property development, advertising and trading of non-furniture products in the PRC and operating domestic furniture retail chains in the U.S.

DEFINITIONS

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

“Associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors the Company
“Company”	Morris Holdings Limited (慕容控股有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company

“Existing Lease Agreements”	The lease agreements entered into between each of Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International as tenants and Morris PRC as landlord on 1 January 2016
“Existing Leased Properties”	Longxing Road, Shuanglian Road, and Youquan Road
“Group”	the Company and its subsidiaries
“Haining Gelin Furniture”	海寧格林家具有限公司 (Haining Gelin Furniture Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of our Company
“Haining Morris Home Gallery”	海寧慕容世家家居有限公司 (Haining Morris Home Gallery Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of our Company
“Haining Morris International”	海寧慕容國際家居有限公司 (Haining Morris International Home Furnishings Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of our Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Longxing Road”	No. 120 Longxing Road, Haining City, Zhejiang Province, PRC
“Morris PRC”	慕容集團有限公司 (Morris Group Co., Ltd.), a company established in the PRC with limited liability and owned as to 85% by Mr. Zou and as to 15% by Ms. Wu
“Mr. Zou”	Mr. Zou Gebing (鄒格兵), Chairman, CEO and an executive Director of the Company
“Ms. Wu”	Ms. Wu Xiangfei (鄔向飛), the spouse of Mr. Zou
“New Lease Agreements”	The lease agreements entered into between each of Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International as tenants and Morris PRC as landlord on 17 March 2017
“New Leased Properties”	Longxing Road, Youquan Road and Shidai Road
“Original Annual Caps”	the original maximum aggregate annual value amounts for the Existing Lease Agreements for the ten years ending 31 December 2026 in an amount of RMB7,238,046.96

“PRC”	the People’s Republic of China but for the purpose of this announcement shall exclude Hong Kong, Macau and Taiwan
“Revised Annual Caps”	the revised maximum aggregate annual value in respect of the Lease Agreements for the years ending 31 December 2017, 2018, 2019 and 2020 in an amount of RMB15,000,000, RMB15,000,000, RMB15,000,000 and RMB15,000,000 respectively
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of US\$0.001 each in the share capital of the Company
“Shidai Road”	No. 20 Shidai Road, Economy Development District of Haining, Haining City, Zhejiang Province, PRC
“Shuanglian Road”	No. 115 Shuanglian Road, Haichang Street, Haining City, Zhejiang Province, PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenants”	Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International
“Youquan Road”	No. 500 Youquan Road, Economy Development District of Haining, Haining City, Zhejiang Province, PRC
“Zhejiang Apollo Leather Products”	浙江阿波羅皮革製品有限公司(Zhejiang Apollo Leather Products Co., Ltd.), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of our Company
“%”	per cent

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman and executive Director

Zhejiang, 17 March 2017

As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Chen Guohua, Mr. Zeng Jin and Mr. Wang Ming; and the independent non-executive Directors are Mr. Shao Shaomin, Mr. Huang Wenli and Ms. Zhang Bingbing.