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MORRIS
HOLDINGS LIMITED

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慕容控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

CLARIFICATION ANNOUNCEMENT

Reference is made to the announcement dated 5 January 2018 (the “**Announcement**”) of Morris Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**”) in relation to the convertible loan with the International Finance Corporation. Unless otherwise defined, capitalized terms used herein shall have the same meanings as defined in the Announcement.

The board of directors (the “**Board**”) of the Company wishes to provide additional information in relation to the Convertible Loan as follows:

Mandatory Conversion Arrangement

Under the Convertible Loan Agreement, IFC is required to convert 50% of the then outstanding principal amount of the Convertible Loan if certain conditions are met on the First Mandatory Conversion Trigger Date and convert all of the then outstanding principal amount of the Convertible Loan if certain conditions are met on the Second Mandatory Conversion Trigger Date. One of the conditions is to have an average daily trading volume of the Shares for the immediately preceding 6 months prior to the First Mandatory Conversion Trigger Date (for the first mandatory conversion) or Second Mandatory Conversion Trigger Date (for the second mandatory conversion) of 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 mandatory conversion) divided by the number of trading days in the immediately preceding two month prior to the First Mandatory Conversion Trigger Date (for the first mandatory conversion) or Second Mandatory Conversion Trigger Date (for the second mandatory conversion) (each a “**Liquidity Condition**”). If the relevant Liquidity Condition cannot be satisfied, the Company shall procure that a block trade sale be arranged prior to the proposed date of conversion in respect of all of the relevant Conversion Shares. For further details in respect of the mandatory conversion arrangement, please refer to the section headed “Convertible Loan Agreement” in the Announcement.

The reason for the block trade sale arrangement is to provide flexibility to the Company to convert the relevant Convertible Loan into equity under the mandatory conversion prior to maturity while, at the same time, bring in new investors or allow the then existing Shareholders to increase their stake in the Company. Immediately upon the mandatory conversion, the relevant Conversion Shares will be held by IFC and the Company will, if the Liquidity Condition cannot be met, arrange for a block trade sale to procure investors to purchase the relevant Conversion Shares. It is intended that IFC's involvement in the relevant block trade will include but not limited to: (i) selling their Conversion Shares to purchasers who are third parties independent of the Company and its connected persons (the "**Independent Third Parties**"); (ii) agreeing to such terms of the block trade sale (including but not limited to the sale price); and (iii) signing any legal documentation necessary to effect such block trade sale. In the event that after the completion of a block trade sale the Company is not able to maintain its public float requirement under Rule 8.08(1)(a) of the Listing Rules, the Company will take appropriate steps to ensure that sufficient public float is restored as soon as possible after the close of the relevant block trade sale which may include procuring Morris Capital, a controlling shareholder of the Company, to dispose of some of its Shares to Independent Third Parties or the Company issuing new Shares to Independent Third Parties.

Based on the initial Conversion Price of HK\$2.22 per Share, the Convertible Loan will be convertible into approximately 90,090,090 Conversion Shares, representing 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). As such, should IFC sell all its Conversion Shares under the relevant block trade sale to Independent Third Parties that do not currently hold any Shares, it should not result in the creation of any new substantial shareholder of the Company.

Access to Information

Under the IFC Financing Documents and the Policy Agreement, the Company is required to disclose certain information of the Group to IFC and give authorization to IFC to communicate with its auditors to obtain certain financial and operational information regarding the Group. Prior to any conversion of the Convertible Loan, IFC does not hold any Shares and is not a Shareholder or a holder of any of the Company's listed securities. It is merely a lender of the Company. Similar to loan granted by banks to a listed issuer, such loan may have certain covenants that require the listed issuer to grant access to the lender regarding certain of its information. In that regard, the right that is going to be given to IFC by the Company to obtain information from the Group or its auditors is no different to the information access right of a lender in a normal bank borrowing transaction.

IFC's right to communicate with and obtain information from the Company's auditors is expected to be terminated once IFC becomes a Shareholder, either by converting any part of or all of the Convertible Loan into the Conversion Shares or by directly subscribing to or purchasing any Shares.

To ensure equal dissemination of information, the Company agrees that, in respect of any non-public inside information, including any non-public fact or circumstance that could reasonably be deemed to be material or, if made public, would or might reasonably be expected to materially affect the market price or trading volume, or both, of the Shares or other securities of the Company (collectively, the “**Non-Public Inside Information**”), requested or accessed by IFC under the IFC Financing Documents and the Policy Agreement (including the obtaining of such information from the auditors of the Company), the Company shall as soon as reasonably practicable disclose such information to both IFC and the public and/or the Shareholders in accordance with, and as required by, all applicable laws, regulations and rules of securities exchanges having jurisdiction over the Company (including without limitation to the Listing Rules and the SFO). To ensure equal dissemination of information and compliance with the principle of fair and equal treatment of all Shareholders, for all information requested to be disclosed to IFC, the Company will issue an announcement disclosing the same at the same time or prior to disclosing such information to IFC.

Further, pursuant to the authorization to be given by the Company to its auditors, every time when IFC communicates with and requires any information from the auditors, the auditors are required to promptly inform the Company of such request and all information to be provided by the auditors to IFC will first need to be provided to the Company. Under such mechanism, the Company will be able to oversee the entire communication between IFC and its auditors and will know in advance what information its auditors will provide to IFC in order to ensure that there is no selective disclosure of Non-Public Inside Information. If the Company becomes aware of potential disclosure of Non-Public Inside Information by its auditors to IFC, an announcement will be made by the Company in compliance with all the requirements under the Listing Rules and the SFO at the same time as such information is released to IFC by the auditors. The Company will also disclose in its environmental, social and governance report information relating to the environment and social measures of the Company which will be disclosed to IFC in its annual monitoring report.

In light of the above, the Company believes that it will be able to treat all Shareholders fairly and equally and comply with Rule 2.03(4) of the Listing Rules through the equal dissemination of Non-Public Inside Information to all Shareholders (which may include IFC after conversion of any such part of the Convertible Loan).

Use of Proceeds

In the Company’s overall development plan, approximately 51.2% of the net proceeds will be used in capital expenditure, approximately 36.3% will be used as working capital and approximately 12.5% will be used to refinance existing short term debts from onshore banks in the PRC. Approximately 44% and 56% will be used in the financial year of 2018 and 2019, respectively. After the capacity expansion, it is expected that the designed production capacity of approximately 1,100,000 pieces of sofa seat will be added to the PRC production plant by the end of the financial year of 2019, and the designed production capacity of approximately 700,000 pieces of sofa cover will be added to the Cambodia production plant by the end of the financial year of 2019.

Disposal of Assets of Morris PRC under the Share Retention and Undertaking Agreement

Under the Share Retention and Undertaking Agreement, without IFC's prior written consent, Morris PRC cannot 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 below:

- (a) the land use rights in respect of the land at 20 Shidai Road, Haining City, China (中國海寧市施帶路20號) and the buildings erected thereon;
- (b) trading stock or cash made by Morris PRC in its ordinary course of trading;
- (c) assets of Morris PRC if disposed to the Group;
- (d) assets in exchange for other assets comparable or superior as to type, value and quality (other than an exchange of a non-cash asset for cash); and
- (e) assets of Morris PRC if after giving effect to such sale, transfer, lease or disposal, the then cumulative aggregate value of disposals made by Morris PRC as at the date of such disposal, together with any other sale, transfer, lease or disposal from the date of the Share Retention and Undertaking Agreement, does not exceed 15% 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 the disposal.

Insurance of the Group

As one of the conditions of Disbursement of the Convertible Loan, the Company is required to provide copies of all insurance policies required pursuant to the Convertible Loan Agreement, and a certification of the insurers or insurance agents of the Company confirming that such policies are in full force and effect and all premiums then due and payable under those policies have been paid. The insurance policies required pursuant to the Convertible Loan Agreement include the following:

- (a) erection/construction all risks insurance for the Company's construction works;
- (b) marine cargo insurance on transportation of key plant/equipment to Company's project site;
- (c) property all risks insurance on new replacement cost of assets;
- (d) business interruption insurance;
- (e) public liability insurance;
- (f) products liability insurance; and
- (g) all insurances required by applicable laws and regulations.

Masia Industries Co., Ltd. ("**Morris Cambodia**") shall be required to maintain the insurance policies set out above only to the extent IFC in its absolute discretion deems necessary for Morris Cambodia to maintain such insurance policies upon IFC's review of the operations and assets of Morris Cambodia on an annual basis after the date falling twelve months from the date of the Convertible Loan Agreement.

Consistent with other loans lent by IFC, for the purposes of risk management and protection of its investments, IFC requires the Company to disclose the above insurance policies to them to help ensure that the Group has sufficient insurance to help protect the assets and operations of the Group and to protect the Group from potential claims and liabilities. The Company considers that these insurance policies are insurance common to the industry and protect the commercial interest of the Company and the Shareholders as a whole.

By Order of the Board
Morris Holdings Limited
Zou Gebing
Chairman

Hong Kong, 24 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.