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)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE EXERCISE OF PUT OPTION TO REQUIRE THE SELLER TO REPURCHASE ALL THE ISSUED COMMON STOCK OF JENNIFER CONVERTIBLES INC.

DISCLOSEABLE AND CONNECTED TRANSACTION

Under the terms of the Acquisition Agreement, if the Target Group records an audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for any of the two years ending 31 December 2019 or 2020, the Company may serve an Option Notice to exercise the Put Option and to require Morris PRC to repurchase the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

On 31 March 2020, the Company served the Option Notice on Morris PRC and the Warrantor stating its decision to exercise the Put Option to require Morris PRC to repurchase the Target Shares at the Exit Price. The Option Notice was accepted by Morris PRC and the Warrantor on the same date.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the exercise of the Put Option (if aggregated with the Receivables Disposal) are all under 25%, the exercise of the Put Option and the Receivables Disposal constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules. In addition, as Morris PRC and the Warrantor are connected persons of the Company, the exercise of the Put Option and the Receivables Disposal constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The exercise of the Put Option and the Receivables Disposal are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

EGM

The Independent Board Committee, comprising all independent non-executive Directors, was established to advise the Independent Shareholders in relation to the exercise of the Put Option and the Receivables Disposal and as to how to vote at the EGM regarding the relevant resolution(s) to be proposed at the EGM to approve the exercise of the Put Option and the Receivables Disposal. The Company will appoint an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the exercise of the Put Option and the Receivables Disposal.

The Circular containing, among other things, further information of the exercise of the Put Option and the Receivables Disposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the notice convening the EGM will be dispatched to the Shareholders on or before 21 April 2020.

An EGM will be convened at which the Independent Shareholders will consider and, where appropriate, approve the exercise of the Put Option and the Receivables Disposal.

The Disposal Completion and the Receivables Disposal are subject to condition precedent, namely, the obtaining of approval of Independent Shareholders at the EGM. Therefore, the Disposal as triggered by the exercise of the Put Option and the Receivables Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

BACKGROUND

Reference is made to the Company's announcement dated 4 July 2018 (the "**Acquisition Announcement**") and the Company's circular dated 14 August 2018 (the "**Acquisition Circular**") in relation to the Acquisition by the Company from Morris PRC of the Target Shares at the Consideration of US$35 million (HK$273 million). The Acquisition was completed on 31 August 2018.

Under the terms of the Acquisition Agreement, if the Target Group records an audited net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) for any of the two years ending 31 December 2019 or 2020, the Company may serve an Option Notice to exercise the Put Option and to require Morris PRC to repurchase the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

EXERCISE OF PUT OPTION

The Company has substantially finalized the Unaudited Management Accounts of the Target Group for the year ended 31 December 2019. Based on the Unaudited Management Accounts, the Target Group is expected to record a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of not less than RMB42.0 million (HK$47.6 million) for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million (HK$23.4 million) for the two years ending 31 December 2019 and 2020.

The Company has reported the situation to the Directors. After considering the reasons stated above, the Directors are of the view that: (a) given the Coronavirus outbreak since January 2020 causing disruptions to the supply chain of the Target Group, the Directors do not expect, barring unforeseen circumstances, any reasonable prospect for the Target Group to turnaround from loss-making to profit-making in 2020; (b) based on the loss-making situation of the Target Group, it is beneficial for the Company to stop loss as soon as possible; (c) it is therefore fair and reasonable and in the interests of the Company and its shareholders as a whole to exercise the Put Option now, rather than to wait for one more year; and (d) due to the severe shortfall represented by the expected loss in the Unaudited Management Accounts as compared to the Average Profit, there is no added benefit for the Company to wait for the finalization of the Audited Accounts of the Target Group for the year ended 31 December 2019 before serving the Option Notice, subject to the consent of Morris PRC.

The Company entered into amicable negotiation with Morris PRC, who indicated that it is prepared to waive the requirement of insisting the Company to wait for the Audited Accounts and to allow the Company to serve the Option Notice on the basis of the Unaudited Management Accounts. Accordingly, on 31 March 2020, the Company served the Option Notice on Morris PRC and the Warrantor stating its decision to exercise the Put Option to require Morris PRC to repurchase the Target Shares at the Exit Price. The Option Notice was accepted by Morris PRC and the Warrantor on the same date.

THE OPTION NOTICE

The principal terms of the Disposal pursuant to the exercise of the Put Option shall be as follows:

Date of Option Notice

31 March 2020

Parties to the Disposal

(1) The Company (as seller under the Disposal);

(2) Morris PRC (as purchaser under the Disposal); and

(3) Mr. Zou (as warrantor to guarantee the performance of the obligations of Morris PRC under the Disposal).

Morris PRC was the seller in the Acquisition and is now the purchaser under the Disposal. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, Morris PRC is ultimately and beneficially owned as to 85% by Mr. Zou and 15% by his spouse, Ms. Wu. Mr. Zou is the Chairman, Chief Executive Officer and an executive Director of the Company. In addition, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, Morris Capital (a substantial and controlling shareholder holding 750,000,000 Shares, representing 75% of the issued share capital of the Company) is owned as to 85% by Mr. Zou and 15% by Ms. Wu. Accordingly, each of Morris PRC and its ultimate beneficial owner (i.e. Mr. Zou and Ms. Wu) and the Warrantor (i.e. Mr. Zou) is a connected person or associate of connected person of the Company.

The Put Option

Under the terms of the Acquisition Agreement, Morris PRC (as vendor of the Target Company under the Acquisition) has irrevocably granted to the Company (as purchaser of the Target Company under the Acquisition) the Put Option to sell, and to require Morris PRC to buy, all (but not part only) of the Target Shares, if the Target Group records an audited net loss after tax (excluding profits and losses not from the ordinary and usual course of business) in the Audited Accounts for any of the years ending 31 December 2019 and 2020 (regardless of whether the Average Profit meets the US$3 million profit threshold).

Under the terms of the Acquisition Agreement, the Put Option may be exercised by the Company on any date during the period of three months from the date of the issuance of the Audited Accounts for the relevant year by the delivery of the Option Notice to Morris PRC. In this regard, as explained above, Morris PRC has waived the requirement of insisting the Company to wait for the Audited Accounts and has allowed the Company to serve the Option Notice on 31 March 2020 on the basis of the Unaudited Management Accounts.

Details of the Put Option are already set out in the section headed "Sale and Purchase Agreement – Repurchase Undertaking" in the Acquisition Announcement and the Letter from the Board of the Acquisition Circular.

The Exit Price

Under the terms of the Acquisition Agreement, once the Option Notice is served, Morris PRC shall be bound to buy the Target Shares at the Exit Price, which is equivalent to the Consideration for the Acquisition of US$35 million (HK$273 million).

Under the terms of the Acquisition Agreement, the Consideration was payable by the Company to Morris PRC in cash at any time prior to the second anniversary of the date of completion of the Acquisition, i.e. by 31 August 2020 (the "**Payment Period**"). The Company shall have the right to pay the Consideration in any number of installment, in any amount per installment and at any time during the Payment Period. The Consideration is only due for payment on the expiry of the Payment Period. Up to the date of this announcement, the Company has only paid US$20 million to Morris PRC, and the remaining balance of the Consideration in the amount of US$15 million remained outstanding. No interest has been or would be charged on the unpaid balance of the Consideration, as the Payment Period has yet to expire.

Upon the serving of the Option Notice, the Company is no longer obliged to pay the unpaid balance of the Consideration to Morris PRC. This unpaid balance of US$15 million (HK$117 million) shall be set off against the Disposal Consideration of US$35 million (HK$273 million), resulting in a net payment due and payable by Morris PRC in the amount of US$20 million (HK$156 million) upon the Disposal Completion (the "**Net Exit Price Payment**").

Disposal Completion

Under the terms of the Acquisition Agreement, once the Option Notice is served, the Target Shares shall be sold by the Company free from encumbrances but together with all interests attached or attaching, accrued or accruing thereto after the date of the Disposal Completion. On Disposal Completion: (a) the Company shall deliver to Morris PRC a stock certificate evidencing the Target Shares, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank; and (b) Morris PRC shall pay the Exit Price to the Company (or as the Company may direct) in US$ by way of bankers' draft.

Under the terms of the Acquisition Agreement, once the Option Notice is served, the Disposal Completion shall take place on the date falling 20 business days after the service of the Option Notice. In compliance of the Listing Rules, since the exercise of the Put Option is subject to the approval of the Independent Shareholders at the EGM, the Company has agreed with Morris PRC to defer the Disposal Completion to a date falling not later than 20 business days after the date of the EGM. Save and except for the obtaining of the Independent Shareholders' approval for the Disposal at the EGM, the Disposal is not subject to any other conditions precedent.

After the Disposal Completion, all the members of the Target Group will cease to be subsidiaries of the Company and the results of the Target Group will no longer be consolidated into the Group's financial statements.

Other terms applicable to the exercise of the Put Option

Under the terms of the Acquisition Agreement, Morris PRC shall be responsible for all costs and expenses to be incurred for and incidental to the sale and purchase of the Target Shares on the exercise of the Put Option.

Under the terms of the Acquisition Agreement, the Company shall be entitled to either exercise the Put Option or to demand the Profit Guarantee Payment, but not both. For the avoidance of doubt, if the exercise of the Put Option proceeds to the Disposal Completion, the Company will no longer be entitled to demand the Profit Guarantee Payment.

Since the Profit Guarantee Payment depends on the Average Profit for the two years ending 31 December 2019 and 2020, the Company will not be in the position to demand the Profit Guarantee Payment until the determination of the Audited Accounts of the Target Group for the year ending 31 December 2020 in or around March 2021. In the light of the loss-making position of the Target Group, the Directors (excluding the independent non-executive Directors who would defer the expression of views after considering the advice from the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are of the view that it is fair and reasonable and in the interests of the Company and its shareholders as a whole to stop loss by exercising the Put Option now, rather than to wait for one more year before demanding any Profit Guarantee Payment. In any event, the Exit Price receivable by the Company through the exercise of the Put Option was pre-agreed at US$35 million (HK$273 million), which is already at the upper limit of the maximum adjustment permissible under the mechanisms of the Profit Guarantee Payment contemplated by the Acquisition Agreement.

REASONS FOR AND BENEFITS OF THE EXERCISE OF THE PUT OPTION

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

The Target Company is principally engaged in the retail business of sale of furniture products and home furnishings in the eastern part of the US, operating 19 retail outlets in New York, New Jersey and Connecticut. Since the completion of the Acquisition in August 2018, the performance of the Target Group has not lived up to the Company's expectation due to the adverse impact caused by the Sino-US trade war narrowing the profit margin due to the partial sharing of the tariffs. As explained above, based on the Unaudited Management Accounts, the Target Group is expected to record a net loss after tax (excluding profits and losses not arising from the ordinary and usual course of business) of not less than RMB42.0 million (HK$47.6 million) for the year ended 31 December 2019, as compared to the targeted Average Profit of US$3 million (HK$23.4 million) for the two years ending 31 December 2019 and 2020.

China is one of the important sources of products and parts in the supply chain of the Target Group. Since the commencement of the Chinese New Year holiday in late January 2020, many factories in China remained shut as a result of the extension of holiday period as ordered by the PRC Government. Since January 2020, transportation in China has been severely affected by traffic restriction in an effort to contain the outbreak of the novel Coronavirus epidemic (the "**Epidemic**"). This has caused the worsening of consumer sentiment and the disruption to the global supply chain, posing uncertainties as to whether the financial performance of the Target Group for the rest of the year will be able to compensate the losses incurred during the supply chain disruption. Given the above situation, the Directors do not expect, barring unforeseen circumstances, any reasonable prospect for the Target Group to turnaround from loss-making to profit-making in 2020.

As disclosed in the Company's announcement dated 22 March 2020, the furniture retail business of the Target Group in the United States was heavily hit by the Epidemic. With the increase of infected people in the United States including the eastern states where the Target Group's retail network is situated, some non-essential retailers have closed their shops to curb the spread of the Epidemic. Other non-essential retailers which tried to remain open suffered unprecedented decline in sales. In the third week of March 2020, the Group received reports from the management of the Target Group that some of their shops recorded next-to-nil sales. In the circumstances, the management of the Target Group has decided to close all the retail shops of the Target Group in the United States. It is uncertain as to how long this situation will last, as the estimate by the market on the duration ranges from anything between three and eighteen months. The prospect of the Target Group has now become more uncertain than ever.

The Put Option was designed to provide an opportunity to the Company to unwind the transaction and recoup the Consideration in full if the business of the Target Group turns out to be unprofitable. The terms of the Put Option were pre-agreed in the Acquisition Agreement, which was determined after arm's length negotiation between Morris PRC and the Company at the time of the Acquisition. The Exit Price is equivalent to the Consideration for the Acquisition, enabling the Company to recoup the Consideration in full. The terms of the Put Option were already disclosed in the Acquisition Announcement and the Acquisition Circular, and were approved as part of the Acquisition by the Independent Shareholders at the extraordinary general meeting of the Company held on 31 August 2018.

In the light of the reasons stated above and the cash inflow to be derived from the Net Exit Price Payment upon the Disposal Completion, the Directors (excluding the independent non-executive Directors who would defer the expression of views after considering the advice from the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are of the view that the terms of the Disposal (including the Exit Price) are fair and reasonable, on normal commercial terms and that the exercising of the Put Option and the Disposal are in the best interests of the Company and its Shareholders (including the Independent Shareholders) as a whole. Although the Exit Price was agreed in July 2018, the Directors (excluding the independent non-executive Directors) are of the view that the Exit Price is fair and reasonable, taking into account the latest business operation and financial position of the Target Group.

Mr. Zou (the Chairman, Chief Executive Officer and an executive Director of the Company) is the 85% shareholder of Morris PRC and the Warrantor under the Disposal. The spouse of Mr. Shen (another executive Director) is a cousin of Ms. Wu (15% shareholder of Morris PRC and spouse of Mr. Zou). Mr. Zou and Mr. Shen abstained from voting on Board level regarding the exercise of Put Option and the Disposal, due to Mr. Zou's material interest in the transactions. Save for Mr. Zou and Mr. Shen, no other Director regarded himself to have a material interest or perceived conflict in the transactions which requires him to disclose his interest and/or to abstain from voting on Board level regarding the exercise of Put Option and the Disposal.

The Company intends to utilize the Net Exit Price Payment receivable from Morris PRC in the amount of US$20 million (HK$156 million) upon the Disposal Completion to replenish the Group's working capital and to repay debts and liabilities of the Group when they fall due.

INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the US with limited liability and is principally engaged in the retail business of sale of furniture products and home furnishings in the US. Prior to the Disposal, all the issued and outstanding common stock of the Target Company are owned by the Company.

Set out below is a summary of the key financial information of the Target Group based on the unaudited financial statements of the Target Group for the two years ended 31 December 2017 and 2018 and the six months ended 30 June 2019:

	For the year ended 31 December 2017 *(RMB'000)*	For the year ended 31 December 2018 *(RMB'000)*	For the six months ended 30 June 2019 *(RMB'000)*
Revenue	243,690	214,062	97,297
Gross profit	105,054	78,990	40,654
(Loss) before tax	(13,785)	(21,518)	(7,524)
(Loss) after tax	(13,932)	(21,570)	(7,589)

	As at 31 December 2017 *(RMB'000)*	As at 31 December 2018 *(RMB'000)*	As at 30 June 2019 *(RMB'000)*
Total assets	67,076	73,830	65,991
Net (liabilities)	(42,595)	(67,586)	(75,272)

FINANCIAL IMPACT OF THE DISPOSAL

As at 30 June 2019, the total assets attributable to the Target Group constituted approximately 4.7% of the Group's total assets. As the Target Group recorded net loss and net liabilities and the Company can recoup the Consideration in full by exercising the Put Option, the Directors are of the view that the Disposal will help to reduce the loss and improve the cash and financial position of the Group.

During the year ended 31 December 2018 and the six months ended 30 June 2019, the revenue contributed by the Target Group constituted approximately 13.3% and 19.5% of the Group's total revenue. As the Target Group and the Remaining Group operate independently of each other, the Directors do not expect that the Disposal will cause any material adverse impact to the business operations of the Group.

Prior to 20 March 2020, the Remaining Group has been supplying furniture products to the Target Group. In the light of the management's decision on the shop closure in the United States as disclosed in the Company's announcement dated 22 March 2020, no supply of goods has taken place since 20 March 2020, nor will any supply of goods take place beyond the Disposal Completion. Save for the supply of goods and the owing of the Receivables from the Target Group to the Remaining Group which will be dealt with in the manner described in the section headed "CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF RECEIVABLES FROM THE TARGET GROUP" in this announcement, the Company is not aware of any other ongoing transactions between the Remaining Group and the Target Group which would constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules beyond the Disposal Completion.

The Group is expected to record a gain on disposal in the amount of approximately RMB288.4 million (HK$328.2 million), which was calculated from the excess of the Exit Price of US$35 million (HK$273 million) over the sum of (i) the unaudited consolidated net liabilities of the Target Group of approximately RMB75.3 million (HK$85.7 million) as at 30 June 2019; plus (ii) the contingent consideration receivables of approximately RMB230.0 million (HK$261.8 million) as at 30 June 2019; taking into account of the release of the following reserves in the Group's consolidated statement of changes in equity upon the Disposal Completion, namely: (1) exchange fluctuation reserve attributable to the Target Group of approximately RMB31.1 million (HK$35.4 million); and (2) other reserve resulted from merger of entity under common control of approximately RMB172.1 million (HK$195.9 million). Shareholders should note that the above calculation of gain/loss on disposal is the result of accounting treatment rather than any measurement of the enhancement of the net assets of the Group resulted from the Disposal. By way of illustration and purely based on the Company's preliminary calculations, the Company currently estimates that the Disposal may result in an overall enhancement of the Group's net assets by the amount of approximately RMB75.3 million (HK$85.7 million).

However, taking into account the full impairment of the Receivables in the approximate amount of RMB99.1 million (HK$110.7 million) as explained in the section headed "CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF RECEIVABLES FROM THE TARGET GROUP" in this announcement, the combined effect of the Disposal and the full impairment of the Receivables (which is independent of whether the Disposal proceeds to completion) is estimated to result in an overall reduction of the Group's net assets by the amount of approximately RMB23.8 million (HK$25.0 million). The Circular will contain a pro forma statement on the combined effects of the Disposal and the full impairment of the Receivables on the Remaining Group.

The Company would like to emphasize that the actual gain/loss on the disposal and actual impact on net assets are still subject to the finalization of the completion accounts of the Target Group and further review and adjustments and may be materially different from the estimations set out above in this announcement.

CONNECTED TRANSACTION RELATING TO THE DISPOSAL OF RECEIVABLES FROM THE TARGET GROUP

No capital contribution has been made by the Company to the Target Group between the completion of the Acquisition and now. As at 20 March 2020, the Target Group owed two inter-company accounts to the Remaining Group (collectively, the "**Receivables**"), namely: (a) trade receivables in the amount of RMB58.0 million arising from the supply of sofas in the ordinary and usual course of business of the Group; and (b) loan receivables in the amount of RMB41.1 million, being interest-free, repayable-on-demand loan advanced by the Group to meet the working capital requirements of the Target Group. In the light of the management's decision on the shop closure in the United States as disclosed in the Company's announcement dated 22 March 2020, the Group has not supplied any sofas or advanced new loans to the Target Group since 20 March 2020, nor does it intend to supply any sofas or advance any new loans to the Target Group from 20 March 2020 onward, regardless of whether the exercise of the Put Option and the Disposal proceed to completion.

The Exit Price only covers the consideration for the disposal of the Target Company and does not cover these Receivables. The credit arising from these Receivables were extended or advanced by the Group to the Target Group by way of intra-group transactions when the Target Group was wholly-owned by the Group.

Given the net current liabilities and loss-making situation of the Target Group and the outbreak of Coronavirus epidemic giving rise to the decision of closing all the furniture retail shops of the Target Group in the United States as disclosed in the Company's announcement dated 22 March 2020, the Directors are of the view that there is high uncertainty as to whether these Receivables are fully recoverable by the Group from the Target Group. In the circumstances, the Receivables have been fully impaired.

The terms of the Acquisition Agreement are silent on how these Receivables should be dealt with if the Put Option is exercised. However, given that the Target Group is already in a distressed financial position, the Company does not intend to allow the Receivables to be continued to be owed by the Target Group to the Remaining Group after the Disposal Completion. After careful internal consideration and with the consent of Morris PRC, the Company intends to put forward the following proposal regarding the disposal of the Receivables by the Remaining Group to Morris PRC for the Independent Shareholders to consider at the EGM. The terms of the proposal on the Receivables Disposal were set out in writing and served by the Company at Morris PRC, and already acknowledged in writing by Morris PRC at the same time when the Option Notice was served and acknowledged on 31 March 2020.

Proposal on the Receivables Disposal

On 31 March 2020, the Company proposed to sell the Receivables to Morris PRC (the "**Receivables Disposal**"). After the serving of the Option Notice but before the dispatch of the Circular, the Company intends to conduct an impairment assessment on the fair value of the Receivables (the "**Fair Value**") and engage an independent valuer (the "**Independent Valuer**") to review such assessment. The cash consideration for the disposal of the Receivables (the "**Receivables Consideration**") is the Fair Value to be assessed by the Independent Valuer, plus the nominal sum of RMB1, payable on the completion of the Receivables Disposal which is subject to, and shall take place within 20 business days after, the approval of the Receivables Disposal by the Independent Shareholders at the EGM. Subsequent to the Receivables Disposal, the Company is further entitled to receive a contingent consideration based on the proportional entitlement (the "**Outcome Sharing Entitlement**") to share a fixed proportion of any cash repayment by the Target Group or cash proceeds of enforcement outcome of recovery actions taken by Morris PRC over the Receivables, after deducting (a) all post-disposal recovery costs incurred by Morris PRC; and (b) the Receivables Consideration. The sharing proportion of the Company's entitlement is fixed at 99.99%. In addition, the Company shall have the right to be informed as to the conduct of the recovery action and the right of veto as to the final decision on compromise or settlement of the quantum of the recovered sum.

Taking into account the distressed financial situation of the Target Group and the uncertain prospect of the full recovery of the Receivables, it may not be cost-effective for the Company to spend legal costs in the pursuit of recovery actions against the Target Group. The terms of the Receivables Disposal would enable the Company to maintain an influence and sharing on the continual recovery actions, while shifting the burden of time and cost of the recovery actions to Morris PRC. Accordingly, the Directors (excluding the independent non-executive Directors who would defer the expression of views after considering the advice from the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are of the view that the terms of the Receivables Disposal (including the Receivables Consideration and the mechanisms of the Outcome Sharing Entitlement) are fair and reasonable, on normal commercial terms and that the Receivables Disposal are in the best interests of the Company and its Shareholders (including the Independent Shareholders) as a whole.

The Receivables Disposal is independent of the exercise of the Put Option and not inter-conditional with each other. If the Put Option and Disposal are approved but the Receivables Disposal is voted down by the Independent Shareholders at the EGM, the Company intends to serve a notice of repayment to demand immediate repayment of the Receivables by the Target Company on the date of the Disposal Completion.

Combined effect of the Disposal and the Receivables Disposal

Given that the Receivables are fully impaired, if the Receivables Disposal proceeds to completion, the Receivables Disposal is expected to record a loss on disposal in an amount which is equivalent to the entire face value of the Receivables of RMB99.1 million (HK$110.7 million). As explained above and in the section headed "FINANCIAL IMPACT ON THE DISPOSAL" in this announcement, the combined effect of the Disposal and the Receivables Disposal (which is independent of whether the Disposal proceeds to completion) is estimated to result in an overall reduction of the Group's net assets by the amount of approximately RMB23.8 million (HK$25.0 million). The Circular will contain a pro forma statement on the combined effects of the Disposal and the Receivables Disposal on the Remaining Group.

Given the distressed financial situation of the Target Group, the Directors are of the view that there is high uncertainty as to whether these Receivables are fully recoverable by the Group from the Target Group, regardless of whether the Put Option is exercised and whether the Receivables Disposal proceed to completion. As explained in the section headed "REASONS FOR AND BENEFITS OF THE EXERCISE OF THE PUT OPTION" in this announcement, it is in the best interest of the Company to cut loss on the Target Group by putting it back to Morris PRC and recouping the Consideration for the Acquisition in full. Although the Company can choose to keep the Receivables and is legally entitled to continue to pursue after the Target Group for the repayment of the Receivables, the prospect of the successful recovery not only depend on legal entitlement but also on the financial means of the Target Group. In this regard, the Company noticed that the Target Group is currently under net liabilities and loss-making position. Therefore, after balancing all relevant factors as set out in this announcement and notwithstanding the fact the Receivables Disposal is expected to result in a reduction in the net asset value of the Company, the Directors (excluding the independent non-executive Directors who would defer the expression of views after considering the advice from the Independent Financial Adviser, and except Mr. Zou and Mr. Shen who abstained from voting at Board level due to Mr. Zou's material interest in the transactions) are still of the view that it is fair and reasonable and in the best interests of the Company and its Shareholders (including the Independent Shareholders) as a whole to put forward the Disposal and the Receivables Disposal together.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the exercise of the Put Option (if aggregated with the Receivables Disposal) are all under 25%, the exercise of the Put Option and the Receivables Disposal constitute discloseable transactions for the Company under Chapter 14 of the Listing Rules. In addition, as Morris PRC and the Warrantor are connected persons of the Company, the exercise of the Put Option and the Receivables Disposal constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The exercise of the Put Option and the Receivables Disposal are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee, comprising all independent non-executive Directors, was established to advise the Independent Shareholders in relation to the exercise of the Put Option and the Receivables Disposal and as to how to vote at the EGM regarding the relevant resolution(s) to be proposed at the EGM to approve the exercise of the Put Option and the Receivables Disposal. The Company will appoint an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the exercise of the Put Option and the Receivables Disposal.

The Circular containing, among other things, further information of the exercise of the Put Option and the Receivables Disposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the notice convening the EGM will be dispatched to the Shareholders on or before 21 April 2020.

An EGM will be convened at which the Independent Shareholders will consider and, where appropriate, approve the exercise of the Put Option and the Receivables Disposal. In compliance with the Listing Rules, all resolutions will be voted on by way of poll at the EGM.

WARNING

The Disposal Completion and the Receivables Disposal are subject to condition precedent, namely, the obtaining of approval of Independent Shareholders at the EGM. Therefore, the Disposal as triggered by the exercise of the Put Option and the Receivables Disposal may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

"Acquisition"	the acquisition of the Target Shares by the Company from Morris PRC pursuant to the Acquisition Agreement, which was completed on 31 August 2018
"Acquisition Agreement"	the sale and purchase agreement dated 4 July 2018 entered into among the Company, Morris PRC and the Warrantor in relation to the Acquisition
"associate(s)"	having the meaning ascribed to it under the Listing Rules
"Audited Accounts"	the audited consolidated financial statements (comprising balance sheet and profit and loss account) of the Target Group for the years ending 31 December 2019 and 2020
"Average Profit"	the average of the audited consolidated net profit (or loss) after tax of the Target Group (excluding profits and losses not arising from the ordinary and usual course of business) as shown in the Audited Accounts for the two years ending 31 December 2019 and 2020, targeted at US$3 million under the terms of the Acquisition Agreement
"Board"	the board of Directors
"Circular"	the circular of the Company to be dispatched to the Shareholders containing, among other things, further information of the exercise of the Put Option and the Receivables Disposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the notice convening the EGM
"Company"	Morris Holdings Limited (慕容控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange with stock code: 1575
"connected person(s)"	having the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Acquisition in the amount of US$35 million (HK$273 million)

"controlling shareholder(s)"	having the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Target Group by the Company to Morris PRC as triggered by the exercise of the Put Option by the Company
"Disposal Completion"	the completion of the Disposal
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the exercise of the Put Option and the Receivables Disposal
"Exit Price"	the consideration of the Disposal in the amount of US$35 million (HK$273 million), which is equivalent to the Consideration of the Acquisition
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all independent non-executive Directors, which was established to advise the Independent Shareholders regarding the exercise of the Put Option and the Receivables Disposal
"Independent Financial Adviser"	the independent financial adviser to be appointed to advise the Independent Board Committee and the Independent Shareholders on the exercise of the Put Option and the Receivables Disposal
"Independent Shareholders"	Shareholders other than those who are required by the Listing Rules to abstain from voting on the resolution(s) approving the exercise of the Put Option and the Receivables Disposal at the EGM
"Independent Third Parties"	third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Morris Capital"	Morris Capital Limited (慕容資本有限公司), a company incorporated in the British Virgin Islands with limited liability and a substantial and controlling shareholder of the Company
"Morris PRC"	慕容集團有限公司 (Morris Group Co., Ltd) (formerly known as 海寧蒙努集團有限公司 (Haining Mengnu Group Co., Ltd.)), a company established in the PRC with limited liability, the vendor under the Acquisition and the purchaser under the Disposal and the Receivables Disposal
"Mr. Shen"	Mr. Shen Zhidong (沈志東), an executive Director of the Company
"Mr. Zou" or "Warrantor"	Mr. Zou Gebing (鄒格兵), the Chairman, Chief Executive Officer and an executive Director of the Company
"Ms. Wu"	Ms. Wu Xiangfe (鄔向飛), spouse of Mr. Zou
"Option Notice"	the written notice delivered from the Company to Morris PRC exercising the Put Option
"PRC"	the People's Republic of China
"Profit Guarantee Payment"	the payment liable to be made by Morris PRC on demand of the Company to adjust the Consideration downwards if the Average Profit is less than US$3 million, being an amount equivalent to the shortfall difference between US$3 million and the Average Profit multiplied by the multiplier of 11.67
"Put Option"	the put option right granted by Morris PRC to the Company under the Acquisition Agreement as described in the announcement and circular relating to the Acquisition and this announcement
"Remaining Group"	the Group excluding the Target Group
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of the Company having a par value of US$0.001 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	having the meaning ascribed to it under the Listing Rules

"Target Company"	Jennifer Convertibles Inc., a company incorporated in the US and a wholly-owned subsidiary of the Company prior to the Disposal Completion
"Target Group"	the Target Company and its subsidiaries
"Target Shares"	all the issued and outstanding common stock of the Target Company
"US"	the United States of America
"US$"	United States Dollars, the lawful currency of the US

In this announcement, amounts denominated in US$ and RMB have been converted into HK$ at the exchange rates of US$1.00 = HK$7.80 and HK$1.00 = RMB0.88 as at 31 December 2018 and 30 June 2019 and HK$1.00 = RMB0.84 during the year ended 31 December 2018 and HK$1.00 = RMB0.86 during the six months ended 30 June 2019 for illustration purposes only.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. Zou Gebing, Mr. Wu Yueming, Mr. Zeng Jin and Mr. Shen Zhidong; and the independent non-executive Directors are Mr. Pang Wing Hong, Mr. Chu Guodi and Mr. Liu Haifeng.