



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



# GLOBAL OFFERING

Sole Sponsor

 國金證券(香港)有限公司  
SINOLINK SECURITIES (HK) CO. LTD.

Sole Global Coordinator and Sole Bookrunner

 國金證券(香港)有限公司  
SINOLINK SECURITIES (HK) CO. LTD.

# IMPORTANT

*If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.*



MORRIS  
HOLDINGS LIMITED

## MORRIS HOLDINGS LIMITED 慕容控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

<b>Number of Offer Shares</b>	<b>: 250,000,000 Shares (subject to the Over-allotment Option)</b>
<b>Number of International Offer Shares</b>	<b>: 225,000,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 25,000,000 Shares (subject to adjustment)</b>
<b>Maximum Offer Price</b>	<b>: HK\$1.31 per Offer Share, plus 1% brokerage, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)</b>
<b>Nominal value</b>	<b>: US\$0.001 per Share</b>
<b>Stock code</b>	<b>: 1575</b>

#### Sole Sponsor



#### Sole Global Coordinator and Sole Bookrunner



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the subsection headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date or such other date as may be agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) but in any event no later than Tuesday, 10 January 2017 (Hong Kong time). The Offer Price will be not more than HK\$1.31 per Offer Share and is currently expected to be not less than HK\$1.05 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.31 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.31 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of reduction of the number of Offer Shares and/or the indicative Offer Price range will be announced on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk). If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 10 January 2017 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse immediately.

**Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including risk factors set out in the section headed "Risk Factors" in this prospectus. Pursuant to the Underwriting Agreements, the Sole Global Coordinator (for itself and on behalf of the Underwriters) have the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the subsection headed "Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination" under the section headed "Underwriting" in this prospectus.**

The Offer Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state in the United States, and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws in the U.S. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulations S of the U.S. Securities Act.

30 December 2016

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## EXPECTED TIMETABLE<sup>(Note 1)</sup>

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If there is any change in the following expected timetable of the Global Offering, our Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk).

Latest time to complete electronic applications under  
**HK eIPO White Form** service through the designated  
website [www.hkeipo.hk](http://www.hkeipo.hk)<sup>(Note 2)</sup> ..... 11:30 a.m. on  
Thursday, 5 January 2017

Application lists of the Hong Kong Public Offering  
open<sup>(Note 3)</sup> ..... 11:45 a.m. on  
Thursday, 5 January 2017

Latest time to lodge **WHITE** and **YELLOW**  
Application Forms and to give **electronic**  
**application instructions** to HKSCC<sup>(Note 4)</sup> ..... 12:00 noon on  
Thursday, 5 January 2017

Latest time to complete payment of **HK eIPO White Form**  
applications by effecting internet banking transfer(s)  
or PPS payment transfer(s). ....12:00 noon on  
Thursday, 5 January 2017

Application lists of the Hong Kong Public Offering  
close<sup>(Note 3)</sup> .....12:00 noon on  
Thursday, 5 January 2017

Expected Price Determination Date<sup>(Note 5)</sup> .....Thursday, 5 January 2017

(1) Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the indication of level of interest in the International Offering; and
- the basis of allocation of the Hong Kong Offer Shares

to be published (a) in The Standard  
(in English) and Hong Kong Economic Times  
(in Chinese); and (b) on the Stock Exchange's website  
at [www.hkexnews.hk](http://www.hkexnews.hk) and on our Company's website  
at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk) on or before .....Wednesday, 11 January 2017

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## EXPECTED TIMETABLE<sup>(Note 1)</sup>

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- (2) Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the subsection headed "11. Publication of Results" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus . . . . . Wednesday, 11 January 2017
- (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk)<sup>(Note 6)</sup> from . . . . . Wednesday, 11 January 2017

Results of allocations for the Hong Kong Public Offering will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function from. . . . . Wednesday, 11 January 2017

Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(Notes 7 and 9)</sup> . . . . . Wednesday, 11 January 2017

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/ refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(Notes 8 and 9)</sup> . . . . . Wednesday, 11 January 2017

Dealings in the Shares on the Stock Exchange to commence on . . . . . Thursday,  
12 January 2017

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*Notes:*

- 1 All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions are set out in the section headed "Structure of the Global Offering" in this prospectus.
- 2 You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- 3 If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 January 2017, the application lists will not open or close on that day. Please see the subsection headed "10. Effect of Bad Weather on the Opening of the Application Lists" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.
- 4 Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the subsection headed "6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus for details.

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## EXPECTED TIMETABLE<sup>(Note 1)</sup>

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- 5 The Price Determination Date is expected to be on or around Thursday, 5 January 2017 and, in any event, not later than Tuesday, 10 January 2017 (Hong Kong time). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) by Tuesday, 10 January 2017, the Global Offering will not proceed.
- 6 None of the website or any of the information contained on the website forms part of this prospectus.
- 7 Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 12 January 2017 provided that the Global Offering has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of the Share certificates or the Share certificates becoming valid do so at their own risk.
- 8 e-Auto Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.
- 9 Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 January 2017 or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible and opt for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification documents and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant's stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Forms applicants are the same as those for **WHITE** Application Forms applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the subsection headed "14. Despatch/Collection of Share Certificates and Refund Monies – Personal Collection – (iv) If you apply via electronic application instructions to HKSCC" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the subsections headed "13. Refund of Application Monies" and "14. Despatch/Collection of Share Certificates and Refund Monies" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

**The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for Hong Kong Offer Shares.**

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*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives, or any other party involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety, and should be read in conjunction with the full text of this prospectus. Information contained in our website, located at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk), does not form part of this prospectus. You should read the whole prospectus including the appendices to this prospectus before you decide to invest in our Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are summarised in the section entitled “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Offer Shares.*

### OVERVIEW

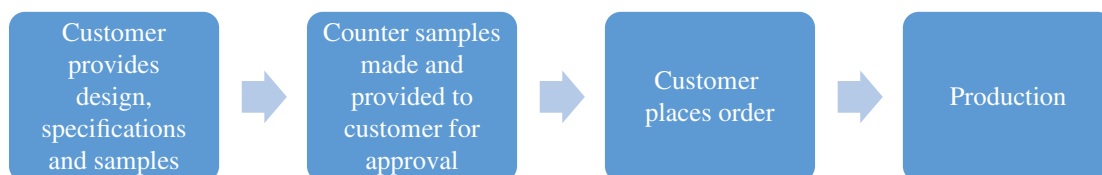
We principally engage in the manufacturing of sofas and sofa covers in the PRC with an integrated design, manufacturing, sales and marketing operation. We are one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015 according to the Euromonitor Report. The export market of upholstered sofas from the PRC to the U.S. is highly fragmented. We accounted for approximately 3.6% of the export value of upholstered sofas to the U.S. from the PRC in 2015. Our products are generally marketed under two brands, “Morris Holdings Limited” and “Morris Zou”. We mainly export “Morris Holdings Limited” branded sofas to customers in the U.S. market as well as sell “Morris Zou” brand of sofas and wood based furniture products domestically through our direct sale stores in Zhejiang Province of the PRC.

### OUR BUSINESS MODEL

We are one of the leading and long established manufacturers of sofas and sofa covers in the PRC sofa export industry, and one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015 according to the Euromonitor Report. We design, manufacture and sell a wide range of sofas, sofa covers and other furniture products through OEM, ODM and OBM business models. The following charts illustrates our OEM, ODM and OBM business models:

#### Our OEM business operations

The following diagram illustrates our OEM business operations:





## SUMMARY

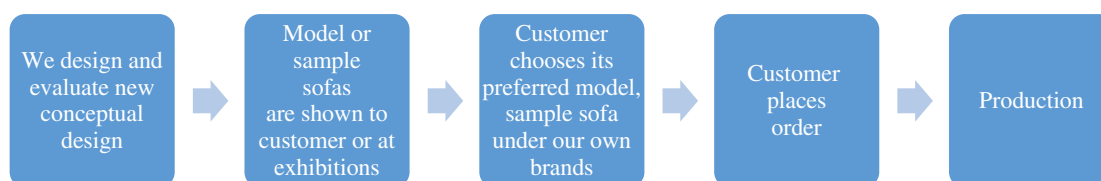
### Our ODM business operations

The following diagram illustrates our ODM business operations:



### Our OBM business operations

The following diagram illustrates our OBM business operations:



For further details, please refer to the subsection headed “Our Business Model” under the section headed “Business” in this prospectus.

## OUR PRODUCTS AND BRANDS

We sell a wide range of sofas including stationary sofas and motion sofas (with or without smart-home functions) under the brand “Morris Holdings Limited” and sofa covers predominantly to overseas markets including the U.S., Canada, United Kingdom, Australia, Ireland and Korea and other furniture products domestically in our two direct sale stores under the brand “Morris Zou”.

The following table sets forth our revenue by product type for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016:

Product Type	For the year ended 31 December						For the eight months ended 31 August			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sofas	556,985	56.6	540,258	65.5	666,733	72.0	374,319	66.2	472,515	81.3
Sofa covers	379,327	38.5	253,032	30.7	226,482	24.4	172,151	30.5	104,848	18.0
Others (Note)	47,714	4.9	31,385	3.8	33,256	3.6	18,488	3.3	4,203	0.7
<b>Total</b>	<b>984,026</b>	<b>100.0</b>	<b>824,675</b>	<b>100.0</b>	<b>926,471</b>	<b>100.0</b>	<b>564,958</b>	<b>100.0</b>	<b>581,566</b>	<b>100.0</b>

*Note:* For the year ended 31 December 2013, others primarily included leather products processed by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), which was disposed of by our Group on 12 January 2015. For the years ended 31 December 2014 and 2015, others primarily included (i) leather products and (ii) wood based furniture products. For the eight months ended 31 August 2016, others primarily included leather pieces and wood based furniture products.

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## SUMMARY

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### **PRODUCT DESIGN, RESEARCH AND DEVELOPMENT**

In general, sofa covers manufactured by us are designed by our customers. In contrast, sofas and other furniture products manufactured by us are designed by our Haining Research and Development Centre itself or with the assistance of our U.S. designer.

We believe our strong capability in design, research and development will help strengthen our market position in the PRC sofa export market. As at the Latest Practicable Date, our Haining Research and Development Centre comprised more than 40 staff stationed in Haining, Zhejiang Province, the PRC. These staff have extensive experience in the sofa production industry, of which a number of senior members have had over 10 years of experience in design, research and development of sofas and other furniture products. Our Haining Research and Development Centre is responsible for developing new sofas and other furniture products as well as finding ways to enhance and improve the functionality of our existing products. Since the establishment of the Haining Research and Development Centre in 2003 and through continuous investments in research and development, we have obtained numerous achievements including but not limited to obtaining the recognition of High Technology Enterprise granted by the Science Technology Department of Zhejiang Province (浙江省科學技術廳), the Department of Finance of Zhejiang Province (浙江省財政廳), the State Administration of Taxation of Zhejiang Province (浙江省國家稅務局) and the Local Tax Bureau of Zhejiang Province (浙江省地方稅務局) on 27 October 2014. As at the Latest Practicable Date, we possessed 25 issued patents in sofa manufacturing. From 1 January 2016 and up to the Latest Practicable Date, six of our provincial-level projects were approved by Zhejiang Provincial Economic and Information Technology Commission and 15 were approved by Science Technology Department of Zhejiang Province. Please refer to the subsection headed “Product Design, Research and Development” under the section headed “Business” in this prospectus for further details.

### **OUR PRODUCTION FACILITIES AND PROCESSES**

#### **Production facilities**

Our manufacturing facilities are located in Haining, Zhejiang Province, the PRC, which were leased from Morris PRC. Please refer to the subsection headed “Properties” under the section headed “Business” and the subsection headed “Non-exempt Continuing Connected Transactions – The Lease Agreements” under the section headed “Connected Transactions” in this prospectus for further details. As at the Latest Practicable Date, we operated 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. These production facilities occupy a combined area of approximately 99,529 sq. m. with an annual production capacity of approximately 892,000 pieces of sofas, 1,613,000 pieces of sofa covers and 11,000 pieces of other furniture products as at 31 December 2015.

After taking into consideration of the growth of the U.S. economy and retail upholstered sofa market in the U.S., our plan of further expansion of sales and marketing network, the utilisation rate of our current designed production capacity and the operating costs in Cambodia, we decided to set up a new production facility in Cambodia. Please refer to the

## SUMMARY

subsection headed “Our Production Facilities and Processes – New production facility in Cambodia” under the section headed “Business” in this prospectus for further details. We are currently in the construction stage of the production facility in Cambodia with expected annual production capacity of sofa covers and sofas are approximately 145,000 pieces and 95,000 pieces, respectively.

The following table sets out the designed production capacity, actual production volume and utilisation rate for each of our product types during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August	
	2013	2014	2015	2015	2016
	<i>number of pieces '000</i>	<i>number of pieces '000</i>	<i>number of pieces '000</i>	<i>number of pieces '000</i>	<i>number of pieces '000</i>
	<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>
<b>Sofas</b>					
- Designed production capacity ( <i>Note 1</i> )	806	806	892	595	595
- Actual production volume	603	523	664	418	429
- Utilisation rate ( <i>Note 2</i> )	74.8%	64.9%	74.4%	70.2%	72.0%
<b>Sofa covers</b>					
- Designed production capacity ( <i>Note 1</i> )	2,177	1,712	1,613	1,075	1,075
- Actual production volume	1,805	1,345	1,271	794	644
- Utilisation rate ( <i>Note 2</i> )	82.9%	78.6%	78.8%	73.9%	59.9%
<b>Other furniture products</b>					
- Designed production capacity ( <i>Note 1</i> )	8	11	11	7	7
- Actual production volume	5	8	9	6	6
- Utilisation rate ( <i>Note 2</i> )	66.1%	73.8%	81.1%	79.8%	81.0%

*Notes:*

1. Designed production capacity is calculated by multiplying the designed daily production capacity by planned production days (28 days x number of months in the year/period) for the year/period.
2. Utilisation rate is calculated by dividing the actual production volume for the year/period by the designed production capacity for the year/period.
3. The number of pieces set forth in this table is calculated based on the number of single-seater sofas and sofa covers sold; for example, a set of three-seater sofa is counted as three pieces of sofa.

## OUR CUSTOMERS

Our sofas mainly target overseas consumers who tend to have greater demands regarding the quality and functionality of sofas. Our customers of sofas are mainly some of the largest furniture retail chains and retail warehouse clubs located in the U.S.. We sold our sofa covers to furniture manufacturers and retailers primarily in the U.S.. Sofas and wood based furniture products manufactured by us are sold domestically to consumers in the PRC through our direct sale stores in Haining City and Jiaxing City.

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## SUMMARY

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### MARKETING

We conduct our marketing activities through a variety of channels, including participation in trade exhibitions, media marketing campaigns, and through our sales and marketing staff. In addition, our consultancy firm and agent in the U.S. assist us in brand building, and sales and marketing.

### COMPETITION

The furniture industry is mature and is highly fragmented and competitive. Our competitors are mainly PRC-based sofa manufacturers. According to the Euromonitor Report, the upholstered sofa market in the U.S can be divided into high-end market and mass market and we compete in the mass market based on our pricing and the retailers where our products are sold. During the period from 2011 to 2015, upholstered sofas exported to the U.S. accounted for about 30% of China's total exports of upholstered sofas in terms of export value. We compete with these PRC-based sofa manufacturers principally on product quality, reputation, know-how, product research, development and design skills, price, product range, delivery and customer service. Our Directors believe that our competitive strengths distinguish us from our competitors.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have been the key factors for our success and will enable us to maintain our market position and capture the anticipated future growth in our target markets.

- Market leadership in the PRC-based sofa export industry
- Integrated business model consolidating the functions of design, research and development, manufacturing and sales and marketing functions
- Strong and innovative design, research and development team
- Large-scale and cost effective production operations
- Highly experienced professional management team

### OUR BUSINESS STRATEGIES

We intend to maintain and further strengthen our position in the upholstered sofa export industry and to expand our business by implementing the following business strategies:

- Further expand our sales and marketing network
- Expand our manufacturing capabilities in Cambodia and reduce production cost

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## SUMMARY

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- Continue to enhance our brand recognition in the furniture market

### SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The below summary of consolidated financial information for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016 should be read together with the consolidated financial information in the Accountants' Report as set out in Appendix I to this prospectus, together with the accompanying notes, which have been prepared in accordance with HKFRSs.

#### Consolidated statements of profit or loss

	Year ended 31 December			For the eight months ended 31 August	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	984,026	824,675	926,471	564,958	581,566
Cost of sales	<u>(787,450)</u>	<u>(652,051)</u>	<u>(706,557)</u>	<u>(425,644)</u>	<u>(413,633)</u>
Gross profit	196,576	172,624	219,914	139,314	167,933
Other income and gains	19,350	9,857	34,968	19,669	5,491
Selling and distribution expenses	(75,642)	(68,057)	(79,873)	(52,948)	(48,298)
Administrative expenses	(57,579)	(47,558)	(51,102)	(30,727)	(51,719)
Other expenses and losses	(3,709)	(741)	(2,300)	(1,402)	(475)
Finance costs	<u>(34,922)</u>	<u>(28,321)</u>	<u>(18,441)</u>	<u>(10,501)</u>	<u>(8,516)</u>
Profit before tax	44,074	37,804	103,166	63,405	64,416
Income tax expense	<u>(10,531)</u>	<u>(13,440)</u>	<u>(20,098)</u>	<u>(13,223)</u>	<u>(24,282)</u>
Profit for the year/period (Note)	<u>33,543</u>	<u>24,364</u>	<u>83,068</u>	<u>50,182</u>	<u>40,134</u>

*Note:* Our income tax expenses included tax credit from utilisation of previous years' tax losses of approximately RMB5.4 million, nil, RMB10.3 million and nil for the years ended 31 December 2013, 2014 and 2015 and for the eight months 31 August 2016. If the impact of tax credit arising from the utilisation of previous years' tax losses were excluded during the Track Record Period, our profit for the year would have decreased to RMB28.2 million and RMB72.7 million for the years ended 31 December 2013 and 31 December 2015, respectively. As at 31 August 2016, we had tax losses carried forward of approximately RMB5.2 million. Deferred tax assets have not been recognised in respect of the tax losses carried forward as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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## SUMMARY

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The following table below sets forth our revenue by business model for the periods indicated:

Business model	For the year ended 31 December			For the eight months ended 31 August	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OEM	379,327	253,032	226,482	172,151	104,848
ODM	113,205	88,575	99,128	73,175	118,451
OBM	491,494	483,068	600,861	319,632	358,267
<b>Total</b>	<u>984,026</u>	<u>824,675</u>	<u>926,471</u>	<u>564,958</u>	<u>581,566</u>

Please refer to the subsection headed “Principal Statement of Profit or Loss Components” under the section headed “Financial Information” in this prospectus for detailed analysis of fluctuations of our revenue by business model during the Track Record Period.

The following table sets forth the gross profit and gross profit margin of our products and the percentage of our total gross profit for the periods indicated:

Products	Year ended 31 December						For the eight months ended 31 August			
	2013		2014		2015		2015		2016	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sofas	80,236	14.4	89,733	16.6	132,583	19.9	80,329	21.5	133,369	28.2
Sofa covers	106,056	28.0	75,364	29.8	74,244	32.8	50,615	29.4	32,865	31.3
Others	10,284	21.6	7,527	24.0	13,087	39.4	8,370	45.3	1,699	40.4
<b>Total</b>	<u>196,576</u>	<u>20.0</u>	<u>172,624</u>	<u>20.9</u>	<u>219,914</u>	<u>23.7</u>	<u>139,314</u>	<u>24.7</u>	<u>167,933</u>	<u>28.9</u>

Please refer to the subsection headed “Principal Statement of Profit or Loss Components” under the section headed “Financial Information” in this prospectus for detailed analysis of fluctuations of our gross profit and gross profit margin of our products and the percentage of our total gross profit during the Track Record Period.

## SUMMARY

The following table below sets forth the gross profit and gross profit margin by business model for the periods indicated:

Business model	Year ended 31 December						For the eight months ended 31 August			
	2013		2014		2015		2015		2016	
	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>	<i>Gross Profit</i>	<i>Margin</i>
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
OEM	106,056	28.0	75,364	29.8	74,244	32.8	50,615	29.4	32,865	31.3
ODM	23,176	20.5	20,524	23.2	27,151	27.4	18,861	25.8	25,081	21.2
OBM	67,344	13.7	76,736	15.9	118,519	19.7	69,838	21.8	109,987	30.7
<b>Total</b>	<u>196,576</u>	20.0	<u>172,624</u>	20.9	<u>219,914</u>	23.7	<u>139,314</u>	24.7	<u>167,933</u>	28.9

Please refer to the subsection headed “Principal Statement of Profit or Loss Components” under the section headed “Financial Information” in this prospectus for the detailed analysis of fluctuations of our gross profit and gross profit margin by business model during the Track Record Period.

The following table sets forth the number of pieces sold and the average selling price (“ASP”) of our sofas and sofa covers during the Track Record Period:

Unit and Price (Notes 1 and 2)	2013		2014		2015		For the eight months ended 31 August			
	2013		2014		2015		2015		2016	
	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB
<b>Product type</b>										
Sofas	537,901	1,035	450,339	1,200	530,863	1,256	358,965	1,043	392,724	1,203
Sofa covers	1,166,480	325	764,838	331	363,031	624	288,435	597	167,306	627

*Notes:*

- The number of sofas and sofa covers sold as set forth in this table is calculated based on the number of single-seater sofas and sofa covers sold; for example, a set of three-seater sofa is counted as three pieces of sofa. Our products comprise sofas and sofa covers with different sizes and features.
- The selling price of other furniture products generally has a wide range due to diversified product types. As such, ASP of other furniture products does not have any indicative meaning.

Please refer to the subsection headed “Principal Statement of Profit or Loss Components” under the section headed “Financial Information” in this prospectus for detailed analysis of fluctuations of the number of pieces sold and the ASP of our sofas and sofa covers during the Track Record Period.

## SUMMARY

### Other income and gains

Our other income and gains primarily consists of interest income, net exchange gains, government subsidies and gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司). The table below sets forth a breakdown of our other income and gains for the period indicated.

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
<b>Other income and gains</b>					
Interest income	7,097	5,767	2,008	1,125	1,328
Exchange gains, net	–	–	18,681	6,810	4,100
Government subsidies <sup>(Note)</sup>	9,961	3,352	2,714	263	25
Sales of scrap materials	1,909	34	148	129	–
Product development income	–	611	–	–	–
Gain on disposal of a subsidiary	–	–	11,336	11,336	–
Gain on disposal of items of property, plant and equipment, net	56	–	–	–	–
Gain on disposal of an available-for-sale investment	–	–	–	–	9
Others	327	93	81	6	29
	<u>19,350</u>	<u>9,857</u>	<u>34,968</u>	<u>19,669</u>	<u>5,491</u>

*Note:* Subsidies have been received from the local governments in Zhejiang Province in respect of the Group's significant tax contribution and significant contribution to sofa export. There were no unfulfilled conditions or contingencies relating to these subsidies as at 31 December 2013, 2014 and 2015 and 31 August 2016.

Our other income and gains increased by approximately 254.8% from approximately RMB9.9 million for the year ended 31 December 2014 to approximately RMB35.0 million for the year ended 31 December 2015. Such increase was primarily due to (i) an exchange gain of approximately RMB18.7 million in the year ended 31 December 2015 resulting from appreciation of the U.S. dollar against Renminbi, which is the functional currency of our major operating subsidiaries; and (ii) a gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) in 2015.



## SUMMARY

Our other income and gains decreased by approximately 49.1% from approximately RMB19.4 million for the year ended 31 December 2013 to approximately RMB9.9 million for the year ended 31 December 2014. Such change was primarily the result of (i) the reduction in government subsidies for the year ended 31 December 2014; and (ii) the decrease in the sales of scrap materials of approximately RMB1.9 million.

Our other income and gains decreased by approximately 72.1% from approximately RMB19.7 million for the eight months ended 31 August 2015 to approximately RMB5.5 million for the eight months ended 31 August 2016, which was primarily due to the gain of approximately RMB11.3 million on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) recorded in the eight months ended 31 August 2015.

### Summary of consolidated statements of financial position

	As at 31 December			Immediately prior to the deemed distribution 2015 <i>RMB'000</i> (Unaudited)	As at 31 August 2016 <i>RMB'000</i>
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>		
Non-current assets	132,490	142,570	51,554	95,016	52,518
Current assets	1,891,375	1,586,052	885,805	1,628,179	935,366
Current liabilities	1,742,289	1,423,246	862,195	1,333,943	868,753
Net current assets					
<i>(Note 1)</i>	149,086	162,806	23,610	294,236	66,613
Total assets less					
current liabilities	281,576	305,376	75,164	389,252	119,131
Non-current					
liabilities	691	–	107	107	3,667
Net assets <i>(Note 2)</i>	280,885	305,376	75,057	389,145	115,464

*Notes:*

- Our net current assets increased from approximately RMB23.6 million as at 31 December 2015 to approximately RMB66.6 million as at 31 August 2016, which was primarily due to the combined effect of (i) an increase in inventories of approximately RMB101.1 million primarily due to expected production needs for our peak season, which usually occurs in every October to January; (ii) a decrease in trade and bills receivables of approximately RMB118.5 million primarily due to that June to August of each year is normally not our peak season of sales; (iii) a decrease in due to related parties of approximately RMB88.2 million; and (iv) an increase in interest-bearing bank borrowings of approximately RMB53.5 million due to increased working capital needs as a result of an increase in sales for the eight months ended 31 August 2016. As at 31 December 2015, we had net current assets of approximately RMB23.6 million as compared to net current assets of approximately RMB162.8 million as at 31 December 2014. Such change was primarily due to the deemed distribution to Mr. Zou and Ms. Wu, which resulted in a substantial decrease in net current assets by RMB270.6 million, partly offset by increase in (i) pledged deposits of RMB21.4 million; (ii) cash and cash equivalents of RMB22.5 million; and (iii) available-for-sale investment of RMB26.0 million. For details of the deemed distribution to Mr. Zou and Ms. Wu, please see the subsection headed “Deemed Distribution to Mr. Zou and

## SUMMARY

Ms. Wu” under the section headed “Financial Information” in this prospectus. As at 31 December 2014, we had net current assets of approximately RMB162.8 million as compared to net current assets of RMB149.1 million as at 31 December 2013, which was primarily due to the combined effect of (i) an increase in inventories of RMB42.2 million primarily due to slow down in the sales of our products in the year ended 31 December 2014; (ii) a decrease in due from related parties of RMB203.3 million; (iii) a decrease in pledged deposits of RMB150.4 million as a result of a reduction of discounted bills loans due to reduced sale volume; (iv) a decrease in trade and bills payables of RMB277.1 million; and (v) a decrease in interest-bearing bank borrowings of RMB82.8 million as a result of reduced sale volume.

2. Our net assets increased from approximately RMB75.1 million as at 31 December 2015 to approximately RMB115.5 million as at 31 August 2016, which was primarily resulted from the net profit of approximately RMB40.1 million recorded for the eight months ended 31 August 2016. Our net assets increased from approximately RMB305.4 million as at 31 December 2014 to approximately RMB389.1 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily resulted from the net profit of approximately RMB83.1 million recorded for the year ended 31 December 2015. Our net assets decreased from approximately RMB389.1 million immediately prior to the deemed distribution as at 31 December 2015 to approximately RMB75.1 million as at 31 December 2015, mainly as a result of the deemed distribution to Mr. Zou and Ms. Wu, please see the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under the section headed “Financial Information” in this prospectus. Our net assets increased from RMB280.9 million as at 31 December 2013 to RMB305.4 million as at 31 December 2014 mainly as a result of the profit of RMB24.4 million recorded for the year ended 31 December 2014.

### Summary of consolidated statements of cash flows

	<b>Year ended 31 December</b>			<b>For the eight months ended 31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities <i>(Note)</i>	57,442	34,204	110,636	38,518	92,524
Net cash flows from/(used in) investing activities	(56,904)	186,231	(18,628)	7,508	(114,715)
Net cash flows from/(used in) financing activities	(87,417)	(241,278)	(70,073)	5,130	47,057
Net increase/(decrease) in cash and cash equivalents	(86,879)	(20,843)	21,935	51,156	24,866
Cash and cash equivalents at beginning of year/period	118,187	31,297	10,640	10,640	33,131
Effect of foreign exchange rate changes, net	(11)	186	556	336	2,260
Cash and cash equivalents at end of year/period	31,297	10,640	33,131	62,132	60,257

*Note:* Net cash flows from operating activities increased from approximately RMB34.2 million for the year ended 31 December 2014 to approximately RMB110.6 million for the year ended 31 December 2015, which was primarily due to (i) increase in profit before tax as a result of an increase in average selling prices and sales volume of our sofas; and (ii) increase in trade payables as a result of an increase in purchase of raw materials. Net cash flows from operating activities decreased from approximately RMB57.4 million for the year ended 31 December 2013 to approximately RMB34.2 million for the year ended 31 December 2014, which was primarily due to a decrease in profit before tax as we were in the transitional period of business strategies. We had net cash flows from operating activities of approximately RMB92.5 million for the eight months ended 31 August 2016 as compared to net cash flows from operating activities of approximately RMB38.5 million for the eight months ended 31 August 2015, which was primarily due to (i) slight increase in profit before tax as a result of an increase in average selling prices and sales volume of our sofas; and (ii) decrease in trade and bills receivables.

## SUMMARY

### KEY FINANCIAL RATIOS

	As at/for the year ended 31 December			Immediately prior to the deemed distribution 2015	As at/for the eight months ended 31 August 2016
	2013	2014	2015		
Net profit margin	3.4%	3.0%	9.0%	9.0%	6.9%
Return on assets	1.7%	1.4%	8.9%	4.8%	N/A <sup>(Note 2)</sup>
Return on equity	11.9%	8.0%	110.7%	21.3%	N/A <sup>(Note 2)</sup>
Current ratio	108.6%	111.4%	102.7%	122.1%	107.7%
Quick ratio	96.1%	93.3%	79.4%	98.8%	72.9%
Gearing ratio <sup>(Note 1)</sup>	78.5%	45.1%	264.0%	50.9%	217.9%
Debt to equity ratio	67.3%	41.6%	219.8%	42.4%	165.7%
Interest coverage ratio	2.3	2.3	6.6	6.6	8.6

*Notes:*

- Our gearing ratio increased from approximately 45.1% as at 31 December 2014 to approximately 50.9% immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to an increase in the interest-bearing borrowings as a result of increased working capital needs from increased business volume in the year ended 31 December 2015. Our gearing ratio decreased from approximately 78.5% as at 31 December 2013 to approximately 45.1% as at 31 December 2014, which was primarily due to decrease in interest-bearing bank borrowings and increase in total equity, as at 31 December 2014. Our gearing ratio decreased from approximately 264.0% as at 31 December 2015 to approximately 217.9% as at 31 August 2016, which was primarily due to a greater proportional increase in our total equity than in interest-bearing bank borrowings as at 31 August 2016.
- Such ratio is not applicable as it is not comparable to annual numbers.

For details on the formula and explanation of fluctuation of the financial ratios, please see the subsection headed “Key Financial Ratios” under the section headed “Financial Information” in this prospectus.

### BUSINESS TRANSFER

The furniture division of Morris PRC historically acted as the import and export vehicle of our Group’s business since the export business has been set up and customers’ and suppliers’ relationships has been established by the furniture division of Morris PRC. The furniture division of Morris PRC was strategically complementary to our Group as the business activities conducted by the furniture division of Morris PRC were essential to the operation of our Group prior to the completion of the Business Transfer. In that regard, the financial results of the subsidiaries now comprising our Group and the financial results of the furniture division of Morris PRC for the three years ended 31 December 2015 have been consolidated in accordance with HKFRSs to reflect the financial results of our business for the three years ended 31 December 2015.

The Business Transfer was undertaken gradually throughout the three years ended 31 December 2015 to legally transfer the furniture business functions formerly operated by Morris PRC, including customers’ and suppliers’ business relationships, import and export businesses, related personnel and related intellectual property rights, to our Group. The completion of the Business Transfer took place on 31 December 2015. Please refer to the subsection headed “Transfer of Functions and Certain Assets of the Furniture Division in Morris PRC to our Group” under the section headed “History, Reorganisation and Corporate Structure” in this prospectus for further details of the Business Transfer.

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## SUMMARY

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### DEEMED DISTRIBUTION TO MR. ZOU AND MS. WU

On 31 December 2015, as part of the Reorganisation, the Business Transfer was completed, in which the assets and liabilities of the furniture division of Morris PRC that were necessary for the operation of the Group's business and that could be transferred without any consent or approval from third parties had been legally transferred to our Group. However, since the financial results of our Group for the three years ended 31 December 2015 were comprised of those of our subsidiaries and the furniture division of Morris PRC, upon completion of the Business Transfer, the remaining assets and liabilities of the furniture division of Morris PRC that were not legally transferred to our Group pursuant to the Business Transfer but have been reflected on the financial statements of our Group for the three years ended 31 December 2015 were deemed distributed in form of dividend distribution in specie to Mr. Zou and Ms. Wu. Please refer to the subsection headed "Deemed Distribution to Mr. Zou and Ms. Wu" under the section headed "Financial Information" in this prospectus for further details of the assets and liabilities that were deemed distributed and the financial position of our Group immediately prior to and after the deemed distribution. Such assets includes inventories realised by the sale of processed leather and sofas in-transit to our Group, details of which were disclosed in the section headed "Business" in this prospectus, with sales amount of approximately RMB55.4 million and Morris PRC recorded a gross profit of approximately RMB5.4 million. The assets and liabilities that were deemed distributed and did not pass from Morris PRC to our Group primarily due to that: (i) our Directors consider that the ownership of the premises that houses our Group's production lines is not crucial to the operation of our business and it would not be commercially viable for our Group to acquire these premises from Morris PRC as the substantial capital expenditure required would have an adverse impact on our Group's cash flow and return on equity, which would not be in the best interests of maximising Shareholders' value. Besides, on 1 January 2016, certain subsidiaries of our Group entered into the Lease Agreements with Morris PRC for the lease of our production premises on a long term basis of 10 years with lease term till 1 January 2026. As such, the deemed distribution of such premises would not have any impact on our business operation; (ii) the assignment of rights to collect the receivables, and the obligation to settle payables which were deemed distributed requires the consents and approval of third parties including customers, suppliers, banks, and/or regulatory bodies. As those orders which had given rise to such trade receivables have already been completed and related products have already been delivered to the customers, the particulars of the orders, including supplier's information, lead time for delivery and credit period, have been recorded in the sales and accounting systems of such customers. Despite our repeated requests and demands, we have still not obtained consents from related customers to the transfer of the trade receivables from Morris PRC to our Company. In addition, those orders which had given rise to such trade payables have already been completed by related suppliers and their related materials procured by us have already been delivered to the furniture division of Morris PRC, the particulars of the orders, including customer's information, lead time for delivery and credit period, have already been recorded in the sales and accounting systems of such suppliers. Despite our repeated requests and demands, we have still not obtained consents from related suppliers to the transfer of the trade payables from Morris PRC to our Company. Those bills receivables/payables were issued by third party banks and cannot be altered or cancelled once issued; (iii) prepayments, deposits

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## SUMMARY

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and other receivables mainly consists of VAT refund arisen from exports of furniture products before Business Transfer which was only collectible by Morris PRC and therefore it was necessary to deem distribute such amount as at 31 December 2015; (iv) inventories that were deemed distributed were imported or processed from materials imported by Morris PRC as importer registered under the PRC Customs through its import and export customs declaration certificate. Pursuant to the relevant laws and regulations in the PRC, importer must strictly control and monitor the imported materials for processing and circulation, sell or export the same via the importer's custom practical manual after processing and write off the same via the relevant custom practical manual after processing. To comply with the relevant customs policies, these inventories that had been imported by Morris PRC were retained in Morris PRC and it was necessary to deem distribute them as at 31 December 2015; and (v) our Directors believe that there was no difference to our Group whether to assign the current account balances of the furniture division of Morris PRC to companies now comprising the Group or directly distribute to Mr. Zou and Ms. Wu using dividend distribution in specie because these amounts due from/to related parties mainly represented amounts due from the non-furniture division of Morris PRC to our Group.

### RECENT DEVELOPMENTS

From 1 September 2016 and up to the Latest Practicable Date, our production capacity generally remained at a similar level as that of the year ended 31 December 2015. As at the Latest Practicable Date, we were still in the preparation stage of setting up our production facility in Cambodia. Please refer to the subsection headed "Our Production Facilities and Processes – New production facility in Cambodia" under the section headed "Business" in this prospectus for the reasons our Group is expanding its production facility in Cambodia.

Our Directors consider that the effect of the recent slowdown in global economy on our Group's financial position is minimal, given that the economy of the U.S. has maintained relatively stable with its gross domestic product increased by 1.8% in the third quarter of 2016 compared to the second quarter of 2016, and its disposable personal income increased by 0.2% in October 2016 compared to September 2016, according to the Bureau of Economic Analysis of the U.S. Department of Commerce. For the eleven months ended 30 November 2016, the total export value of our sofas and sofa covers decreased slightly by approximately 3.7% as compared to the same period last year. U.S. dollar continued to appreciate against Renminbi in the period from September to November of 2016 with the daily mid-point ranged from a low of US\$1.00 to RMB6.6513 on 22 September 2016 to a high of US\$1.00 to RMB6.9168 on 25 November 2016 as compared to a low of US\$1.00 to RMB6.4565 on 3 May 2016 to a high of US\$1.00 to RMB6.6971 on 19 July 2016 for the eight months ended 31 August 2016 as announced by the PBOC. U.S. dollar further appreciated against Renminbi in December 2016, with the daily mid-point price ranged from a low of US\$1.00 to RMB6.8575 on 6 December 2016 to a high of US\$1.00 to RMB6.9508 on 16 December 2016. We consider that the appreciation of the U.S. dollar against Renminbi would have a positive effect on our business, operations and financial results as (i) over 90% of our sales are made to the U.S. market and settled in U.S. dollars; (ii) most of our raw materials are procured within the PRC and settled in Renminbi; and (iii) majority of our expenses for our operations such as selling and administrative expenses are incurred in the PRC and settled in Renminbi.

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## SUMMARY

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In order to fulfill the remaining purchase orders placed by our customers to Morris PRC that were unable to be assigned to our Group upon completion of the Business Transfer on 31 December 2015, in particular, orders placed by Customer C from April to November 2015, Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery had appointed Morris PRC as an agent in providing export businesses on behalf of them from 31 December 2015 to 30 June 2016. Up to mid June 2016, all such orders from Customer C were completed and delivered. Morris PRC ceased to make any receipts and payments on behalf of our Group after collection of related sales receipts from Customer C.

From 1 January 2016 and up to the Latest Practicable Date, six of our research and development projects were approved by Zhejiang Provincial Economic and Information Technology Commission and 15 were approved by Science Technology Department of Zhejiang Province as provincial-level research and development projects.

We currently expect that our net profit for the year ending 31 December 2016 will decrease as compared to that for the year ended 31 December 2015, which was primarily due to (i) the non-recurring Listing expenses of approximately HK\$18.5 million recorded for the eight months ended 31 August 2016 and approximately RMB4.2 million expected to be charged from 1 September 2016 to 31 December 2016 (assuming an Offer Price of HK\$1.18 per Share, being the mid-point of the indicated Offer Price range between HK\$1.05 and HK\$1.31, and assuming that the Over-allotment Option is not exercised), all of which will be Listing expenses to be recognised as administrative expenses in our consolidated statement of profit or loss and comprehensive income in 2016; and (ii) a gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) of approximately RMB11.3 million in 2015 whereas no such gain will be recorded in 2016.

### **DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, save for the impact brought by the Listing expenses on our net profit for the year ending 31 December 2016, there had been no material adverse change in our financial position or prospects since 31 August 2016 (being the date up to which our Company's latest consolidated audited financial results were prepared) and there has been no event since 31 August 2016, which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

### **LISTING EXPENSES**

We expect to incur a total of approximately RMB39.9 million (which is equivalent to approximately HK\$44.7 million) of Listing expenses (assuming an Offer Price of HK\$1.18, being the mid-point of the indicative Offer Price range between HK\$1.05 and HK\$1.31, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which approximately RMB3.1 million and RMB18.5 million of the Listing expenses were charged as administrative expense on our consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2015 and for eight months

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## SUMMARY

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ended 31 August 2016, respectively. Approximately RMB4.2 million is expected to be charged to our consolidated statement of comprehensive income for the period beginning 1 September 2016 and ending 31 December 2016, and approximately RMB14.1 million is directly attributable to the issue of Shares to the public and to be capitalised. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions but excluding discretionary bonus. The Listing expenses above are the best estimate as at the Latest Practicable Date and for reference only and the actual amount may differ from this estimate.

### USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$1.18 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus, and assuming that the Over-allotment Option is not exercised), will be approximately HK\$250.3 million, after deduction of underwriting fees and commissions (taking into no account of any discretionary fee) and estimated expenses incurred by us in connection with the Global Offering, which is approximately HK\$44.7 million.

We intend to use the net proceeds of the Global Offering for the following purposes:

- Approximately 31.3%, or HK\$78.4 million will be used for the further expansion of our sales and marketing network in both overseas markets and the PRC.
- Approximately 26.4%, or HK\$66.1 million will be used to repay part of our outstanding bank borrowings.
- Approximately 26.0%, or HK\$65.0 million will be used for the enhancement of our brand recognition in the furniture market, to intensify our marketing efforts through marketing and promotion of our existing self-branded furniture, and to develop our design capabilities.
- Approximately 9.8%, or HK\$24.5 million will be used for general working capital and other general corporate purposes.
- Approximately 6.5%, or HK\$16.3 million will be used for the expansion of our manufacturing capabilities in Cambodia. For details, please refer to the subsection headed “Our Business Strategies – Expand our manufacturing capabilities in Cambodia and reduce production cost” under the section headed “Business” and the subsection headed “Risks Relating to Doing Business in Cambodia” under the section headed “Risk Factors” in this prospectus.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

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## SUMMARY

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### DIVIDENDS POLICY

Our Company had not declared any dividends for the years ended 31 December 2013, 2014 and 2015, respectively. Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by our Company upon Listing.

Our Company currently intends to pay out an annual dividend payment at a payout ratio of not less than 20%. The declaration of future dividends will be subject to the decision by our Board and will depend on, among other things, the earnings, financial condition, cash requirements and availability, the availability of funds to meet the financial covenants of our Group's bank loans, if any and any other factors that our Directors may consider relevant.

### GLOBAL OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

	<b>Based on an Offer Price of HK\$1.05 per Share</b>	<b>Based on an Offer Price of HK\$1.31 per Share</b>
Number of Offer Shares	250,000,000	250,000,000
Market capitalisation <sup>(1)</sup>	HK\$1,050 million	HK\$1,310 million
Unaudited pro forma adjusted consolidated net tangible assets of our Group <sup>(2)</sup>	RMB332.3 million	RMB388.9 million
Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share <sup>(2)</sup>	HK\$0.371	HK\$0.435

*Notes:*

- 1 The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be issued and outstanding following completion of the Global Offering.
- 2 The unaudited pro forma adjusted consolidated net tangible assets and the unaudited pro forma adjusted consolidated net tangible assets per Share are arrived on the basis of 1,000,000,000 Shares in issue following completion of the Global Offering at the respective Offer Prices of HK\$1.05 per Share and HK\$1.31 per Share.

### RELATIONSHIP WITH JENNIFER CONVERTIBLES

After Reorganisation and completion of the Business Transfer, the business of operating domestic furniture retail chains in the eastern part of the U.S. is conducted by Jennifer Convertibles, a subsidiary of Morris PRC. Jennifer Convertibles is a retail store in the U.S. and was a customer of Morris PRC before it became a subsidiary of Morris PRC. In 2010, Jennifer Convertibles experienced serious financial difficulties and filed a joint plan of reorganisation. As part of such reorganisation, Morris PRC agreed to convert most of its unsecured debt into



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## SUMMARY

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equity and became a shareholder of Jennifer Convertibles, since Mr. Zou, the shareholder of Morris PRC, considered that (i) it was possibly once-in-a-lifetime opportunity for Mr. Zou to gain control of a long-established U.S. furniture retail chain; and (ii) he is confident that the U.S. furniture retail market will recover from the economic downturn that followed the global financial crisis of 2008 to 2009 and the financial performance of Jennifer Convertibles could turn around through long-term dedication and effort by the management of Jennifer Convertibles through business reorganisation, restructuring and business strategy rebuilding. For details, please refer to the subsection headed “Delineation of Business” under the section headed “Relationship with Controlling Shareholders” in this prospectus.

### **OUR CONTROLLING SHAREHOLDERS**

Immediately upon completion of the Global Offering (without taking into account of any allotment and issue of Shares pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by Morris Capital, which is in turn owned as to 85% by Mr. Zou. Accordingly, Mr. Zou and Morris Capital are our Controlling Shareholders within the meaning of the Listing Rules. Furthermore, Ms. Wu is the spouse of Mr. Zou, and they would through discussion reach consensus among themselves before making any major decision in respect of our Group to vote in shareholders meetings on an unanimous basis. Our Controlling Shareholders have executed a confirmation, whereby they confirmed the existence of such acting-in-concert arrangement so far as the voting rights of our Company are concerned, and such arrangements will continue to have effect until one year after the Listing. In view of the above, Mr. Zou, Ms. Wu and Morris Capital are considered to be parties acting in concert regarding the control of our Company under the meaning of the Takeovers Code and therefore Ms. Wu is considered to also be one of our Controlling Shareholders within the meaning of the Listing Rules.

Mr. Zou and his associates have entered into certain transactions with members of our Group and these transactions are expected to continue on a continuing or recurring basis after Listing, thereby constituting continuing connected transactions for our Group under the Listing Rules. For details, please see the section headed “Connected Transactions” in this prospectus.

### **RISK FACTORS**

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorised into (i) risks relating to our industry and our business, (ii) risks relating to doing business in the PRC, (iii) risks relating to doing business in the Cambodia, and (iv) risks relating to our Shares. A detailed discussion of all the risk factors involved are set forth in “Risk Factors” and you should read the whole section carefully before you decide to invest in the Offer Shares.

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## SUMMARY

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Some of the major risks relating to the business of our Group include but not limited to the following:

- We rely significantly on the U.S. market and (i) any changes in the economic and regulatory conditions and global trade policy of the U.S.; or (ii) changes in the business strategy of our U.S. customers, may have an adverse effect on our business.
- We are vulnerable to future exchange rate fluctuations between the U.S. dollar and certain other currencies.
- Our current levels of indebtedness and additional indebtedness that may be incurred in the future may materially and adversely affect our financial condition and results of operations.
- An increase in raw materials costs or our inability to procure raw materials at satisfactory prices or unable to pass increased costs on to our customers may adversely affect our profitability.

### NON-COMPLIANCE

There were instances where our Group had failed to be in material compliance with certain applicable laws and regulations in Cambodia during the Track Record Period, including, among others, non-compliance with Cambodia law in respect of late payment of share capital. For details of such non-compliance incidents and the respective remedial actions taken, please refer to the subsection headed “Legal Compliance” under the section headed “Business” in this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	articles of association of our Company conditionally adopted on 10 December 2016 which will become effective on the Listing Date, and as amended, supplemented and otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “our Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are open generally for normal banking business to the public
“Business Transfer”	the transfer of the furniture division of Morris PRC to our Group pursuant to the Business Transfer Agreement
“Business Transfer Agreement”	the business transfer agreement dated 31 December 2015 entered into among Morris PRC, our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Mstar International Trading (HK), Haining Morris Home Gallery and Mozo Investments, pursuant to which Morris PRC transferred its furniture division to the abovementioned subsidiaries of our Company
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Cambodia”	the Kingdom of Cambodia
“Cambodian Government”	the Royal Government of Cambodia
“Cambodian Legal Advisers”	Mekong Law Group, the legal advisers to our Company as to Cambodian law

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## DEFINITIONS

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“Cambodian Parliament”	the National Assembly and the Senate of the Kingdom of Cambodia
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company referred to under the subsection headed “1. Further Information about Our Company – C. Written resolutions of our Shareholder passed on 10 December 2016” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CEO”	chief executive officer of our Group
“Chairman” or “our Chairman”	the chairman of our Board
“China” or “PRC”	People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Morris Holdings Limited (慕容控股有限公司) (formerly known as Teagle Holdings Limited (天鷹控股有限公司)), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 18 December 2013 and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 March 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules, and in the content of this prospectus unless otherwise required, refers to Mr. Zou, Ms. Wu and Morris Capital
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 10 December 2016 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries) with particulars set forth in the subsection headed “8. Other Information – A. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 10 December 2016 entered into by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for our subsidiaries), as described more particularly in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)” or “our Director(s)”	the director(s) of our Company

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## DEFINITIONS

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“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), as enacted by the NPC on 16 March 2007 and effective on 1 January 2008, as amended, supplemented or otherwise modified from time to time
“Euromonitor”	Euromonitor International Limited, a global research organisation established in 1972 that provides strategic market research
“Euromonitor Report”	an independent research report commissioned by our Company and prepared by our industry consultant, Euromonitor
“Excluded Businesses”	business owned by Mr. Zou and Ms. Wu or their respective close associates apart from our Group’s business and the details are set out in the subsection headed “Delineation of Business” under the section headed “Relationship with Controlling Shareholders” in this prospectus
“Excluded Group”	companies conducting the Excluded Businesses after the Reorganisation being Morris PRC and its subsidiaries, namely Jennifer Convertibles, Inc., Haining Mengnu Leather Co., Ltd. (海寧蒙努皮業有限公司), Haining Morris International Fur Products Co., Ltd. (海寧慕容國際皮草有限公司), Haining Morris Leather Co., Ltd. (海寧慕容皮業有限公司), Zhejiang Morris Property Co., Ltd. (浙江慕容世家地產有限公司), Haining Morris Trading Co., Ltd. (海寧慕容貿易有限公司), Haining Meizheng Advertisement Co., Ltd. (海寧美正廣告有限公司) and the details are set out in the subsection headed “Delineation of Business” under the section headed “Relationship with Controlling Shareholders” in this prospectus
“Formal Notice”	means the formal notice to be published in connection with the Hong Kong Public Offering on or around 30 December 2016, in substantially agreed form and in accordance with the requirements under Rule 12.02 of the Listing Rules (as amended or supplemented)
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO WHITE Form</b> Service Provider

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## DEFINITIONS

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“Group”, “our Group”, “our”, “us” or “we”	our Company and all of its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“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 on 4 November 2004, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Haining Morris Home Gallery”	海寧慕容世家家居有限公司 (Haining Morris Home Gallery Co., Ltd.) (formerly known as 海寧蒙迪亞家私有限公司 (Haining Mengdiya Furnitures Co., Ltd.)), a company established in the PRC with limited liability on 23 December 2005, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“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 on 25 September 2014, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“ <b>HK eIPO White Form</b> ”	the application of Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“ <b>HK eIPO White Form Service Provider</b> ”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

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## DEFINITIONS

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“Hong Kong Offer Shares”	the 25,000,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offering for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the subsection headed “Underwriters” under the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 29 December 2016 relating to the Hong Kong Public Offering entered into by, among other parties, our Company, the Sole Global Coordinator and the Hong Kong Underwriters
“Independent Third Party(ies)”	person(s) or entity(ies) that is or are not connected person(s) (within the meaning of the Listing Rules)
“Independent Valuer”	Haining Zhengming Asset Appraisal Firm (海寧正明資產評估事務所), an independent and qualified valuer in the PRC
“International Offer Shares”	the 225,000,000 Shares being offered by our Company for subscription under the International Offering, together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as described under the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional offering of the International Offer Shares at the Offer Price to selected professional, institutional and other investors outside the United States in offshore transactions in accordance with Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus



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## DEFINITIONS

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“International Underwriters”	the underwriters of the International Offering whose names are set out in the subsection headed “Underwriters” under the section headed “Underwriting” in this prospectus
“International Underwriting Agreement”	the conditional international underwriting agreement relating to the International Offering to be entered into by, among other parties, our Company, the Sole Global Coordinator and the International Underwriters on or about the Price Determination Date
“Joint Lead Managers”	Sinolink Securities (Hong Kong) Company Limited and China Galaxy International Securities (Hong Kong) Co., Limited
“KHR”	Cambodian Riel, the lawful currency of Cambodia
“Latest Practicable Date”	20 December 2016, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“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, details of which are set out in the subsection headed “Non-exempt Continuing Connected Transactions – The Lease Agreements” under the section headed “Connected Transactions” in this prospectus
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Thursday, 12 January 2017, on which dealings in our Shares first commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

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“M&A Rules”	Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), which were jointly promulgated by MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the SAFE on 8 August 2006, and came into effect on 8 September 2006 and subsequently amended on 22 June 2009, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Masia Industries”	Masia Industries Co., Ltd. (formerly known as Morris Zou (Cambodia) Co., Ltd.), a company incorporated in Cambodia with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company
“Masia Investments”	Masia Investments Limited (美亞投資有限公司), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company
“Memorandum of Association” or “Memorandum”	memorandum of association of our Company, adopted on 10 December 2016 and as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix III to this prospectus
“MOFCOM” or “Ministry of Commerce”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Morris Capital”	Morris Capital Limited (慕容資本有限公司), a company incorporated in the BVI 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 International”	Morris International Group Limited (慕容國際集團有限公司) (formerly known as Teagle International Group Limited (天鷹國際集團有限公司)), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company

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“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
“Mozo Investments”	Mozo Investments Limited (美正投資有限公司) (formerly known as Hongkong Xiangzhi Investments Limited (香港相志投資有限公司)), a company incorporated in Hong Kong with limited liability on 4 December 2009 and an indirect wholly-owned subsidiary of our Company after the Reorganisation
“Mr. Zou”	Mr. Zou Gebing (鄒格兵), our Chairman, CEO and an executive Director
“Ms. Wu”	Ms. Wu Xiangfei (鄔向飛), the spouse of Mr. Zou
“Mstar Home Furnishings”	Mstar Home Furnishings Limited (美星家居有限公司) (formerly known as Mstar International Trading Limited (美星國際貿易有限公司)), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company
“Mstar International”	Mstar International Group Limited (美星國際集團有限公司), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company
“Mstar International Group (HK)”	Mstar International Group (HK) Limited (美星國際集團(香港)有限公司), a company incorporated in Hong Kong with limited liability on 15 January 2014 and an indirect wholly-owned subsidiary of our Company
“Mstar International Trading (HK)”	Mstar International Trading (HK) Limited (美星國際貿易(香港)有限公司), a company incorporated in Hong Kong with limited liability on 14 January 2014 and an indirect wholly-owned subsidiary of our Company
“Musa International”	Musa International Limited (美莎國際有限公司), a company incorporated in the BVI with limited liability on 27 December 2013 and an indirect wholly-owned subsidiary of our Company

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“MZL”	Morris Zou Limited (formerly known as Jennifer Convertibles (HK) Limited (傑妮芙家居(香港)有限公司)), a company incorporated in Hong Kong with limited liability on 30 March 2015 and an indirect wholly-owned subsidiary of our Company
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.31 and expected to be not less than HK\$1.05, such price to be agreed upon by us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“Over-allotment Option”	the option to be granted by us to and exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to an aggregate of 37,500,000 additional Shares (representing 15% of our Shares initially being offered under the Global Offering) to cover over-allocations in the International Offering, if any, details of which are described in the subsection headed “International Offering – Over-allotment Option” under the section headed “Underwriting” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of China
“PRC Legal Advisers” or “our PRC legal advisers”	AllBright Law Offices, the legal advisers to our Company as to PRC law
“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the Offer Price

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“Price Determination Date”	the date, expected to be on or about Thursday, 5 January 2017, on which the Offer Price is to be fixed by agreement between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters)
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, particulars of which are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“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 shares in the share capital of our Company of US\$0.001 each
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 10 December 2016, a summary of the principal terms of which is set out under the subsection headed “7. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“Sole Sponsor”, “Sole Global Coordinator” or “Sole Bookrunner”	Sinolink Securities (Hong Kong) Company Limited
“sq. m.”	square metres

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“Stabilising Manager”	Sinolink Securities (Hong Kong) Company Limited
“State” or “state”	the central government of China including all government subdivisions (including provincial municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between Morris Capital and the Stabilising Manager
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three financial years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016
“Trademark Office”	the Trademark Office of the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局)
“U.S.” or “United States”	the United States of America
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

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## DEFINITIONS

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“WHITE Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be Issued in an applicant’s own name
“YELLOW Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“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 on 22 October 2001, an indirect wholly-owned subsidiary of our Company after the Reorganisation
“%”	per cent.

*In this prospectus, where otherwise specified:*

- *All dates and times refer to Hong Kong dates and time.*
- *Amounts denominated in Hong Kong dollars and U.S. dollars have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the rates of HK\$1 to RMB0.8944 and US\$1 to RMB6.9468, respectively, which were the PBOC rates prevailing on the Latest Practicable Date. No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant date converted at the above rates or any other rates or at all.*
- *The English translation and/or transliteration of the names of PRC nationals, entities, enterprises, government authorities, departments, facilities, certificates, titles, laws and regulations included in this prospectus is included for identification purposes only. In the event of any inconsistency between the English translation and/or transliteration and the Chinese versions, the Chinese versions shall prevail.*
- *Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments.*
- *Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*
- *All references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.*

“ERP”	enterprise resource planning
“FOB”	free on board, i.e. delivery of goods on board the vessel at the named port of origin (loading) at the seller’s expense. The buyer is responsible for main carriage/freight, cargo insurance and other costs and risks
“Haining Research and Development Centre”	our research and development centre, established in 2003 and accredited as a Zhejiang Enterprise Technical Centre (浙江省企業技術中心) in the same year by the Zhejiang Province Economic and Trade Commission (浙江省經濟貿易委員會)
“OBM”	original brand manufacturing, a type of manufacturing under which the manufacturers develop and own the design of products which are marketed and sold under such manufacturers’ own brand names
“ODM”	original design manufacturing, a type of manufacturing under which products are designed and manufactured by the manufacturers with reference to the general concept(s) provided by the customers and are marketed and sold under the customers’ brand names
“OEM”	original equipment manufacturing, a type of manufacturing under which products are manufactured, in whole or in part, in accordance with the specifications of the customers and are then marketed and sold under the customers’ brand names
“PU leather”	a material made from polyurethane which is a synthetic material formed by reacting a polyol with a diisocyanate or a polymeric isocyanate in the presence of suitable catalysts and additives
“VAT”	value-added tax



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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases words such as “aim”, “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “propose”, “seek”, “should”, “will”, “would” and other similar expressions are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and the various measures to implement such strategies;
- the future plans;
- future developments, trends and conditions in the industry and markets in which our Group operates;
- general economic, political and business conditions in the markets in which our Group operates;
- changes to the political and regulatory environments in the industry and markets in which our Group operates;
- our Group’s expectations with respect to our Group’s ability to acquire and maintain regulatory licences or permits;
- the general industry outlook;
- the trend of the global economy in general;
- effects of the global financial markets and economic crisis;
- our Group’s financial conditions and performance;
- our Group’s dividend policy;
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends; and
- other factors beyond our Group’s control.

These statements are based on numerous assumptions, including those regarding the present and future business strategy and the environment in which our Group will operate in the future. Our Directors confirm that these bases and assumptions are made after due and careful considerations and are fair and reasonable. The future results could differ materially from those expressed or implied by such forward-looking statements. In addition, the future performance may be affected by various factors including, without limitation, those discussed in the sections headed “Risk Factors”, “Business” and “Financial Information” in this prospectus.

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## FORWARD-LOOKING STATEMENTS

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Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions be proven incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of these forward-looking statements.

In this prospectus, statements of, or references to, the intentions of our Group or any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments. Subject to the requirements of the applicable laws, rules and regulations, our Group does not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below in respect of, among others, our business and industry, before making an investment in the Shares being offered in the Global Offering. You should pay particular attention to the fact that our principal business and operations are conducted in the PRC and, in the future, Cambodia, and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares being offered in the Global Offering may decline due to any of these risks, and you may lose all or part of your investment.*

We believe that an investment in our Shares involves certain risks, some of which are beyond our control. These risks can be broadly categorised into (i) risks relating to our business and our industry; (ii) risks relating to doing business in the PRC; (iii) risks relating to doing business in Cambodia; and (iv) risks relating to our Shares. Prospective investors in our Shares should consider carefully all the information set forth in this prospectus and, in particular, this section in connection with an investment in us.

### **RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY**

*We rely significantly on the U.S. market and (i) any changes in the economic and regulatory conditions and global trade policy of the U.S.; or (ii) changes in the business strategy of our U.S. customers, may have an adverse effect on our business.*

Almost all of our customers, including most of our five largest customers for the Track Record Period, are located in the U.S.. Sales to the U.S. market accounted for more than 90% of our revenue for the three years ended 31 December 2015 and the eight months ended 31 August 2016.

Our performance depends significantly on general economic conditions in the U.S. and their impact on consumer confidence and discretionary consumer spending. Our sales and trade receivables may decline due to the depreciation in the US\$ or appreciation in the RMB. Further, economic factors in the U.S. such as a reduction in the availability of credit, increased unemployment levels, higher oil and energy costs, rising interest rates, adverse conditions in the housing markets, financial market volatility, recession, reduced consumer confidence, and other factors affecting consumer spending behaviour such as acts of terrorism or major epidemics could reduce demand for our products. On the other hand, any change in the U.S. global trade policy, including tightening regulatory restrictions, industry-specific quotas, tariffs, non-tariff barriers and taxes, may have the effect of limiting sofas exports from the PRC and, hence, an adverse effect on our Group's business.

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## RISK FACTORS

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If there is any change in the management or control of our U.S. customers, then our U.S. customers may in turn change their business strategy which may cause their demand for sofas to decrease, and this may have an adverse effect on our business performance, financial condition and results of operations.

We do not have long term agreements with our customers. Our sales to customers are made on an order-by-order basis. As such, our sales to our customers are susceptible to economic factors affecting the demand from our customers. A serious downturn in the overall economy of the U.S. or in the U.S. furniture industry, measures that may be introduced to tighten the U.S. credit policy for controlling inflation in the U.S., or unfavourable policies to the import of goods into the U.S. may all cause the financial conditions and purchasing powers of our customers in the U.S. to deteriorate. Our customers are not obliged to place orders with us, so order quantities may fluctuate depending on the profitability of our customers' businesses and the spending power of the consumers. An economic downturn in the U.S. or continued uncertainties regarding future prospects that affect consumer spending habits in the U.S. may have an adverse effect on the placing of orders by our customers. We can offer no assurance that we will be able to respond quickly to any economic, market or regulatory changes in the U.S. market, and any failure to do so may cause an adverse effect on our business performance, financial condition and results of operations.

***We are vulnerable to future exchange rate fluctuations between the U.S. dollar and certain other currencies.***

As most of our sales are to the U.S., most of our revenue is denominated in U.S. dollars. However, we pay most of our cost based on the relevant local currency. For PRC operations, we incur and settle the costs of raw materials procured within the PRC, staff salaries, transportation and delivery expenses, local tax payments and marketing cost in Renminbi. For the production facility in Cambodia, we expect to incur and settle the local tax payments in KHR. We are therefore susceptible to currency exchange rate fluctuations between the U.S. dollars, Renminbi and KHR.

We have not entered into any agreements to hedge our exchange rate exposure relating to any of these currencies and there is no assurance that we will be able to enter into such agreements on commercially viable terms in the future. Accordingly, we can offer no assurance that future exchange rate fluctuations between the U.S. dollar and certain other currencies will not adversely affect our business.

***Our current levels of indebtedness and additional indebtedness that may be incurred in the future may materially and adversely affect our financial condition and results of operations.***

Our total outstanding bank borrowings amounted to approximately RMB220.5 million, RMB137.7 million, RMB198.1 million, RMB251.6 million and RMB279.7 million, respectively, as at 31 December 2013, 2014 and 2015, 31 August 2016 and 30 November 2016. Our gearing ratio, calculated by total interest-bearing bank borrowings divided by total equity as at the end of the year multiplied by 100%, was approximately 78.5%, 45.1%, 264.0% and

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## RISK FACTORS

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217.9%, respectively, as at 31 December 2013, 2014 and 2015 and 31 August 2016. The increase in the gearing ratio as at 31 December 2015, compared with 31 December 2014, was primarily due to an increase in the interest-bearing borrowings as a result of increased working capital needs from increased business volume in the year ended 31 December 2015. Please see the section headed “Financial Information” in this prospectus for further details. Our current levels of indebtedness could limit our ability to obtain the necessary financing or obtain favourable terms for the financing to fund future capital expenditures and working capital. Such limitations could reduce our competitiveness, increase our vulnerability to adverse general economic and industry conditions and limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, which could materially and adversely affect our financial condition and results of operations. In the future, we may from time to time incur substantial additional indebtedness, which could intensify the risks that we face as a result of our indebtedness.

***An increase in raw materials costs or our inability to procure raw materials at satisfactory prices or unable to pass increased costs on to our customers may adversely affect our profitability.***

The principal raw materials we use in our production processes are leather, PU leather fabric, foam, metal components, wood and other components. Cost of raw materials accounted for approximately 75.9%, 72.3%, 78.1% and 74.9%, respectively, of our cost of sales for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. The prices of leather may fluctuate due to supply factors such as an outbreak of bovine spongiform encephalopathy (commonly known as the “mad cow disease”) which may result in widespread destruction of cattle thereby affecting the supply of leather, and demand factors such as general market conditions and the availability of alternative comparable materials. An increase in oil prices, which have been volatile in recent years, will also result in an increase in prices of raw materials such as foam and fabric which are petroleum-based products. We are subject to risks from fluctuations in raw materials costs and the risk of not being able to purchase sufficient quantities of raw materials to meet our production requirements. If we are unable to obtain raw materials at satisfactory prices or unable to pass increased costs to our customers, our profitability and hence financial performance may be adversely affected. In addition, if we are unable to find alternative supplies of raw materials, our production activities will be adversely affected.

***We have engaged an agent and a consultancy firm in the U.S. to assist in the sales and marketing process and a designer based in the U.S. to assist in the designing process and failure to renew these engagements may adversely affect our revenue and profitability.***

We have engaged an agent and a consultancy firm in the U.S. to assist in the sales and marketing process, which we believe is crucial to our sales expansion in the U.S. As such, in the event that the agent and/or the consultancy firm refuses to continue engaging with us, our operating results and growth prospects in the U.S. market may be affected and could have a material adverse effect on our revenue and profitability.

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## RISK FACTORS

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The furniture industry is subject to constantly evolving designs and consumer preferences. Our success depends on our ability to continually develop new conceptual designs and products to meet consumers changing tastes and preferences. We have engaged a designer based in the U.S. to assist in the designing process. In the event we are unable to develop new and commercially viable designs and products to cater for changes in consumer taste or meet the specifications of our customers, or the U.S. designer refuses to continue engaging with us, the demand for our products and hence our business, financial results and growth may decline.

***We usually pay the full amount of all costs due to suppliers and arrange for delivery to our overseas customers before we receive payment from our customers. If any significant amount of payments cannot be collected from such customers in the future, our financial condition and results of operations could be adversely affected.***

We usually pay the full amount of the raw material costs due to the suppliers, before we receive payment for the relevant products from our customers. We also generally arrange for the delivery of products to our overseas customers before we receive any payment from such customers and without any deposit as security.

We can offer no assurance that we will not encounter doubtful or bad debts due to slowdown in industry growth, an individual customer's deteriorating financial condition, or otherwise, in future. If any significant amount of receivables cannot be collected from our customers in the future, for example, due to cancellation of purchase orders subsequently or other unexpected delay or difficulty, our cash flow, financial condition and results of operations could be adversely affected. If we adopt a different practice with our customers, such as requiring them to pay before delivery, our relationship with them may deteriorate and they may cease to place orders with us, which may adversely affect our business and financial performance.

***We may not be able to protect our intellectual property rights successfully which could have a material adverse effect on our business, results of operations and financial condition.***

Intellectual property rights, such as trademarks and patents, are important in the furniture industry as they are important to our business and competitive position and they protect brand images. Our competitors or other third parties may have intellectual property rights and interests which could potentially come into conflict with ours.

In respect of trademarks registered in Hong Kong which are material to our business as at the Latest Practicable Date, our Group owned five trademarks in Hong Kong. In respect of trademarks in the PRC, as at the Latest Practicable Date, our Group used 10 registered trademarks owned by Morris PRC under the Trademark Licence Agreement. For details regarding our intellectual property, please refer to the subsection headed "Intellectual Property" under the section headed "Business" in this prospectus and Appendix IV to this prospectus.

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## RISK FACTORS

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On 31 December 2015, Morris PRC and our Group entered into a trademark transfer agreement, pursuant to which Morris PRC agreed to transfer the relevant trademarks to our Group for nil consideration. We submitted the application to the Trademark Office for approval of the transfer in December 2015. We expect this approval process will be completed within one to two years from the date of submission of the application, upon which Haining Gelin Furniture will become the legal owner of the relevant trademarks and will license these trademarks to our Group. If we are unable to get the approval of the transfer of the ownership of the trademarks, or if we are involved in disputes and litigation over intellectual property rights, our business may be disrupted.

The assertion of rights under PRC intellectual property law is time consuming and complicated. In addition, policing unauthorised use of intellectual property may be difficult and potentially expensive, and we may need to resort to litigation to enforce or defend intellectual property issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Such litigation and an adverse determination in any such litigation, if any, could result in substantial costs and diversion of resources and management attention, which could harm our business and competitive position. During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights by third parties. If any third party makes any trademark and/or patent infringement or other intellectual property claims against us and is successful, we may be required to expend significant resources to redevelop our brands so that they do not infringe third parties' intellectual property rights, or we may be required to obtain relevant licences to avoid further infringements. Intellectual property litigation against us could significantly disrupt our business, divert our management's attention, or consume much of our financial resources. As a result, such intellectual property disputes could have a material adverse effect on our business, financial condition and results of operations.

***We rely significantly on our export sales, and the inherent risk associated thereto may adversely affect our business, results of operations and financial conditions.***

We derive a significant portion of our revenue from our export sales which accounted for over 95% of our revenue for the Track Record Period. Our export sales operations are generally subject to certain inherent risks, including:

- exposure to local, economic, political and labour conditions;
- changes in laws, regulations, trade, monetary or fiscal policy;
- tariffs, quotas, customs and other import or export restrictions and other trade barriers, trade sanctions or anti-dumping measures; and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

These uncertainties could have a material adverse effect on the continuity of our business, results of operation and financial condition.

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## RISK FACTORS

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***We may not succeed in further expanding our sales networks in new regions.***

A part of our growth strategy involves expanding our sales networks to new regions. Our success in continuing to expand our sales networks to new regions is dependent on various factors including, among others:

- developing a qualified labour force of the new regions;
- existing competition in the new regions;
- complying with local laws and regulations of the new regions;
- assessing the impact of local taxes and exemptions on our operations;
- understanding cultural differences; and
- effectively enforcing contractual or other legal rights.

If we fail to successfully manage these factors, or other risks that we do not anticipate, we may incur increased and unbudgeted expenses, or our revenues may not increase sufficiently to offset any increase in unbudgeted expenses, which could in turn adversely affect our business and results of operations.

***We depend on a certain number of customers for a substantial portion of our sales.***

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, aggregate sales to our five largest customers in aggregate amounted to approximately 66.9%, 67.5%, 68.1% and 63.1%, of our revenue, respectively. We expect that we will continue to depend on a certain number of customers for a significant portion of our revenue. Sales generated from these customers, individually or in the aggregate, may not reach or exceed our expectations or historical levels in any future period. We could experience a significant reduction in sales if any of our major customers' experiences financial difficulty, cancels or reduces its orders, demands lower prices or chooses to replace us with a different supplier.

***We may fail to cater for changes in consumer taste and preferences and produce commercially viable designs.***

The furniture industry is subject to constantly evolving designs and consumer preferences. Our success depends largely on our ability to continually develop new designs and products to meet the customers' changing tastes and preferences. In addition, we may need to acquire new processing technology or machinery to enhance our product quality. In the event we are unable to develop new and commercially viable designs and products to cater for changes in consumer taste or meet the specifications of our customers, the demand for our products and hence our business, financial results and growth may decline.



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## RISK FACTORS

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***We are exposed to the risks of slow-moving inventory, which may adversely affect our financial condition and results of operations.***

The turnover rate of our inventories is susceptible to overall economic conditions, market trends and changes in individual preferences and tastes, all of which are beyond our control. Accordingly, we are exposed to the risks of slow-moving inventory. As at 31 December 2013, 2014 and 2015 and as at 31 August 2016, we had inventories in the amount of approximately RMB216.3 million, RMB258.5 million, RMB200.8 million and RMB302.0 million, respectively, and our average inventory turnover days were approximately 89.2 days, 132.9 days, 118.6 days and 145.9 days, respectively. Inventories amounted to approximately RMB146.0 million, representing approximately 48.4% of the inventory balance as at 31 August 2016, have been used or sold as at 30 November 2016.

We cannot assure you that our inventory turnover days will not further increase in the future, and we may need to write off our slow-moving inventory or sell off our slow-moving inventory at a lower price, any of which could adversely affect our financial condition and results of operations.

***The brand names and the quality of the services offered by our customers may adversely affect our brand building efforts.***

Our continuous success depends to a large extent on our ability to continue to build our “Morris Holdings Limited” and “Morris Zou” brands. However, our brand and reputation are impacted by the service that consumers receive in connection with purchases of our products. We sell most of our products to customers, some of which are the largest furniture retail chains and retail warehouse clubs in the U.S. that sell our products to consumers and we have little ability to influence the levels of customer service received by the consumers. If our customers are unable to deliver satisfactory services to the consumers, our reputation, products or brand names may be adversely affected, which could in turn negatively impact our business, financial condition or results of operations.

***We may not be able to retain or secure key qualified personnel, key senior management or other personnel for our operations.***

We depend on certain key qualified personnel, key senior management and other employees in our business, including those personnel set out in the section headed “Directors and Senior Management” in this prospectus. In particular, we depend on the services of our Chairman and CEO, Mr. Zou, who has over 15 years of experience in the sofa manufacturing and export industry, to further our growth and expansion. The expertise, industry experience and contributions of Mr. Zou and our other senior management team members are crucial to our success. There can be no assurance that such persons will continue to provide services to us or will honour the agreed upon terms and conditions of their employment contracts. Any loss of key personnel or failure to recruit and retain personnel for our future operations and development may have a material adverse effect on our business.

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## RISK FACTORS

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***Our Chairman, CEO and executive Director, Mr. Zou, will retain significant control over our Company immediately after the Global Offering, which will allow him to influence the outcome of matters submitted to our Shareholders for approval.***

Upon completion of the Reorganisation, one of our Controlling Shareholders, our Chairman, CEO and executive Director, Mr. Zou, and his spouse Ms. Wu will hold 85% and 15% of Morris Capital, respectively, which in turn will immediately after the Global Offering (without taking into account of any allotment and issue of Shares pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) own 75% of the issued share capital of our Company. As a result, Mr. Zou, through Morris Capital will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of Directors, approval of significant corporate transactions and amendment of our Memorandum or Articles or with respect to any Shareholder action that requires a majority vote. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control which may conflict with the interests of our public Shareholders.

***Pricing pressure in the markets we operate in may adversely affect our revenue and profitability.***

We operate in markets which may be subject to pricing pressure, affecting the prices we charged for new and existing customers for our sofas and sofa covers. The effects of competition on our business are uncertain and may depend on a variety of factors, including economic conditions, regulatory developments, technology developments on production facilities, the behaviour of consumers and competitors and effectiveness of measures we take in respond to the competition we face.

A decrease in our price of the products in respond to competitive pressure or other reasons could have an adverse effect on our business and results of operations. We may need to lower our prices in response to the competition in our industry. In particular, when one or more of our competitors engage in active price reductions, we may be forced to reduce our prices in order to remain competitive, which may negatively affect our revenue and profitability.

***We may fail to maintain effective quality control systems at our facilities.***

The performance and quality of our products are critical to the success of our business, and depend significantly on the effectiveness of our quality control systems, which in turn, rely on a number of factors, including the design of such quality control systems, our quality training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, reputation, financial condition and results of operations.

***We may be affected by disruptions to our production facilities, which may severely disrupt our business.***

Our production facilities may be exposed to natural disasters, such as fires, floods, tsunamis and earthquakes and to other events beyond our control such as pandemics, political instabilities, outage of critical utilities or terrorist attacks. Events like these occurring in the

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## RISK FACTORS

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future could disrupt production at our facilities, materially increase our cost of sales and other operating expenses and result in material asset losses. Such events could also disrupt shipping and freight forwarding services and interrupt the availability of basic services and infrastructure, including power and water. Disruptions such as these would have an adverse impact on our business, operating results and financial condition.

Furthermore, if we are unable to find suitable alternative facilities in a timely manner in the event that our production facilities are destroyed or become inoperable, our business, financial condition, results of operations and prospects may be materially and adversely affected.

*Our insurance coverage may be inadequate to protect us from potential loss.*

We have taken out insurance policies to cover the risks associated with our business operation as described in the subsection headed “Insurance” under the section headed “Business” in this prospectus. However, there is no certainty that we will be able to successfully claim any of our losses under our current insurance policy on a timely basis. We do not maintain business interruption or key-man life insurance. The occurrence of any of these events may result in us incurring substantial costs and the diversion of our resources. Our insurance coverage may not be sufficient to prevent us from such loss. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business and financial condition could be materially and adversely affected.

*We may have labour issues, such as shortage of labour, increase in staff costs and labour disputes that may adversely affect our business and results of operations.*

Our production operations are labour-intensive. As at the Latest Practicable Date, we employed over 1,600 workers in our production department located at Haining, Zhejiang Province in the PRC. With increasing demand for skilled labour in neighbouring regions and other rapidly developing cities, there is no assurance that we will continue to attract workers at our current level of wages or that our current workers will continue to work for us.

We have also observed an overall tightening of the labour market in recent years. For instance, the Labour Contract Law (中華人民共和國勞動合同法) which first came into effect on 1 January 2008, and was amended on 28 December 2012 and its implementation rules (together with the Labour Contract Law, the “**LC Law**”) were promulgated and became effective on 18 September 2008. The LC Law imposes more stringent requirements on employers in relation to the entry into written employment contracts, the hiring of temporary employees and the dismissal of employees. The LC Law also establishes requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as the duration and the number of times that an employee can be placed on fixed-term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and that the employees are entitled to unilaterally terminate their respective labour contract if this requirement is not satisfied.

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## RISK FACTORS

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Due to the tightening labour market as well as the increase in the minimum wage requirements set by the relevant authorities, we have faced a general increase in labour costs from 2014 to 2015. If the labour market continues to tighten, we may not be able to employ sufficient suitable workers in a timely manner or we may have to pay higher wages for such employees and as a result, our financial performance could be materially and adversely affected.

***Our business and reputation may be affected by product liability or other claims, litigation, complaints or adverse publicity and insurance coverage may not be sufficient.***

Our products may expose to risks of claims, litigation, complaints or adverse publicity. Such risks include product liability claims, such as unsafe or defective products and inadequacy of warnings and instructions on the usage of our products. Product liability claims may arise in the event that the use or misuse of any of our products results in personal injury or property damage. We currently maintain product liability insurance for the products we sell to our customers overseas. If any successful product liability claim is brought against us for damages, and our products proved to be defective, we may be required to recall or redesign such products. If we are found to be liable for a product liability claim, we could be required to pay any monetary damages not covered by insurance, which could adversely affect our financial condition. Furthermore, violation of PRC or other applicable product quality and safety requirements may result in fines or sanctions by the relevant regulatory authorities.

We could be involved in conflicts and litigation, which could disrupt our business, divert management attention and we may incur substantial amount of costs to protect our rights or defend ourselves against claims. Even if we successfully defend ourselves against a claim, we could be forced to spend a substantial amount of money and time in defending such a claim and our reputation and future prospects could suffer. If we are unable to defend ourselves, our reputation, our brand and our business could be adversely affected.

***If we fail to maintain an effective system of internal controls, we may not be able to comply with relevant regulatory requirements.***

We have established procedures and systems of internal controls (including accounting and management systems) which we believe are adequate to assist us and our Directors in our obligations to comply with relevant regulatory requirements. For details regarding our internal control policies, please refer to the subsection headed “Internal Control” under the section headed “Business” in this prospectus. Our internal controls may not prevent or detect misstatements with regard to our operations, financial position and prospects. Any failure to maintain an effective internal controls system could result in our financial statements being unreliable and could adversely affect our operating results or cause us to fail to manage our business effectively or to meet our various regulatory obligations.

***Our business operations may be adversely affected by present or future import and export, work safety and environmental regulations or enforcement.***

Our revenue is dependent on the continued operations of our production facilities in the PRC. Our production facilities are subject to various PRC work safety and environmental regulations. Import of certain raw materials and export our products is subject to PRC import

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and export regulations. We are not always able to quantify the cost of complying with such laws and regulations. Our group has manufacture plant in the PRC, and if a work safety accident occurs, the relevant company shall bear the liability to compensate the injured employee or a third party. Any violation of applicable import and export regulations could subject us to a substantial fine, damage our reputation and sanctions on exporting. Additionally, if any one of our suppliers fails to comply with environmental regulations or the raw materials failed to meet the requirements under the various import and export regulations, we may need to seek alternative supplies of certain raw materials, which may not be available on favourable terms. We cannot assure you that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. Changes in import and export and environmental regulations may require us or our suppliers to alter production processes, which could result in increased costs and could adversely affect our financial condition and results of operations. In addition, as environmental liability insurance is not mandatory in the PRC, we have not maintained any such insurance. Any significant environmental liability would adversely affect our business, financial condition and results of operations.

***We may be subject to additional tax liabilities, which could have adverse impacts on our financial condition.***

Our income tax filing positions, consolidated income tax provisions and accruals are based on interpretations of applicable tax law in various countries in which we operate, including the PRC, the U.S., Hong Kong and Cambodia as well as underlying rules and regulations of the PRC, Hong Kong and Cambodia with respect to transfer pricing, details of which are set out in the subsections headed “Regulatory Requirements in the PRC – Laws and regulations relating to taxation” and “Regulatory Requirements in Hong Kong – Laws and regulations relating to the transfer pricing regulations” under the section headed “Regulatory Overview” and the subsection headed “Marketing – Transfer pricing” under the section headed “Business” in this prospectus. Significant judgment and the use of estimates are required in determining our provisions for income taxes. If the final determination of the relevant tax authorities in the PRC, the U.S., Hong Kong and Cambodia with respect to the tax payable by our Group is different from our historical income tax provisions and accruals due to a change of the applicable tax rates, or modification or a different interpretation of the relevant provisions of the tax treaties or of the laws and regulations relating to transfer pricing, which could have been otherwise favourable to our Group, we may face adverse tax consequences. This could have a material effect on our financial statements in the period or periods for which that determination is made.

***We may be subject to anti-dumping duties or trade quotas with respect to overseas sales, which could adversely affect our business and results of operations.***

We export most of our products to customers in other countries, including but not limited to the U.S. Any trade restrictions such as anti-dumping duties, tariffs or quota fees imposed by the countries to which we export our products, or a trade war involving our products could significantly increase the prices of our products in such countries. If we were not able to pass

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such additional costs on to our customers, our sales margins could be adversely affected, which could adversely affect our financial position, business or results of operations. As we cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed in the future, we do not make any provisions in our accounts for any anti-dumping duty payments, tariffs or quota fees.

*The global financial markets, including the financial markets in China, have experienced significant slowdown and volatility during the past years and any significant deterioration may adversely affect our business and results of operations.*

The economic slowdown and turmoil in the global financial markets starting in the second half of 2008 has negatively affected the PRC and U.S. economies. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. Any slowdown in the economies of the U.S., the European Union and certain Asian countries with which the PRC has important trade relationships or any future calamities may materially and adversely affect the economic growth of the PRC. On the other hand, rapid economic growth can lead to growth in money supply and inflation. Some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy. These and other issues resulting from the global economic slowdown and financial market turmoil may have adversely impacted, and may continue to adversely impact, some of our customers and their customers, which may lead to a decline in the general demand for our products and erosion of their selling prices. Any further tightening of liquidity in the global financial markets may in the future negatively affect our liquidity. If the global economic slowdown and financial crisis continue or become more severe than currently anticipated, or if the PRC or U.S. economy continues to slow down, our business, results of operations, financial condition and prospects could be materially and adversely affected.

*We may not be able to continue to lease properties from Morris PRC.*

As at the Latest Practicable Date, approximately 62.0% of our properties, as measured by the gross floor area (including owned and leased buildings), were leased from Morris PRC. Please see the subsection headed “Non-exempt Continuing Connected Transaction – The Lease Agreements” under the section headed “Connected Transactions” in this prospectus for the detailed information of the Lease Agreements. If Morris PRC becomes unwilling to continue to lease the relevant properties to us and if we are unable to lease other similar properties on similar commercial terms, our business may be adversely affected.

### **RISKS RELATING TO DOING BUSINESS IN THE PRC**

*Political and economic policies of the PRC government may affect our business and results of operations and may result in our inability to sustain our growth and expansion strategies.*

Substantially all of our business are located in the PRC and all of our products are manufactured in the PRC. Accordingly, our results of operations, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC government could affect our business and financial performance and may result in us being unable to sustain our growth.

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The economy of the PRC differs from the economies of most developed countries in a number of respects, including its structure, the extent of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. The PRC's economy is in the midst of transitioning from a centrally planned economy to a more market-oriented economy. In the past few decades, the PRC government has implemented economic reform measures to utilise market forces to spur the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. As such, we cannot assure you that we may be able to benefit from all, or any, of these measures that are under continuous adjustments. Furthermore, we cannot predict whether changes in the PRC's economic, political or social conditions and in the PRC laws, regulations and policies will have a material adverse effect on our business, results of operations, financial condition and future prospects.

To control inflation in the past, the PRC government has imposed control on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austerity measures can lead to a slowdown in the economic growth. Recently, there have been growing concerns about the volatility of the China economy and the adjustments of China fiscal policies. For example, after a rapid surge from the second half of 2014 to early June 2015, the PRC domestic equity markets experienced sharp declines and severe volatility beginning from the second half of 2015. The PRC government has taken monetary and regulatory measures to stabilise the market, including measures affecting market liquidity, suspension of initial public offerings and prohibition of trading activities of certain market participants.

The PRC government has authority to regulate the furniture industry in the PRC. The PRC government can also regulate economic growth in the PRC and, as a result, plays a significant role in regulating industrial development. New regulations or adjustments of previously implemented regulations could require us to change our business plan, increase our costs or limit our ability to sell products and conduct activities in the PRC, which could adversely affect our business and operating results.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions in the PRC and credit availability from banks or other lenders in the PRC. The PRC government has articulated a need to contain the build-up of a property bubble and may tighten its bank lending policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Stricter lending policies may, among other things, affect our ability to obtain financing which may in turn adversely affect our growth and financial condition. We cannot give any assurances that further measures to control growth in lending will not be implemented in a manner that may adversely affect our growth and profitability over time.

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*Uncertainties with respect to the PRC legal system could have a material adverse effect on us.*

Our operations in the PRC are governed by the legal system of the PRC which is a civil law system. Unlike the common law system, the PRC civil law system is based on written statutes and prior court decisions may be cited for reference but have little precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations continue to evolve, interpretation and enforcement of these laws and regulations involve uncertainties and certain degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in our Shares. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be consistent or predictable, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention. From time to time, changes in law and regulations or the implementation thereof may also require us to obtain additional approvals and licences from the PRC authorities for the conduct of our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business cost will increase. Furthermore, there can be no assurance that such approvals or licences will be granted to us promptly or at all. If we experience delay in obtaining or are unable to obtain such required approvals or licences, our operations and business in the PRC, and hence our overall financial performance and condition, will be adversely affected.

*The enforcement of the labour-related regulations in the PRC such as the LC Law may adversely affect our business and our results of operations.*

The LC Law imposes stringent requirements on employers in relation to the entry into written employment contracts, the hiring of temporary employees and the dismissal of employees. The LC Law also establishes requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits that an employee can be placed on fixed-term employment contracts.

Under the LC Law, an employer is required to sign an unlimited term labour contract with an employee if the employer continues to employ the employee after the expiration of two consecutive fixed term labour contracts except in certain circumstances as specified in the LC Law. An employer is also required to make severance payments to fixed term contract employees when the term of their employment contracts expire, except in certain circumstances as prescribed in the LC Law including where an employee voluntarily rejects an offer to renew the contract where the conditions offered by the employer are the same as or better than those stipulated in the existing contract. In addition, employees have the right to receive payment of overtime wages when working overtime and the right to terminate or modify the terms of the labour contracts under the LC Law.



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In addition, under the *Regulations on Paid Annual Leave for Employees* (職工帶薪年休假條例), which was implemented on 1 January 2008, employees who have served more than one year with an employer are entitled to paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive their holiday time at the request of their employers must be compensated with three times their normal daily salary for each day of holiday waived.

There can be no assurance that there will not be any additional or new labour laws, rules or regulations in the PRC, which may lead to potential increases in labour costs or future disputes with our employees. There can also be no assurance that any disputes, work stoppages or strikes will not arise in the future. Compliance with the relevant laws and regulations may substantially affect our operating costs, or those of the third-party suppliers, and thus may have a material adverse effect on our results of operations.

***Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.***

Under the EIT Law and Implementing Rules for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), we may in the future be deemed as a PRC resident enterprise by the PRC tax authorities for tax purpose. As such, it may be required to withhold PRC income tax on capital gains realised from sales of our Shares and dividends distributed to Shareholders. In this case, our foreign corporate Shareholders who are not deemed as PRC resident enterprise may become subject to a 10% withholding income tax, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty. If the PRC tax authorities deem us as a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the *Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties* (非居民納稅人享受協定待遇管理辦法, the “**Circular 60**”), which became effective on 1 November 2015. With respect to dividends, the beneficial ownership tests under Notice of State Administration of Taxation in Interpretation and Determination of “Beneficial Owners” under Double Taxation Agreements (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知, the “**Circular 601**”) will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realised from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such Shareholders’ investment in our Shares sold in the Global Offering may be materially and adversely affected.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business or the non-resident investors’ investments in us.

We are a holding company incorporated in the Cayman Islands and the core business operation of our Group are primarily based, managed and conducted in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may

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impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require PRC companies to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

***It may be difficult to effect service of process upon us or our Directors or officers who live in the PRC or to enforce against them in the PRC judgments obtained from non-PRC courts.***

A significant portion of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors reside within the PRC. As a result, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. We have been advised by our PRC Legal Advisers that the PRC does not have treaties providing for the reciprocal enforcement of judgments in civil and commercial matters of courts with countries such as the U.S.. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the U.S. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in these jurisdictions in relation to any matter not subject to a binding arbitration provision is subject to uncertainties.

On 14 July 2006, Hong Kong and the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (the “**Arrangement**”), which was adopted in Hong Kong by the enactment of the Mainland Judgments (Reciprocal Enforcement) Ordinance (Cap. 597) on 1 August 2008, pursuant to which where any people’s court of the PRC or any court of Hong Kong has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing, any party concerned may apply under the Arrangement to a people’s court of the PRC or a court of Hong Kong for recognition and enforcement of the judgment. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. It may be time consuming or difficult for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

### **RISKS RELATING TO DOING BUSINESS IN CAMBODIA**

***Uncertainties with respect to Cambodia legal system could have an adverse impact on us.***

Our operations in Cambodia are subject to laws, rules and regulations promulgated by the Cambodian Parliament or the Cambodian Government. The laws in Cambodia and its legal system are still in a developmental stage and are subject to change. In addition, business entry

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and business operations in Cambodia involve bureaucratic and legal procedures, which change from time to time without notice. This means that there is a lack of consistency and predictability in the interpretation and enforcement of laws and regulations and dispute resolution. Cambodia's investment laws and related regulations are under review and our business and future expansion plan in Cambodia may be affected if material changes are made to these laws and the accompanying investment incentive framework. Accordingly, conducting business in Cambodia entails a certain degree of risk and uncertainty. In the event that new laws are imposed, new policies are adopted or existing laws, rules, regulations or policies are interpreted or enforced in a way which is adverse to our operations, our business and financial performance could be adversely affected.

***Failure to effectively protect the non-current assets of our Cambodia facility could have a material adverse effect on us.***

After the completion of construction and installation of equipment and upon the commencement of operation in our Cambodia facility, it is estimated that our non-current assets in Cambodia would be around RMB46.7 million, which would represent over 88% of our total non-current assets of approximately RMB52.5 million as at 31 August 2016, over 213% of our total non-current assets as at 31 August 2016, excluding the construction in progress in respect of the Cambodia operation, and over 79% of our estimated enlarged total non-current assets upon completion of construction and installation of equipment. According to our Cambodian Legal Advisers, foreign investors are guaranteed with the non-discriminatory treatment (except to ownership of land) by the Cambodian Government, which includes, among others, protection against nationalisation policy that could adversely affect private properties ownership in Cambodia under the Law on Amendments to the Law on Investment of Cambodia. Nevertheless, if we are unable to effectively protect the non-current assets of our Cambodia facility, and/or if new laws in relation to foreign investors are imposed, new policies are adopted or existing laws, rules, regulations or policies are interpreted or enforced in such manner which is adverse to our interest in our Cambodia facility, we may lose our assets in Cambodia or the value thereof which may in turn have a material adverse effect on our business, results of operation and financial position.

***Failure to comply with investment compliance obligations could affect our financial performance.***

Masia Industries may have its investment incentives revoked if certain compliance obligations imposed by Cambodia's investment regulations are not strictly met, which may affect our financial performance. Masia Industries submitted its application for the certificate of compliance on 18 April 2016 and obtained the 2014 certificate of compliance from the Council for the Development of Cambodia on 3 May 2016. As advised by our Cambodian Legal Advisers, the investment laws in Cambodia are not explicit as to what sanctions would be imposed when a company obtains an annual certificate of compliance after a particular financial year has lapsed. Based on our Cambodian Legal Advisers' knowledge and experience, sanctions are rarely imposed on such late obtaining of the certificate of compliance. If Masia Industries fails to obtain the certificate of compliance from the Council for the Development of Cambodia going forward on a timely basis, its qualified investment project status may be withdrawn, resulting in the failure to continue obtaining the accompanying investment incentives such as tax holiday and import duty exemption, which may adversely affect the financial performance of our Group.

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*Failure to obtain operating licence could have an adverse impact on our financial performance.*

Masia Industries obtained the factory permit on 6 June 2016. However, Masia Industries is still required to hold an operating licence before its commencement of operation in 2017. If Masia Industries fails to obtain such operating licence before its commencement of operation in 2017, it may, among other things, not be able to operate its factory in Cambodia, which may adversely affect the financial performance of our Group.

*Our future expansion plan in Cambodia may affect our Group's cost structure and other associated costs.*

Our new production facility in Cambodia are expected to commence operation in the first half of 2017. Such expansion plan in Cambodia will include, among other things, purchase of machinery and equipment, building construction as well as staff recruitment and training costs. Accordingly, our depreciation charge, labour costs, utilities and other production costs will increase. We therefore expect a change in our Group's cost structure as both of our fixed and variable costs will increase as a result of our future expansion plan in Cambodia. The expected increase in depreciation charges and labour costs as a result of the completion of construction of the new production facility in Cambodia may adversely affect our results of operation and our financial results.

*The non-registration of the lease assignment between Masia Industries and Morris PRC in relation to the land in Cambodia where our Cambodia facility is located with the relevant department of the Ministry of Land Management, Urban Planning and Construction ("MLMUPC") could cause interruption to our operation if Masia Industries is forced to vacate the lease area after 15 years.*

As at the Latest Practicable Date, the lease assignment between Masia Industries, as an assignee, and Morris PRC, as an assignor, and acknowledged by Sihanoukville Special Economy Zone Co., Ltd ("SSEZ"), as the landlord in relation to the land in Cambodia, had not been registered with the Preah Sihanouk Provincial Department of Land Management, Urban Planning, Construction and Cadastre. As advised by our Cambodian Legal Advisers, a long-term lease is still valid and enforceable vis-a-vis the landlord if not registered with MLMUPC. However, if a long-term lease is not registered with MLMUPC, it can only be enforced against a subsequent third party acquirer (i.e. new zone developer) of a real right to the lease area for a maximum of 15 years during which time the lessee must have occupied, and continuously used and profited from the lease area.

SSEZ possesses a certificate of title ("**Master Title**") of the entire zone area. Before the lease assignment can be registered, the land leased by Masia Industries upon which our Cambodia facility is located must be sub-divided from the Master Title. After our continuous communication with SSEZ, SSEZ still preferred not to sub-divide the leased land from the Master Title at this stage. In order to mitigate the potential risks of being forced to vacate the lease area after 15 years, Masia Industries and Morris PRC entered into a supplemental agreement with SSEZ on 15 June 2016, pursuant to which the parties agree as follows: (1)

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SSEZ shall not sell or hypothecate the leased land to any third party or otherwise set up restrictions on the rights to use the leased land in any other forms without Masia Industries' written consent; (2) if such sale occurred due to unforeseen circumstances, then SSEZ would have to ensure that the buyer (being the new landlord) shall continue to perform its obligations as the landlord towards Masia Industries under the original lease agreement; (3) Masia Industries shall have a right of first refusal to purchase the leased land in the event that SSEZ has to sell the leased land due to unforeseen circumstances; and (4) SSEZ shall indemnify Masia Industries for any financial loss incurred by Masia Industries as a result of any breach of the original lease agreement or the supplemental agreement by SSEZ. Our Cambodian Legal Advisers are of the view that, in the absence of default by Masia Industries, if SSEZ seeks to unilaterally terminate the lease and forcefully expel Masia Industries from the leased land at any time during the term of the lease, whether or not registered as a long term lease with the the Preah Sihanouk Provincial Department of Land Management, Urban Planning, Construction and Cadastre, Masia Industries would have a right to file a petition for injunctive relief and seek compensation for any resultant damages against SSEZ. Based on the above, our Directors believe that the risk of Masia Industries being forced to vacate the leased land during the term of the lease due to the non-registration of the lease assignment is remote. In the worst-case scenario, despite the fact that Masia Industries will be indemnified by SSEZ for the loss or damage incurred if we are forced to vacate the lease area after 15 years, our operation in Cambodia could be interrupted during the period of relocation.

Masia Industries will keep communicating with SSEZ regarding sub-division of the leased land during the term of the lease. Once SSEZ agrees to sub-divide the Master Title for the land leased by Masia Industries, Masia Industries will proceed to apply for registration immediately. It may take around 3 to 4 months to obtain the certificate of title for the land leased by Masia Industries upon successful filing of the application with the the Preah Sihanouk Provincial Department of Land Management, Urban Planning, Construction and Cadastre. Once the certificate of title is obtained and the application for lease registration is successfully submitted, the official prescribed timeline to obtain lease registration is around 20 working days. However, based on past experience of our Cambodian Legal Advisers, it may take approximately 6 to 8 weeks to obtain the registration as the ultimate time frame and approval are subject to the discretion of the relevant authority.

***Our business and future expansion plan in Cambodia may be subject to labour unrest and political unrest in Cambodia which may adversely affect our business and operations.***

Our non-Cambodian employees working in Cambodia may be subject to deportation if they do not hold a valid work permit, which may adversely impact the management of our operations in Cambodia.

Furthermore, the recent history of Cambodia has been characterised by political instability, with protests between different political parties over claims of electoral irregularities following the general election in 2013. Such tensions may resurface during the lead up to the national elections in Cambodia in 2018.

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During the Track Record Period, there were demands from garment factory workers for better pay and working conditions. Labour strikes have been frequently used by garment factory workers and unions to pressure employer associations and the Cambodian Government for increases in the monthly minimum wage. While the monthly minimum wage is applicable only to the garment, textile and footwear sectors, workers in other sectors, particularly workers in other manufacturing sectors, have been demanding higher pay and better working conditions.

Hence, labour market risks are high in Cambodia, mainly reflecting the increased incidence of labour unrest and the limited supply of skilled labour in Cambodia. The incidence of labour unrest may increase costs for production in Cambodia which may result in the disruption to production schedules, adversely affect our ability to deliver sofas and other furniture products to our customers on time and/or result in the closure of our production sites. In addition, increases in the minimum wage of Cambodian workers in the garment, textile and footwear sectors and pressure to improve working conditions may increase our labour costs and further adversely affect our business operations and financial condition. If we are not able to offer competitive compensation packages, we may face higher turnover of workers, in particular skilled labour.

Industrial relations in Cambodia have also been adversely impacted by the formation of multiple unions at an enterprise level. The existence of multiple but small enterprise-level unions has resulted in competition for membership among unions and the need for employers to negotiate with multiple unions on overlapping and competing entitlements, which may adversely affect our operations in Cambodia. One of the objectives of the recent Trade Union Law is to promote harmonious industrial relations in the workplace. To tackle the issue of multiple unions, the Trade Union Law, for the first time, introduces a membership threshold to form an enterprise-level union (or local union). The membership threshold is set at 10, each of whom must be employees at the applicable enterprise. As at the Latest Practicable Date, it remained unclear as to how the new law will address issues of labour unrest and multiple unions.

### **RISKS RELATING TO OUR SHARES**

*There is no prior public market for our Shares.*

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range to the public for our Shares was the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. A Listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

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***The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.***

The price and trading volume of our Shares may be volatile. The price at which our Shares will trade after the Global Offering will be determined by the market price of our Shares, which may be influenced by many factors some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant customers or material defaults by our customers;
- announcement by us of significant acquisitions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- involvement in litigation; and
- general economic and stock market conditions.

In addition, shares of some companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced unusual price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

***We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.***

We are a holding company and rely principally on dividends paid by our subsidiaries, including our PRC subsidiaries to fund any cash and financing requirements we may have. The PRC laws and regulations require PRC companies to set aside part of their net profit as

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statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and may adversely affect our business operations.

***Shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Companies Law which may provide less protection to minority Shareholders than the laws of Hong Kong and other jurisdictions.***

We are incorporated in the Cayman Islands as an exempted company and substantially all of our assets are located outside of Hong Kong. Our corporate affairs are governed by our Memorandum and Articles of Association as well as the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in certain respects from those in Hong Kong and other jurisdictions. Such differences may mean that our minority Shareholders may have less protection than they would otherwise have under the laws of Hong Kong or other jurisdictions.

***Certain statistics contained in this prospectus are derived from the Euromonitor Report and publicly available official sources.***

Certain statistics contained in this prospectus relating to the U.S. and PRC economies and the U.S. and the PRC furniture markets, particularly in the section headed “Industry Overview” in this prospectus, have been derived from various official government publications or the Euromonitor Report we generally believe to be reliable. We have taken reasonable care in the reproduction or extraction of such report for the purpose of disclosure in this prospectus. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of their respective affiliates or advisers, directors, officers or representatives or any other person involved in the Global Offering and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, you should give consideration as to how much weight or importance they should attach to or place on such facts, and you should not unduly rely upon the industry facts and statistics contained in this prospectus.

***You should rely on this prospectus, and should not rely on any information contained in press articles or other media regarding our Company, in making your investment decision.***

Prior to the publication of this prospectus, there may have been certain press and media coverage regarding our Group and our products. We have not authorised the disclosure of any such information in the press or media which may be untrue and may not reflect what is



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## RISK FACTORS

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disclosed in this prospectus and accordingly do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. You should not rely on any such information contained in any press articles or other media and, in making your decision whether to purchase our Shares, you should rely only on the information included in this prospectus and the Application Forms.

***Our financial results for the year ending 31 December 2016 are expected to be affected by the expenses in relation to the Global Offering and the absence of an one-off gain of disposal, which was recorded in 2015.***

Our financial results will be affected by the expenses in relation to the Global Offering. The non-recurring Listing expenses of approximately HK\$18.5 million recorded for the eight months ended 31 August 2016 and approximately RMB4.2 million expected to be charged from 1 September 2016 to 31 December 2016 (assuming an Offer Price of HK\$1.18 per Share, being the mid-point of the indicated Offer Price range between HK\$1.05 and HK\$1.31, and assuming that the Over-allotment Option is not exercised) will be recognised as administrative expenses in our consolidated statements of profit or loss and comprehensive income in 2016. In addition, an one-off gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) of approximately RMB11.3 million was recorded in 2015 whereas no such gain will be recorded in 2016. Therefore, our financial results for the year ending 31 December 2016 will be affected by the expenses in relation to the Global Offering and the absence of an one-off gain of disposal, which was recorded in 2015.

***Certain undertakings we and our Controlling Shareholders have given pursuant to the Hong Kong Underwriting Agreement may not be enforced effectively by the Sole Global Coordinator and the Hong Kong Underwriters.***

Pursuant to the Hong Kong Underwriting Agreement, we and our Controlling Shareholders have irrevocably and unconditionally undertaken to the Sole Global Coordinator and the Hong Kong Underwriters for an additional 12 months commencing on the expiry date of the first 12 months period after Listing not to, among other things, offer, allot, issue, sell, transfer or dispose of any Shares such that our Controlling Shareholders would, immediately following such events, cease to be a Controlling Shareholder of our Company. Please refer to the subsection headed “Undertakings to the Hong Kong Underwriters Pursuant to the Hong Kong Underwriting Agreement” under the section headed “Underwriting” in this prospectus for further details. Given that these undertakings are given to the Sole Global Coordinator and the Hong Kong Underwriters only and are in addition to the undertakings required to be given by us and our Controlling Shareholders pursuant to Rules 10.07(1) and 10.08 of the Listing Rules, there is a risk that the Sole Global Coordinator and the Hong Kong Underwriters may fail to enforce such undertakings effectively. The issue or sale of a substantial number of Shares by our Company or our Controlling Shareholders (as the case may be) or the market perception that such issue or sale may occur during the said 12-month period could materially and adversely affect the prevailing market price of the Shares.

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## RISK FACTORS

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*Any disposal by Morris Capital, our Controlling Shareholder, of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares.*

There is no guarantee that Morris Capital, our Controlling Shareholder, will not dispose of its Shares following the expiration of its lock-up period after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by Morris Capital may have on the market price of the Shares. Sales of a substantial number of Shares by Morris Capital or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since our head office and substantially all of our business operations are based, managed and conducted in the PRC, our executive Directors are and will continue to be based in the PRC after the Listing. Accordingly, our Company does not, and for the foreseeable future will not, have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules on the following grounds:

- (a) the core business and operations of our Group are primarily based, managed and conducted in the PRC;
- (b) most of our Group's senior management are based outside of Hong Kong and are expected to continue to be based in the PRC;
- (c) most of our Group's assets are based in the PRC;
- (d) for the purposes of the management and operations of our Group, the appointment of additional executive directors who are ordinarily resident in Hong Kong would not only increase the administrative expenses of our Group, but would also reduce the effectiveness and responsiveness of our Board in making business decisions for our Group, especially when business decisions are required to be made within a short period of time. In addition, appointing new executive directors, who may not be familiar with the operations of our Group, to the Board for the sole purpose of satisfying the requirements of Rule 8.12 of the Listing Rules may not be in the best interest of our Company and our Shareholders as a whole;
- (e) if additional executive directors who are ordinarily resident in Hong Kong are appointed, as mentioned in paragraph (d) above, they will not be able to fully understand the daily operations of the core business of our Group or fully appreciate the circumstances surrounding or affecting the core business operations and development of our Group from time to time, as they will not be physically present in the operational and management centre of our Group in the PRC all the time. As such, such executive directors may not be able to exercise their discretion on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the operations and development of our Group; and
- (f) to relocate any of the existing PRC-based executive Directors to Hong Kong may not be desirable as such Directors, after the relocation, will not be able to physically attend to the operations and management of our Group in the PRC at all times, and may encounter the management difficulties as described in paragraph (e) above.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Based on the above reasons, our Directors consider that it would be unduly burdensome and unnecessary for our Company to require two executive directors to be based in Hong Kong simply to maintain the management presence pursuant to Rule 8.12 of the Listing Rules.

In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Group complies with the Listing Rules at all times. The authorised representatives appointed are Mr. Chen Guohua, an executive Director, and Ms. Li Oi Lai, our company secretary. Ms. Li is a Hong Kong permanent resident and Mr. Chen possesses valid travel documents to visit Hong Kong and will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile or email. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, and Ms. Li Oi Lai has been authorised to accept service of legal process and notices in Hong Kong on behalf of our Company. Mr. Chen Guohua, his alternate to be appointed under Rule 3.06(2) of the Listing Rules, and Ms. Li Oi Lai have provided or will provide to the Stock Exchange their mobile and/or office telephone numbers and facsimile numbers.
- (b) each of the authorised representatives has means to contact all members of our Board (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, and the authorised representatives and our Directors, our Company will implement a policy that (a) each of our Directors will provide his mobile phone number, office phone number, email address and facsimile number to the authorised representatives; (b) in the event that a Director of our Company expects to travel and be out of the office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives; and (c) all our Directors will provide their mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Stock Exchange. Our Company have appointed Sinolink Securities (Hong Kong) Company Limited as its compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the date of Listing. The compliance adviser has access at all times to the authorised representatives, our Directors and other senior management of our Company, and act as the alternate channel of communication with the Stock Exchange when the authorised representatives are not available. We ensure that there are adequate and efficient means of communication among itself, its authorised representatives, Directors, other officers and the compliance adviser.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (c) meetings between the Stock Exchange and all our Directors could be arranged through our authorised representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in its authorised representatives and the compliance adviser.
  
- (d) in addition, all our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange within a reasonable period of time, if required.

### CONTINUING CONNECTED TRANSACTIONS

We have entered into, and we expected to continue, certain transactions which will constitute non-exempt continuing connected transactions for our Company under the Listing Rules upon the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed “Connected Transactions” in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief that (i) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and (iii) all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

### **INFORMATION ON THE GLOBAL OFFERING**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner or the Underwriters, any of our or their respective directors, officers, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

### **UNDERWRITING**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The International Offering will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the U.S., except in compliance with the relevant laws and regulations of such jurisdiction.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued as mentioned in this prospectus (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), and any Shares which may fall to be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme.

No part of the Shares or loan capital is listed or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek the listing of or permission to deal in the Shares and loan capital on any other stock exchange.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the Listing of, and permission to deal in, the Shares on the Stock Exchange and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date HKSCC chooses. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted to CCASS.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **EXCHANGE RATE CONVERSION**

Amounts denominated in Hong Kong dollars and U.S. dollars have been translated, for the purpose of illustration only, into RMB, and vice versa, in this prospectus at the rates of HK\$1 to RMB0.8944 and US\$1 to RMB6.9468, respectively, which were the PBOC rates prevailing on the Latest Practicable Date. No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant date converted at the above rates or any other rates or at all.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are not sure about the taxation implications of subscribing for or purchasing, holding or disposing of or dealing in the Shares, you should consult an expert. None of our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, agents or advisers and any other person involved in the Global Offering accepts responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in the Shares.

### **HONG KONG REGISTER OF MEMBERS AND STAMP DUTY**

Our Company's principal register of members will be maintained by our principal share registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong, and only securities registered on the Hong Kong register of members may be traded on the Stock Exchange unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. Unless our Company determines otherwise, dividends payable in HK\$ in respect of the Shares will be paid by cheque sent at the Shareholder's risk to each Shareholder's registered address, or in the case of joint holders, the first-named holder.

### **OVER-ALLOTMENT OPTION AND STABILISATION**

Details of the arrangements relating to the Over-allotment Option and the related stabilisation exercise are set out in the section headed "Structure of the Global Offering" in this prospectus.

### **PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARE**

The procedure for application for the Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including conditions of the Global Offering, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **STOCK BORROWING ARRANGEMENT**

Details of the stock borrowing arrangement are set out in the subsection headed “Stock Borrowing Arrangement” under the section headed “Structure of the Global Offering” in this prospectus.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m on Thursday, 12 January 2017.

The Shares will be traded in board lots of 2,000 Shares each and the stock code is 1575.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, English prospectus shall prevail. However, the translated English names for the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In case of inconsistency in such case, the Chinese name shall prevail.

### **ROUNDINGS**

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

### **WEBSITE**

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. ZOU Gebing (鄒格兵)	No. 41, Lane 3535, Yindu Road Minhang District, Shanghai PRC	Chinese
Mr. CHEN Guohua (陳國華)	Flat 102, No. 51, Block 21 Mei Yuan Sun Li, Haizhou Subdistrict Haining City, Zhejiang Province PRC	Chinese
Mr. ZENG Jin (曾金)	Flat 401, No. 26, Lane 789 Xincun Road, Baoshan District, Shanghai PRC	Chinese
Mr. WANG Ming (王銘)	No. 226 Haizhou West Road Haizhou Subdistrict Haining City, Zhejiang Province PRC	Chinese
<i>Independent non-executive Directors</i>		
Ms. ZHANG Bingbing (張冰冰)	Flat 142, Unit 1, 1/F. 101 Fuwai North Street Xicheng District, Beijing PRC	Chinese
Mr. HUANG Wenli (黃文禮)	No. 38 Zheda Road Xihu District Hangzhou City, Zhejiang Province PRC	Chinese
Mr. SHAO Shaomin (邵少敏)	Flat 301, Unit 2, Block 30 Tao Yuan Xin Cun Xihu District Hangzhou City, Zhejiang Province PRC	Chinese

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information on our Directors.



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### Co-lead Managers

#### **Innovax Capital Limited**

Room 2002, 20/F  
Chinachem Century Tower  
178 Gloucester Road  
Wanchai, Hong Kong

#### **Gransing Securities Co., Limited**

Rm 805-6, Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

#### **Convoy Investment Services Limited**

21/F, Tesbury Centre  
28 Queen's Road East  
Admiralty, Hong Kong

#### **BMI Securities Limited**

Units 909-916, 9/F  
Shui On Centre  
6-8 Harbour Road  
Wanchai, Hong Kong

### Legal advisers to our Company

*As to Hong Kong law:*

#### **Stevenson, Wong & Co.**

4/F, 5/F & 1602  
Central Tower  
28 Queen's Road Central  
Hong Kong

*As to PRC law:*

#### **AllBright Law Offices**

11th, 12th Floor  
Shanghai Tower  
No. 501, Yincheng Middle Rd  
Pudong New Area, Shanghai 200120  
PRC

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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*As to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*As to Cambodia law:*

**Mekong Law Group**

#13, 1st Floor, Street 29  
Sangkat Tonle Bassac  
Khan Chamkarmon  
Phnom Penh  
Cambodia

*As to U.S. law:*

**Mei & Mark LLP**

818, 18th Street NW  
Suite 410  
Washington, DC 20035-3506  
U.S.

**Legal advisers to the Sole  
Sponsor and the Underwriters**

*As to Hong Kong law:*

**Howse Williams Bowers**

27/F Alexandra House  
18 Chater Road, Central  
Hong Kong

*As to PRC law:*

**Jingtian & Gongcheng**

34/F, Tower 3  
China Central Place  
77 Jianguo Road, Chaoyang District, Beijing  
PRC

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Auditors and reporting  
accountants**

**Ernst & Young**  
22/F, CITIC Tower  
1 Tim Mei Avenue Central  
Hong Kong

**Industry Consultant**

**Euromonitor International Limited**  
Unit 01-08, 11/F, Cross Tower  
No. 318 Fuzhou Road  
Shanghai  
PRC

**Compliance Adviser**

**Sinolink Securities (Hong Kong) Company Limited**  
Units 2503, 2505-06, 25/F, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

**Receiving banks**

**Wing Lung Bank Limited**  
16 Floor, Wing Lung Bank Building  
45 Des Voeux Road Central  
Hong Kong

**Bank of Communications Co., Ltd. Hong Kong  
Branch**  
20 Pedder Street, Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters in the PRC</b>	No. 500 Youquan Road Haining Economic Development Zone Zhejiang Province, PRC
<b>Principal place of business in Hong Kong</b>	Unit 6707, 67/F, The Center 99 Queen's Road Central, Hong Kong
<b>Company's website</b>	<a href="http://www.morrisholdings.com.hk"><u>www.morrisholdings.com.hk</u></a> <sup>(Note)</sup>
<b>Company secretary</b>	<b>Ms. LI Oi Lai (李愛麗)</b> (ACIS, ACS, FCPA, FAIA) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Authorised representatives</b>	<b>Mr. CHEN Guohua (陳國華)</b> Flat 102, No. 51, Block 21 Mei Yuan San Li Haizhou Subdistrict Haining City Zhejiang Province PRC  <b>Ms. LI Oi Lai (李愛麗)</b> (ACIS, ACS, FCPA, FAIA) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

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*Note:* The information contained on the website of our Company does not form part of this prospectus.

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## CORPORATE INFORMATION

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<b>Audit committee</b>	Mr. SHAO Shaomin (邵少敏) ( <i>chairman</i> ) Mr. HUANG Wenli (黃文禮) Ms. ZHANG Bingbing (張冰冰)
<b>Remuneration committee</b>	Mr. HUANG Wenli (黃文禮) ( <i>chairman</i> ) Mr. SHAO Shaomin (邵少敏) Ms. ZHANG Bingbing (張冰冰)
<b>Nomination committee</b>	Ms. ZHANG Bingbing (張冰冰) ( <i>chairman</i> ) Mr. SHAO Shaomin (邵少敏) Mr. HUANG Wenli (黃文禮)
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Codan Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Branch Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>Bank of Jiaxing</b> Haining Branch Haining City, Zhejiang Province, PRC  <b>Agricultural Bank of China Limited</b> Haining Sub-branch Haining City, Zhejiang Province, PRC  <b>Ping An Bank Co., Ltd.</b> Jiaxing Haining Branch Haining City, Zhejiang Province, PRC  <b>China Merchants Bank Co., Ltd.</b> Hangzhou Jiefang Branch Haining City, Zhejiang Province, PRC



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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the Euromonitor Report, which was commissioned by us. The Euromonitor Report is intended to reflect estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our Company. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering nor is any representations given as to its accuracy or completeness.*

### SOURCES OF INFORMATION

We commissioned Euromonitor, an Independent Third Party, to conduct a research report on the upholstered sofa industry in the U.S. and the PRC for the period from 2011 to 2020. The report prepared by Euromonitor for us is referred to in this prospectus as the Euromonitor Report. Founded in 1972, Euromonitor is a research institute focused on strategy research for consumer markets. We have included certain information from the Euromonitor Report in this prospectus because we believe such information facilitates an understanding of the industry. We have agreed to pay a total fee of US\$99,373 for the preparation of the Euromonitor Report.

Euromonitor primarily undertook primary and secondary research in preparing the Euromonitor Report. Primary research involved interviews with a sample of leading industry participants and industry experts for latest data and insights on future trends. Secondary research involved reviewing published sources including national statistics and official sources, company reports, independent research reports, and data based on Euromonitor's own research database. All primary and secondary research sources were standardised, cross-checked and analysed by Euromonitor to ensure a robust research feed to their analysis of the information.

The bases and assumptions for the projections in the Euromonitor Report include the following:

- the PRC is expected to maintain steady macro-economic growth from 2016 to 2020 (“**the Forecast Period**”);
- the social, economic and political environment in the PRC is expected to remain stable during the Forecast Period;
- there will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of upholstered sofa in China and the U.S. during the Forecast Period; and
- key market drivers such as economy and real estate market's growth, continued urbanisation, improved distribution network are expected to boost the development of upholstered sofa market in China and the U.S..

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## INDUSTRY OVERVIEW

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Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information since the issue date of the abovementioned sources which may qualify, contradict or have adverse impact on the information in this section.

We have extracted certain information from the Euromonitor Report in this section, as well as in the sections headed “Summary”, “Risk Factors”, “Business”, “Financial Information” and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

### OVERVIEW OF THE GLOBAL UPHOLSTERED SOFA INDUSTRY

The modern industrial production of upholstered sofa originated from Europe in the early 20th century. However, as a labour-intensive industry, the production of upholstered sofa has been gradually transferred to developing countries with lower labour costs and abundant supply of raw materials.

China is currently a major producer of upholstered sofas and the largest exporter in the world. According to the statistics from the International Trade Centre, a subsidiary organisation of the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD), China accounted for approximately 50% of the global export value of upholstered sofas in 2015, followed by Poland (11%), Italy (7%), Germany (3%) and the U.S. (3%). It is expected that China will maintain its leading position in the global upholstered sofa production industry in the coming years, due to its relatively low costs, mature manufacturing techniques, as well as the manufacturers’ efforts in enhancing technical strength, enabling it to serve the mid-to-high-end market globally.

Nevertheless, some Southeast Asian countries, such as Vietnam have increased their competitiveness in upholstered sofa exports in recent years, which was primarily due to the increasing labour cost in China in recent years. For instance, Vietnam has demonstrated its potential for the development of upholstered sofa manufacturing and exporting industry based on its relatively stable economy, abundant labour force supply and comparatively lower labour costs. However, in comparison to China and developed countries such as Germany and the U.S., these Southeast Asian countries are usually constrained by certain domestic problems such as frequent labour strikes, unstable electricity supply and high humidity climate which may adversely affect the development of upholstered sofa industry. Faced with the increasingly fierce competition, manufacturers of upholstered sofas in China continue to upgrade the manufacturing techniques and design capabilities, and enhance the awareness of the manufacturers’ own brands to maintain their market position and compete with the high-end upholstered sofa manufacturers in Europe.

The global economy is expected to continue its recovery in the Forecast Period. IMF predicted that the world’s real GDP growth will increase to 3.2% in 2016 and 3.5% in 2017, as compared with 3.1% in 2015. In particular, the U.S., as the world’s major importer and consumer of upholstered sofas, is outperforming as compared to other developed economies. The recovering real estate market and consumer sentiment in the U.S. are expected to boost the demand for upholstered sofa in the Forecast Period. Since the developed countries rely heavily on the import of upholstered sofa, the growing demand will also provide opportunities for major upholstered sofa manufacturing countries to increase their production and export. In addition, developing countries’ demand for upholstered sofa is expected to remain robust due to their domestic economic growth and consumers’ improving disposable income in those countries. For example, the recovery in China’s real estate market is expected to increase the demand for upholstered sofas. In addition, the continuous effort from manufacturers on new product launch, improvement in textile and manufacturing crafts, and the diversity in design and style will also promote the development of the global upholstered sofa industry.

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## INDUSTRY OVERVIEW

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### OVERVIEW OF THE UPHOLSTERED SOFA MARKET IN THE U.S.

#### Growth of economy and consumer spending in the U.S.

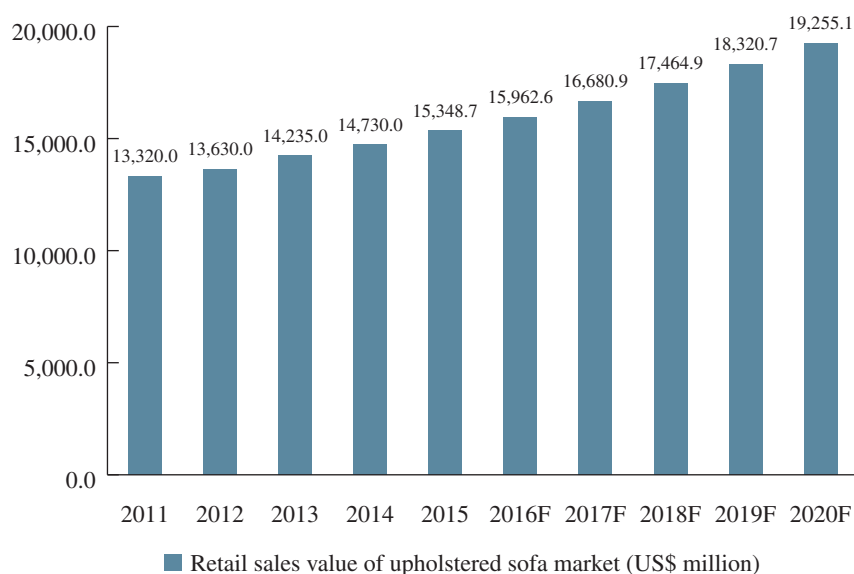
The economy of the U.S. rebounded from the global financial crisis in the late 2008. According to the statistics from the World Bank and International Monetary Fund, real gross domestic product of the U.S. grew by 2.6% in 2015 and will grow by 2.8%, 2.8% and 2.7% from 2016-2018, respectively. Personal disposable income and consumer spending per household grew as a result of improving macroeconomic environment of the U.S..

According to the World Bank, gross national income and gross national income per capita of the U.S. increased at a CAGR of approximately 3.5% and 2.2% from 2011 to 2015 respectively. In addition, personal disposable income increased at a CAGR of approximately 1.2% from 2011 to 2015, and reached approximately US\$38,000 in 2015. With the increasing personal disposal income, consumer spending per household increased in line with it and grew at a CAGR of approximately 3.0% from 2011 to 2015, and reached to approximately US\$55,978 in 2015.

#### Size and growth of the retail upholstered sofa market

The retail upholstered sofa market in the U.S. has experienced steady growth in recent years. The market size of retail upholstered sofa market increased from US\$13.3 billion in 2011 to approximately US\$15.3 billion in 2015, representing an increase of a CAGR of approximately 3.6%. For the forecast period, the retail upholstered sofa market in the U.S. is estimated to grow at a CAGR of 4.8% and reach approximately US\$19.3 billion in 2020. The following chart illustrates the retail sales value of upholstered sofa in the U.S. for the period from 2011 to 2015 and the Forecast Period.

**Retail sales value of upholstered sofa in the U.S., 2011-2020**



Source: Euromonitor estimates from trade interview and desk research

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## INDUSTRY OVERVIEW

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### **Segment of sofa market in the U.S.**

The upholstered sofa market in the U.S can be divided into high-end market and mass market. The mass upholstered sofa market in the U.S. is defined often by price point, as many retailers and manufactures offer a wide range of prices. This mass market for upholstered sofas is referred to as “budget” with a price point of US\$800 or below. In 2015, our Company sold sofas to its customers, i.e. retailers, at an average selling price of RMB1,256, or approximately USD181. Retailers typically sell the sofas to the end users at an average price of approximately USD344. Therefore, the pricing of the upholstered sofas produced by our Company falls into the mass market segment. In addition, most of our customers are retailers targeting the mass market.

### **Size and growth of the mass upholstered sofa market in the U.S.**

The mass upholstered sofa market accounted for approximately 48.4%, or USD7.4 billion, of the overall upholstered sofa market in terms of retail sales value in the U.S. in 2015. The mass upholstered sofa market in the U.S. is growing faster than the premium market today. When shopping for upholstered sofas, American consumers are most focused on getting a good deal and looking for the best quality at the lowest price possible, which continues to drive the mass market growth. In recent years, there has also been an increased availability and selection of mass upholstered sofas offered at a variety of retailers. Traditional furniture stores remain popular choices for often more premium priced products while mass merchandisers and online outlets are becoming much more popular with consumers offering larger selections of more budget friendly upholstered sofas.

### **Channel of upholstered sofas sales in the U.S.**

Upholstered sofas are typically sold in the U.S. through furniture specialist retailers, online shops, retail chains and/or department stores. Furniture specialist retailers are the largest channel for sales of upholstered sofas in the U.S., which accounted for approximately 70% of the upholstered sofas sold in the U.S. in 2015. Online shops, retail chains, department stores and other retail channels (such as home shopping and warehouse clubs) and other non-grocery specialist retails accounted for approximately 9%, 8%, 3% and 10% of the upholstered sofas sold in the U.S. in 2015, respectively.

### **Import of upholstered products into the U.S.**

China is the largest trading partner for the U.S.’s imports of upholstered sofas. In 2015, China’s exports of upholstered sofas accounted for more than 60% of the U.S.’s total import value of upholstered sofas according to the statistics from the International Trade Centre. Other major trading partners for the U.S. include Canada, Mexico and Italy. Import value of upholstered wooden framed seats, upholstered metal framed seats and seats that can be convertible into beds, in aggregate, increased from US\$4.3 billion in 2011 to US\$6.8 billion in 2015, representing a CAGR of approximately 12.1% between the period from 2011 to 2015, among which the import of upholstered wooden framed seats grew at approximately 12.1%, import of upholstered metal framed seats grew at approximately 12.3% and seats that can be convertible into beds imports grew at approximately 10.7%. As (i) the U.S. dollar remains strong; (ii) the U.S. real estate market continues to grow; and (iii) unemployment rate in the U.S. continues to decrease, the growth of import of sofas is expected to continue.

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## INDUSTRY OVERVIEW

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### OVERVIEW OF THE UPHOLSTERED SOFA PRODUCTION EXPORT INDUSTRY IN THE PRC

#### Growth of upholstered sofa market in the PRC

China is also currently the largest upholstered furniture producer in the world. Along with the continuous upgrade of production equipment and technique, and domestic manufacturer's relentless efforts to improve product quality and ability of research and development, the sales value of the PRC domestic sofa manufacturers grew steadily at a CAGR of approximately 6.1% for the period from 2011 to 2015 from RMB119.0 billion in 2011 to RMB150.7 billion in 2015.

It is expected that in the Forecast Period, the continued progress in urbanisation, steadily rising household income, government's efforts to regulate the housing market and expected measures to prop up the upholstered furniture industry will drive the growth in domestic sales of upholstered sofas. The following chart illustrates the sales value of the PRC domestic sofa manufacturers for the period from 2011 to 2015 and the Forecast Period:

**Sales value of PRC domestic sofa manufacturers, 2011-2020**



#### Historical price trends of major raw materials

Genuine leather, foam, cloth, wood and hardware are the major materials for manufacturing upholstered sofas, of which genuine leather accounts for approximately 40% of the total cost of raw materials for manufacturing leather sofas. Many PRC based manufacturers of upholstered sofas decide to import raw cowhide due to limited domestic supply of cowhide. According to statistics from China Customs, the average import price of raw cowhide grew from US\$2,350 per tonne in 2011 to US\$2,550 per tonne in 2015, representing a CAGR of approximately 2.1%. Raw cowhide prices are largely determined by slaughter volume and changes in demand for raw cowhide from downstream industries, such as home furniture, apparel and footwear. Meanwhile, more manufacturers, after taking into consideration of environmental impact or raw cowhide processing, have started to import wet blue leather,

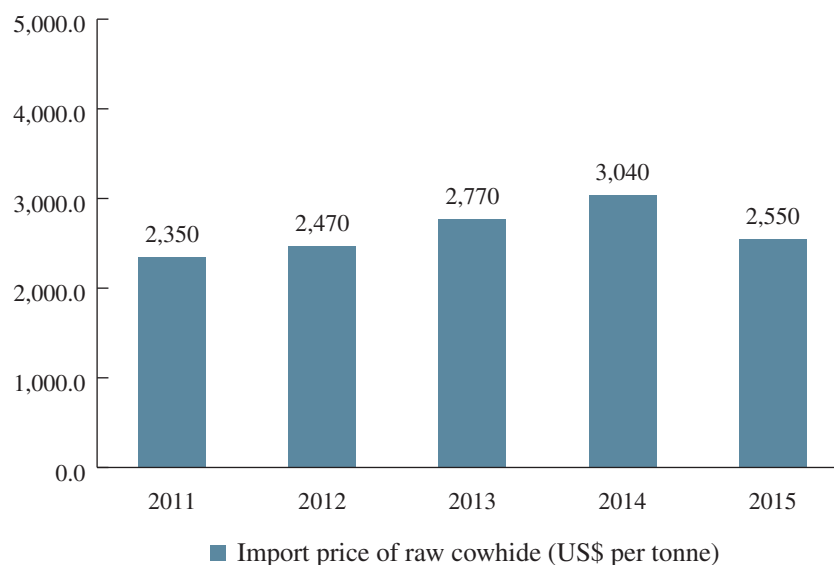
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which is the leather product after tanning process, to replace raw cowhide. The average price of imported wet blue leather increased from US\$3,230 per tonne in 2011 to US\$3,400 per tonne in 2015, representing a CAGR of approximately 1.3% during the period from 2011 to 2015. Brazil and the U.S. are China's main source of wet blue leather. The following charts illustrate the import prices of raw cowhide and wet blue leather in China for the period from 2011 to 2015:

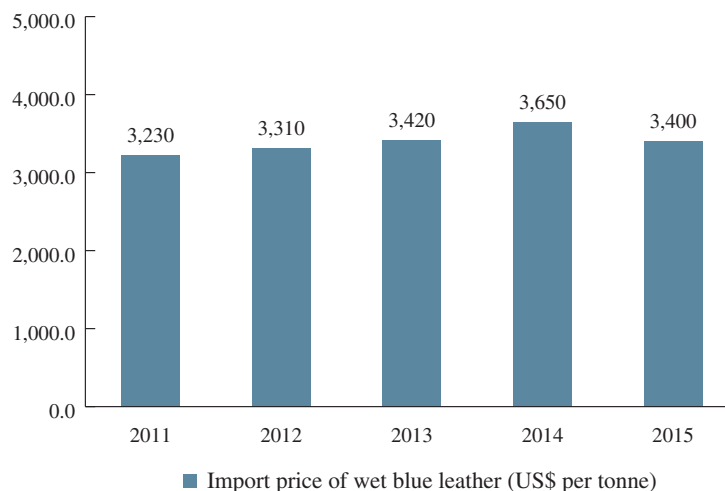
**Import price of raw cowhide in China, 2011-2015**



*Source: General Administration of Customs of the People's Republic of China*

*Note: Import price of raw cowhide is the average price of Hscode 41015019, which referring to whole bovine hide/skin, >16kg.*

**Import price of wet blue leather in China, 2011-2015**



*Sources: General Administration of Customs of the People's Republic of China*

*Note: Import price of wet blue leather is the average price of Hscode 41041111, which referring to full grains bovine skin leather, wet-blue, tanned or crust, no hair, wet state.*

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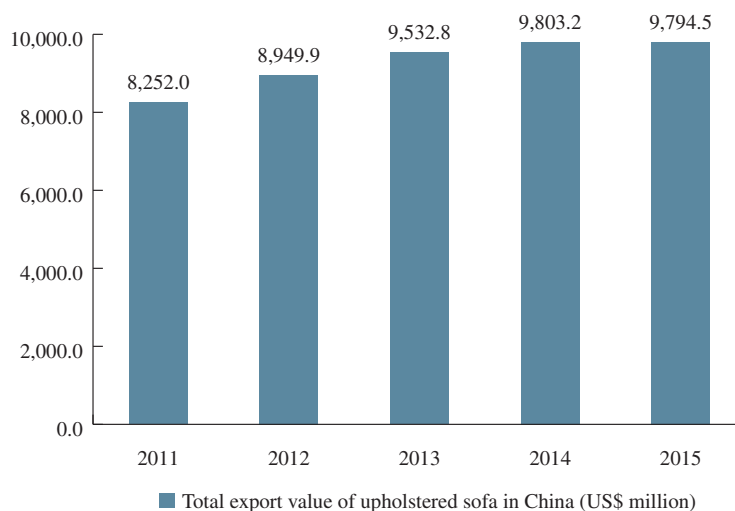
## INDUSTRY OVERVIEW

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### Growth of upholstered sofa exports in the PRC

China is the world's largest exporter of upholstered sofas, accounting for about half of global upholstered sofas trade value in 2015. Over the period of 2011-2015, China's upholstered sofas exports grew at a CAGR of approximately 4.4%, and reached US\$9,794.5 million in 2015. The chart below illustrates the total export value of upholstered sofas in the PRC from 2011 to 2015:

**Export value of upholstered sofa in China, 2011-2015**



*Source: Euromonitor estimates from trade interviews, desk research and General Administration of Customs of the People's Republic of China*

*Note: Total export value of upholstered sofa also included the export value of leather sofa covers.*

### Export price of upholstered sofas

According to General Administration of Customs of the PRC, the average export price of wooden-framed upholstered sofas was approximately US\$111 per unit in 2015, with a CAGR of approximately 6.3% for the period from 2011 to 2015. The increase in the export price of upholstered sofas during the period from 2011 to 2015 was largely driven by the increased cost of labour and raw materials as well as the appreciation of the RMB.

### Fluctuations of exchange rate of RMB against USD

According to the National Bureau of Statistics of China, the RMB appreciated against the U.S. dollar from RMB645.88 for US\$100 in 2011 to RMB622.84 for US\$100 in 2015. The appreciation of the RMB devalued PRC based exporters' foreign assets and foreign income which resulted in exchange losses. The appreciation of the RMB has also adversely affected sofa export market in the PRC as the sofas become more expensive in U.S. dollar terms.

The appreciation of RMB has come to a halt in 2015, which was mainly attributable to an increase in interest rates by the U.S. Federal Reserve at the end of 2015. The appreciation of U.S. dollar may lead to higher profit margin of the PRC based exporter.

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### KEY ENTRY BARRIERS

The following is a summary of the key entry barriers to the upholstered sofas industry, according to the Euromonitor Report:

#### Brand building

Brand recognition and reputation are the key factors affecting consumers' decision on the purchase of durable goods such as furniture and sofas. A brand is a comprehensive reflection of product quality and design. Consumers tend to trust and stick to well-known and reputable brands. However, brand building is usually a long process that requires long-term investment, construction and management.

#### Customer resource

Both domestic and overseas customers are critical to upholstered sofa manufacturers in the PRC. Overseas customers of upholstered sofas are mainly large furniture retailers and well-known furniture brand owners, while domestic customers of upholstered sofas are mainly distributors and consumers. Overseas customers usually require higher standards of product quality and design than domestic customers in general. Sofa manufacturers usually have to spend a lot of time and efforts to build relationship with its overseas customers. For new entrants into the upholstered sofa manufacturing industry, building a stable and quality customer base is a high entry barrier.

#### Design and research and development

Consumers' demand for personalised and differentiated products has been increasing. Design, research, innovation and development capabilities have become the main competitive advantages of upholstered sofa manufacturers. Strong design and research capabilities enable the sofas exporter to provide more varieties of high value-added products for customers and stand out from the competition.

#### Craftsmanship and production technique

Sophisticated, exquisite and quality-focused craftsmanship and production technique have been becoming one of the core competitiveness of upholstered sofa manufacturers. For a potential entrant into the upholstered sofa manufacturing industry, it is difficult to ensure its product quality and control its production costs without an experienced technical team and sophisticated production techniques.

### EXPORT LANDSCAPE OF UPHOLSTERED SOFA TO THE UNITED STATES

#### The U.S. is China's largest upholstered sofa export destination

The U.S. is China's largest export market for upholstered sofas. During the period from 2011 to 2015, upholstered sofa exports to the U.S. accounted for about 30% of China's total exports of upholstered sofas in terms of export value. China's exports of upholstered sofas to the U.S. increased from US\$2,537.7 million in 2011 to US\$3,400.0 million in 2015,



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## INDUSTRY OVERVIEW

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representing a CAGR of approximately 7.6%. In 2015, the U.S. economy continued to recover with lower unemployment rate, growing household income and consumer spending and booming housing market. Accordingly, demand for upholstered sofas is expected to rise. China's upholstered sofa exports to the U.S. are estimated to grow at a moderate rate within the Forecast Period. During the Forecast Period, the U.S. will remain as China's most important trading partner for upholstered sofas. The following chart illustrates the total export value of upholstered sofas to the U.S. from 2011 to 2015.

**Export value of upholstered sofa to the U.S., 2011-2015**



*Source: Euromonitor estimates from trade interviews, desk research and General Administration of Customs of the PRC*

*Note: Total export value of upholstered sofa also included the export value of leather sofa covers.*

Most of the upholstered sofa manufacturers in China serve as OEMs of U.S. customers, which are mainly furniture brand owners and home furnishing retailers. Usually, U.S. furniture brand owners outsource manufacturing processes to sofa manufacturers in the PRC with confirmed design and specification. Large furniture retailers in the U.S. also cooperate with ODMs in China by outsourcing both design and manufacturing processes to their suppliers in the PRC.

### COMPETITIVE LANDSCAPE OF EXPORT MARKET TO THE UNITED STATES

#### **Fragmented industry**

The market of upholstered sofa exported from the PRC to the U.S. is highly fragmented, with the top ten players taking approximately 33.7% of the market share in terms of sales value in 2015. In 2015, only four upholstered sofas exporters each realised an aggregate export value of over US\$100 million. Meanwhile, our Company was the second largest upholstered sofa manufacturer in the PRC in terms of export value to the U.S. in 2015.

The majorities of the upholstered sofa manufacturers in China competing with our Company are targeting the mass market. Among the top 10 China-based companies exporting upholstered sofas to the US measured by export value, 8 companies target the mass market in the US.

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### Top 10 upholstered sofa manufacturers in terms of export value to the U.S., 2015

Rank	Company Name	Export value of upholstered sofas to the U.S. (US\$ million) <sup>Note 1</sup>	Share (% 2015)
1	Competitor A	333.8	9.8%
2	Our Company	121.0	3.6%
3	Competitor B	115.0	3.4%
4	Competitor C	105.7	3.1%
5	Competitor D	89.5	2.6%
6	Competitor E	82.2	2.4%
7	Competitor F	77.3	2.3%
8	Competitor G	76.0	2.2%
9	Competitor H	75.7	2.2%
10	Competitor I	70.4	2.1%
	<b>Subtotal</b>	1,146.6	33.7%

*Sources: General Administration of Customs of the People's Republic of China*

*Note 1:*

- Export value of upholstered sofa and leather sofa cover comprises value of HS codes 940161, 940171, 940140 and 42050010.
- HS code 940161: Seats with wooden frames, upholstered
- HS code 940171: Seats with metal frames, upholstered
- HS code 940140: Seats excluding garden seats or camping equipment, convertible into beds
- HS code 42050010: Seat cover, of leather or composition leather

*Note 2:*

As at Latest Practicable Date, Competitor A and Competitor C were listed on the Stock Exchange. Competitor D is the group company of a company listed on the New York Stock Exchange.

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## REGULATORY OVERVIEW

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### OVERVIEW

Our business operations are subject to respective supervisions and regulations from the PRC and Cambodian governments. Below is a summary of laws, regulations and policies which are material to our Group:

### REGULATORY REQUIREMENTS IN THE PRC

#### Laws and regulations relating to the upholstered furniture industry requirement

According to the *Catalogue of Industries for Guiding Foreign Investment (2015 revised)* (外商投資產業指導目錄(2015年修訂)) issued by MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (“NDRC”) on 10 March 2015, which became effective on 10 April 2015, the industries listed in this catalogue are divided into three categories, which are encouraged, restricted and prohibited category. Upholstered furniture industry does not belong to the abovementioned three categories.

Pursuant to the *Guiding Catalogue of Industry Structure Adjustments (2011 Version)* (產業結構調整指導目錄(2011年本)) promulgated by the NDRC on 27 March 2011, revised on 16 February 2013 and became effective on 1 May 2013, the industries listed in this catalogue are divided into three categories, which are encouraged, restricted and eliminated category. Any industry in accordance with the laws, regulations and policies and not belonging to the three categories shall be classed as “permissible”, which are not included in the catalogue. As such, the upholstered furniture industry is classified as “permissible”.

*GB 5296.6-2004 Instruction for Use of Consumer Products – Part 6: Furniture* (消費品使用說明第6部分:家具), which took effect on 1 October 2004, was promulgated by the Standardisation Administration of the PRC (國家標準化管理委員會) and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局). This rule provides the basic requirements, methods, and contents to be included for the preparation of furniture manuals, which include the following: (i) a manual must be included with all sales of furniture; (ii) in accordance with the national or industrial standards, the name of the furniture item must reflect the real item; (iii) the manual must clearly define the purpose and application under the specified environmental conditions; (iv) the furniture item must comply with relevant national safety, health, environmental protection laws, rules, regulations and standards; (v) the manual must also specify any special attention required for the usage of such furniture item; (vi) the manual should be amended accordingly when the structure, form and material changes; (vii) all manuals must clearly state the description and production date of the furniture item and date of press of the manual; (viii) the information contained in the manual must be consistent with the related advertisements and promotional materials; and (ix) if applicable, the manual must state “Before installation or usage, please read the instructions carefully.” on the cover page.

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*Industry Standards of Light Industry of PRC QB/T 1952.1-2012 Upholstered Furniture: Sofa* (中華人民共和國輕工行業標準:軟體家具沙發 (QB/T 1952.1-2012)), released by the Ministry of Industry and Information Technology of PRC (中華人民共和國工業和信息化部) on 7 November 2012 and implemented on 1 March 2013, applies to the sofas that are designed for indoor use. These standards provides for the (i) terminology and definition of sofas; (ii) sofa categorisation in terms of cover materials and functions; (iii) detailed requirements for measurements and exterior symmetry, materials and processing, appearance and function, physical and chemical properties, safety and instruction manuals; (iv) testing of the aforesaid requirements; (v) inspection rules in terms of type inspection and factory inspection; and (vi) standards on marks, packaging, transportation and storage. These standards serve as recommended standards to be observed by industry players at their discretion and are of no mandatory force.

### **Laws and regulations relating to import and export of goods**

The *Foreign Trade Law of the PRC (2004 Revision)* (中華人民共和國對外貿易法) (the “**Foreign Trade Law**”) promulgated by the NPC on 12 May 1994, amended on 6 April 2004, 7 November 2016 and effective as at 7 November 2016, the State allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. According to the provisions of the Foreign Trade Law, the State may restrict or prohibit the import or export of relevant goods or technologies for any of the following reasons: (1) the State needs to restrict or prohibit import or export in order to maintain national security, public interests or public morals; (2) the State needs to restrict or prohibit import or export in order to protect the health or safety of the people, the lives or health of animals and plants, and the environment; (3) the State needs to restrict or prohibit import or export in order to implement measures related to gold or silver import and export; (4) the State needs to restrict or prohibit export due to short supply in the PRC or in order to effectively protect natural resources that are likely to be exhaustible; (5) the State needs to restrict export due to the limited market capacity of importing countries or regions; (6) the State needs to restrict export due to the serious disorder of export; (7) the State needs to restrict import in order to establish or step up establishing specific industries in the PRC; (8) it is necessary to restrict the import of agricultural, animal husbandry and fishery products in any form; (9) the State needs to restrict import in order to maintain the State’s international financial status and balance of international payments; (10) the State needs to restrict or prohibit import or export for other reasons in accordance with the provisions of laws and administrative regulations; and (11) the State needs to restrict or prohibit import or export for other reasons in accordance with the provisions of international treaties and agreements that China has concluded or acceded to. As for the products of our Group, namely sofas, sofa covers and other furniture products, such products do not belong to the “restricted” or “prohibited” import or export of goods.

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The *Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators* (對外貿易經營者備案登記辦法) promulgated by the MOFCOM on 25 June 2004 (amended on 18 August 2016) require enterprises engaged in import or export of goods or technology to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council. According to the local authority, our Group companies which engage in import or export of goods in the PRC are not required to apply for filing registration since they are either wholly foreign owned enterprise or sino-foreign equity joint venture.

According to the *Customs Law of the PRC* (中華人民共和國海關法) promulgated by the Standing Committee of the NPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016, where an enterprise engages in import or export of goods which goes through customs declaration formalities, it shall be subject to registration by customs or shall authorise a customs clearing enterprise to handle customs declaration formalities. Our Group companies which engage in import and export business have obtained the relevant certificate and conduct online annual inspection every year.

### **Laws and regulations relating to product quality**

According to the *PRC General Principles of Civil Law* (中華人民共和國民法通則), manufacturers and sellers of defective products are subject to civil liability for damages or injuries caused by their products. Liable manufacturers and sellers may seek indemnification from shippers or storers of the products who are actually responsible for the damages or injuries

According to the *PRC Product Quality Law* (中華人民共和國產品質量法), the *PRC Law on Protection of Consumer Rights and Interests* (中華人民共和國消費者權益保護法) and the *PRC Tort Law* (中華人民共和國侵權責任法), a retailer must repair, exchange or accept for return defective or flawed products and compensate consumers for their losses caused by the products. Manufacturers of defective or flawed products are also liable for the losses suffered by consumers. Consumers may seek compensation from manufacturers, distributors or retailers for physical injuries or property damages caused by defective or flawed products. Distributors and retailers may claim manufacturers of defective or flawed products for the compensation paid to the consumers. Manufacturers may also claim from retailers who are responsible for product defects or flaws.

### **Laws and regulations relating to work safety**

*Work Safety Law of the PRC* (中華人民共和國安全生產法) promulgated by the Standing Committee of NPC on 29 June 2002, amended on 27 August 2009 and 31 August 2014, requires production entities to meet the relevant legal requirements, such as providing their staff with training and handbooks on production safety, and providing safe working conditions in compliance with relevant laws, rules and regulations. Our Group has manufacturing facilities in the PRC. If a work safety related accident occurs in our manufacturing facilities, we may have to bear the liability to compensate the injured employee or a third party.

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### Laws and regulations relating to environmental protection

The *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), which was promulgated by the Standing Committee of NPC and amended on 24 April 2014, and became effective on 1 January 2015, establishes the legal framework for environmental protection in the PRC. The Ministry of Environmental Protection of the PRC supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

The latest amendment of *Environmental Protection Law* became effective on 1 January 2015, pursuant to which enterprises that discharge pollutants shall take measures to prevent and control pollution and other hazards caused to the environment by waste gas, waste water, waste residues, medical wastes, dust, malodorous gases, radioactive substances, noise, vibration and optical and electromagnetic radiation generated in the course of production, construction or other activities. Enterprises that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel. In addition, key pollution discharge entities shall truthfully disclose the names of their major pollutants, discharge modes, emission concentration and total emissions, excessive emissions as well as the construction and operation of pollution prevention and control facilities and accept the social supervision. Enterprises that illegally discharge pollutants are fined or ordered to make corrections, and if they refuse to do so, the administrative authorities that made the penalty decisions may, as at the date after the order of making corrections, impose continuous punishment on a daily basis based on the original fines.

The PRC government successively promulgates a series of laws and regulations with regard to environmental protection. After the disposal of Haining Mengnu Leather Products Co., Ltd. in 2015, details of which as set out in the subsection headed “Disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司)” under the section headed “History, Reorganisation and Corporate Structure” in this prospectus, our Group is no longer involved in any polluting industry.

### Laws and regulations relating to foreign investment

The establishment, operation and management of corporate entities in the PRC are governed by the *Company Law of the PRC* (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated on 29 December 1993, and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from 1 March 2014, pursuant to which there is no longer a prescribed time frame for the shareholders to make full capital contribution to a company, except in situations where there are requirements otherwise in other relevant laws, administrative regulations and State Council decisions. Instead, shareholders are

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only required to state the capital amount that they commit to subscribe in the articles of association of the company. Further, the initial payment of a company's registered capital is no longer subject to a minimum amount requirement and the business licence of a company will not show its paid-up capital. In addition, shareholders' contribution of the registered capital is no longer required to be verified by capital verification agencies.

The *Law of the PRC on Foreign-funded Enterprises* (中華人民共和國外資企業法) (the "**Law on Foreign-funded Enterprises**") which was promulgated on 12 April 1986, amended on 31 October 2000, 3 September 2016 and came into effect on 1 October 2016, forms the fundamental legal basis for the PRC government to regulate a wholly foreign-owned enterprise. According to the Law on Foreign-funded Enterprises, for enterprises which are not subject to the implementation of special administrative measures for admission stipulated by the State, examination and approval matters concerning establishment, division, merger or other major changes of foreign-owned enterprises shall be subject to filing administration.

According to the *Rules for the Implementation of the Law of the PRC on Foreign-funded Enterprises* (中華人民共和國外資企業法實施細則) promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, foreign-funded enterprises may pay dividends only out of their accumulated profits, determined in accordance with PRC accounting standards and regulations. Foreign-funded enterprises are also required to set aside at least 10% of their respective after-tax profits each year, if any, to fund certain statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of their registered capital and to allocate a discretionary portion of their respective after-tax profits to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

### **Laws and regulations relating to taxation**

#### **(1) Enterprise income tax**

The EIT Law and *Implementing Rules for the Enterprise Income Tax law of the PRC* (中華人民共和國企業所得稅法實施條例) which came into effect on 1 January 2008 replaced the *Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises* (中華人民共和國外商投資企業和外國企業所得稅法) and the *Provisional Regulations of the PRC On Enterprises Income Tax* (中華人民共和國企業所得稅暫行條例). The revised EIT Law applies a unified EIT rate of 25% to both domestic enterprises and foreign-invested enterprises and stipulates respective transitional periods and measures. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in China, or (ii) have no entities or premises but have income generated from China. According to the EIT Law, foreign invested enterprises in the PRC are subject to enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay

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enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 20% on its income sourced from the PRC.

### (2) *Value-added tax*

The *Interim Regulation of the PRC on Value-Added Tax (2008 Revision)* (中華人民共和國增值稅暫行條例), promulgated by the State Council and amended on 5 November 2008 and 6 February 2016, and came into effect on 6 February 2016. In accordance with this regulations and the *Implementing Rules of the Interim Regulations on Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例實施細則) which were promulgated by the Ministry of Finance and the SAT on 18 December 2008 and were amended on 28 October 2011 and came into effect on 1 November 2011, value-added tax (“VAT”) is imposed on goods sold in or imported, and provision of processing, repair and replacement service within the territory of the PRC. The value-added rate shall be 17% or 13%.

### (3) *Dividend tax*

According to the EIT Law, and *Implementing Rules for the Enterprise Income Tax law of the PRC* (中華人民共和國企業所得稅法實施條例), dividends paid by foreign-invested companies to their foreign investors that are non-resident enterprises those have no establishment or premises in the PRC or have establishment or premises but their income has no actual connection to such establishment or premises are subject to withholding tax at a rate of 10%, unless otherwise provided in the relevant tax agreements entered into with the central government of the PRC. According to the *Specification of Arrangements between the Mainland of China and the Hong Kong Special Administrative Region on Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income* (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (“**Tax Arrangements**”) executed and agreed by the PRC government and Hong Kong, where the beneficial owner is a company directly owning at least 25% of the capital of the company which pays the dividends, the tax so charged shall not exceed 5% of the gross amount of the dividends. In any other case, the tax so charged shall not exceed 10% of the gross amount of the dividends. According to the *Notice on How to Understand and Define the “Beneficial Owner” Stipulated in the Tax Arrangements* (關於如何理解和認定稅收協定中“受益所有人”的通知) promulgated by the SAT on 27 October 2009, the “beneficial owner” shall be the person entitled to be the ownership and control of the rights and property incurred from income or income. The “beneficial owner” may be an individual, a company or any other body of persons. An agent or conduit company shall be excluded from the definition of “the beneficial owner”. A conduit company means a company established for the purpose of avoiding or reducing tax, transfer or accumulation of profit. Such a company is registered in its country only to satisfy the applicable laws and regulations, and is not involved in any substantive business activities such as manufacturing, sales or management.



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Pursuant to the *Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident reaches the percentages specified in the tax agreement; and (iii) the equity interests of the PRC resident company directly owned by such tax resident at any time during the 12 months prior to receiving the dividends reach a percentage specified in the tax agreement.

According to the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties* (非居民享受稅收協定待遇管理辦法), which came into force on 1 November 2015, if a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the preferential tax treatments under the tax agreements, it shall submit an application for approval to the competent tax authority.

#### **(4) Export tax rebate**

For the purpose of avoiding double taxation on exported commodities, the PRC government practices the tax rebate system in connection with foreign trade export commodities, that is, paying back the VAT to the enterprises on the basis of different product tax rebate. According to the *Circular of the State Administration of Taxation on Issuing the Measures for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation)* (出口貨物退(免)稅管理辦法(試行)) promulgated by the SAT on 16 March 2005 and came into effect on 1 May 2005, as regards to goods exported by an exporter or goods exported thereby upon entrustment, except as otherwise specified, after export customs declaration and financial accounting for sales, the exporter may report to the office of the State Taxation Bureau at the domicile for the approval of rebate or exemption of VAT or consumption tax with the relevant vouchers. The scope of tax rebate (exemption) of exported goods, tax rebate rate and tax rebate (exemption) methods shall be implemented in accordance with relevant provisions of the State.

#### **(5) Administration of transfer pricing**

According to the EIT Law and *Law of the PRC on the Administration of Tax Collection (Revision 2015)* (中華人民共和國稅收徵收管理法(2015修訂)) which was promulgated by the Standing Committee of NPC and became effective on 24 April 2015, where business dealings between an enterprise and its interested parties fail to comply with the independent transaction principle, and reductions are made to the taxable income or the amount of income of the enterprise or its interested parties, the tax authorities have a right to make adjustments according to a reasonable method.

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Pursuant to *the Implementation Measures for Special Tax Adjustment (for Trial Implementation)* (特別納稅調整實施辦法(試行)) (“**Circular 2**”), promulgated by SAT and became effective on 1 January 2008, and *Announcement of the State Administration of Taxation on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation* (國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告) which became effective on 29 June 2016, the tax authorities shall have the right to determine enterprises to be investigated and carry out transfer pricing investigation and adjustment. An enterprise under investigation shall truthfully report its related party transactions and provide, and shall not refuse or conceal, the relevant materials. When submitting yearly tax returns for enterprise income tax to the tax authorities, resident enterprises implementing tax assessment based on examination of accounts and non-resident enterprises which have established an organization or premises in China and are subject to declaration and payment of enterprise income tax shall declare related party transactions with their related parties, and attach a Report of Yearly Related Party Business Transactions of Enterprises in the People’s Republic of China (2016 Version).

### **Laws and regulations relating to labour and employment**

The *Labour Law of the PRC* (中華人民共和國勞動法) promulgated by the Standing Committee of NPC on 5 July 1994 and came into effect on 1 January 1995 and amended on 27 August 2009, together with the relevant laws and regulations, emphasises issues on working hours, rest and vacations, and the principle of distribution of wages and equal pay for equal work, establishes a system of guaranteed minimum wages and provides special protection to female staff and juvenile workers.

The *Labour Contract Law of the PRC* (中華人民共和國勞動合同法) promulgated by the Standing Committee of NPC on 29 June 2007 and revised on 28 December 2012 is applicable where the employers establish labour relationships with employees through concluding, performing, modifying, revoking or terminating labour contracts with them. Labour contracts in written form shall be executed to establish labour relationship between employees and employers, and the labour contracts consist of fixed-term labour contracts, open-ended labour contracts and labour contracts that expire upon completion of given jobs. Where the employer fails to conclude a written labour contract with an employee for more than a month but less than a year from the date of employment, it shall pay the worker two times his salary for each month. In addition, the conditions of concluding open-ended labour contracts and the payable financial compensation undertaken by employers shall also be emphasised in this law.

### **Laws and regulations relating to social insurance**

According to the *Labour Law of the PRC* (中華人民共和國勞動法), the *Decisions of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises* (國務院關於建立統一的企業職工基本養老保險制度的決定), issued on 16 July 1997, the *Decisions of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees* (國務院關於建立城鎮職工基本醫療保險制度的決定), promulgated on 14 December 1998, the *Regulation on Work-related Injury Insurance* (工傷保險條例),

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issued on 27 April 2003 and amended on 20 December 2010, the *Regulation on Unemployment Insurance* (失業保險條例), promulgated on 22 January 1999, the *Provisional Insurance Measures for Maternity of Employees* (企業職工生育保險試行辦法), issued on 14 December 1994, the *Interim Provisions on Registration of Social Insurance* (社會保險登記管理暫行辦法), issued on 19 March 1999, the *Interim Regulation on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), issued on 22 January 1999, and the *Regulations on the Administration of Housing Fund* (住房公積金管理條例), issued on 3 April 1999 and amended on 24 March 2002, the employing units and employees must participate in social insurance and pay social insurance premiums in accordance with the law. The employing units responsible for payment shall establish and complete the registration of social insurance and housing fund, and pay fees on basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing fund for the employees.

According to the *Social Insurance Law of the PRC* (中華人民共和國社會保險法) promulgated on 28 October 2010 and came into effect on 1 July 2011, the PRC government establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth, and emphasises the legal obligations and responsibilities of units to pay social insurance premiums for employees.

According to the *Regulation on the Administration of Housing Funds (2002 Revision)* (住房公積金管理條例) amended by the State Council on 24 March 2002, a unit shall go to the housing fund management centre to undertake registration of payment and deposit of the housing fund. A newly established unit shall go to the housing fund management centre to undertake housing fund payment and deposit registration within 30 days from the date of its establishment, and go to a commissioned bank to go through the formalities of opening housing fund accounts on behalf of its staff and workers within 20 days from the date of the registration with the verified documents of the housing fund management centre. When employing new staff or workers, the units shall undertake housing fund payment and deposit registration at a housing fund management centre within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing fund accounts of staff and workers at a commissioned bank with the verified documents of the housing fund management centre. Where, in violation of the provisions of these regulations, a unit fails to undertake payment and deposit registration of housing fund or fails to go through the formalities of opening housing fund accounts for its staff and workers, the housing fund management centre shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Where, in violation of the provisions of these regulations, a unit is overdue in the payment and deposit of, or underpays, the housing fund, the housing fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

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### Laws and regulations relating to foreign exchange control

Pursuant to the *Regulation of the PRC on Foreign Exchange Administration (2008 Revision)* (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 and subsequently amended on 14 January 1997 and on 1 August 2008, the payments, including the trade balance, in foreign exchange and the transferring of foreign exchange for current international transactions shall not be restricted, provided that such payments shall be based on truthful and legal transactions. If foreign exchange receipts for capital account transactions are to be retained at or sold to financial institutions engaged in settlement or sale of foreign exchange, the retaining or sale shall be subject to approval of foreign exchange control organs, except those not subject to approval as specified by the State. Domestic institutions or individuals that make direct investment abroad or are engaged in distribution or deal of overseas valuable securities or derivative products or borrow external debts or provide external guaranty or any other capital account transactions shall be subject to filing application or approval in accordance with the relevant provisions of the foreign exchange control department of the State Council.

### Summary of Circular No. 37

According to *Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment Financing and Inbound Investment via Special Purpose Vehicles* (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular No. 37**”) promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the competent local branch of the SAFE for going through the procedures for foreign exchange registration of overseas investments. Pursuant to the Circular No. 37, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who have no legal identity within the territory of China but reside habitually in the PRC for the purpose of economic interests.

Our PRC resident shareholders with offshore investments in our Group, Mr. Zou and Ms. Wu, completed their registration on 30 March 2016 with SAFE as to their offshore investments in accordance with the Circular No. 37.

### Summary of M&A Rules

Pursuant to the *Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (“**M&A Rules**”) promulgated by the MOFCOM, the State-owned Assets Supervision and Management Committee of the State Council (國務院國有資產監督管理委員會), the State Administration of Industry and Commerce (國家工商行政管理總局), the China Securities Regulatory Commission (中國證券監督管理委員會), the State Administration of Taxation (國家稅務總局) and the State Administration of Foreign Exchange (國家外匯管理局) became effective on 8 September 2006 and subsequently revised on 22 June 2009, a foreign investor is required to obtain necessary

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approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

Haining Gelin Furniture Co., Ltd, Haining Morris Home Gallery Co., Ltd and Zhejiang Apollo Leather Products Co., Ltd were established as foreign-invested enterprises in China before the implementation date of the M&A Rules. As such, the M&A Rules do not apply to the reorganisation of Haining Gelin Furniture, Haining Morris Home Gallery and Zhejiang Apollo Leather Products. Besides, though Haining Morris International was established as a domestic company, it was acquired by Haining Gelin Furniture when it was a sino-foreign equity joint venture (rather than a foreign investor). As advised by our PRC Legal Advisers, the M&A Rules shall not be applicable to our Group.

### **Laws and regulations relating to intellectual property**

According to the *Patent Law of the PRC* (中華人民共和國專利法) which was promulgated on 12 March 1984 and came into effect on 1 April 1985 and was subsequently amended on 4 September 1992, 25 August 2000 and 27 December 2008 and the *Implementing Rules of the Patent Law of the PRC* (中華人民共和國專利法實施細則) amended by the State Council on 9 January 2010, patent protection is divided into three categories: invention patent, utility model patent and design patent. Invention patent and utility models for which patent rights are granted shall be of novelty, creativity and practical applicability. Patent rights shall not be granted for scientific discoveries, rules and methods for intellectual activities, methods for the diagnosis or treatment of diseases, animal or plant varieties, substances obtained by means of nuclear transformation and designs that are mainly used for marking the pattern, colour or combination of these two of prints. The duration of the invention patent right shall be 20 years and that of the utility model patent right or design patent right shall be 10 years, commencing from the date of application. Unauthorised use of a patent infringes the patent right of the patentee. If a dispute arises as a result of such infringement, the dispute shall be settled through negotiation by the parties. If the parties are not willing to negotiate or negotiation fails, the patentee or interested parties may file an action with the people's court, and may also request the department of the administration of patent-related work to handle the dispute.

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According to the *Trademark Law of the PRC* (中華人民共和國商標法) promulgated by the NPC Standing Committee on 23 August 1982 and came into effect on 1 March 1983 and was subsequently amended on 22 February 1993, 27 October 2001 and 30 August 2013 and the *Implementing Regulations of the Trademark Law of the PRC* (中華人民共和國商標法實施條例) promulgated by the State Council on 3 August 2002 and amended on 29 April 2014, natural persons, legal persons, or other organisations that need to obtain the exclusive right to use trademarks for the goods or services they create shall apply to the Trademark Office for trademark registration. Trademarks registered upon verification and approval of the Trademark Office are registered trademarks, and a trademark registrant shall be entitled to the exclusive right to use the registered trademark. A registered trademark shall be valid for ten years, commencing from the date of registration approval. To assign a registered trademark, the assignor and the assignee shall enter into an assignment agreement, and shall jointly file an application with the Trademark Office. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence contract. The licensor shall supervise the quality of the licencees' goods bearing the licensor's registered trademark. The licensee shall ensure the quality of their goods on which the registered trademark is used.

### REGULATORY REQUIREMENTS IN THE U.S.

We sell our sofas and sofa covers to the U.S. market. Sales to the U.S. market accounted for more than 90% of our revenue for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. We are subject to the following U.S. laws and regulations:

#### Laws and regulations related to imported goods

##### (1) *Title 19 of the Code of Federal Regulations*

According to Title 19 of the Code of Federal Regulations (“CFR”) contains the principal rules and regulations issued by U.S. federal agencies regarding customs duties. The rules provide detailed information about the importing process and import requirements to assure that the U.S. Customs and Border Protection (“CBP”) is provided with accurate and timely data pertaining to importations. All merchandise coming into the U.S. must clear customs and is subject to a customs duty unless specifically exempted from this duty by law. Clearance involves entry, inspection, appraisal, classification and liquidation.

Specifically, all products imported into the U.S. must conform to 19 CFR 134, Country of Origin Marking regulations. This regulation requires that every article of foreign origin (or its container) imported into the U.S. be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or container) will permit, and in such a manner as to indicate to the ultimate purchaser in the U.S., the English name of the country of origin of the article at the time of importation. Any intentional removal, defacement, destruction, or alteration of a marking of the country of origin in order to conceal this information may result in criminal penalties of up to US\$5,000 and/or imprisonment for one year.

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### *(2) Title VII of the Tariff Act of 1930*

According to Title VII of the Tariff Act of 1930, U.S. industries may make petition to the government for relief from imports that are sold in the U.S. at less than fair value or which benefit from subsidies provided through foreign government programs. Under the law, the U.S. Department of Commerce determines whether the dumping or subsidising exists and, if so, the margin of dumping or amount of the subsidy, and the U.S. International Trade Commission (“ITC”) determines whether there is material injury or threat of material injury to the domestic industry by reason of the dumped or subsidised imports. An antidumping duty order imposes antidumping duties on the imported goods, over and above regular import duties, in amounts reflecting the margin of dumping determined in Commerce’s investigation of the imports.

### **Laws and regulations related to intellectual property enforcement of imported goods**

#### *(1) Trademark: the Tariff Act of 1930 and the Lanham Act of 1946*

CBP has the powers of search, seizure, and arrest, and the legal authority to make substantive determinations regarding infringement of trademarks and copyrights, pursuant to the Tariff Act of 1930 and the Lanham Act of 1946. CBP may detain any article of domestic or foreign manufacture imported into the United States that bears a mark suspected by CBP of being a counterfeit version of a mark that is registered with the U.S. Patent and Trademark Office and is recorded with CBP.

#### *(2) Patent: Section 337 of the Tariff Act of 1930*

A patent registered with the United States Patent and Trademark Office may not be recorded with CBP. However, CBP enforces exclusion orders issued by the ITC pursuant to Section 337 of the Tariff Act of 1930. ITC exclusion orders are issued for findings of infringement, among other things, of patents. Accordingly, CBP has authority to exclude from entry articles infringing a patent pursuant to an exclusion order issued by the ITC.

### **Laws and regulations related to product quality, health and safety**

#### *(1) Consumer Product Safety Act*

According to the Consumer Product Safety Act (“CPSA”) which came into effect on 27 October 1972, CPSA established the Consumer Product Safety Commission (“CPSC”) as an independent agency of the U.S. federal government. The main purposes of CPSA are: (i) to protect the public against unreasonable risks of injury associated with consumer products; (ii) to assist consumers in evaluating the comparative safety of consumer products; (iii) to develop uniform safety standards for consumer products and to minimise conflicting state and local regulations; and (iv) to promote research and investigation into the causes and prevention of product related deaths, illness and injuries. The CPSC imposes both civil and criminal penalties on violations of CPSA. The maximum penalty is US\$100,000 per occurrence and US\$15 million for a related series of violations. The maximum criminal penalty is five years for corporations and their directors, officers or agents to knowingly and wilfully authorise, order or perform any violating act.

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### *(2) Consumer Product Safety Improvement Act of 2008 (CPSIA)*

The CPSC regulates the sale and manufacture of consumer products. The Consumer Product Safety Improvement Act of 2008 (“**CPSIA**”) was promulgated on 14 August 2008 and provided CPSC with significant new regulatory and enforcement tools to protect the public from unreasonable risks of injury or death associated with the use of different types of consumer products. It imposes requirements on manufacturers of apparel, shoes, personal care products, accessories, jewellery, home furnishings, bedding, toys, electronics and video games, books, school supplies, educational materials and science kits. It is targeted mostly toward children’s products. CPSIA defines a “children’s product” as a consumer product designed or intended primarily for children 12 years of age or younger. In determining whether a consumer product is primarily intended for a child 12 years of age or younger, the following factors will be considered:

- (1) a statement by the manufacturer about the intended use of the product, including a label on the product, if such statement is reasonable;
- (2) whether the product is represented in its packaging, display, promotion, or advertising as appropriate for use by children 12 years of age or younger;
- (3) whether the product is commonly recognised by consumers as being intended for use by a child 12 years of age or younger; and
- (4) the Age Determination Guidelines issued by the CPSC staff in September 2002, and any successor to such guidelines.

The CPSC generally requires that children’s products to:

- (1) comply with all applicable children’s product safety rules;
- (2) be tested for compliance by a CPSC-accepted accredited laboratory using the methods approved by the CPSC, unless subject to an exception;
- (3) have a written Children’s Product Certificate that provides evidence of the product’s compliance; and
- (4) have permanent tracking information affixed to the product and its packaging where practicable.

Specifically, our products may be subject to CPSIA concerning lead content of children’s furniture. Section 101 of CPSIA contains two distinct requirements. One requirement states that all children’s products manufactured must not contain more than 100 parts per million (ppm) of total lead content in accessible parts. The other requirement states that all children’s products, and some furniture, for adult and children, must not contain a concentration of lead greater than 0.009 percent (90 ppm) in paint or any similar surface coatings.



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### **Laws and regulations relating to environmental protection**

#### *Toxic Substances Control Act*

According to the Toxic Substances Control Act of 1976 (“**TSCA**”) provides the Environmental Protection Agency (“**EPA**”) with authority to require reporting, record-keeping and testing requirements, and restrictions relating to chemical substances and/or mixtures. Title VI of TSCA, also known as the Formaldehyde Standards for Composite Wood Products Act, establishes limits for formaldehyde emissions from composite wood products: hardwood plywood, medium-density fibreboard, and particleboard. The EPA is developing final regulations to address public risks associated with exposure to formaldehyde that can be emitted from composite wood products. The regulations may cover sell-through provisions (including a prohibition on stockpiling), ultra-low emitting formaldehyde (“**ULEF**”) resins, no-added formaldehyde (“**NAF**”) based resins, finished goods, third-party testing and certification, auditing of and reporting for third-party certifiers, chain of custody requirements, recordkeeping, labelling, enforcement, laminated products, hardboard, and other provisions aside from the emissions limits.

On 10 June 2013, EPA proposed two regulations as follows:

1. The first proposal would establish a framework for a third-party certification program to ensure that composite wood panel producers comply with the formaldehyde emission limits established under TSCA Title VI.
2. The second proposal would implement formaldehyde emission standards under Title VI of TSCA and would apply to hardwood plywood, medium-density fibreboard, particleboard, and finished goods containing these products that are sold, supplied, offered for sale, or manufactured (including imported) in the United States.

### **Laws and regulations related to unfair or deceptive acts**

#### *Federal Trade Commission Act*

According to the Federal Trade Commission Act (“**FTCA**”) broadly prohibits unfair or deceptive acts or practices in or affecting commerce. FTCA was enacted to (i) prevent unfair methods of competition, and unfair or deceptive acts or practices in or affecting commerce; (ii) seek monetary redress and other relief for conduct injurious to consumers; (iii) prescribe trade regulation rules defining with specificity acts or practices that are unfair or deceptive, and establishing requirements designed to prevent such acts or practices; (iv) conduct investigations relating to the organisation, business, practices, and management of entities engaged in commerce; and (v) make reports and legislative recommendations to the U.S. Congress. Anyone who violates FTCA is liable for civil penalties. In addition, any person who violates a rule is liable for injury caused to consumers by the rule violation.

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## REGULATORY OVERVIEW

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### REGULATORY REQUIREMENTS IN CAMBODIA

#### Laws and regulations relating to foreign investment

##### *(1) Foreign investment*

Any business activity conducted in Cambodia is subject to the Law on Commercial Regulation and the Commercial Register enacted on 3 May 1995, as amended on 18 November 1999, and the Law on Commercial Enterprises promulgated on 19 June 2005, which regulate the establishment, operation and management of a company or business conducted in Cambodia.

In addition to the general legal framework described above, any investment in Cambodia is subject to the Law on Investment of Cambodia enacted on 4 August 1994 (“**LOI**”), as amended by the Amendment of the Investment Law dated 24 March 2003 (“**LOI Amendment**”), and the implementing Sub-Decree 111 of the Amendment to the Law on Investment of Cambodia enacted on 27 September 2005 (“**Sub-Decree 111**”).

All business activities in Cambodia are permitted, subject to the prohibitions set out in the ‘Negative List’ in Sub-Decree 111 based on national security, social safety and/or protection of the national economy. Other forms of investment are allowed but ineligible for any government incentives. The production of sofas and sofa covers is not listed in the ‘Negative List’ and, as a result, it is not prohibited or restricted in Cambodia. Notwithstanding the above, any production using poisonous chemicals, agricultural pesticides or insecticides and other goods using chemical substances prohibited by international regulations and/or the World Health Organization that affect public health and the environment, are also prohibited.

Investment companies encompass those that undertake large scale investments in Cambodia, which are entitled to government incentives. Investment companies are regulated by the Council for the Development of Cambodia, which is the executive government institution led by the Prime Minister of Cambodia, and are subject to the LOI, the LOI Amendment and Sub-Decree 111. Furniture production that does not use natural wood with a total investment capital of at least US\$500,000 is qualified to be registered as a qualified investment project and is eligible for various government incentives, as described below in the subsection headed “Regulatory Requirements in Cambodia – Laws and regulations relating to foreign investment – (3) Government incentive scheme” under the section headed “Regulatory Overview” in this prospectus.

On 6 March 2015, the Royal Government of Cambodia adopted the Cambodia Industrial Development Policy for 2015-2025 aiming to promote and modernise the country’s industrial sector. One of the key policy objectives of the Industrial Development Policy is the review and amendment of the LOI and related regulations to facilitate the development of industrial sectors by making the business climate in Cambodia more conducive to investment, enabling technology transfers, enhancing skills and increasing the focus on value added manufacturing.

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## REGULATORY OVERVIEW

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### *(2) Regulatory entities in Cambodia*

The main relevant governmental authorities responsible for supervising and regulating our business activities in Cambodia are the Ministry of Commerce, the Ministry of Economy and Finance and the Council for the Development of Cambodia. The Ministry of Commerce and, in particular, the Legal Affairs Department of the Ministry of Commerce, is responsible for regulating the establishment and ongoing registration of new companies in Cambodia. The Ministry of Economy and Finance oversees State properties, has authority to collect tax and non-tax revenue and regulates the import and export sectors. The Council for the Development of Cambodia is the highest decision-making body of the Royal Government of Cambodia for the private and public sector investment. The Council for the Development of Cambodia has the Cambodian Special Economic Zone Board as its operational arm for investment projects located in special economic zones.

### *(3) Government incentive scheme*

Pursuant to the LOI Amendment, any qualified investment, either domestic or foreign, is eligible for the following incentives:

- (a) exemption from tax on profit for a certain period or special depreciation allowance on the value of the new or used tangible properties used in production or processing, at the election of an investment company;
- (b) exemption from duties on the importation of production equipment and construction materials for a domestic qualified investment project; and
- (c) exemption from duties on the importation of production equipment, construction materials, raw materials, intermediate goods and production input for an export qualified investment project, other than an export qualified investment project which elects or which has elected to use the customs manufacturing bonded warehouse mechanism.

Further, under Letter 3841 dated 2 July 2009, any investment operated in a special economic zone (“**SEZ**”) is entitled to VAT exemptions as follows:

- (a) temporary and automatic exemption on VAT payments for the importation of construction materials, machinery/equipment for production and raw materials for export oriented industry; and
- (b) temporary exemption of VAT payments for the importation of construction materials and machinery/equipment for production for domestic manufacturing industry.

### *(4) Foreign relations in Cambodia*

Cambodia has established diplomatic relations with most countries, including the PRC, where our operations are conducted. Cambodia is also a member of the United Nations and became a member of the Association of Southeast Asian Nations in 1999. In 2015, the

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## REGULATORY OVERVIEW

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Association of Southeast Asian Nations formally established an ASEAN Economic Community, which aims to introduce free flow of goods, service, investment, capital and skilled labour. In addition, Cambodia is a member of the World Bank, the International Monetary Fund and the Asian Development Bank. On 13 October 2004, Cambodia became the 148th member of the World Trade Organization. As a consequence, a number of international legal instruments and mechanisms aimed at promoting international trade with Cambodia were enacted. A significant development was the adoption of the ‘Everything But Arms’ trading scheme by the European Union, which granted Cambodia with duty-free and quota-free exports to the European Union for all goods, except arms and ammunition. The ‘Everything But Arms’ scheme also relaxes the rules of origin for products imported under the Generalised System of Preferences, effective from 1 January 2011. These relaxed rules of origin allow Cambodia to claim origin for its products, even if the primary materials do not originate in Cambodia.

### **Laws and regulations relating to factory establishment**

According to Prakas 242 of 4 March 2011 on the Procedures for Implementing the provisions related to the Operation of Factories and Handicrafts, a factory is defined as a manufacturing facility that uses or is expected to use tools, machines, equipment and furniture for production, which have a total replacement value of at least US\$50,000.

Pursuant to the Law on the Amendment to the Law on Management of Factories and Handicrafts dated 23 June 2006, issued on 23 October 2014 (“**Amendment Law**”) and Prakas 607 on the Procedures and Formalities for the Establishment of Factories and Handicrafts dated 22 July 2009, a factory that manufactures and sells products in any of the following industrial sectors, which are under the authority of the Ministry of Industry and Handicrafts (“**MIH**”), must comply with certain establishment procedures and formalities:

- (1) food, beverages and tobacco;
- (2) textile, wearing apparel and leather products;
- (3) paper products;
- (4) chemical, rubber and plastic products (except oil and gas);
- (5) non-metallic mineral based products;
- (6) basic metals;
- (7) fabricated metal, machinery and equipment; and
- (8) other sectors such as production of jewellery, decoration material, musical instruments, sports equipment, toys and office equipment.

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## REGULATORY OVERVIEW

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In accordance with the Amendment Law, the establishment or relocation of a factory is subject to receipt of the following from the MIH:

- (1) a factory establishment permit; and
- (2) a factory operating licence.

A factory establishment permit is issued with permanent validity. Once the factory owner has obtained the establishment permit and the factory is ready to commence operations, a factory operating licence must be sought from the MIH.

The factory operating licence, valid for three years, is a written acknowledgement from the MIH that a new factory has been established in accordance with its factory establishment permit and, as a result, the owner of the factory is authorised to start manufacturing.

In addition to the above factory establishment permit and operating licence, before building any structure on land, or substantially remodelling a building, the owner of the land or building must obtain a construction permit from either the government delegate to the city, if construction is occurring in an urban area, or from the provincial governor in rural areas. A construction permit must be approved by the Ministry of Land Management, Urban Planning and Construction (“**MLMUPC**”) for commercial buildings of more than 3,000 sq.m..

### **Laws and regulations relating to import and export approvals**

In general, both Cambodian and foreign companies are permitted to freely import and export goods in Cambodia. In most cases, no licence is required to import goods into Cambodia. Similarly, no export licence or permission is required for the exportation of goods out of Cambodia to other countries, except for imports or exports that are subject to prohibition.

A list of prohibited and restricted imports or exports is provided in Sub-Decree 209 on the Enforcement of the List of Prohibited and Restricted Goods dated 31 December 2007 (“**Sub-Decree 209**”). Pursuant to Sub-Decree 209, imports or exports are prohibited or restricted, as the case may be, on the following grounds:

- (1) protection of national security;
- (2) protection of public order and standards of decency and morality;
- (3) protection of human, animal, or plant life or health;
- (4) protection of national treasures of artistic, historic and/or archaeological value;
- (5) conservation of natural resources;
- (6) compliance with the prevailing laws of Cambodia; and

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## REGULATORY OVERVIEW

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(7) fulfillment of obligations under the Charter of the United Nations.

Importation of raw materials or leather or exportation of furniture or textiles is permitted on the condition that the relevant licence or authorisation required for import or export, as the case may be, is approved by the relevant authority.

The List of Prohibited and Restricted Goods, as listed in Sub-Decree 209, was updated by the Ministry of Economy and Finance by Letter 3784 dated 19 June 2012 in order to be in alignment with ASEAN Harmonized Tariff Nomenclature (AHTN 2012), with the entirety of the related provisions in Sub-Decree 209 remaining intact.

### **Laws and regulations relating to long-term leases over land**

Pursuant to the Civil Code promulgated on 8 December 2007 and the Law on Enforcement on the Civil Code dated 31 May 2011 (“**Civil Code**”), leases can be either short-term or long-term (perpetual). Articles 244 and 247 of the Civil Code provide that a long-term lease is a lease with a minimum duration of 15 years and a maximum of 50 years (“**Maximum Term**”). If a long-term lease is made with a term exceeding the Maximum Term, it will be shortened to 50 years. The long-term lease may be renewed provided that the renewed term may not exceed the Maximum Term counting from the date of renewal.

A long-term lease must be perfected by way of registering such leasehold interest on the certificate of title to the land with the relevant Provincial/Municipal Department of Land Management Urban Planning Construction and Cadastre (“**Land Office**”) of the MLMUPC. The relevant Land Office will issue a certificate of long-term lease once the long-term lease has been registered on the condition that all relevant documentation has been provided and the registration formalities have been completed.

Registration of a long-term lease constitutes a right *in rem* over the immovable property and such right may be assigned for valuable consideration or transferred by succession. A registered long-term lease gives notice to any potential purchaser or subsequent lender that its rights would be subordinated to the rights of the lessee. Nevertheless, unless the lessee registers the long-term lease, it can only be up held against the third party acquirer of a real right to the leased property for a maximum of 15 years during which time the lessee must have occupied, and continuously used and profited from the leased property.

For land leased from the owner or developer of a SEZ, it is necessary to register the long-term lease over the certificate of title to the land owned by the owner or developer of the SEZ. Consequently, the relevant Land Office will issue a certificate of long-term lease to the lessee.

### **Laws and regulations relating to environmental protection**

Companies carrying out wooden furniture production and textile activities are subject to the Law on Environmental Protection and Management of Natural Resources, enacted on 24 December 1996 and Sub-Decree 72 on Environmental Impact Assessment Process dated 11 August 1999, a governmental regulation providing guidance on the implementation of the Law on Environmental Protection and Management of Natural Resources.

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## REGULATORY OVERVIEW

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A company carrying out any of the following activities is required to submit an initial environmental impact assessment and then a full environmental impact assessment:

- (1) the operation of wood sawmill and wooden furniture production ( $\geq$  1,000 cubic meter/year/round log);
- (2) the operation of a leather tanning, glue and/or leather processing factory (all sizes);
- (3) the operation of a textile factory (all sizes);
- (4) the operation of a garment, printing and dyeing factory (all sizes); and
- (5) the operation of a sponge-rubber factory (all sizes).

The Ministry of Environment (“**MOE**”) is the main competent governmental authority approving the initial environmental impact assessment (“**IEIA**”) and the full environmental impact assessment (“**EIA**”) and has authority to inspect any premises or any means of transport if the MOE considers that it affects the environment. Before starting business activities, a company is required to conduct an IEIA and pre-feasibility study, which the MOE will review and provide findings and recommendations.

In addition, if the activities of a company are deemed to have serious impacts on natural resources, ecosystems or health or public welfare, it is required to conduct an EIA and pre-feasibility study, for the MOE to review and provide findings and recommendations.

While an applicable company will be responsible for contributing to the environment endowment fund for environmental protection, in such amount voluntarily determined by the company, as at the Latest Practicable Date, we were not aware of any regulation that sets the specific amount of such contribution to be paid by an applicable company, although the MOE may determine such amount at its discretion. Based on our Cambodian Legal Advisers’ experience, such amount determined by the MOE is minimal.

### **Laws and regulations relating to intellectual property**

In order to comply with World Trade Organization obligations, Cambodia has introduced laws and regulations on intellectual property rights. The Law on Marks, Trade Names and Acts of Unfair Competition was enacted on 7 February 2002 and supplemented by implementing Sub-Decree 64, enacted on 12 July 2006. All industrial property rights in Cambodia are protected by the Law on Patent, Utility Model Certificates and Industrial Designs, enacted 22 January 2003, with its implementation ordinance issued on 29 June 2006. Copyrights and related rights are protected by the Law on Copyright and Related Rights, which was enacted on 5 March 2003. A company that wishes to protect its intellectual property rights is required to register its marks at the Department of Intellectual Property of the Ministry of Commerce and its patents (as well as other industrial properties, such as industrial designs) at the Department of Industrial Property of the MIH.

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## **REGULATORY OVERVIEW**

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### **Laws and regulations relating to product liability**

There is no law or regulation in Cambodia specifically governing the protection of consumers. However, the concept of product liability exists in Cambodia and is governed by the Civil Code. According to the Civil Code, a product liability claim may be brought against the manufacturer of defective products (whether or not injury or loss is caused by defective raw materials) or against the importer or seller, who are deemed to be the manufacturer for this purpose.

The Cambodian legal system recognises the concept of a tortious act, which is also governed by the Civil Code. Under the Civil Code, a person who, in violation of the law, intentionally or negligently infringes the rights or benefits of another is liable to pay damages to the injured party. Liability for tortious acts is also extended to employers (for tortious acts committed by employees), legal persons (for tortious acts committed by their representatives) and persons having ownership or control over dangerous products, including poisonous chemical substances.

### **Laws and regulations relating to health and safety measures**

The Ministry of Labour and Vocational Training prescribes certain standards for health and safety. Generally, a company must provide a sanitary environment and a company with at least 50 employees must maintain a permanent infirmary on its premises. Further, the Ministry of Labour and Vocational Training and other relevant ministries prescribe certain safety requirements, including those relating to the lifting of heavy objects, the protection from machinery and equipment and preventive measures in relation to toxic substances and flammable materials.

### **Laws and regulations relating to labour and employment**

Employment relations in Cambodia are governed by the Labour Law passed on 10 January 1997 and individual employment contracts and/or collective bargaining agreements. The terms of employment contracts must be at least as favourable to employees as the terms provided in the Labour Law. Employment contracts may have a specified duration of up to two years or an unspecified duration.

Prior to commencing operations, the Labour Law requires companies to submit written declarations of enterprise and employees to the Ministry of Labour and Vocational Training, including an enterprise opening declaration form, an employee declaration, payroll ledger forms, an application for quota for the hiring of non-Cambodian employees and, for enterprises with eight or more employees, an application for approval of the internal work rules.

The payroll ledger must record the work done, wages paid, holidays granted and certain other information regarding each employee. The internal work rules must include provisions related to hiring, calculation and payment of wages, working hours, holidays, safety and sanitation measures, duties of the employees, and disciplinary sanctions imposed upon the employees for breach of the company's internal work rules. The internal work rules and payroll ledger must be approved by a labour inspector, who may make additional comments on both the payroll ledger and the business registry during periodic inspections.



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## REGULATORY OVERVIEW

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After completing the initial declaration of enterprise and employees, an enterprise must apply to obtain a work book for its employees, being a document that identifies the employee and the details of employment. Non-Cambodian employees are also required to obtain a work permit once the enterprise has received quota approval for the hiring of non-Cambodian employees. An enterprise must submit a further declaration to the Ministry of Labour and Vocational Training each time it hires or dismisses an employee. Such declaration is not required for short-term employment of less than 30 continuous days or intermittent employment of less than three months in any consecutive 12 month period.

The Labour Law empowers the Ministry of Labour and Vocational Training to set a minimum wage for all industry sections in Cambodia based on the recommendations made by the Labour Advisory Committee. The minimum wage may be adjusted from time to time in accordance with economic conditions and the cost of living.

The first minimum wage regulation was introduced by the Ministry of Labour and Vocational Training in 1997 but was limited to the textile, garment and footwear industries. The minimum wage for the textile, garment and footwear industries is US\$140 per month for 2016 and such rate is subject to ongoing negotiation. In addition to the minimum wage, the Ministry of Labour and Vocational Training has regulated other benefits for the textile, garment and footwear industries, such as a seniority bonus, attendance bonus, accommodation and transportation allowances and meal allowance to be paid by an enterprise to its employees.

The Cambodian legal system also recognises the difference between a contractor, who is not subject to the provisions of the Labour Law, and an employee contracted to perform services under an employment contract. The contractual relationship of consultants and service providers is governed by the Civil Code and individual contracts.

Cambodia has recently introduced the Law on Trade Unions dated 17 May 2016. The Trade Union Law is intended to, among others, set out the organization and functioning of professional organizations of employees and employers. The Trade Union Law guarantees the rights of all employees and employers to form, or to join or not to join as members of, a union or employer association. Under the Trade Union Law, a local union must be registered with the Ministry of Labour and Vocational Training, following which the local union will acquire legal person status and, therefore, can lawfully carry out its activities. This law also addresses provisions related to staff representatives, employee unions with the most representative status, termination procedures of specially protected employees and negotiation of collective bargaining agreements.

### **Laws and regulations relating to insurance and pension schemes**

There is no compulsory insurance for companies conducting business in Cambodia, except for companies operating in the transportation sector or undertaking construction activities, which are both subject to the Insurance Law dated 4 August 2014. Furthermore, it is not mandatory for a company to insure its employees or for employees to insure themselves.

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## REGULATORY OVERVIEW

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Under the Labour Law, there is a social security scheme for employees who are subject to the provisions of the Labour Law. Based on the Law on Social Security Schemes for Persons defined by the Provisions of the Labour Law, enacted on 25 September 2002, employees should be covered by a pension scheme and occupational risks scheme. In accordance with the Prakas on Determination of the Phase and Scope of Implementation of Occupational Risk Scheme, dated 11 February 2008, only occupational risk insurance, including work-related accidents and occupational diseases, has been implemented, effective from 2008.

On 6 January 2016, the Royal Government of Cambodia issued Sub-Decree 01 bringing into effect a health care scheme for employees who are subject to the provisions of the Labour Law, which covers preventive health service, treatment and medical care services and daily allowances during work suspension resulting from disease treatment or accidents other than occupational risk and maternity leave.

### REGULATORY REQUIREMENTS IN HONG KONG

#### Laws and regulations relating to the transfer pricing regulations

Section 20(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) provides that where a resident person conducts transactions with a “closely connected” non-resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. Section 20A of the IRO gives the Inland Revenue Department (the “**IRD**”) wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

In December 2009, the IRD released Departmental Interpretation and Practice Notes No.46 (“**DIPN 46**”). DIPN 46 provides clarifications and guidance on the IRD’s views on transfer pricing and how it intends to apply the existing provisions of the IRO to establish whether related parties are transacting at arm’s length prices. In general the practices followed by the IRD are based on the transfer pricing methodologies recommended by the OECD Transfer Pricing Guidelines.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### OVERVIEW

The history of our Group could be traced back to 2002, when Mr. Zou, our Chairman, CEO and one of our Controlling Shareholders, became part of the management of Morris PRC. In 2005, Mr. Zou became the vice chairman and general manager of Morris PRC. Mr. Zou and his mother acquired 60% equity interest in Morris PRC from its then founders, all of whom are Independent Third Parties at a consideration of RMB18 million which was determined with reference to the registered capital of Morris PRC. Such consideration was funded with the personal funds of Mr. Zou and his mother accumulated from their engagement in various business ventures. Mr. Zou has over 15 years of experience in the sofa manufacturing and export industry in the PRC. He began his involvement in sofa industry when he worked at a Hong Kong-listed sofa and furniture manufacturer with operations in the PRC prior to 2000. During such time, Mr. Zou has accumulated extensive experience in and exposure to the manufacturing, marketing and exporting of sofas and has built up business network and relationships with various retailers in the U.S..

Prior to the acquisition of equity interest by Mr. Zou and his mother, Morris PRC was engaged in leather products manufacturing business. Upon becoming part of the management of Morris PRC in 2002, Mr. Zou set up the furniture products manufacturing business in Morris PRC and commenced manufacturing of sofa covers as an OEM for export to the U.S.. As our Group began to expand into the sofa manufacturing business, we established Haining Gelin Furniture in 2004 and Haining Morris Home Gallery in 2005 for the manufacturing and sales of upholstered sofas.

In 2003, we set up our Haining Research and Development Centre, which was accredited as a Zhejiang Enterprise Technical Centre (浙江省企業技術中心) in the same year by the Zhejiang Province Economic and Trade Commission (浙江省經濟貿易委員會). It is responsible for conducting research on the materials used on sofas and sofa covers as well as designing sofas according to the needs of our customers. As our Group gained more experience, knowledge and market understanding on the U.S. sofa industry, and coupled with the continual success of our sofas production and sales business, we decided to expand our business model from an OEM to an ODM by tapping into the designing and manufacturing of sofas for our customers. In 2010, we commenced the manufacturing of our self-designed sofas for export into the U.S.. Meanwhile, in order to gain better understanding of the U.S. sofa market and to further promote our sofas in the U.S., we engaged an independent agent and an independent consultancy firm both based in the U.S. in 2013 to provide our Group with sales and marketing services in the U.S. market.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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In 2012, Mr. Zou acquired the remaining 40% equity interest of Morris PRC from the then remaining shareholder, who is an Independent Third Party, at a consideration of RMB12 million which was determined between Mr. Zou and the then remaining shareholder with reference to the then registered capital of Morris PRC. At the relevant time of acquisition, the principal businesses of Morris PRC comprised (i) manufacturing and sales of sofa covers and sofas; (ii) manufacturing and sales of clothes; and (iii) leather processing. As advised by Mr. Zou, when determining the consideration, the then remaining shareholder and Mr. Zou himself had taken into consideration that (i) the then remaining shareholder intended to focus on his business of manufacturing and sales of clothes and did not wish to continue running the manufacturing and sales of sofa covers and sofas business of Morris PRC. In 2012, the trademarks relating to Morris PRC's clothing business were transferred from Morris PRC to a company owned by the then remaining shareholder and its family members at nil consideration and employees who worked for the clothing business also joined such company in the same year; and (ii) Mr. Zou's over ten years of contribution to the business development of Morris PRC, in particular, the sofa manufacturing and export business of Morris PRC which was founded and developed by Mr. Zou. Such consideration was funded from the personal funds of Mr. Zou. The above acquisition has been properly and legally completed and settled.

In 2013, we developed and launched our "Morris Holdings Limited" brand for our sofas exported to customers in the U.S.. In the same year, we started exporting our sofas to the U.S. market under the "Morris Holdings Limited" brand. During 2013 to 2014, our Group has gradually increased the sales of our sofas exported to the U.S. market under the "Morris Holdings Limited" brand. After one year's development of "Morris Holdings Limited", in 2014, almost all of our OBM sofas exported to the U.S. market by our Group were "Morris Holdings Limited" branded. In order to cater to our growing business, we began the preparation of constructing our new production facility in Cambodia in the same year. Between 2014 and 2015, we launched our "Morris Zou" brand for our sofas and other furniture products sold in the PRC and set up two direct sale stores in Haining City and Jiaying City under the "Morris Zou" brand in the PRC.

On 31 December 2015, Morris PRC, our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Mstar International Trading (HK), Haining Morris Home Gallery and Mozo Investments entered into the Business Transfer Agreement, pursuant to which Morris PRC transferred its furniture division to abovementioned subsidiaries of our Group. The completion of the Business Transfer took place on 31 December 2015. Please refer to the subsection headed "Transfer of Functions and Certain Assets of the Furniture Division in Morris PRC to our Group" under this section for further details.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BUSINESS MILESTONES

The following table outlines our key business development milestones:

<b>Year</b>	<b>Event</b>
2002	Mr. Zou joined Morris PRC as part of its management and was responsible for daily operation, setting up sofas and other furnitures' business, and development and expansion of international market.
2003	We set up our Haining Research and Development Centre.
2004	We established Haining Gelin Furniture to operate businesses of manufacturing and sales of upholstered sofas.
2005	<ul style="list-style-type: none"><li>• Mr. Zou became the vice chairman and general manager of Morris PRC.</li><li>• We established Haining Morris Home Gallery to operate businesses of manufacturing and sales of upholstered sofas.</li></ul>
2010	<ul style="list-style-type: none"><li>• We expanded our business model from OEM to ODM.</li><li>• We commenced showcase of our sofas at High Point Market.</li></ul>
2013	<ul style="list-style-type: none"><li>• We launched the “Morris Holdings Limited” brand for our sofas exported to customers in the U.S..</li><li>• We began preparing for the construction of our production facility in Cambodia.</li></ul>
2014	<ul style="list-style-type: none"><li>• We launched the “Morris Zou” brand for our sofa and wood based furniture products sold in the PRC.</li><li>• We set up our first direct sale store in Haining City, Zhejiang Province, the PRC.</li></ul>
2015	<ul style="list-style-type: none"><li>• We disposed of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) to an Independent Third Party.</li><li>• Morris PRC transferred its furniture division to our Group pursuant to the Business Transfer Agreement.</li><li>• We set up our second direct sale store in Jiaxing City, Zhejiang Province, the PRC.</li></ul>

### HISTORY AND DEVELOPMENT

#### Our PRC subsidiaries

##### *Zhejiang Apollo Leather Products*

Zhejiang Apollo Leather Products is principally engaged in the manufacturing and sales of sofa covers. It was established on 22 October 2001 with a registered capital of US\$4,100,000 which was owned as to 51.22% by Morris PRC and as to 48.78% by Apollo Industries (Holdings) Co., Ltd. (阿波羅實業(集團)有限公司), (a former name of Apollo Trading Development Limited (萬金貿易發展有限公司)) (“**Apollo Industries**”), an Independent Third Party.

On 5 June 2002, Morris PRC acquired the 21.95% equity interest in Zhejiang Apollo Leather Products from Apollo Industries at nil consideration given that such registered capital of Zhejiang Apollo Leather Products being nil-paid. Upon completion of such acquisition, Zhejiang Apollo Leather Products was owned as to 73.17% by Morris PRC and as to 26.83% by Apollo Industries.

On 15 November 2004, the registered capital of Zhejiang Apollo Leather Products was reduced to US\$615,000 with the respective shareholding interest owned by Morris PRC and Apollo Industries remained unchanged.

On 4 March 2010, Mozo Investments acquired the 26.83% equity interest in Zhejiang Apollo Leather Products from Apollo Industries at a consideration of US\$165,000, which was determined with reference to the registered capital of Zhejiang Apollo Leather Products. Upon completion of the acquisition, Zhejiang Apollo Leather Products was owned as to 73.17% by Morris PRC and as to 26.83% by Mozo Investments.

##### *Haining Gelin Furniture*

Haining Gelin Furniture is principally engaged in the manufacturing and sales of upholstered sofas. It was established on 4 November 2004 with a registered capital of US\$2,100,000 which was owned as to 49% by Morris PRC and 51% by Zhejiang Investments Limited, an Independent Third Party.

On 31 December 2009, Mozo Investments acquired the 51% equity interest in Haining Gelin Furniture from Zhejiang Investments Limited at a consideration of US\$1,071,000 which was determined with reference to the registered capital of Haining Gelin Furniture. Upon completion of such acquisition, Haining Gelin Furniture was owned as to 49% by Morris PRC and as to 51% by Mozo Investments.

##### *Haining Morris Home Gallery*

Haining Morris Home Gallery is principally engaged in the manufacturing and sales of upholstered sofas. It was established on 23 December 2005 with a registered capital of US\$3,000,000 which was owned as to 51% by Morris PRC and as to 49% by Zhejiang Investments Limited, an Independent Third Party.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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On 31 December 2009, Mozo Investments acquired the 49% equity interest in Haining Morris Home Gallery from Zhejiang Investments Limited at a consideration of US\$1,470,000 which was determined with reference to the registered capital of Haining Morris Home Gallery. Upon completion of such acquisition, Haining Morris Home Gallery was owned as to 51% by Morris PRC and as to 49% by Mozo Investments.

### *Haining Morris International*

Haining Morris International is principally engaged in the trading of other furniture products. It was established on 25 September 2014 with a registered capital of RMB2,000,000 which was wholly-owned by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), a wholly-owned subsidiary of Morris PRC.

### **Our Hong Kong subsidiary**

#### *Mozo Investments*

Mozo Investments is principally engaged in investment holding. It was incorporated in Hong Kong with limited liability on 4 December 2009 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, 10,000 shares were allotted and issued to a former founder of Morris PRC who is an Independent Third Party.

On 8 February 2012, Ms. Wu acquired 10,000 shares of Mozo Investments, representing its entire issued share capital, from the abovementioned Independent Third Party for a consideration of HK\$10,000, which was determined with reference to the issued share capital of Mozo Investments.

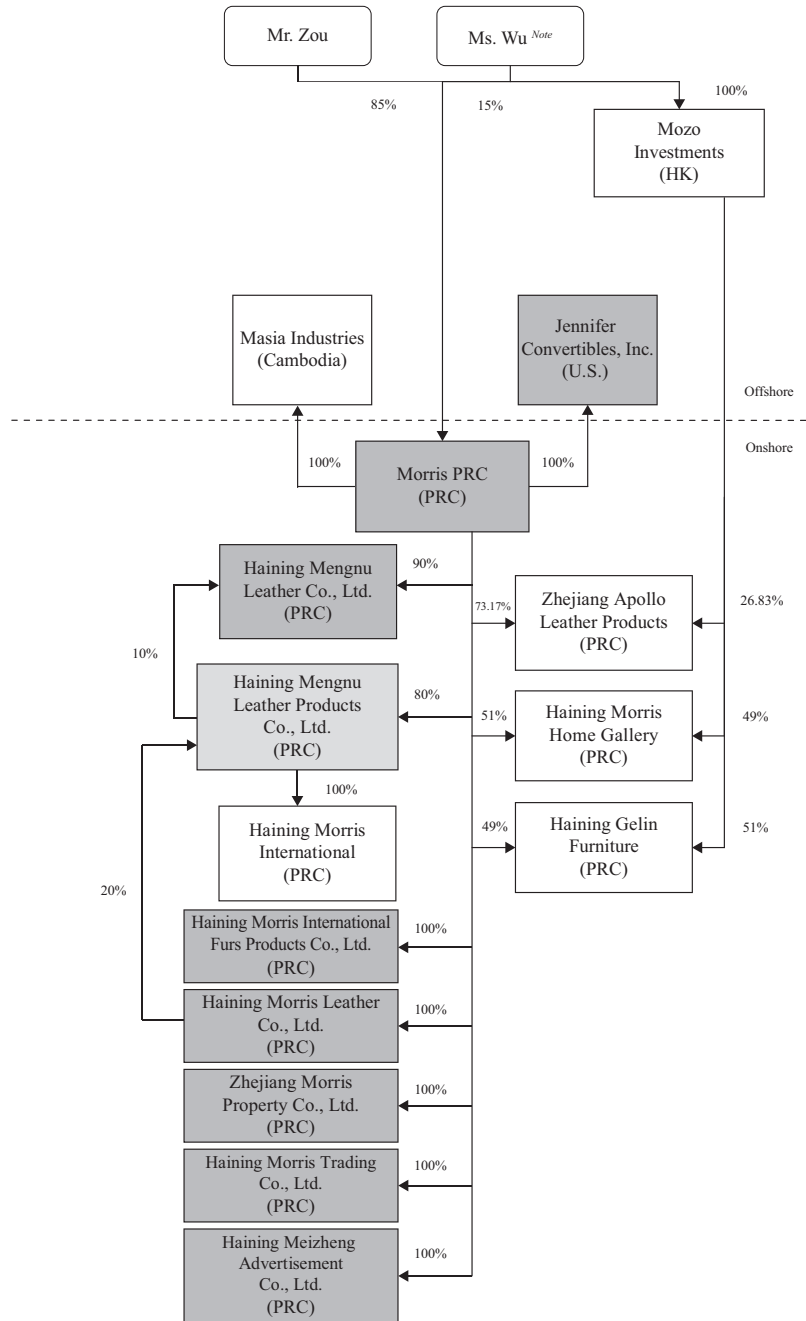
### **Our Cambodia subsidiary**

#### *Masia Industries*

Masia Industries was incorporated in Cambodia with limited liability on 27 December 2013. As at the Latest Practicable Date, Masia Industries was still in the preparation stage of setting up new production facility in Cambodia. Its initial registered share capital is US\$5,000,000 divided into 1,000 shares of US\$5,000 each. On the date of its incorporation, 1,000 shares were allotted and issued to Morris PRC and these shares were paid for over the period from 30 April 2014 to 17 March 2016.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth the corporate and shareholding structure of our Group and the Excluded Group prior to the Reorganisation. Please refer to the subsection headed “Reorganisation” under this section for details of the Reorganisation and the subsection headed “Transfer of Functions and Certain Assets of the Furniture Division in Morris PRC to our Group” under this section for details of the Excluded Group.



Note: Ms. Wu is the spouse of Mr. Zou.

■ Excluded Group

■ Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), was disposed of by Morris PRC and Haining Morris Leather Co., Ltd. on 12 January 2015. Please see the subsection headed “Disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司)” in this section.



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### **Incorporation of our Company and our other offshore subsidiaries**

#### ***Our Company***

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2013 to act as the holding company of our Group for the Listing on the Stock Exchange. The initial authorised share capital of our Company was US\$50,000 divided into 50,000 shares of US\$1.00 each. On the date of its incorporation, one subscriber share was allotted and issued to the initial subscriber, who on the same day transferred that one share to Mr. Zou, and 99 new shares were allotted and issued at par and fully paid to Mr. Zou.

On 21 May 2015, Mr. Zou transferred 100 shares of our Company, representing its entire issued share capital to Morris Capital, which is owned as to 85% by Mr. Zou and 15% by Ms. Wu.

Please refer to the subsection headed “1. Further Information about Our Company – B. Changes in share capital of our Company” in Appendix IV to this prospectus for details of changes in the share capital of our Company. As a result of the Reorganisation, our Company became the holding company of our Group.

#### ***Morris International***

Morris International was incorporated in the BVI with limited liability on 27 December 2013 and is the intermediate holding company of our Group. Morris International is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the date of its incorporation, 100 shares were allotted and issued at par and fully paid to our Company.

#### ***Mstar Home Furnishings***

Mstar Home Furnishings was incorporated in the BVI with limited liability on 27 December 2013. Mstar Home Furnishings is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the date of its incorporation, 100 new shares were allotted and issued at par and fully paid to Morris International, pursuant to which Mstar Home Furnishings became a wholly-owned subsidiary of Morris International.

#### ***Mstar International Trading (HK)***

Mstar International Trading (HK) was incorporated in Hong Kong with limited liability on 14 January 2014. On the date of its incorporation, 100 ordinary shares were allotted and issued fully paid to Mstar Home Furnishings. The principal business of Mstar International Trading (HK) is trading of sofas, sofa covers and other furniture products.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### ***Mstar International***

Mstar International was incorporated in the BVI with limited liability on 27 December 2013. Mstar International is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the date of its incorporation, 100 new shares were allotted and issued at par and fully paid to Morris International, pursuant to which Mstar International became a wholly-owned subsidiary of Morris International.

### ***Mstar International Group (HK)***

Mstar International Group (HK) was incorporated in Hong Kong with limited liability on 15 January 2014. On the date of its incorporation, 100 ordinary shares were allotted and issued fully paid to Mstar International, pursuant to which Mstar International Group (HK) became a wholly-owned subsidiary of Morris International. The principal business of Mstar International Group (HK) is investment holding.

### ***Musa International***

Musa International was incorporated in the BVI with limited liability on 27 December 2013. Musa International is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the date of its incorporation, 100 new shares were allotted and issued at par and fully paid to Morris International, pursuant to which Musa International became a wholly-owned subsidiary of Morris International.

### ***MZL***

MZL was incorporated in Hong Kong with limited liability on 30 March 2015. On the date of its incorporation, 100 ordinary shares were allotted and issued fully paid to Musa International, pursuant to which MZL became a wholly-owned subsidiary of Musa International. The principal business of MZL is investment holding.

### ***Masia Investments***

Masia Investments was incorporated in the BVI with limited liability on 27 December 2013. Masia Investments is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the date of its incorporation, 100 new shares were allotted and issued at par and fully paid to Morris International, pursuant to which Masia Investments became a wholly-owned subsidiary of Morris International.

### **Incorporation of Morris Capital**

Morris Capital is a company with limited liability incorporated in the BVI on 21 May 2015 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the date of its incorporation, 100 shares were allotted and issued at par and fully paid to Mr. Zou. On 8 December 2015, Mr. Zou transferred 15% shares of Morris Capital to Ms. Wu. Morris Capital acts as the investment holding vehicle of Mr. Zou and Ms. Wu to hold their interests on our Group.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### DISPOSAL OF HAINING MENGNU LEATHER PRODUCTS CO., LTD. (海寧蒙努皮革製品有限公司)

With a view to streamline Morris PRC's manufacturing business, the management of Morris PRC decided to dispose of its upstream leather processing business operated by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司). On 12 January 2015, Morris PRC, Haining Morris Leather Co., Ltd. and an Independent Third Party entered into a share transfer agreement, pursuant to which Morris PRC and Haining Morris Leather Co., Ltd. transferred their 80% and 20% equity interests, respectively in Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) at a consideration of RMB13.44 million and RMB3.36 million, respectively, to such Independent Third Party. Such consideration was determined with reference to the net asset value of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) as appraised by an Independent Valuer as at 31 December 2014.

Given that Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) is principally engaged in a business that is different from our core business, our Directors are of the view that the disposal was insignificant to and had no material adverse effect on our business, operation and financial condition taken as a whole.

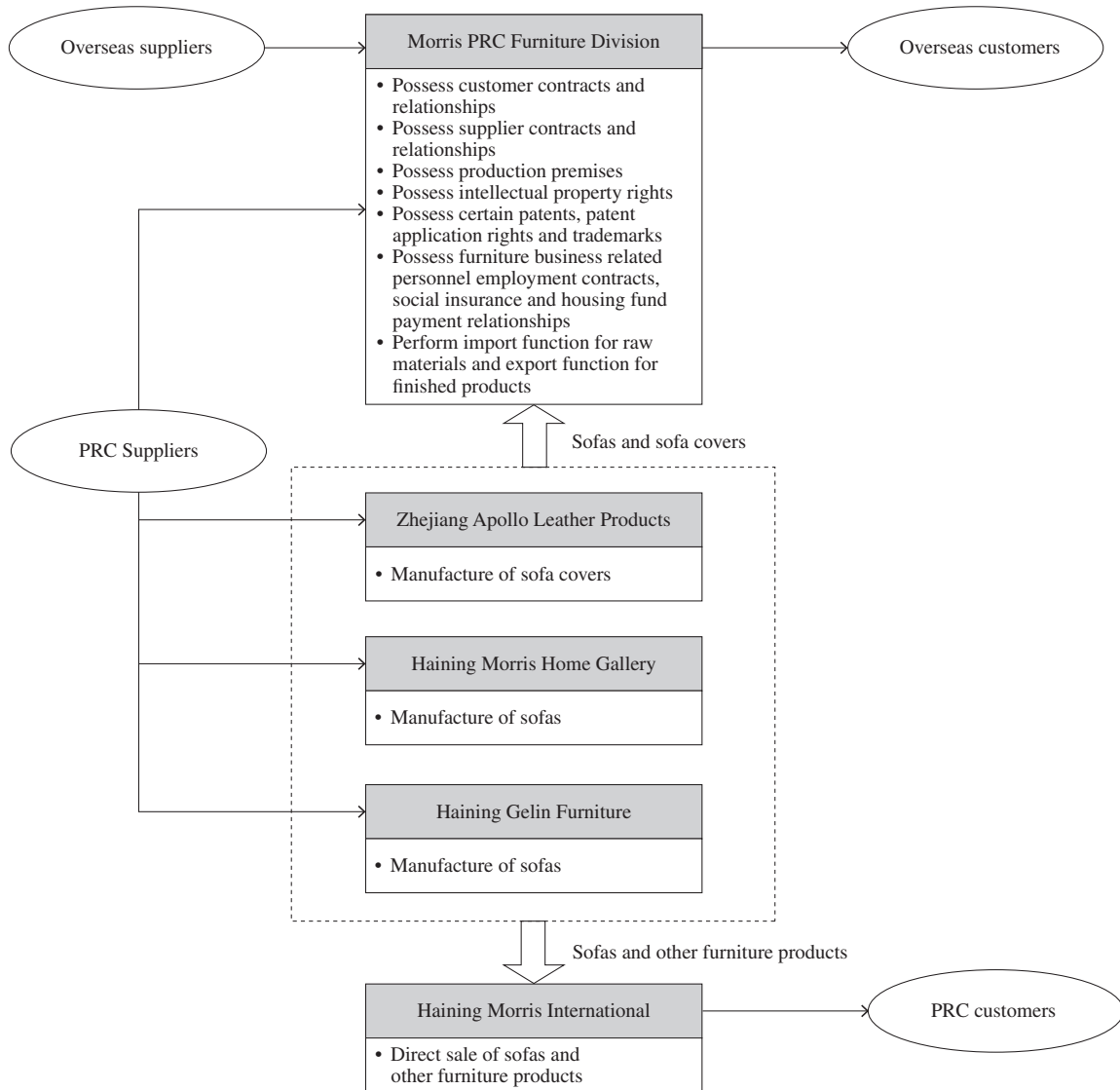
As advised by the PRC Legal Advisers, all necessary approvals, permits and licences required under the PRC laws and regulations have been obtained in relation to the above disposal. The above disposal has been properly and legally completed and settled.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## TRANSFER OF FUNCTIONS AND CERTAIN ASSETS OF THE FURNITURE DIVISION IN MORRIS PRC TO OUR GROUP

The following chart shows the functions of each entity/division of our Group's principal business prior to the Business Transfer:

### Prior to the Reorganisation and the Business Transfer



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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As illustrated above, prior to the Business Transfer, our Group's import of raw materials and export of sofas and sofa covers were undertaken by the furniture division of Morris PRC. The furniture division of Morris PRC possessed all overseas customers' contracts and business relationship and overseas suppliers' contracts and business relationship. The production lines for our Group's sofas, sofa covers and other furniture products were housed in the premises and on land that are owned by the furniture division of Morris PRC. The upholstered sofas and sofa covers related intellectual property rights involved in the furniture manufacturing operation and sales were possessed by the furniture division of Morris PRC. Certain senior management responsible for the furniture business of our Group, human resources and administrative personnel were hired by the furniture division of Morris PRC.

As a result of the Reorganisation, Morris PRC became part of the Excluded Group. The businesses conducted by the non-furniture division became the Excluded Businesses. However, the business activities and processes conducted by the furniture division of Morris PRC were essential to the operation of the furniture business of our Group. Accordingly, pursuant to the Business Transfer Agreement entered into between our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Mstar International Trading (HK), Haining Morris Home Gallery and Mozo Investments, the furniture business functions formerly operated by the furniture division of Morris PRC including customers' and suppliers' business relationships, import and export businesses, related personnel and related intellectual property rights, were transferred to certain subsidiaries now comprising our Group during the three years ended 31 December 2015 and the Business Transfer was completed on 31 December 2015.

Pursuant to the Business Transfer Agreement, among other things, on or before 31 December 2015:

- (i) Morris PRC transferred its furniture division to the abovementioned subsidiaries of our Company. In particular, Morris PRC has transferred (i) all its customers' business relationships to Mstar International Trading (HK); (ii) all its suppliers' business relationships to Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery; and (iii) import and export businesses to Haining Gelin Furniture, Zhejiang Apollo Leather Products and Mstar International Trading (HK);
- (ii) the transfer of all upholstery furniture and sofa cover related export and import businesses were completed on 31 December 2015; from 31 December 2015 to 30 April 2016, Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery shall appoint Morris PRC as an agent in providing import and export businesses on behalf of them;
- (iii) Morris PRC transferred all personnel carrying on the furniture division to our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Mstar International Trading (HK), Haining Morris Home Gallery and Mozo Investments. Such transfer includes but not limited to the transfers of employment contracts, social insurance and housing fund payment relationships;

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- (iv) Morris PRC has agreed to exclusively license to our Group and agreed to transfer to Haining Gelin Furniture trademarks which are involved in furniture manufacturing operation and sales. Morris PRC entered into transfer agreements in relation to all its furniture division related patents and patent application rights with Haining Gelin Furniture. For further details, please refer to subsection headed “Intellectual Property” under the section headed “Business” and the section headed “Connected Transactions” in this prospectus; and
  
- (v) Morris PRC shall enter into the lease agreements in relation to the Lease Properties for operations of sofas and sofa covers with Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International. For further details of the Lease Agreements, please refer to the subsection headed “Properties” under the section headed “Business” in this prospectus and the subsection headed “Non-exempt Continuing Connected Transactions – The Lease Agreements” under the section headed “Connected Transactions” in this prospectus.

The consideration of the Business Transfer comprises (i) the consideration for the transfer of certain vehicles of RMB1,253,000, and (ii) the consideration of the acquisitions of shareholding of Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery, which form part of the Reorganisation. Please see the subsection headed “Reorganisation” under this section for details of the acquisitions of shareholding of Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery. As advised by the PRC Legal Advisers, the terms of the Business Transfer Agreement, the consideration of the transfer contemplated thereunder, and the obligations of the parties thereto contemplated thereunder, have complied with the applicable PRC laws and regulations, and are legal and valid.

Pursuant to above (ii) of the Business Transfer Agreement, Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery entered into an agency agreement on 31 December 2015 to appoint Morris PRC as an agent in providing import and export businesses on behalf of them from 31 December 2015 to 30 April 2016 which has extended to 30 June 2016 pursuant to a supplemental export agency agreement dated 20 April 2016. Such agency agreement and supplemental agreement was entered into mainly for the purpose of fulfillment of remaining purchase orders placed to Morris PRC by customers that cannot be assigned to our Group upon completion of the Business Transfer on 31 December 2015, in particular, orders placed by Customer C from April to November 2015. Up to mid June 2016, all such orders from Customer C were completed and delivered. Such agency arrangement ceased from then accordingly. Customer C has started placing purchase orders directly to Mstar International Trading (HK) since 20 November 2015.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Our Directors decided not to inject Morris PRC into our Group and then transfer the non-furniture businesses back to Mr. Zou and Ms. Wu on the following grounds:

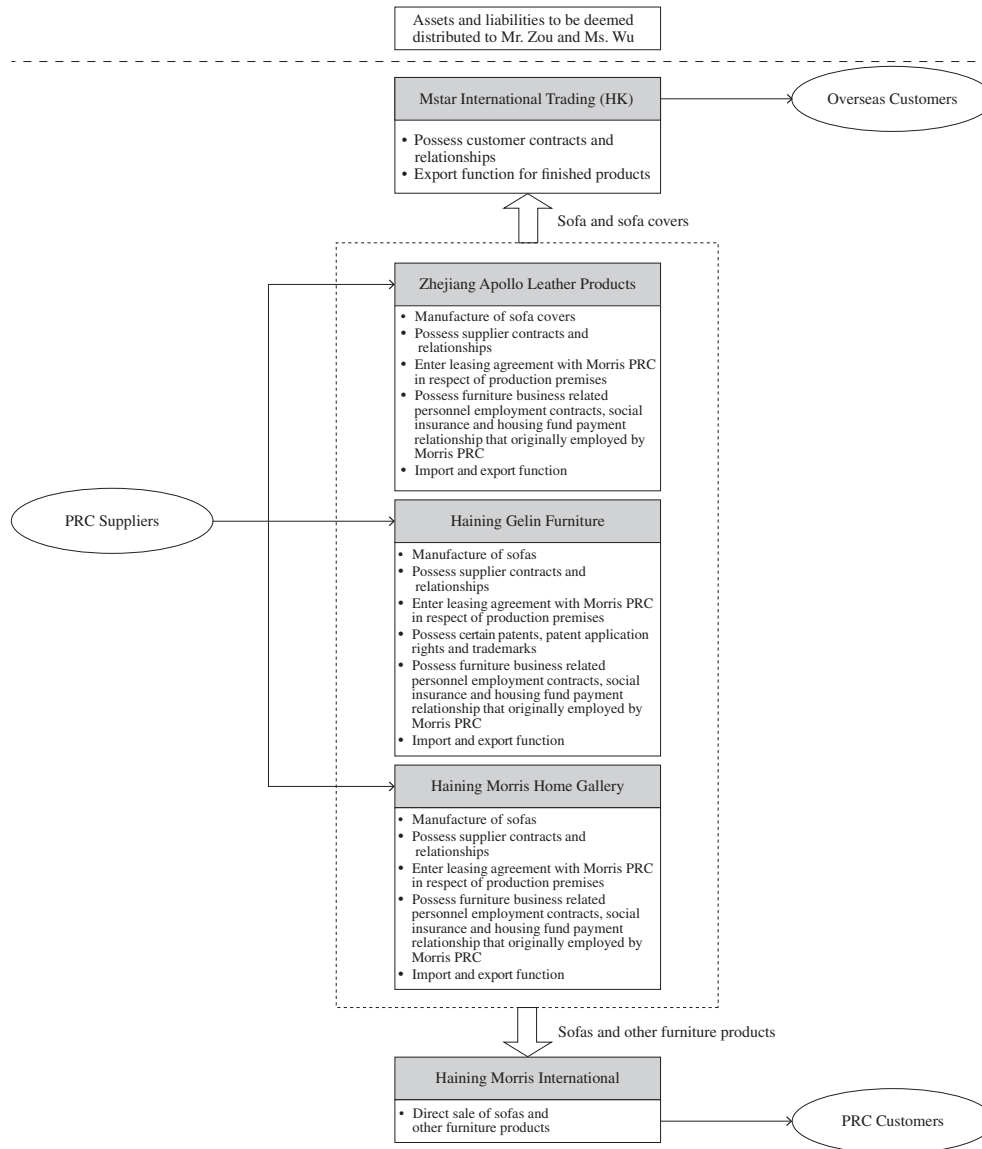
- (i) the non-furniture businesses of Morris PRC include five different segments, namely property development, processing and sale of clothes, knitwear, accessories and suitcases, advertising, trading of non-furniture products in Haining City, Zhejiang Province, the PRC and operation of domestic furniture retail chains in the eastern part of the U.S.. It would have been more complicated to transfer such non-furniture businesses to Mr. Zou and Ms. Wu because it would have involved substantial work and would have incurred considerable amount of tax (such as land appreciation tax and profit tax) for the Reorganisation due to the differences in nature of each segment of the non-furniture businesses of Morris PRC;
- (ii) the assets of the non-furniture division of Morris PRC included a substantial amount of fixed assets, such as factories and land. In particular, Morris PRC owns several parcels of land for its own use and property development business. If our Group were to initially acquire the entire equity interest of Morris PRC, the value of all such fixed assets would have been appraised by an independent valuer in order to determine the consideration. In addition, substantial cost and tax payable would have been incurred for the injection of these fixed assets of Morris PRC into our Group. As we only seek for the Listing of the furniture business, our Directors considered it not necessary to incur the cost and tax related to the transfer of land and properties owned by Morris PRC; and
- (iii) during the Track Record Period, except for the furniture division of Morris PRC, the operation of our furniture business in the PRC mainly involved Zhejiang Apollo Leather Products, Haining Morris Home Gallery, Haining Gelin Furniture and Haining Morris International. These four subsidiaries are separate legal entities and have their own assets. Furthermore, these four subsidiaries undertook major critical functions, including design, research and development and manufacturing, and sales and marketing of our furniture business. On the other hand, Morris PRC mainly undertook import and export function. As such, it would be simpler and more efficient to consolidate the function of the furniture division of Morris PRC (i.e. the import and export function) into our Group in order to operate the whole furniture business as most of critical functions of furniture business were already retained by our Group members, as opposed to injecting all businesses of Morris PRC into our Group and then transfer those non-furniture businesses back to Mr. Zou and Ms. Wu.

Having considered the complexity and costs which may involve, our Directors considered that the Business Transfer, pursuant to which only the furniture business of Morris PRC was transferred to our Group, was more appropriate and cost-effective for the purpose of the Reorganisation and was in the best interest of our Company and our Shareholders as a whole.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart shows the functions of each entity/division of our Group after the completion of the Business Transfer:

## After the Business Transfer





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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Upon completion of the Business Transfer, our Group including our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Mstar International Trading (HK), Haining Morris Home Gallery and Mozo Investments will take up the furniture division of Morris PRC while the Excluded Group will be principally engaged in the sales of fur and leather clothes, property development, advertising, trading of non-furniture products in the PRC and operating domestic furniture retail chain in the U.S..

As advised by the PRC Legal Advisers, all necessary approvals, permits and licences required under the PRC laws and regulations have been obtained in relation to the Business Transfer Agreement and the transactions contemplated thereunder. The above has been properly and legally completed and settled.

Since the furniture division of Morris PRC was acting as the import and export vehicle of our Group's business and possessed the customers' and suppliers' relationships of our furniture business, the furniture division of Morris PRC was strategically complementary to our Group as the business activities conducted by the furniture division of Morris PRC were essential to the operation of our Group prior to the completion of the Business Transfer. In that regard, the financial results of the subsidiaries now comprising our Group and the financial results of the furniture division of Morris PRC for the three years ended 31 December 2015 have been consolidated in accordance with HKFRSs to reflect the financial results of our business for the three years ended 31 December 2015.

The completion of the Business Transfer on 31 December 2015 has legally transferred the furniture business functions formerly operated by Morris PRC, including customers' and suppliers' business relationships, import and export businesses, related personnel and related intellectual property rights, to our Group. Subsequent to the completion of the Business Transfer on 31 December 2015, the functions formerly operated by the furniture division of Morris PRC are carried out by subsidiaries now comprising our Group. However, since the financial results of our Group for the three years ended 31 December 2015 were composed of those of our subsidiaries and the furniture division of Morris PRC, upon completion of the Business Transfer, the remaining assets and liabilities of the furniture division of Morris PRC that were not legally transferred to our Group pursuant to the Business Transfer but have been reflected on the financial statements of our Group for the three years ended 31 December 2015 were required to be deemed distributed in the form of dividend distribution in specie to Mr. Zou and Ms. Wu. Please refer to the subsection headed "Deemed Distribution to Mr. Zou and Ms. Wu" under the section headed "Financial Information" in this prospectus for details of the assets and liabilities that were deemed distributed and financial position of our Group immediately prior to and after the deemed distribution.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

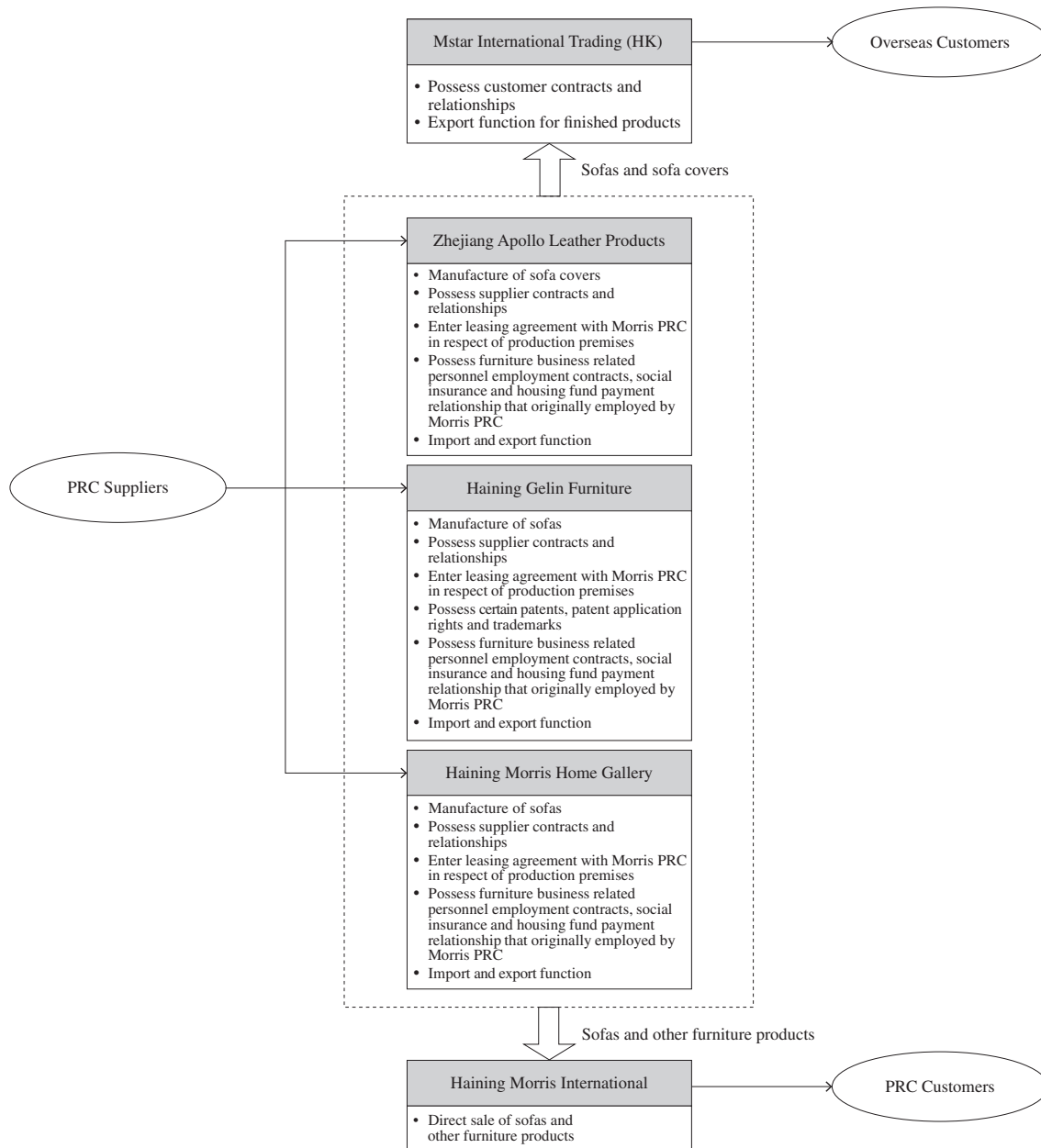
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These assets and liabilities that were deemed distributed and did not pass from Morris PRC to our Group primarily due to that: (i) our Directors consider that the ownership of the premises that houses our Group's production lines is not crucial to the operation of our business and it would not be commercially viable for our Group to acquire these premises from Morris PRC as the substantial capital expenditure required would have an adverse impact on our Group's cash flow and return on equity, which would not be in the best interests of maximising Shareholders' value. Besides, on 1 January 2016, certain subsidiaries of our Group entered into the Lease Agreements with Morris PRC for the lease of our production premises on a long term basis of 10 years with lease term till 1 January 2026. As such, the deemed distribution of such premises would not have any impact on our business operation; (ii) the assignment of rights to collect the receivables, and the obligation to settle payables which were deemed distributed requires the consents and approval of third parties including customers, suppliers, banks, and/or regulatory bodies. As those orders which had given rise to such trade receivables have already been completed and related products have already been delivered to the customers, the particulars of the orders, including supplier's information, lead time for delivery and credit period, have been recorded in the sales and accounting systems of such customers. Despite our repeated requests and demands, we have still not obtained consents from related customers to the transfer of the trade receivables from Morris PRC to our Company. In addition, those orders which had given rise to such trade payables have already been completed by related suppliers and their related materials procured by us have already been delivered to the furniture division of Morris PRC, the particulars of the orders, including customer's information, lead time for delivery and credit period, have already been recorded in the sales and accounting systems of such suppliers. Despite our repeated requests and demands, we have still not obtained consents from related suppliers to the transfer of the trade payables from Morris PRC to our Company. Those bills receivables/payables were issued by third party banks and cannot be altered or cancelled once issued; (iii) prepayments, deposits and other receivables mainly consists of VAT refund arisen from exports of furniture products before Business Transfer which was only collectible by Morris PRC and therefore it was necessary to deem distribute such amount as at 31 December 2015; (iv) inventories that were deemed distributed were imported or processed from materials imported by Morris PRC as importer registered under the PRC Customs through its import and export customs declaration certificate. Pursuant to the relevant laws and regulations in the PRC, importer must strictly control and monitor the imported materials for processing and circulation, sell or export the same via the importer's custom practical manual after processing and write off the same via the relevant custom practical manual after processing. To comply with the relevant customs policies, these inventories that had been imported by Morris PRC were retained in Morris PRC and it was necessary to deem distribute them as at 31 December 2015; and (v) our Directors believe that there was no difference to our Group whether to assign the current account balances of the furniture division of Morris PRC to companies now comprising the Group or directly distribute to Mr. Zou and Ms. Wu using dividend distribution in specie because these amounts due from/to related parties mainly represented amounts due from the non-furniture division of Morris PRC to our Group.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart shows the functions of each entity of our Group after the deemed distribution to Mr. Zou and Ms. Wu:

## After the deemed distribution to Mr. Zou and Ms. Wu



### REORGANISATION

In preparation for the Listing, we underwent the Reorganisation which involved the following steps:

#### **Acquisition of 100% shareholding of Masia Industries by Masia Investments**

On 9 July 2014, Masia Investments acquired from Morris PRC 1,000 shares of Masia Industries, which represented its entire issued share capital, for nominal consideration. Upon completion of such acquisition, Masia Industries became a wholly-owned subsidiary of Masia Investments. Such acquisition has been duly registered with the Council for the Development of Cambodia and the Ministry of Commerce. Such acquisition has been properly and legally completed and settled.

#### **Acquisition of 100% equity interest of Haining Morris International by Haining Gelin Furniture**

On 11 January 2015, Haining Gelin Furniture acquired the entire equity interest in Haining Morris International from Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) at a consideration of RMB2,000,000 which was determined with reference to the registered capital of Haining Morris International. Upon completion of such acquisition, Haining Morris International became wholly-owned by Haining Gelin Furniture. Such acquisition has been properly and legally completed and settled.

#### **Acquisition of 100% shareholding of Mozo Investments by Mstar International**

On 15 September 2015, Mstar International acquired from Ms. Wu 10,000 shares of Mozo Investments, which represented its entire issued share capital, at a consideration of HK\$10,000 which was determined with reference to the issued share capital of Mozo Investments. Upon completion of such acquisition, Mozo Investments became directly wholly-owned by Mstar International. Such acquisition has been properly and legally completed and settled.

#### **Acquisition of 49% equity interest of Haining Gelin Furniture by Mozo Investments**

On 16 November 2015, Mozo Investments acquired the remaining 49% equity interest in Haining Gelin Furniture from Morris PRC at a consideration of RMB9,033,433.00 which was determined with reference to the net asset value of Haining Gelin Furniture as appraised by the Independent Valuer as at 31 December 2014. Upon completion of such acquisition, Haining Gelin Furniture became wholly-owned by Mozo Investments. Such acquisition has been properly and legally completed and settled.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### **Acquisition of 73.17% equity interest of Zhejiang Apollo Leather Products by Haining Gelin Furniture from Morris PRC**

On 25 November 2015, Haining Gelin Furniture acquired the 73.17% equity interest in Zhejiang Apollo Leather Products from Morris PRC at a consideration of RMB8,603,594.48 which was determined with reference to the net asset value of Zhejiang Apollo Leather Products as appraised by the Independent Valuer as at 31 December 2014. Upon completion of such acquisition, Zhejiang Apollo Leather Products was owned as to 73.17% by Haining Gelin Furniture and as to 26.83% by Mozo Investments. Such acquisition has been properly and legally completed and settled.

### **Acquisition of 51% shares of Haining Morris Home Gallery by Haining Gelin Furniture from Morris PRC**

On 25 November 2015, Haining Gelin Furniture acquired the remaining 51% equity interest in Haining Morris Home Gallery from Morris PRC at a consideration of RMB13,079,442.23 which was determined with reference to the net asset value of Haining Morris Home Gallery as appraised by the Independent Valuer as at 31 December 2014. Upon completion of such acquisition, Haining Morris Home Gallery was owned as to 51% by Haining Gelin Furniture and as to 49% by Mozo Investments. Such acquisition has been properly and legally completed and settled.

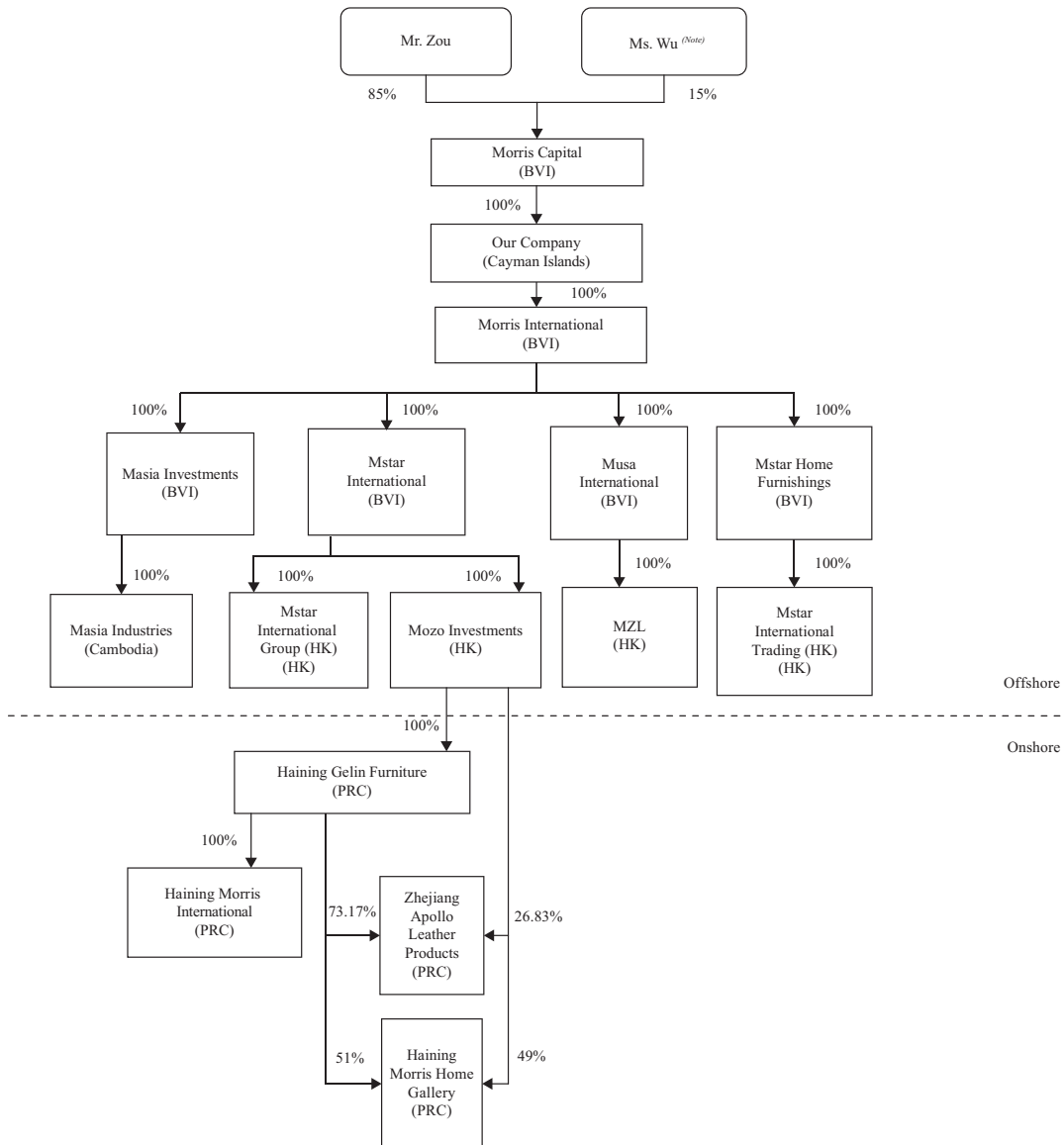
### **Sub-division of shares of our Company**

On 10 December 2016, every issued and unissued share of US\$1.00 par value each in the share capital of our Company was subdivided into 1,000 Shares of US\$0.001 par value each. Upon completion of the sub-division, our Company has an authorised share capital of US\$50,000 divided into 50,000,000 Shares of US\$0.001 par value each and an issued share capital of US\$100 divided into 100,000 Shares of US\$0.001 each.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CORPORATE AND SHAREHOLDING STRUCTURE

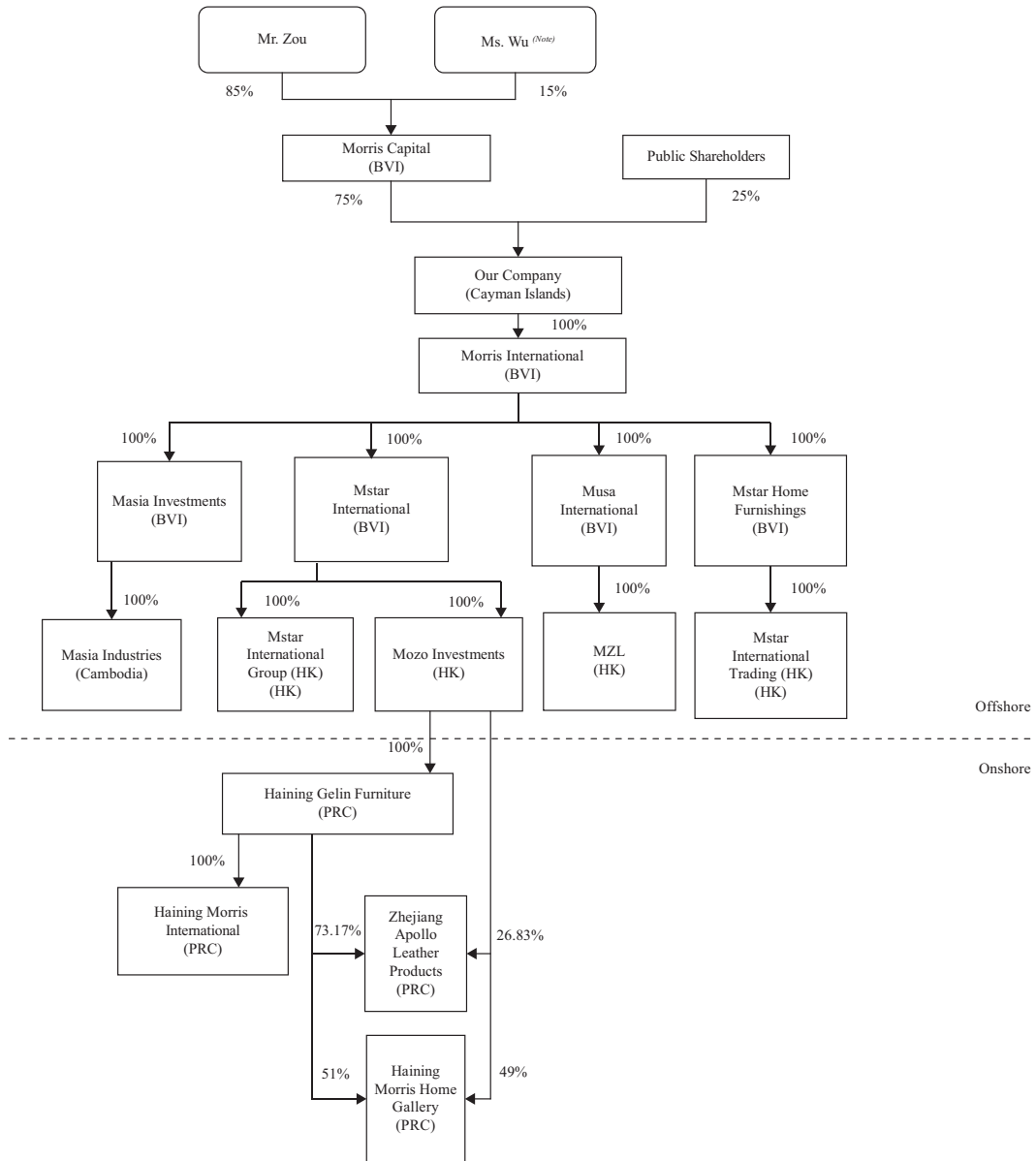
The following chart sets forth our corporate and shareholding structure immediately after the Reorganisation and the Business Transfer but prior to the Global Offering.



Note: Ms. Wu is the spouse of Mr. Zou.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after completion of the Global Offering and the Capitalisation Issue, assuming that the Over-allotment Option has not been exercised and that no Shares have been issued pursuant to the exercise of the share options which may be granted under the Share Option Scheme:



*Note:* Ms. Wu is the spouse of Mr. Zou.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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### **PRC LEGAL COMPLIANCE**

Our PRC Legal Advisers confirmed that all approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation and the establishment, equity interests transfer and reduction of registered capital in respect of the PRC companies in our Group as set forth in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

### **SAFE REGISTRATION**

As discussed in the subsection headed “Regulatory Requirements in the PRC – Summary of Circular No. 37” under the section headed “Regulatory Overview” in this prospectus, the SAFE Circular No. 37 requires PRC residents to register with the local SAFE counterparts before incorporating or acquiring control of an offshore special purpose vehicle, with assets or equity interests in an onshore company located in the PRC, for the purpose of offshore equity financing and to update or amend the registration upon any material change of shareholding or any other material capital alteration in such special purpose vehicle. Mr. Zou and Ms. Wu, both being PRC residents and beneficial owners of our Company, have obtained their SAFE registration in respect of their respective investment in our Group in accordance with PRC laws and regulations on 30 March 2016.



**OVERVIEW**

We principally engage in the manufacturing of sofas and sofa covers in the PRC with an integrated design, manufacturing, sales and marketing operation. According to the Euromonitor Report, we are one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015. Our products are generally marketed under two brands, namely, “Morris Holdings Limited” and “Morris Zou”. We mainly export “Morris Holdings Limited” branded sofas to customers in the U.S. and sell “Morris Zou” branded sofas and wood based furniture products domestically through our direct sale stores in Zhejiang Province, the PRC. We distinguish ourselves by designing our own sofas and other furniture products. Most of our sofas and furniture products sold to our customers are designed by our Haining Research and Development Centre. We have also engaged an independent experienced sofa designer based in the U.S. to assist us in product design.

We sell a wide range of sofas including stationary sofas and motion sofas (with or without smart home features) under the brand “Morris Holdings Limited” and sofa covers predominantly to overseas markets including the U.S., Canada, United Kingdom, Australia, Ireland and Korea. Customers of our sofas include some of the largest furniture retail chains and retail warehouse clubs located in the U.S.. Our sofas are mainly targeted at overseas consumers who tend to have greater demands regarding the quality and functionality of sofas. In response to consumers’ preferences, we equip our sofas with smart home features such as audio, massage, beverage cooling functions, Bluetooth, and USB port connections.

Since 2014, we have designed, manufactured, marketed and sold sofas and wood based furniture products under our “Morris Zou” brand in the PRC. Our “Morris Zou” branded sofas and wood based furniture products target consumers in the PRC, who have greater and increasing demands regarding the quality and functionality of furnitures with a preference for European style in design.

Our Haining Research and Development Centre comprised more than 40 staff as at the Latest Practicable Date. It is responsible for the conceptualisation, design and development of new and innovative sofas and other furniture products as well as identification of new trends and consumers preference in the U.S. and the PRC furniture markets.

As a way to further support our sales and marketing function, we have engaged an independent agent as well as an independent consultancy firm in the U.S. to assist us in the sales and marketing of our “Morris Holdings Limited” branded sofas and to expand our business in the U.S.. Apart from sales and marketing functions, the agent and the consultancy firm also assist in providing after-sales services including collecting feedbacks from customers and consumers of our products, and handling product returns and complaints. The agent and the consultancy firm also communicate with our Haining Research and Development Centre to assist in determining the latest seasonal themes, colours, appearance, functions and materials to be used and identify new trends and development in the U.S. market. With the support from such agent and consultancy firm, we have participated in the High Point Market exhibitions since 2010 by way of housing a showroom in High Point, North Carolina, the U.S. to promote and to market our “Morris Holdings Limited” branded sofas in the U.S.. The High Point Market is established by the High Point Market Authority, which organises trade shows for the furniture industry in High Point, North Carolina, the U.S..

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Our manufacturing facilities are located in Haining, Zhejiang Province, the PRC. As at the Latest Practicable Date, we operated 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. Our production facilities in PRC occupied a combined area of approximately 99,529 sq. m. of land and were capable of producing approximately 892,000 pieces of sofas, 1,613,000 pieces of sofa covers and 11,000 pieces of other furniture products per year as at the Latest Practicable Date. In order to expand our production capacity, we are in the preparation stage of setting up our production facility in the Sihanoukville Special Economic Zone in Cambodia. The Cambodia facility is designed to be equipped with five and nine production lines for sofas and sofa covers, respectively with an estimated annual production capacity of approximately 95,000 pieces of sofas and 145,000 pieces of sofa covers. Among the nine production lines for sofa covers, six of them will be used for the production of sofa covers for assembly of our own sofas and the remaining three will be used for the production of sofa covers which will be sold directly to our customers. Our production capacity of sofas and sofa covers are estimated to increase by approximately 10.7% and 9.0%, respectively, over those for the year ended 31 December 2015 after the commencement of operation of production lines in our production facility in Cambodia in 2017.

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our revenue were approximately RMB984.0 million, RMB824.7 million, RMB926.5 million and RMB581.6 million, respectively, and our net profit were approximately RMB33.5 million, RMB24.4 million, RMB83.1 million and RMB40.1 million, respectively. The U.S. market is our key export market. Sales to the U.S. market accounted for more than 90% of our revenue for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. We intend to continue leveraging on our competitive strengths to expand our sales and marketing network, increase production capacity in our facility in Cambodia and enhance sales and marketing effort to increase brand awareness and market recognition of our “Morris Holdings Limited” and “Morris Zou” brands.

### **OUR COMPETITIVE STRENGTHS**

We believe that the following competitive strengths have been the key factors for our success and will enable us to maintain our market position and capture the anticipated future growth in our target markets.

#### **Market leadership in the PRC-based sofa export industry**

We are one of the leading and long established manufacturers of sofas and sofa covers in the PRC sofa export industry. According to the Euromonitor Report, we are one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015 with a market share of approximately 3.6%. As such, we believe we are well positioned in capitalising on the growth in overseas furniture market, particularly the U.S. market.

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According to the Euromonitor Report, the U.S. is PRC's largest export market for upholstered sofas. During the period between 2011 and 2015, upholstered sofas to the U.S. accounted for about 30% of China's total exports of upholstered sofas in terms of export value. China's exports of upholstered sofas to the U.S. increased from approximately US\$2,537.7 million in 2011 to US\$3,400.0 million in 2015, representing a CAGR of approximately 7.6%. Retail sales of consumer goods and sofas in the U.S. has been growing from 2013 to 2015 due to the general improvement in the U.S. economy, and an improved real estate market coupled with the growing new-house building along with increasing disposable income in the U.S.. Our positioning in the U.S. has allowed us to benefit from the growth of the U.S. economy and furniture market.

We maintained long-term business relationships with various large-scale customers in the U.S., including some of the largest furniture retail chains and retail warehouse clubs in the U.S. We believe that such long-term relationships with our customers, supported by our strong positioning in export of sofas to the U.S., differentiate us from our competitors in the PRC which similarly manufacture and export sofas and sofa covers to the U.S..

### **Integrated business model consolidating the functions of design, research and development, manufacturing, and sales and marketing functions**

Our integrated business model, consolidating the most critical functions of design, research and development, manufacturing, and sales and marketing, is fundamental to our continued success. Our business model has evolved from a pure OEM to one that is a combination of (i) OEM; (ii) ODM that incorporates design and manufacturing of sofas; and (iii) OBM that incorporates design, manufacturing, marketing and selling of our own branded sofas, domestically and internationally. We believe that our integrated business model differentiates us from pure OEM sofa manufacturers.

With our integrated business model, we are able to build upon our competitive strengths by controlling the key elements of the value chain including design, sales and marketing and branding which are critical to our operations. As at the Latest Practicable Date, we had our own design team comprising over 40 staff stationed at our headquarters in Haining, the PRC, and a number of them possessed over 10 years of experience in design. During the Track Record Period, a majority of our products were self-designed, with no assistance from the external designer. In order to complement our design capabilities, we have engaged an experienced sofa designer based in the U.S. who has more than 10 years of experience in the U.S. furniture industry, for providing us with conceptual product designs reflecting the latest market trend and consumer preferences in the U.S. sofa market. The conceptual product designs are passed to our Haining Research and Development Centre for consideration, implementation and final production of our sofas.

We have direct contacts with a majority of our customers during the Track Record Period. As a way to further support our sales and marketing function, we have also engaged an agent and a consultancy firm to assist us in marketing and promoting our sofas as well as providing customers and our ultimate consumers with after-sales services, such as obtaining customers and consumers feedbacks on our sofas. Such feedbacks would help us to determine the latest seasonal themes, colours, appearance, functions and materials to be used on our sofas and identify new trends and development in the U.S. market.

**Strong and innovative design, research and development team**

We believe that a strong and innovative design, research and development team is critical to our sustainable development and success. In 2003, we established our Haining Research and Development Centre, which was accredited as a Zhejiang Enterprise Technical Centre (浙江省企業技術中心) in the same year by the Zhejiang Province Economic and Trade Commission (浙江省經濟貿易委員會). Our Haining Research and Development Centre is responsible for developing new types of sofas and other furniture products and their components as well as finding ways to enhance and improve the functionality of our existing products. By fully utilising our design, research and development capabilities, we are able to continuously conceptualise, design and develop new and innovative sofas and other furniture products, acting in line with the market trend and addressing the desire and demands of our customers. As at the Latest Practicable Date, our Haining Research and Development Centre had more than 40 staff, of which a number of senior members have over 10 years of experience in design, research and development of sofas and other furniture products. They have been working for our Group for an average of around nine years. Since the establishment of the Haining Research and Development Centre in 2003 and through continuous investments in research and developments, we have obtained many achievements including obtaining the recognition of High Technology Enterprise granted by the Science Technology Department of Zhejiang Province (浙江省科學技術廳), the Department of Finance of Zhejiang Province (浙江省財政廳), the State Administration of Taxation of Zhejiang Province (浙江省國家稅務局) and the Local Tax Bureau of Zhejiang Province (浙江省地方稅務局) on 27 October 2014 and registration of various patents. As at the Latest Practicable Date, we possessed 25 issued patents in sofa manufacturing. From 1 January 2016 and up to the Latest Practicable Date, six of our research and development projects were approved by Zhejiang Provincial Economic and Information Technology Commission and 15 were approved by Science Technology Department of Zhejiang Province as provincial-level research and development projects. Please refer to the subsection headed “Product Design, Research and Development” under this section for further details.

The designer whom we engaged in the U.S. has assisted us in identifying and determining the latest seasonal themes, colours, appearance, functions and materials to be used on our sofas to match with the preferences of our consumers in the U.S.. Together with the customers feedbacks on our sofas and the results of market survey from our participation in trade shows and exhibitions, our Haining Research and Development Centre is able to understand and accommodate the preferences of our consumers.

**Large-scale and cost effective production operations**

We have large-scale sofa production facilities in Haining, Zhejiang Province, the PRC. As at 31 August 2016, we had three production facilities in Haining, Zhejiang Province, the PRC. These production facilities occupy a combined area of approximately 99,529 sq. m. of land with 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. As at the Latest Practicable Date, we had an annual production capacity of approximately 892,000 pieces of sofas, 1,613,000 pieces of sofa covers and 11,000 pieces of other furniture products, respectively.

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We believe that our large-scale operation allows us to maintain a highly competitive cost structure as we are able to benefit from economies of scale, cost effectiveness and efficiencies in our operations. Our centralised purchasing system of raw materials including wood, leather, fabric and foam enhances our bargaining power to negotiate better prices on such raw materials. In addition, our systemic production process enables us to reduce the likelihood of costly mistakes at the production stage and the rate of reprocessing and reworking, thereby reducing wastage. We also have detailed quality control system to control each step of the production process and ensure product quality, details of which are set forth under the subsection headed “Quality Control Systems” under this section. We also believe that our large-scale operation equips us with the ability and the production capacity to deliver products on a timely basis which is crucial to our customers, hence to our continued success.

### **Highly experienced professional management team**

Mr. Zou, Chairman, CEO and one of our Controlling Shareholders, is an award-winning entrepreneur in manufacturing and exporting of sofas to overseas markets. Mr. Zou has over 15 years of experience in the sofa manufacturing and export industry in the PRC which is crucial in facilitating us to identify market trends and capitalise business opportunities. After more than 10 years of efforts, Mr. Zou has successfully turned our Group to become one of the top three PRC upholstered sofa manufacturers in the PRC in terms of export value to the U.S. in 2015. Mr. Zou continues to guide the direction of our strategic development and our raw materials merchandising strategies.

Our senior management team has extensive industry experience including raw materials sourcing, manufacturing, staff training and development, accounting, sales and marketing, financial management and corporate governance. We believe the depth and breadth of the complementary experience of our management team enhances our capability in delivering quality products and providing high calibre services to our customers, which in turn help us to achieve our business objectives.

### **OUR BUSINESS STRATEGIES**

We intend to maintain and further strengthen our position in the upholstered sofa export industry and to expand our business by implementing the following business strategies:

#### **Further expand our sales and marketing network**

We plan to further expand our sales and marketing network through a two-pronged strategy by extending our reach in the overseas furniture market as well as expanding and strengthening our sales network in the PRC. We aim to achieve this goal through the following principal strategies:

*Continuing to extend our reach in the overseas sofa market:* We will continue to further enhance our competitive advantages as a leading player in the PRC sofa export market to the U.S. by fortifying existing business relationships with our customers and exploring new business relationships with potential customers so as to further expand our business network into territories such as Australia, Europe and Canada. To this end, we have engaged and will continue to engage a consultancy firm and a sales agent in the U.S. to specifically advise us

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on the sales and marketing strategies and activities to be adopted by our Group for the U.S. market. We have expanded our sales and marketing team from 11 personnel in 2013 to 22 as at Latest Practicable Date. Going forward, we will continue to reinforce our sales effort on export business and engage more U.S. sales agents to assist in expanding our sales network in the U.S. and to make sure that we have sufficient manpower in the U.S. to implement our sales and marketing strategies. We intend to recruit no less than 6 U.S. sales agents and 7 sales personnel for each of the years ending 31 December 2017, 2018, 2019 and 2020.

*Expanding and strengthening our network in the PRC:* In view of increasing prosperity, rapid urbanisation and rising consumer spending in the PRC, we will continue tapping into the PRC domestic furniture market. We currently have two direct sale stores in the PRC. We intend to expand and strengthen our sales channels network in the PRC by establishing the domestic sales and marketing teams, opening flagship stores in the Yangtze River Delta region and setting up our e-commerce platform. We intend to recruit no less than 15 sales and marketing staff for each of the years ending 31 December 2017 and 2018, who will be responsible for formulating sales strategies and sales plans, organising marketing and promotion activities and supervising the implementation of sales activities by staff in our direct sale stores.

### **Expand our manufacturing capabilities in Cambodia and reduce production cost**

As at the Latest Practicable Date, all of our production facilities were located in Zhejiang Province, the PRC. In order to support our expansion strategies and lower our overall production cost, we are currently in the preparation stage of setting up a production facility in Cambodia. The total investment cost of our Cambodia production facility is estimated to be approximately RMB56.8 million. We expect that such production facility will commence operation in the first half of 2017. There will be five and nine production lines for sofas and sofa covers, respectively. Our annual production capacity of sofas and sofa covers is expected to increase by approximately 10.7% and 9.0%, respectively, after the commencement of operation of production lines in our production facility in Cambodia in 2017. Please refer to the subsection “Our Production Facilities and Processes – New production facility in Cambodia” under this section and the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

In addition, we will adopt the following strategies to reduce our production cost:

- optimise the manufacturing process such as improving the design of furniture and reducing production wastage;
- continue to monitor our raw materials merchandising and increase the volume of bulk purchase and to take advantage of our centralised purchasing system; and
- invest further in the development of our ERP system to facilitate us in the evaluation of manufacturing performance, design and implementation of production processes to improve our operating efficiency.

**Continue to enhance our brand recognition in the furniture market**

Our Directors consider that brand awareness and recognition are critical to our success. We will continue to enhance our brand recognition in the furniture market through various mediums, such as television, newspapers, magazines, internet and participation in trade fairs to increase our brand exposure to existing and prospective customers, to intensify our marketing efforts through marketing and promotion of our existing self-branded furniture, and to develop our design capabilities. To this end, we intend to further reinforce our brands of “Morris Holdings Limited” and “Morris Zou” through the following campaigns and initiatives:

*Marketing and Promotions.* We intend to pursue a combination of marketing endeavours which include advertising through various mediums, such as television, newspapers, magazines and internet. We will also continue to promote ourselves and our products in “Furniture/Today”, a business newspaper about the U.S. furniture industry that provides news and research to furniture and bedding retail stores, mass merchants, distributors, executives and suppliers on a regular basis. In addition, we plan to expand our exhibition room footprint in the High Point Market in North Carolina, the U.S. and participate in more exhibitions and showroom events in the PRC, the U.S. and other overseas markets such as the Las Vegas Market, which is held twice a year in the U.S..

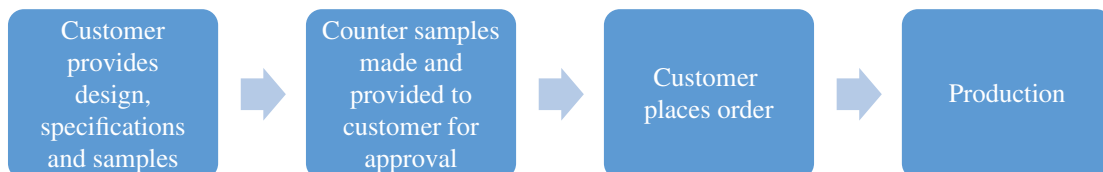
*Selective Pursuance of Strategic Alliances and Acquisitions.* We intend to selectively pursue strategic alliances and acquisitions of furniture brands with reputable names that will enable us to expand our sales network and raise the awareness of our brands and products. We consider that, through strategic alliances with or acquisitions of other furniture brands, we will be able to expand our products portfolio and benefit from the established market recognition of such brands. Our management will carefully evaluate any acquisition, investment or strategic cooperation opportunities that may arise from time to time based on the reputation and products portfolio of the target, its strategic fitness and the ability to create value for our Group and stakeholders. As at the Latest Practicable Date, we had not entered into any binding commitment, whether oral or written, for any strategic alliance or acquisitions.

**OUR BUSINESS MODEL**

We are one of the leading manufacturers of sofas and sofa covers in the PRC, being one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015 according to the Euromonitor Report. We design, manufacture and sell a wide range of sofas, sofa covers and other furniture products through OEM, ODM and OBM business models.

**Our OEM business operations**

We manufacture our sofa covers according to the design and specifications provided by our OEM customers. Our sales department will communicate with the production department for the detailed products standards and specifications after receiving the samples from our customers. We will then submit our counter sample to our customers for approval. After our customers confirm the counter sample and place order, we will commence production. The following diagram illustrates our OEM business operations:



**Our ODM business operations**

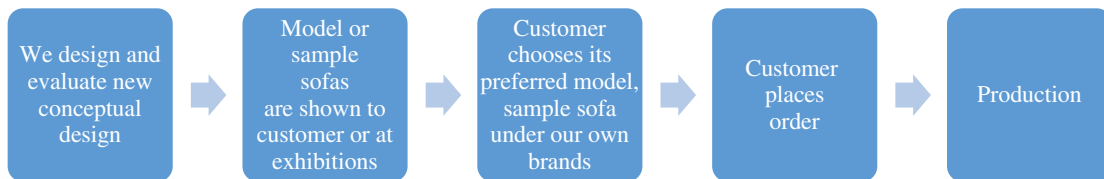
We design, develop, manufacture and sell sofas according to the requirements of our customers. Under ODM model, our customers provide us with a general concept for the type of sofas that they want or specific requirements for production, such as the requirements of fulfilling particular quality standards or restrictions on hazardous materials. Our Haining and Research and Development Centre then designs and develops custom-made prototypes for our customers' selection. The ODM customers place orders after they decide the design and specifications of the products. Upon receipt of sales orders, we commence manufacturing the sofas under our customers' own brands. The following diagram illustrates our ODM business operations:



**OBM business operations**

Leveraging on our knowledge and market resources accumulated through years of experience in providing OEM and ODM services, we started to develop our own branded sofas in 2013. Under our OBM business model, sofas are sold mainly under our own brands, namely, "Morris Holdings Limited" and "Morris Zou". We design, research and develop our own branded sofas in our Haining Research and Development Centre. We have also engaged a U.S. designer to provide us from time to time with new conceptual designs of sofas in sketches and drawings reflecting the latest market trend and consumer preferences in the U.S. sofa market. Model or sample sofas with new conceptual design or collections of materials swatches will be shown to our customers or potential customers in the showroom at our office in Haining or at exhibitions such as our showroom at High Point Market in North Carolina, the U.S.. Our customers or potential customers who visit the showrooms may choose and place orders for our sofas. In respect of our own branded sofas exported to overseas markets, we manufacture sofas under our own brands upon receipt of sales orders.

The following diagram illustrates our OBM business operations:





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### OUR PRODUCTS AND BRANDS

Our products can be categorised into (i) sofas, (ii) sofa covers and (iii) other furniture products. The following table sets forth our revenue by product type for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016:

Product Type	For the year ended 31 December						For the eight months ended 31 August			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Sofas	556,985	56.6	540,258	65.5	666,733	72.0	374,319	66.2	472,515	81.3
Sofa covers	379,327	38.5	253,032	30.7	226,482	24.4	172,151	30.5	104,848	18.0
Others (Note)	47,714	4.9	31,385	3.8	33,256	3.6	18,488	3.3	4,203	0.7
Total	<u>984,026</u>	<u>100.0</u>	<u>824,675</u>	<u>100.0</u>	<u>926,471</u>	<u>100.0</u>	<u>564,958</u>	<u>100.0</u>	<u>581,566</u>	<u>100.0</u>

*Note:* For the year ended 31 December 2013, others primarily included leather products processed by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), which was disposed of by our Group on 12 January 2015. For the years ended 31 December 2014 and 2015, others primarily included (i) leather products and (ii) wood based furniture products. For the eight months ended 31 August 2016, others primarily included leather pieces and wood based furniture products.

We primarily sell our products to overseas markets, including the U.S., Canada, United Kingdom, Australia, Ireland and Korea, with the U.S. being our key export market. Sales to the U.S. market accounted for more than 90% of our revenue for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016.

Our products are generally marketed under two brands, namely, “Morris Holdings Limited” and “Morris Zou”. We mainly export “Morris Holdings Limited” branded sofas to customers in the U.S. market and sell “Morris Zou” branded sofas and other furniture products domestically in the PRC.

#### Sofas

Our sofas are generally categorised into stationary sofas and motion sofas. Some of our sofas, either stationary or motion, are equipped with certain smart home features to combine technology with traditional sofa design. Such smart home features include audio, massage, beverage cooling functions, Bluetooth and USB port connections. Our sofas are mainly targeted at overseas consumers who tend to have greater demands regarding the quality and functionality of sofas. In response to different consumers preferences, our sofas are manufactured in a wide spectrum of sizes, designs, colours, patterns and upholstered in various materials such as leather, PU leather or fabric. We sell our sofas under “Morris Holdings Limited” brand to overseas markets and under “Morris Zou” brand in the PRC.

*Stationary sofas*

Our stationary sofas are manufactured in a variety of configurations ranging from one to three seaters or in different modules or sections for easy and flexible arrangement and combination.



*Motion sofas*

Our motion sofas feature functions, such as extending footrest, swivel, rocking, gliding vibrating and sectional reclining mechanisms. Our motion sofas are also made with various configurations ranging from one to three seaters and are also available to customers in different modules or sections for the consumers to create their own combination.



During the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, the average selling price of our sofas was approximately RMB1,035 per set, RMB1,200 per set, RMB1,256 per set and RMB1,203 per set, respectively.

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### Sofa covers

Sofa covers are a major component of sofas and are added to wrap the sofas during the assembly of sofas. During the Track Record Period, we manufactured sofa covers as an OEM for our customers. We received orders and specifications of sofa covers from customers in accordance with which the sofa covers were produced. Depending on our customers' orders, we produce leather, fabric and PU leather sofa covers. During the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, the average selling price of our sofa covers was approximately RMB325 per piece, RMB331 per piece, RMB624 per piece and RMB627 per piece, respectively.

### Other furniture products

Other than sofas, we also design, manufacture and sell other furniture products in our two direct sale stores in Haining City and Jiaxing City, Zhejiang Province, the PRC. These furniture products are wood based furniture products such as cabinets, tables, bedsteads and chairs, which are normally designed and suited for living room, dining room, bedroom and home office. Most of these furniture products are designed in European style which target consumers in the PRC who we believe tend to have greater demands regarding appearance, style, quality and functionality of furnitures. We sell our other furniture products in the PRC under "Morris Zou" brand.

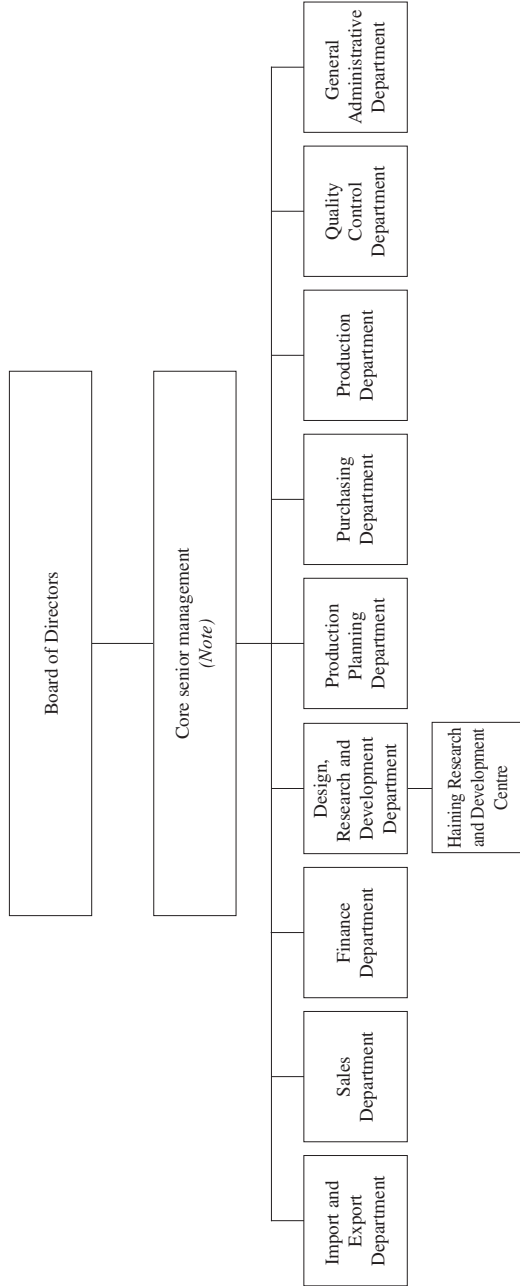


The selling price of other furniture products generally has a wide range due to our diversified product types. For the years ended 31 December 2014 and 2015 and the eight months ended 31 August 2016, the selling price of our other furniture products ranged from approximately RMB2,500 to RMB55,000, approximately RMB1,000 to RMB111,000 and approximately RMB85 to RMB27,747, respectively.

### OUR MANAGEMENT STRUCTURE

Our Directors consider that we have developed a management structure that is efficient in supervising, directing and supporting of our operations.

The organisation chart below illustrates the management structure of our Group as at the Latest Practicable Date.



*Note: The core senior management comprises four executive Directors, who are responsible for the overall business development and operation of our Group.*

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### **Overall management**

The overall management of our business and operation is conducted by our core senior management. Our core senior management is responsible for the overall administration of the organisation, operational management and supervision of all aspects of the business, such as financial planning, management level recruitment, and marketing strategies of our Group.

### **Import and export department**

Our import and export department is responsible for processing purchase order and liaising with our sales department and our production planning department.

### **Sales department**

Our sales department is mainly in charge of (i) communicating with existing and potential customers, (ii) providing after-sales service and feedbacks of the customers to our production planning department, (iii) dealing with the requirements, requests and complaints of the customers, (iv) marketing and promoting “Morris Holdings Limited” and “Morris Zou” brands, and (v) collaborating with our agent and consultancy firm in the U.S. and U.S. designer for the matters regarding sales, after-sales service, marketing and product design.

### **Finance department**

Our finance department is responsible for maintaining accounting system and handling finance and accounting related matters.

### **Design, research and development department**

Our Haining Research and Development Centre, being our design, research and development team, is responsible for the conceptualisation, design and development of new and innovative sofas and other furniture products as well as assisting us in identification of new trends and consumers preference in the U.S. market.

### **Production planning department**

Our production planning department is responsible for planning their production schedule according to the purchasing orders. Our production planning department receives the purchasing orders from import and export department and then process the orders. It will notify our import and export department when the products are produced.

### **Purchasing department**

Our purchasing department is responsible for purchasing raw materials and controlling the level of inventories.

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### **Production department**

Our production department is responsible for the day-to-day production.

### **Quality control department**

Our quality control department is responsible for monitoring the quality control system for the overall quality inspection and testing procedure.

### **General administrative department**

Our general administrative department is responsible for providing administrative support to our Group.

## **PRODUCT DESIGN, RESEARCH AND DEVELOPMENT**

In general, sofa covers manufactured by us are designed by our customers. In contrast, sofas and other furniture products manufactured by us are designed by our Haining Research and Development Centre itself or with the assistance of our U.S. designer.

We believe our strong capability in design, research and development will help strengthen our market position in the PRC sofa export market. As at the Latest Practicable Date, our Haining Research and Development Centre comprised more than 40 staff stationed in Haining, Zhejiang Province, the PRC. These staff have extensive experience in the sofa production industry, of which a number of senior members have had over 10 years of experience in design, research and development of sofas and other furniture products.

### **Design of sofas**

Every new conceptual design of sofas designed by ourselves or our U.S. designer is examined and evaluated by our Haining Research and Development Centre as to whether a product created following the design will be marketable and welcomed by the customers. If our Haining Research and Development Centre, after the examination and evaluation, determines that it is feasible to implement the conceptual design to create an actual marketable product, further detailed drawings with specifications, such as colours, sizes and additional functions, will be drafted to support the production of an actual model or sample sofa. Such model or sample sofas will be shown for display to our customers or potential customers in the showroom at our head office in Haining, Zhejiang Province, the PRC, or at exhibitions such as our showroom at High Point Market in North Carolina, the U.S.. Our customers or potential customers who visit the showrooms are free to choose from the samples and place purchase orders for our sofas. We also deliver sofa samples to our potential or existing customers if they so request.

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When the customers make special requests regarding the specifications of the sofas and if any changes are agreed by us, a revised drawing with new specifications will be submitted to the customers. Once the customers confirm the design, the purchase order will be passed to our production planning department for production.

Our sales and marketing team is responsible for collecting feedbacks from customers through our agent and consultancy firm in the U.S.. Our sales department will compile and pass on such customers feedbacks to our Haining Research and Development Centre which help to determine the latest seasonal themes, colours, size, functions and materials to be used and identify new trends and development in the sofa industry to enhance further development of our products. Furthermore, we have detailed research and development policy which sets forth our internal rules on each stage of research and development. Pursuant to such policy, our sales department is responsible for collecting market information and customer feedbacks of our products or similar products of our competitors and formulating product development proposals, which are subject to review and assessment before they are implemented by our Haining Research and Development Centre.

We entered into a design service agreement with our U.S. designer, an Independent Third Party, on 1 August 2014. The major terms of the design service agreement are as follows:

**Scope of service**

The designer will provide design schemes of furniture according to the actual demand of our Group.

**Ownership of the intellectual property rights**

Unless otherwise agreed, the intellectual property rights of (i) the design, drawings and pictures created by the designer during the design process and (ii) the relevant creative ideas and creations, shall be vested in our Group.

**Term of service**

Five years with no renewal provision.

The service fee is/will be primarily determined by both parties according to the number of accepted design projects service and complexity of designs.

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### **Design of other furniture products**

Our Haining Research and Development Centre usually produces detailed drawings of other furniture products from time to time which reflect the latest market trend and consumer preferences in the PRC. Our production planning department will arrange for production. Customers of our direct sale stores can also place orders with specific requirements, such as their preferred size and appearance, for their designated products.

### **Research and development**

Our Haining Research and Development Centre is also responsible for developing new types of sofas and other furniture products and their components as well as finding ways to enhance and improve the functionality of our existing products.

As at the Latest Practicable Date, we possessed 25 issued patents in sofa manufacturing. Please refer to the subsection headed “Intellectual Property” under this section and Appendix IV to this prospectus for details of our intellectual property. From 1 January 2016 and up to the Latest Practicable Date, six of our research and development projects were approved by Zhejiang Provincial Economic and Information Technology Commission and 15 were approved by Science Technology Department of Zhejiang Province as provincial-level research and development projects.

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, the expenditure incurred related to our research and development projects was approximately RMB8.0 million, RMB9.1 million, RMB22.8 million and RMB28.2 million, respectively which was charged to our profit and loss accounts as expenses.

## **OUR PRODUCTION FACILITIES AND PROCESSES**

### **Production facilities**

Our manufacturing facilities are located in Haining, Zhejiang Province, the PRC, which were leased from Morris PRC. Please refer to the subsection headed “Properties” under this section and the subsection headed “Non-exempt Continuing Connected Transactions – The Lease Agreements” under the section headed “Connected Transactions” in this prospectus for further details. As at the Latest Practicable Date, we operated 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. These production facilities occupied a combined area of approximately 99,529 sq. m. with an annual production capacity of approximately 892,000 pieces of sofas, 1,613,000 pieces of sofa covers and 11,000 pieces of other furniture products as at the Latest Practicable Date. Each of our production lines for sofas includes, among others, sewing machines, foam vertical cutting machines, foam-filling machines and vacuum compressors. Each of our production lines for sofa covers includes, among others, standard sewing machines, double-needle sewing machines, electric clippers and CAD graph plotters. Our production line for other furniture products includes, among others, synchronous sewing machines, multi-axial bench drills, tandem slitters, 3-dimensional die-sinking machines/engraving machines, and triplex scanners.



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The following table sets out the designed production capacity, actual production volume and utilisation rate for each of our product types during the Track Record Period:

	For the year ended			For the eight months	
	31 December			ended 31 August	
	2013	2014	2015	2015	2016
	<i>number of</i>	<i>number of</i>	<i>number of</i>	<i>number of</i>	<i>number of</i>
	<i>pieces</i>	<i>pieces</i>	<i>pieces</i>	<i>pieces</i>	<i>pieces</i>
	'000	'000	'000	'000	'000
	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)
<b>Sofas</b>					
- Designed production capacity (Note 1)	806	806	892	595	595
- Actual production volume	603	523	664	418	429
- Utilisation rate (Note 2)	74.8%	64.9%	74.4%	70.2%	72.0%
<b>Sofa covers</b>					
- Designed production capacity (Note 1)	2,177	1,712	1,613	1,075	1,075
- Actual production volume	1,805	1,345	1,271	794	644
- Utilisation rate (Note 2)	82.9%	78.6%	78.8%	73.9%	59.9%
<b>Other furniture products</b>					
- Designed production capacity (Note 1)	8	11	11	7	7
- Actual production volume	5	8	9	6	6
- Utilisation rate (Note 2)	66.1%	73.8%	81.1%	79.8%	81.0%

*Notes:*

1. Designed production capacity is calculated by multiplying the designed daily production capacity by planned production days (28 days x number of months in the year/period) for the year/period.
2. Utilisation rate is calculated by dividing the actual production volume for the year/period by the designed production capacity for the year/period.
3. The number of pieces set forth in this table is calculated based on the number of single-seater sofas and sofa covers sold; for example, a set of three-seater sofa is counted as three pieces of sofa.

Our designed production capacity of sofas and sofa covers for the eight months ended 31 August 2016 remained the same as compared to that for the eight months ended 31 August 2015. Our designed production capacity of sofas for the year ended 31 December 2015 increased by approximately 10.7% as compared to that of the year ended 31 December 2014, which was primarily due to the establishment of two new production lines of sofas in 2015. Our designed production capacity of sofa covers for the year ended 31 December 2014 decreased by approximately 21.4% as compared to that of the year ended 31 December 2013, which was primarily due to the reduction of production lines of sofa covers in 2014. We further reduced our production lines of sofa covers in 2015, which resulted in further decrease of our designed production capacity of sofa covers.

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The utilisation rate of our production facilities for sofas decreased from approximately 74.8% for the year ended 31 December 2013 to approximately 64.9% for the year ended 31 December 2014, which was primarily due to the decrease of actual production volume of sofas in 2014 as a result of shifting product mix towards higher margin products. The utilisation rate of our production facilities for sofas increased from approximately 64.9% for the year ended 31 December 2014 to approximately 74.4% for the year ended 31 December 2015, which was primarily due to the increase of actual production volume of sofas in 2015 as a result of increased sales of sofas. The utilisation rate of our production facilities for sofas remained relatively stable at approximately 72.0% for the eight months ended 31 August 2016 and approximately 70.2% for the eight months ended 31 August 2015. The utilisation rate of our production facilities for sofa covers decreased from approximately 82.9% for the year ended 31 December 2013 to approximately 78.6% for the year ended 31 December 2014, which was primarily due to the reduction of actual production volume of sofa covers in 2014 because we shifted our focus from manufacturing sofa covers to sofas. The utilisation rate of our production facilities for sofa covers remained stable at approximately 78.6% for the year ended 31 December 2014 and approximately 78.8% for the year ended 31 December 2015. The utilisation rate of our production facilities for sofa covers decreased from approximately 73.9% for the eight months ended 31 August 2015 to approximately 59.9% for the eight months ended 31 August 2016, which was primarily due to adjustments of business strategies made by our management to reduce orders of sofa covers in order to focus more on OBM of sofas. The utilisation rate of our production facilities for other furniture products increased for each year ended 31 December 2013, 2014 and 2015, which was primarily attributable to the increase of our actual production volume of other furniture products as we established our direct sale stores in Haining City in 2014 and in Jiaxing City in 2015 to expand sales of our products in the PRC. The utilisation rate of our production facilities for other furniture products remained stable at approximately 81.0% for the eight months ended 31 August 2016 and approximately 79.8% for the eight months ended 31 August 2015.

### **Repair and maintenance**

We endeavour to repair and maintain our equipment or machinery on a regular basis. As at the Latest Practicable Date, our maintenance team, which is under our general administrative department, consisted of 13 employees, who are responsible for carrying out daily, weekly and monthly inspections and routine daily cleaning and maintenance of our production equipment depending on the operating frequency and cycle. Manufacturers of our equipment also provide equipment maintenance services during warranty period. The average useful life of our principal machinery and equipment is approximately five years. Our equipment will be replaced when it is no longer functioning normally.

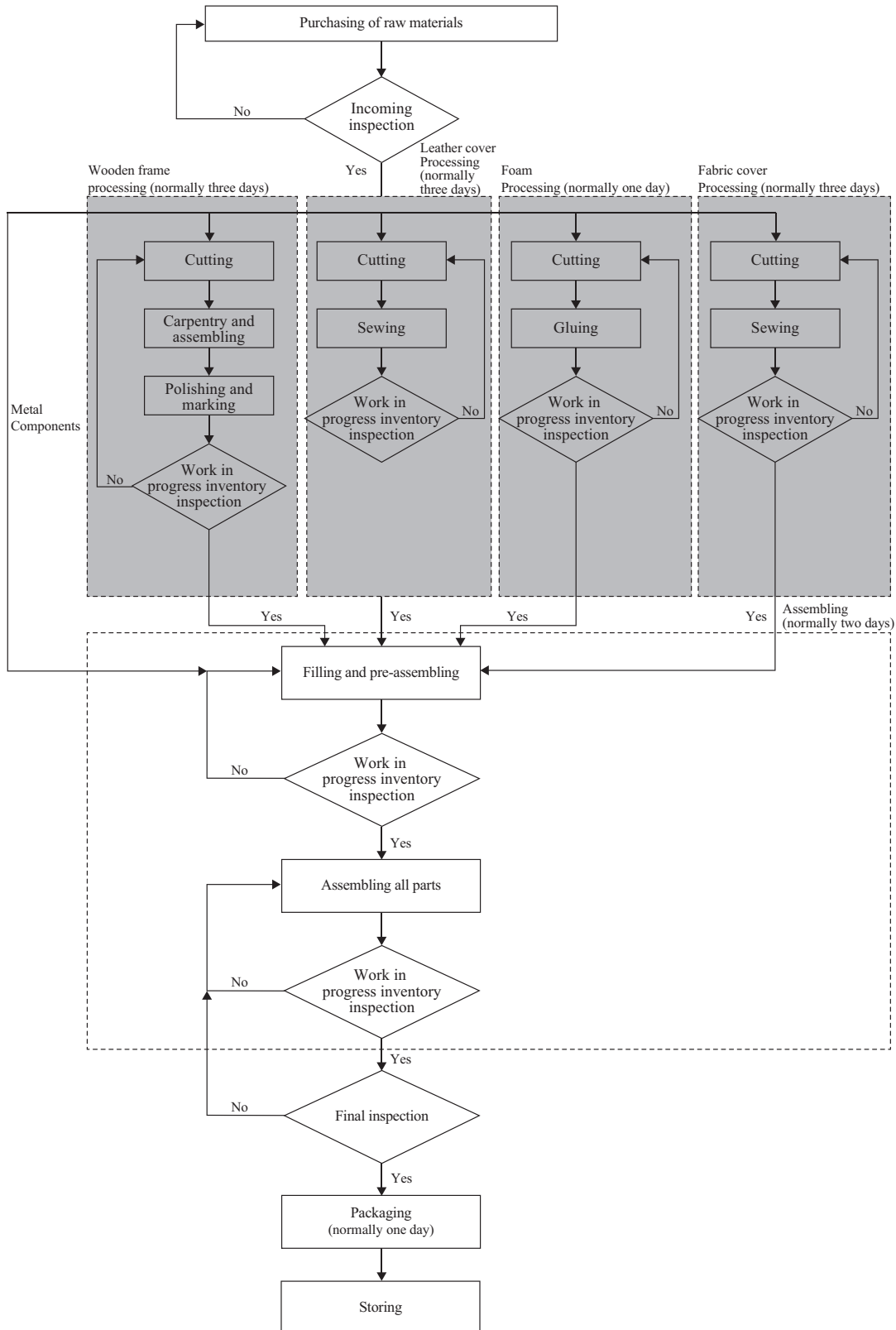
We did not experience any material or prolonged interruptions to our production process due to equipment or machinery failure during the Track Record Period.

### **Production process**

Each of the production of sofas, sofa covers and other furniture products is a customised process that involves significant skills and craftsmanship.

*Production process for sofas*

Our sofa production process is set out in the diagram below:



Description of each of the key production steps of our sofas are set forth below:

### *Wooden frame processing*

- ***Cutting*** – We purchase wood from local suppliers in the PRC. We will inspect the type and quantity of the wood delivered against the order specifications. We will measure and mark the wood before cutting it into various shapes using a table saw or bandsaw.
- ***Carpentry and Assembling*** – The wood pieces are assembled into a wooden frame, using carpentry tools and equipment such as nails, screws, springs and glue.
- ***Polishing and marking*** – The assembled wooden frame is then polished using a sanding machine, after which the frame is marked with production and purchase order numbers and stored accordingly.

### *Leather cover processing*

- ***Cutting*** – Leather materials are mainly used for sofa upholstery. All the leather we purchased is subject to general visual and manual inspections for defects spotting by our quality control team. After the leather passes inspections and tests, it is marked for cutting, which involves drawing of different sizes and shapes on the leather for cutting to ensure that the desired size is marked as accurately as possible for optimal use of the leather. This process can be done manually or by a marking machine. With the marking machine, our workers are able to perform at a faster rate and more accurately so as to optimise the use of every piece of leather thereby minimising the waste of leather in our production process. Manual marking is required in cases where the original leather has uneven shades caused during the leather dyeing process. After the leather has been marked, it is then cut manually assisted by cutting machines into the desired shapes and sizes.
- ***Sewing*** – After the leather has been cut into the required shapes and sizes, the various pieces are then sewn together by our workers using industrial sewing machines which are commonly used for sewing automotive upholstery and produce stronger seams with greater precision and speed compared to conventional sewing machines.

### *Foam processing*

- ***Cutting*** – Foam is mainly used as cushioning or padding in sofas. We purchased foam mainly from local suppliers in the PRC. Upon arrival at our production facilities, the foam is inspected visually by our quality control team to confirm that they are of the correct specifications and quantity. After the inspection, we cut the foam into desired shapes and sizes for the various parts of cushioning and padding in sofas, using manually-operated machinery.

- **Gluing** – After the cutting, the various pieces of foam are glued together according to the designed shape of the sofa such as top layer, seat padding and sofa handrails.

### ***Fabric cover processing***

- **Cutting** – Similar to leather processing, the production of fabric covers components which are mainly used for sofa upholstery begins with an inspection of the fabrics that we purchase. All the fabrics purchased are subject to general visual and manual inspections and certain other tests by our quality control team. Please refer to the subsection headed “Quality Control Systems” under this section for details. The fabric is then cut into the required shapes and sizes according to specifications.
- **Sewing** – After the fabric has been cut into the required shapes and sizes, the various pieces are then sewn together using sewing machines.

Our quality control team conducts visual and manual inspection on all steps of the work-in-progress to ensure the processes and the semi-finished products adhere to specifications. Semi-finished products that passed inspection will be passed for assembly. Please refer to subsection headed “Quality Control Systems” under this section for details.

### ***Assembling***

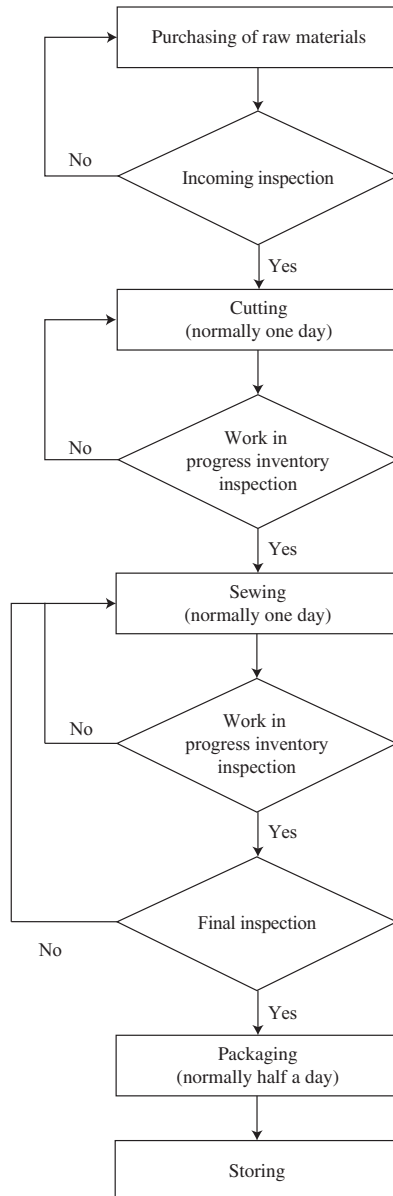
- **Filling and pre-assembling** – We have two different stations for assembling wooden frame and foam filling. At the wooden frame station, we assemble the wood with springs, elastic bands and cardboards to form the sofa frame. Afterwards, we fill the cushions which are made of foam into the semi-finished sofas. After completion of the two pre-assembling processes, we assemble the wooden frame and the foam filling together.
- **Assembling all parts** – After the above pre-assembling procedures, we proceed with general assembly including the wooden frame with accessories, the properly filled seat cushion, the backrest, the hugging-holding accessories and the wooden frame.

We conduct work in progress inspection on our products to assess product safety, structural integrity and conformity with design and colour specifications to ensure the products meet the requirements of our customers as well as the standard as specified in our standard manual.

If the final product passes work in progress inspection including inspection on size, standard, sample, structure and function, the product will be sent for final inspection of any defects before packaging. The final inspection is to check craftsmanship, notches, suture, seam, stitches per inch, excessive thready, sewing accuracy of the products. If any defects are spotted, the products will be sent back to the relevant station for reworking or reprocessing.

***Production process for sofa covers***

Our production process for sofa cover products mainly involves the following stages:



***Cutting***

We purchase leather, PU leather and fabrics mainly from suppliers in the PRC for making sofa covers. All the leather and fabric we purchased are subject to general visual and manual inspections and certain other tests by our quality control team. After passing the inspections and tests, the leather and fabric are marked for cutting which involves drawing different sizes and shapes on the leather and fabric for cutting. After the leather and fabric are marked, they are cut into the desired shapes and sizes for sewing by machines.

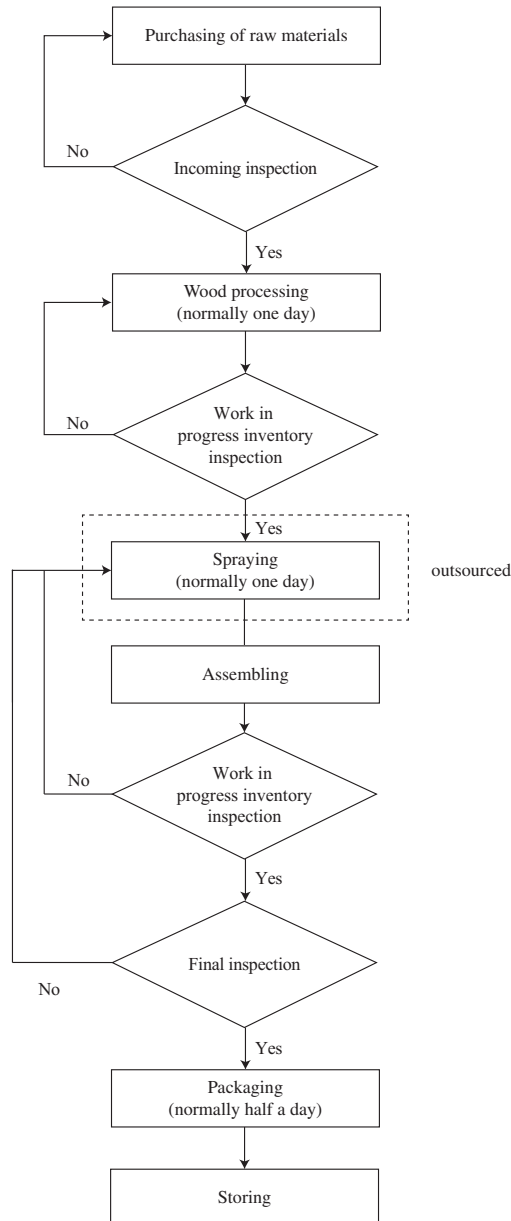
***Sewing***

After the leather and fabric are cut into the required shapes and sizes, the various pieces are then sewn together using sewing machines by our workers at the sewing stations. These leather and fabric pieces will be sewn into various sofa cover products.

Our quality control team conducts incoming inspection, work in progress inventory inspection and final inspection on the final sofa cover products. The final inspection includes checks on craftsmanship, notches, seam, stitches per inch, excessive threads, and sewing accuracy. If the sofa cover product passed quality inspection, it will be passed to packaging. For details of the inspection process, please refer to the subsection headed “Quality Control Systems” under this section.

***Production process for other furniture products***

Our production process for other furniture products mainly involves the following stages:



***Wood processing***

We purchase our wood from local suppliers in the PRC, which is inspected against the order specifications. The wood is measured and marked before being cut into various shapes using a table saw or bandsaw. The pieces are then assembled into a wooden frame using tools and equipment such as nails, screws, springs and glue. Finally, the assembled wooden frame is polished using a sanding machine, marked and stored accordingly.

***Spraying and painting***

After wood processing, processed wood and parts of the furniture are sent for colour spraying and painting. We have outsourced the spraying and painting procedure for our semi-finished products to an Independent Third Party since September 2015. The processing agreement entered into between the Independent Third Party contains the processing fee and work scope agreed by both parties.

The amount paid to the above Independent Third Party was approximately RMB97,000 for the year ended 31 December 2015. We normally pay within one month from the issuance of invoice from such Independent Third Party. We have assigned a staff from our quality control team to conduct sample site inspection.

***Assembling***

We produce the frame of the furniture by assembling the wood pieces by inserting spring clasps, cap nuts and metal components inside the wood through nailing and gluing.

We conduct manual and visual inspections on the quality of the furniture products including its structural integrity and conformity with our specifications. If the furniture products passed the quality control, we will pass the products for packaging and delivery. For details, please refer to the subsection headed “Quality Control Systems” under this section.

**New production facility in Cambodia**

To cope with our business expansion, in particular, we have considered the following factors:

- (i) according to the Euromonitor Report, the U.S. economy is growing steadily after the recession and the macroeconomic environment in the U.S. is improving;
- (ii) according to the Euromonitor Report, the retail upholstered sofa market in the U.S. is expected to continuously increase from 2016 to 2020. The CAGR of retail sales value of the upholstered sofa in the U.S. in the same period is estimated to be approximately 4.8%;



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- (iii) we plan to further expand our sales and marketing network by extending our reach in the overseas furniture market as well as expanding and strengthening our network in the PRC;
- (iv) the utilisation rate of our production capacity of sofas, sofa covers and other furniture products for the year ended 31 December 2015 were over 70%. In particular, the utilisation rate reached over 90% in April, May, June, November and December, the peak season of our production, during the Track Record Period. The existing product capacity almost becomes saturate during the peak season. Please refer to the subsection headed “Our Production Facilities and Processes – Production facilities” under this section for further details; and
- (v) the overall operating costs in Cambodia, including but not limited to, construction costs and labour costs, are lower than those in China. In particular, the present minimum wage in Cambodia is substantially lower than the present minimum wage of workers in China.

### *Our estimated scale of operation in Cambodia*

We have conducted a detailed feasibility study for our production facility in Cambodia, pursuant to which we plan to design and construct a new production facility with an additional annual sofa covers and sofas production capability of approximately 145,000 and 95,000 pieces, respectively. We are currently in the construction stage of the production facility and expect to complete construction in December 2016 and begin commercial production in the first half of 2017.

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Assuming (i) our Cambodia facility will operate at the same capacity utilisation rate as our existing production facilities in the PRC for the year ended 31 December 2015; and (ii) the products manufactured by our Cambodia facility will be sold at the same average selling price as we sold in the year ended 31 December 2015, the following table illustrates the estimated capacity, output and revenue of our Cambodia facility upon commencement of its operation:

	<b>Our production facility in the PRC</b>	<b>Cambodia facility</b>	<b>Cambodia As% of total</b>
<b>Capacity (number of pieces '000) (Note 2)</b>			
Sofa covers	1,613	145	8.2%
Sofas	892	95	9.6%
<b>Output (number of pieces '000) (Note 2)</b>			
Sofa covers	1,271	114	8.2%
		<i>(Note 1)</i>	
Sofas	664	71	9.6%
		<i>(Note 1)</i>	
<b>Revenue (RMB'000)</b>			
Sofa covers	226,482	16,294	6.7%
		<i>(Note 1)</i>	
Sofas	666,733	71,012	9.6%
		<i>(Note 1)</i>	

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*Notes:*

- The output of sofa covers and sofas of our Cambodia facility is calculated by multiplying the designed production capacity by the utilisation rate of our existing production facilities in the PRC for the year ended 31 December 2015. However, among the 114,000 pieces of sofa covers, 71,000 pieces of them will be used for sofa production. As such, the estimated revenue of sofa covers and sofas as calculated by applying the same average selling price as we sold in the year ended 31 December 2015 will be approximately RMB16.3 million and RMB71.0 million respectively.
- The number of pieces set forth in this table is calculated based on the number of single-seater sofas and sofa covers sold; for example, a set of three-seater sofa is counted as three pieces of sofa.

After the completion of construction and installation of equipment and upon the commencement of operation at our Cambodia factory, it is estimated that our non-current assets would be approximately RMB46.7 million, which would represent over 88% of our total non-current assets of approximately RMB52.5 million as at 31 August 2016, over 213% of our total non-current assets as at 31 August 2016, excluding the construction in progress in respect of the Cambodia operation, and over 79% of our estimated enlarged total non-current assets upon completion of construction and installation of equipment.

Our feasibility study covered, among other things, production scale, estimation of construction costs, financial impact and key sources of raw materials and energy. With respect to the selection of the location of our new production facility, we have considered a number

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of factors, including, but not limited to, weather, likelihood of earthquake and other natural disasters, quality of construction site, convenience of transportation, adequacy of water, electricity and communication systems as well as the availability of other utilities. As at the Latest Practicable Date, we had identified the exact location for our new production facility to situate at Sihanoukville Special Economic Zone, Cambodia. We considered having our new production facilities in Sihanoukville Special Economic Zone after taking into account the facts that it has a relatively low labour cost and favourable government policies, such as preferential tax incentives. Notwithstanding the above, we may face numerous potential risks associated with our expansion plan in Cambodia, such as labour unrest and political unrest. For details, please refer to the subsection headed “Risks Relating to Doing Business in Cambodia” under the section headed “Risk Factors” in this prospectus.

### *Construction scale and cost*

The construction of the new production facility commenced in 2013, which is expected to be completed in December 2016. The expected annual production capacity of sofa covers and sofas are approximately 145,000 pieces and 95,000 pieces, respectively. In connection with this expansion plan, we intend to invest an aggregate of approximately RMB56.8 million, which will be funded by the part of net proceeds of the Global Offering, our internal working capital and bank borrowings.

The breakdown of the estimated cost is set out below:

<b>Expense category</b>	<b>Carrying amount as at 31 August 2016 (RMB'000)</b>	<b>Estimated investment additional amount (RMB'000)</b>	<b>Total (RMB'000)</b>
Building construction	30,681	773	31,454
Machinery and equipment	2,309	5,500	7,809
Lease of land	7,585	–	7,585
Working capital and other expenses	–	10,000	10,000
<b>Total</b>	<b>40,575</b>	<b>16,273</b>	<b>56,848</b>

The payback period, which refers to the period of time required to recover the initial set up costs by its net profit (assuming the revenue will increase in line with the overall business growth and there will be no material impact on the business and operating results of the new production facility due to fluctuation in market demand, market inflations, increase in new material costs and labour expenses throughout the operation periods) is expected to be approximately 7.3 years after the completion of the construction.

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### *Construction timetable*

We expect the construction stage will be completed in December 2016. The equipment orders will be placed in first quarter of 2017 and the equipment will be delivered and installed from first quarter of 2017 to second quarter of 2017. Meanwhile, we will provide trainings to our staff in the new production facility, which will start in second quarter of 2017. Our new production facility is expected to commence trial operation in first half of 2017 and become fully operative in 2018.

We will from time to time re-evaluate our projected sales and capital expenditures based on market demand for our sofa covers and sofas, the plan of the construction of our new production facility and the technological developments that are relevant to our production process. We intend to re-assess the construction implementation plan of the new production facility at the time closer to the commencement of construction and may adjust the construction schedule and the scale of our operations if needed.

### *Management and operation plan*

The production facility in Cambodia will serve as a complementary production base to our core production facility in the PRC. It will manufacture and deliver the products mainly by following the instructions from our Production Planning Department, which include but not limited to types, units and specifications of products to be produced, manufacturing schedule and shipping schedule.

### *Management and control*

Masia Industries will set up its own production, quality control, warehouse, finance and administration departments to facilitate its operation in Cambodia. Our headquarters in Haining, PRC will supervise and oversee the overall management of our operation in Cambodia. For the first year of our operation in Cambodia, we will assign one general manager and two deputy general managers from our PRC facility to stay in Cambodia to oversee the purchase, production and daily operation of our Cambodia facility. These general managers will be rotated each year in the following years to oversee our operation in Cambodia. In addition, periodical on-site inspections will be conducted by our senior management each year.

In order to enhance communication between the management of our Group and our Cambodia operation and, hence, better monitoring and oversee our Group's investment in Cambodia, our Company has engaged Ms. Huang Huanhua ("**Ms. Huang**"), who is proficient in Khmer, the official language in Cambodia, as our Group's regional manager in Cambodia with effect from the commencement date of our Cambodia operation. She will report directly to the management of our Group on a weekly basis. Ms. Huang graduated from the Guangxi University for Nationalities with a bachelor's degree in Khmer language, and is proficient in both Khmer and Chinese. She has worked in Cambodia for over eight years and has experience in office administration and human resources matters. She also has knowledge about Cambodian governmental policies.

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Besides, all important documents relating to our Group's operation in Cambodia that are originally written in Khmer will be translated into Chinese and/or English to increase management transparency. In addition, our Company will engage a competent consultancy firm to conduct annual review of the political, social, investment and macro-economic risks in Cambodia after Listing and incorporate the review report in our Company's annual reports.

### *Sales, purchase and intra-group transactions*

Masia Industries will purchase a majority of raw materials directly from local suppliers in Cambodia and make payment itself. Masia Industries will purchase certain raw materials, such as fabric and foams from our PRC subsidiaries. Our PRC subsidiaries will follow the existing transfer pricing arrangement adopted by our Group for these raw materials sales to Masia Industries. For details of transfer pricing arrangement of our Group, please refer to the subsection headed "Marketing – Transfer pricing" under this section. Further, Masia Industries will sell its finished products to Mstar International Trading (HK) for export to our customers. Mstar International Trading (HK) will make payment to Masia Industries for the products purchased from Masia Industries. The fund flows will be consistent with the flows of the above intra-group transactions. For the estimated scale of our business and assets in Cambodia, please refer to the subsection headed "Our Production Facilities and Processes – Our estimated scale of operation in Cambodia" under this section above for further details. Masia Industries will adopt strict internal control policies to protect our operation, assets and fund in Cambodia. Please refer to the subsection headed "Internal Control" under this section below for further details. As advised by our Cambodian Legal Advisers, under the Law on Amendments to the Law on Investment of Cambodia, foreign investors are guaranteed with the non-discriminatory treatment (except to ownership of land), in particular, they are guaranteed against nationalisation policy of the Cambodian Government which could adversely affect their private properties in Cambodia. The law also prohibits the Cambodian Government from fixing the price of products of Qualified Investment Project (QIP) investment activities. Masia Industries, being an investment company registered with the Council for the Development of Cambodia and the Ministry of Commerce and granted a final registration certificate for its QIP investment activities, is eligible for the above protection under the law of Cambodia.

We intend to have transfer pricing arrangements for our operation in Cambodia. Cambodia does not have specific transfer pricing legislations in place. Nonetheless, the Cambodian General Department of Taxation would generally apply the OECD Transfer Pricing Guidelines in assessing related party transactions. As at the Latest Practicable Date, we had not determined the details of our transfer pricing arrangement for operation in Cambodia. We will comply with the OECD Transfer Pricing Guidelines and consult our tax consultant before our implementation of transfer pricing arrangement in Cambodia.

### *Legal compliance*

Masia Industries has engaged our Cambodian Legal Advisers as our legal advisers in Cambodia for handling legal issues of operation and filings of related documents to the government authorities after Listing to ensure its compliance with laws and regulations of Cambodia.

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Notwithstanding that the Securities and Exchange Commission of Cambodia has not signed any regulatory cooperation agreement or memorandum of understanding with the SFC, and that it is not a member of the International Organization of Securities Commissions (IOSCO) or a signatory to the IOSCO Multi-lateral Memorandum of Understanding, our Company and our Directors, being regulated by the SFO and other applicable laws and regulations in Hong Kong upon Listing, shall be obliged to provide the SFC with all information relating to Masia Industries and our Company's investment in Cambodia that is necessary for its investigation of our Company's affairs as requested by law.

### *Labour training and quality control*

In the early stage of commencement of operation in Cambodia, our Group plans to send several experienced personnel to Cambodia in order to train local labours and manage the operation in Cambodia. This arrangement is expected to increase certain operating and administrative expenses in the short run.

In terms of quality control, our Group plans to apply the current quality control policy adopted in our production facility in the PRC to the new production facility in Cambodia. In order to ensure the implementation of our quality control procedures in Cambodia, we will send relevant experienced personnel to monitor the adoption and implementation of quality control procedures.

### *Foreign currency*

In Cambodia, the currency used to pay for tax, utilities and official fees to departments of the government are KHR. However, most of other operating expense in Cambodia is paid in US\$. The potential currency risk is immaterial since the major sales and purchase and operating costs of Masia Industries is expected to be denominated in US\$, which are the same as the functional currency of Masia Industries.

### *Finance and audit*

Masia Industries will employ local accounting and finance staff in Cambodia for the preparation of its books and records. The books and records will be kept at the office of Masia Industries. Furthermore, Masia Industries will report its financials to our Company on a monthly basis. These financial and corporate records will also be uploaded synchronously to an online database established by our Company. Access rights to such books and records will only be granted to the accounting staff members who are responsible for the financial reporting of Masia Industries, our Group's Chief Financial Officer and other relevant staff. Thus, the management of our Group will be able to have full and timely access to such books and records for inspection at any time. Our Company will engage auditors who have affiliate in Cambodia to perform the audit on Masia Industries for reporting its results to our Company's auditors. Therefore, we will be able to access the books and records of Masia Industries in order to discharge our management or regulatory responsibilities and to provide relevant information and documents timely in the event of any regulatory enquiry or investigation.

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### *Internal control*

Masia Industries will adopt the same internal control policies and procedures currently adopted by our Group. ERP system will be installed for better monitoring and to facilitate its daily operation. Employees will be assigned with different level of authorities based on their respective roles and positions and have different access rights to internal documents. In addition, Masia Industries will have strict policies and procedures in place to control its fund transfers and monetary transactions. For instance, for fund transfers or other monetary transactions with amount over HK\$100,000, authorisation and approval shall be obtained from our Group's finance department. For fund transfers or other monetary transactions with amount over HK\$250,000, authorisation and approval shall be obtained from our executive Directors. Relevant underlying documents such as invoices, purchase orders and original contracts are required to be submitted to the headquarters for approval and record.

With respect to the high corruption risk associated with our Group's investment in Cambodia, our Company is in the process of formulating and implementing the integrity compliance policies with reference to the Summary of World Bank Group Integrity Compliance Guidelines issued by the World Bank, which will incorporate standards, principles and components commonly recognised by many institutions and entities as good governance and anti-fraud and anti-corruption practices and in compliance with Cambodian Anti-Corruption Law. Our Directors believe that such integrity compliance policies can be in place before commencement of operation of our Group's Cambodia facility. Some of the major measures are as follows:

- (i) To vet employees with any decision-making authority or in a position to influence business results, including management and the board members, to determine if they have engaged in misconduct relating to fraud, corruption, collusion or coercive practices in Cambodia.
- (ii) To impose restrictions on the employment of, or other remunerative arrangements with, public officials, and with entities and persons associated or related to them, after their resignation or retirement, where such activities or employment relate directly to the functions held or supervised by those public officials during their tenure or those functions over which they were or continue to be able to exercise material influence.
- (iii) To establish controls and procedures covering gifts, hospitality, entertainment, travel or other expenses to ensure that they are reasonable, do not improperly affect the outcome of a business transaction, or otherwise result in an improper advantage.
- (iv) Appropriate records must be maintained regarding all payment made to and by Masia Industries and any of its employees in the ordinary course of business.
- (v) To conduct properly documented, risk-based due diligence (including to identify any beneficial owners or other beneficiaries not on record) before entering into a relationship with a business partner, and on an ongoing basis, and to avoid dealing with contractors, suppliers and other business partners known or reasonably suspected to be engaging in any misconduct relating to fraud, corruption, collusion or coercive practices.

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- (vi) To ensure that any payment made to any business partner represents an appropriate and justifiable remuneration for legitimate services performed or goods provided by such business partner and that it is paid through bona fide channels.
- (vii) To monitor the execution of all contracts to which the members of our Group is a party in order to ensure, as far as is reasonable, that there is no misconduct relating to fraud, corruption, collusion or coercive practices in their execution.
- (viii) To communicate to all personnel of Masia Industries that they have a duty to report promptly any concerns they may have concerning Masia Industries' integrity compliance policies, whether relating to their own actions or the acts of others. In particular, to provide channels for communication (including confidential channels) by, and protection of, persons not willing to violate the policies under instruction or pressure from hierarchical superiors, as well as for persons willing to report breaches of the policies occurring within our Group.
- (ix) Where any misconduct relating to fraud, corruption, collusion or coercive practices are identified, to take reasonable steps to respond with appropriate corrective action and to prevent further or similar misconduct and other violations of the policies, including but not limited to reporting to the relevant authorities in Cambodia.

Ms. Huang will also be appointed as the integrity compliance officer of Masia Industries with effect from the commencement date of our Company's operation in Cambodia. She will report directly to the management of our Group regarding the compliance of our Company's integrity compliance policies. The findings, if any, will also be disclosed in our Company's interim reports and annual reports to be published for Shareholders' information after Listing. For further details of Ms. Huang's biography, please refer to the subsection headed "New production facility in Cambodia – Management and operation plan – Management and control" under this section. We will continue to look for suitable candidates to join our Company for overseeing compliance matters. In the event that we are able to find such a more suitable person to oversee and monitor our compliance of the integrity compliance policies during their initial implementation and subsequent operation and maintenance, we will replace or supplement Ms. Huang with such person to ensure the operational effectiveness and continuous improvement of the policies.

### **Contingency plan of the Cambodia production line**

To mitigate the impact on our Group's financial performance and operations in the unlikely event of a material disruption of our Company's operations in its Cambodia facility, such as the expropriation of the production facilities and assets, our Company has formulated a contingency plan pursuant to which the production lines in Cambodia will be relocated to the PRC. We have entered into a legally binding memorandum of understanding (the "MOU") with Morris PRC, pursuant to which we have the right, but not the obligation, to, with reference to our production needs, determine the time of entering into a formal lease agreement with Morris PRC, and request Morris PRC to deliver vacant possession of a parcel of land with an aggregate



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gross floor area of not less than 9,543 sq.m. (the “**Backup Plant**”) located at No. 120, Longxing Road, Haining City, Zhejiang Province, the PRC (中國浙江省海寧市隆興路120 號) to us within two weeks after we give written notice to Morris PRC requesting for the delivery of vacant possession of the Backup Plant.

The area of the Backup Plant is determined by us with reference to our production needs. The Backup Plant must have obtained all the required certificates and complied with all relevant standards and safety regulations. In the event that we are being forced to relocate from our factory in Cambodia, we can exercise our right under the MOU so that we can relocate our operation in Cambodia to the Backup Plant.

We estimate the costs to relocate our operation in Cambodia to the Backup Plant to be approximately RMB6.0 million, including, amongst others, the costs for purchase and installation of new equipment, logistic expenses and capital expenditure for refurbishing the Backup Plant.

### *Overview of the Backup Plant*

The Backup Plant is located at No. 120, Longxing Road, Haining City, Zhejiang Province, PRC (中國浙江省海寧市隆興路120號). The area where the Backup Plant is located has an aggregate gross floor area of approximately 40,226 sq.m. for industrial use. As at the Latest Practicable Date, although certain part of the area where the Backup Plant is located was leased to our Group as production plants and office (details of which are set out in the subsection headed “Properties” under this section), 12,660 sq.m. was still not occupied. Pursuant to the MOU, Morris PRC shall not lease the Backup Plant to other party without our prior written consent.

As advised by our PRC Legal Advisers, Morris PRC owns the legal title of the Backup Plant and is entitled to lease the Backup Plant to us, and the MOU is valid, enforceable and legally-binding. On the basis that the total aggregate gross floor area of the Backup Plant is approximately 9,543 sq.m., our Directors consider that the Backup Plant has sufficient space to accommodate our major operation in Cambodia.

If for any reason Morris PRC cannot lease the Backup Plant to us pursuant to the MOU, Morris PRC is, under the MOU, obliged to search for appropriate plant for us in approximate location. Such plant must have obtained all the required certificates and complied with all relevant standards and safety regulations, and the scale and usage of it must be similar to that of the Backup Plant.

To the best knowledge of our Directors, after due enquiries with property agencies, there are other alternative production facilities (other than the Backup Plant) for long term lease of comparable size and rent for similar usage within close vicinity of the Backup Plant.

### *Relocation arrangement*

In the event that we are forced to relocate from Cambodia, we will request Morris PRC to immediately enter into a formal lease agreement with us for the Backup Plant pursuant to the MOU. Before Morris PRC provides vacant possession at the Backup Plant, we will arrange for the transportation of the production equipment and fixture (if any) as well as raw materials and work-in progress in a manner that can be relocated efficiently, and we shall also liaise with logistic companies to provide necessary support for our relocation. Meanwhile, we will source from third party suppliers for the provision of new production equipment and machineries. The relocation of our entire operation in Cambodia to the Backup Plant is expected to take two weeks, and it shall take an additional two weeks for installation and testing for our production lines and site refurbishment. We expect our production operations will be fully resumed in four weeks from the date we commence the actual physical relocation.

For illustrative purposes, in case we are forced to cease our operation in Cambodia and assuming the Cambodia facility is utilised at the same utilisation rates of our Group in 2015 at the time of such occurrence, the maximum loss of production time will be four weeks, which will be the aggregate of (i) two weeks for our Group to provide written notice to Morris PRC to request for delivery of vacant possession of the Backup Plant and to complete the actual physical relocation; and (ii) two weeks for the installation and setup of the production lines and site refurbishment after the actual physical relocation. As such, we estimate that the maximum loss of production volume will be approximately 70,680 pieces of sofas and 114,260 pieces of sofa covers.

Based on the average selling prices of our sofas and sofa covers for the year ended 31 December 2015, the loss of production volume at 70,680 pieces of sofas and 114,260 pieces of sofa covers will mean a loss of revenue of approximately RMB8.9 million. However, our Directors consider that the actual loss of revenue will be much less than RMB8.9 million because: (i) our production capacity in the PRC has not been fully utilised and we are able to increase our utilisation rate of our production facilities in the PRC before the cessation of our operation in Cambodia to further reduce our loss of production volume; and (ii) we will outsource part of our production orders, if necessary, to third parties for processing to avoid non-delivery of products. For the maximum production capacity and utilisation rate of our production facilities in the PRC during the Track Record Period, please refer to the subsection headed “Our Production Facilities and Processes – Production facilities” under this section. In addition, we may incur losses due to possible claims from our customers as a result of delays or failures in delivering our products.

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### *Views of our Directors*

With the MOU, we are able to relocate our entire operation in Cambodia to the Backup Plant. Taking into consideration that:

- (i) our Company will take out risk insurance policies to mitigate the losses that we may suffer as a result of any potential loss from our investment in Cambodia, details of which are set out in the subsection headed “Insurance” under this section, such that any loss in turnover and any expense which may be incurred from the relocation due to material adverse change in political, legal and business environment in Cambodia will be covered by such insurance, and in the worst scenario where such insurance policy is not adequate to cover the losses suffered by us, our Controlling Shareholders have undertaken to indemnify and keep each of our Group members indemnified against all losses, fines or expenditures incurred as a result thereof;
- (ii) our Group’s ability to receive purchase orders from customers would not be affected as all of our customers place purchase orders directly to Mstar International Trading (HK); and
- (iii) our Group’s production capacity in the PRC will be utilised insofar as practicable to cope with the impaired production capacity of the Cambodia facility during the relocation period and we will outsource part of our orders to third parties, if necessary,

our Directors believe that our Group’s operation and turnover will not be materially affected by the relocation.

### **RAW MATERIALS AND SUPPLIERS**

#### **Raw materials**

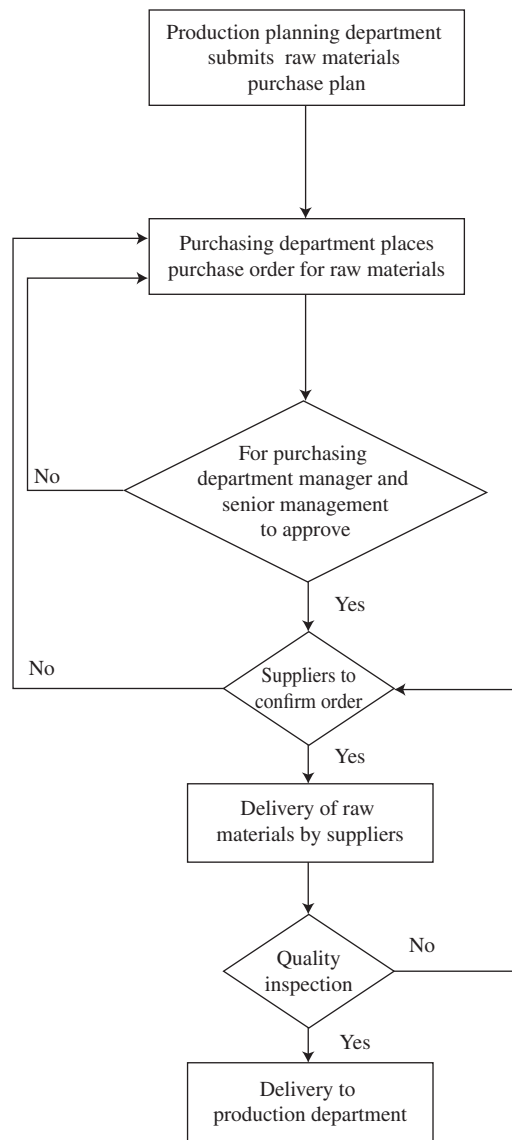
Our raw materials used for the manufacturing of sofas and sofa covers mainly include leather, PU leather, fabric, wood, foam, metal components and other components. We mainly use wood in the manufacturing of other furniture products. During the Track Record Period, we procured a majority of our raw materials from third-party suppliers that are based in the PRC and a small quantity of raw materials, being wet blue leather from Brazil. As advised by our PRC Legal Advisers, our purchase of wet blue leather from Brazil complies with all applicable laws and regulations in the PRC.

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We maintain a centralised purchasing system in the procurement of major raw materials, which enhances our bargaining power to negotiate for better prices.



We did not conduct any hedging activities with respect to the price fluctuation in the raw materials during the Track Record Period. In order to minimise our exposure from fluctuations in raw material prices, we prepare fee quotations to our customers taking into account factors such as: (i) cost of raw materials consumed and labour cost; (ii) exchange rates; and (iii) market price. During the Track Record Period, we did not experience any shortage of raw materials or quality issues with our raw materials that materially affected our operation. For the sensitivity analysis of the impact of hypothetical changes in the costs of raw materials and direct labour on our profit before tax and profit for the year during the Track Record Period, please refer to the subsection headed “Principal Statement of Profit or Loss Components” under the section headed “Financial Information” in this prospectus.

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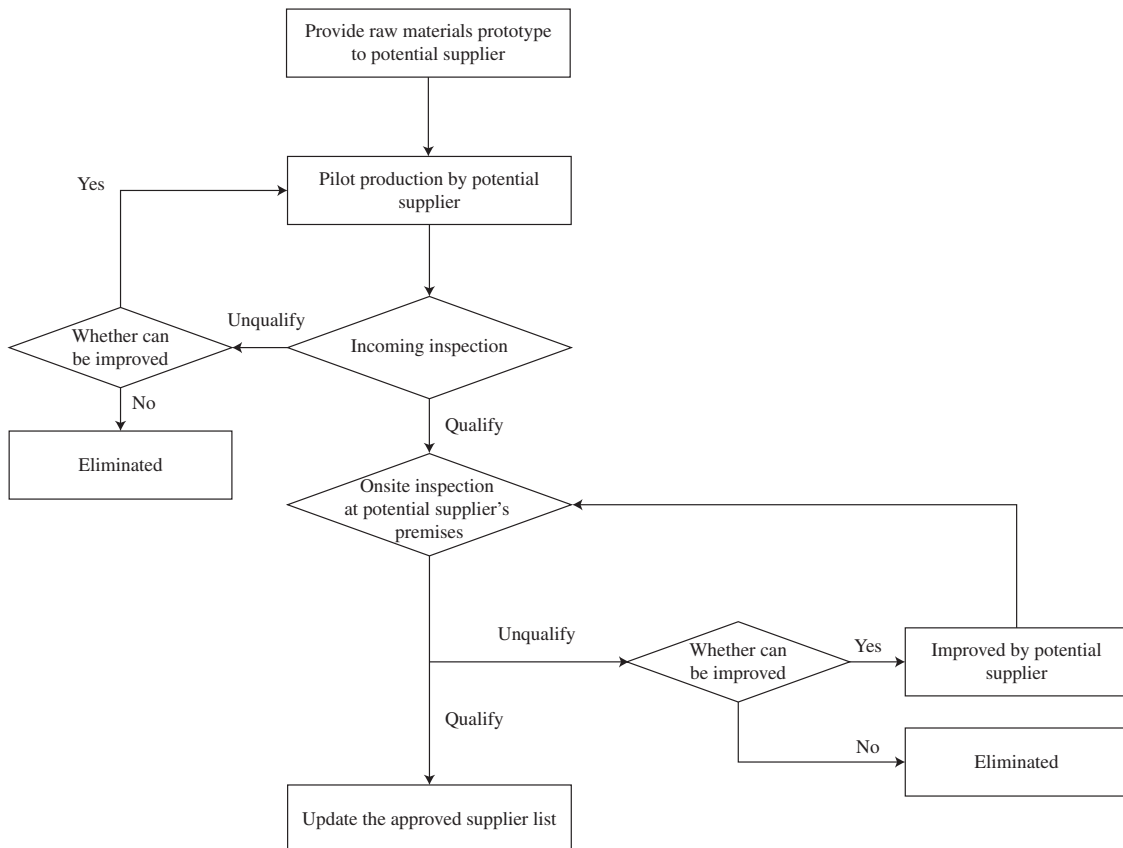
For the years ended 31 December 2013, 2014, 2015 and the eight months ended 31 August 2016, the cost of raw materials amounted to approximately RMB598.0 million, RMB471.6 million, RMB552.1 million and RMB309.9 million, respectively, representing approximately 75.9%, 72.3%, 78.1% and 74.9% of our cost of sales, respectively.

### Suppliers

Except for the suppliers of wet blue leather located in Brazil, all of our suppliers are located in the PRC. The payments made to our PRC suppliers are primarily in Renminbi by bank transfer or bank acceptance bills, whereas to our Brazil suppliers in U.S. dollars by letter of credit. Our suppliers generally offer us a credit term of 30 to 180 days from the time when the goods are received from them. During the Track Record Period, we did not encounter any major difficulty in the procurement of raw materials from our suppliers.

Our Group has stringent procedures as to the selection of suppliers. During the Track Record Period, we maintained a list of approved suppliers that were generally located in the PRC and Brazil. They are selected based on pricing, quality, reputation, product compliance with safety and/or environmental standards, punctuality of delivery, production capability and services provided. The list of approved suppliers will be subject to annual review. The new supplier selection process for raw material mainly involves the following stages:

### New suppliers selection process



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In order to reduce our dependence on any single supplier, we generally maintain more than one supplier for our major raw materials.

For the years ended 31 December 2013, 2014, 2015 and the eight months ended 31 August 2016, purchases from our single largest supplier accounted for approximately 19.2%, 11.0%, 8.7% and 25.7% of our total purchases, respectively and purchases from our five largest suppliers together accounted for approximately 33.1%, 28.8%, 29.4% and 56.9% of our total purchases, respectively. Our five largest suppliers during the Track Record Period were mainly suppliers of leather, PU leather, fabric, foam, electrical components and metal components.

The following table sets out our top five suppliers during the Track Record Period:

**For the year ended 31 December 2013**

	<i>RMB'000</i>	<i>%</i>
Supplier A	124,303	19.2
Supplier B	26,315	4.1
Supplier C	23,960	3.7
Supplier D	19,670	3.1
Supplier E	19,027	3.0
	<hr/>	<hr/>
<b>Five largest suppliers in aggregate</b>	213,275	33.1
Other suppliers	431,390	66.9
	<hr/>	<hr/>
<b>Total purchases</b>	<b>644,665</b>	<b>100.0</b>
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**For the year ended 31 December 2014**

	<i>RMB'000</i>	<i>%</i>
Supplier A	55,904	11.0
Supplier C	35,331	6.9
Supplier D	23,227	4.6
Supplier F	17,449	3.4
Supplier G	14,730	2.9
	<hr/>	<hr/>
<b>Five largest suppliers in aggregate</b>	146,641	28.8
Other suppliers	362,392	71.2
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<b>Total purchases</b>	<b>509,033</b>	<b>100.0</b>
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**For the year ended 31 December 2015**

	<i>RMB'000</i>	<i>%</i>
Supplier H	48,604	8.7
Supplier C	34,798	6.3
Supplier A	30,078	5.4
Supplier D	25,278	4.6
Supplier I	24,193	4.4
<b>Five largest suppliers in aggregate</b>	<b>162,951</b>	<b>29.4</b>
Other suppliers	391,506	70.6
<b>Total purchases</b>	<b>554,457</b>	<b>100.0</b>

**For the eight months ended 31 August 2016**

	<i>RMB'000</i>	<i>%</i>
Supplier J	105,815	25.7
Morris PRC	55,379	13.4
Supplier C	38,943	9.5
Supplier D	19,055	4.6
Supplier K	15,228	3.7
<b>Five largest suppliers in aggregate</b>	<b>234,420</b>	<b>56.9</b>
Other suppliers	177,401	43.1
<b>Total purchases</b>	<b>411,821</b>	<b>100.0</b>

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Set out below is the background information of our five largest suppliers during the Track Record Period:

Supplier	Major materials supplied	Background and principal business nature	Location	Length of business relationship with our Group as at 31 August 2016	Credit period
Supplier A	Wet blue leather	Private company whose business scope includes production of wet blue leather and other leather products	Brazil	4 years	90 days
Supplier B	Fabric	Private company whose business scope includes the production of textile fabrics, sofa fabrics, PU leather and other fabric products	PRC	5 years	90 days
Supplier C	Metal components	Private company whose business scope includes sales and processing of bicycle parts, motorcycle parts, ventilation parts and hardware	PRC	10 years	90 days
Supplier D	PU leather	Private company whose business scope includes the wholesale and retailing of leather and textiles	PRC	4 years	90 days
Supplier E	Metal components	Private company whose business scope includes the production of metal frames for sofas	PRC	9 years	90 days
Supplier F	Foam	Private company whose business scope includes the production and processing of soft polyurethane foam	PRC	4 years	90 days
Supplier G	Fabric	Private company whose business scope includes the processing of finished special textile and the production of leather products	PRC	2 years	90 days
Supplier H	Wet blue leather	A company whose business scope includes the production of wet blue leather and other leather products	Brazil	2 years	90 days



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Supplier	Major materials supplied	Background and principal business nature	Location	Length of business relationship with our Group as at 31 August 2016	Credit period
Supplier I	Wet blue leather	Private company whose business scope includes import and export of leather and its derivate products	Brazil	4 years	90 days
Morris PRC	Leather	Private company whose business scope includes research and development, design and sales of furniture, clothes, leather, knitwear, accessories, and wholesaling, retail, and trading ( <i>Note</i> )	PRC	N/A	90 days
Supplier J	Leather	Private company whose business scope includes the manufacture and sales of pigskin, cowhide, sheepskin and related products, leather chemicals, leather manufacturing equipments and auto spare parts	PRC	1 year	60 days
Supplier K	Electrical components	Private company whose business scope includes manufacture and sales of electrical components and import and export of various products and technologies	PRC	2 years	60 days

*Note:* After the completion of Business Transfer, Morris PRC is no longer engaged in furniture-related business.

Except for Morris PRC, all of our five largest suppliers during the Track Record Period are Independent Third Parties. To the best knowledge of our Directors, other than Mr. Zou, who owns 85% of Morris PRC, none of our Directors, their respective close associates nor any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued shares had any interest in any of our five largest suppliers during the Track Record Period.

During the eight months ended 31 August 2016, we purchased approximately RMB48.2 million of processed leather and approximately RMB7.2 million of sofas from Morris PRC. These sofas owned by Morris PRC were in transit to the port of export as at 31 December 2015 and subsequently sold to Mstar International Trading (HK) in January 2016 for export to customers. These batches of leather of approximately RMB48.2 million were processed by an

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independent leather tannery company engaged by Morris PRC from inventories that were deemed distributed to Mr. Zou and Ms. Wu from Morris PRC on 31 December 2015. We purchased these batches of leather from Morris PRC after they were deemed distributed to Mr. Zou and Ms. Wu mainly because (i) such leather were processed in accordance with the specifications requested by our customers, therefore it could only be used in the production of specific products ordered by our customers or would otherwise go to waste; and (ii) on 31 December 2015, such leather was under processing from wet blue leather for the use of production of sofa covers and sofas. Therefore, it was unable for Morris PRC to sell the same to us at that time. In addition, such leather cannot be directly assigned to us unless approved by the PRC Customs. The purchase price and the terms of the orders with Morris PRC have been determined after arm's length negotiation between the parties with reference to the prices quoted from third party suppliers for the purchase of leather of comparable type and were no less favourable than the prevailing market price. Our Directors are of the view that the terms of the orders are on normal commercial terms and are fair and reasonable. We have ceased to purchase leather from Morris PRC since June 2016 and will not recur thereafter. Our PRC Legal Advisers have also confirmed that the aforesaid purchase of leather from Morris PRC complies with all the PRC laws and regulations, including the law and regulations related to customs. Morris PRC recorded gross profit of approximately RMB5.4 million for such sales of processed leather and sofas to our Group.

### **Inventory control and management**

We actively monitor our inventories, which include raw materials, work in progress and finished products. We have undertaken several measures to maintain appropriate levels of inventory. Since 1 January 2016, we have used our ERP system to assist us in planning and managing our inventory control, which produces real time information of inventories, and provides our management team with clear visibility on the inventory data. Our logistics division closely monitors our inventories, including inventory levels, age and turnover rate. We also conduct stock takes of our inventories on a monthly, semi-annual and annual basis, which are coordinated by our production department and finance department.

For leather and fabric, we generally place purchase orders after receipt of confirmed purchase orders from our customers due to the relatively long procurement cycle. For wood, foam and certain metal components, we place purchase orders around one week before the scheduled date of production. We also store inventory of certain metal components such as screws and nuts, at levels that we consider sufficient for about one month of production.

As at 31 December 2013, 2014 and 2015 and 31 August 2016, our inventory balances were approximately RMB216.3 million, RMB258.5 million, RMB200.8 million and RMB302.0 million, respectively, and our average inventory turnover days were approximately 89.2 days, 132.9 days, 118.6 days and 145.9 days, respectively for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. Please refer to the subsection headed "Net Current Assets – Inventory analysis" under the section headed "Financial Information" in this prospectus for further information.

We make provisions in accordance with our accounting policy. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, we made provision for obsolete and slow-moving inventories of approximately RMB3.7 million, RMB2.5 million, RMB2.7 million and RMB0.6 million, respectively.

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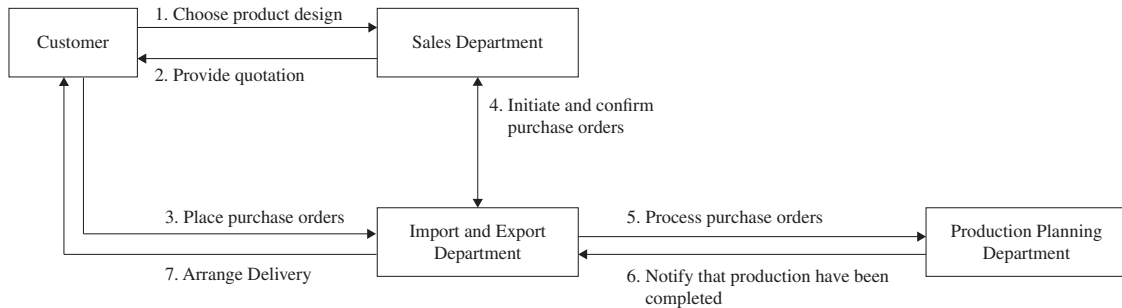
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## SALES

We sell our products directly through our sales department and collaborate with our consultancy firm and agent in the U.S. to assist us in selling and marketing our sofas in the U.S..

## SALES PROCEDURES

The flow chart below sets forth our major sales procedures:



Set out below is the description of each major step of sales procedures:

### Provide quotation and receive purchase orders

Our sales department liaises with customers regarding product design and pricing. Our production planning department is responsible for producing samples and preparing production cost estimates. Our sales department provides the customers with quotation corresponding to a specific model. Our customers may negotiate the price with us and a final quotation will be sent to the customers upon approval by the manager of our sales department. After the price of the product is confirmed, our customer will place a formal purchase order with our import and export department.

### Initiate and confirm purchase orders

Our import and export department communicates with our sales department to confirm the details of purchase order to ensure that the pricing, model number, material and other particulars are accurate. Our import and export department will then pass the purchase order to the production planning department to schedule for production.

### Process purchase orders

Our production planning department will (i) process purchase orders, and (ii) inform our import and export department that the purchase orders are in order. Our production planning department will then plan the production schedule with reference to the purchase orders received and proceeds with production.

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### **Arrange for delivery and settlement**

After production is completed, our production planning department will notify our import and export department which will in turn arrange for delivery of the finished products to our customers. Our import and export department has to (i) ensure that the finished goods are delivered to our customers as scheduled by following up closely with the shipping agencies, (ii) provide our customers with documents required for customs clearance, (iii) send invoices to our customers for export insurance purposes, and (iv) follow up with our customers regarding the settlement of the invoices.

### **Our consultancy firm and agent in the U.S.**

Mstar International Trading (HK) entered into a consultancy service agreement and a brand promotion service agreement with an agent and a consultancy firm in the U.S., respectively, on 1 August 2014. Such agreements were entered into by Mstar International Trading (HK), and were replaced with substantially similar agreements entered into by our Company on 1 January 2016. The consultancy firm is wholly owned by the agent. Both the consultancy firm and the agent are Independent Third Parties. We entered into agreements with them separately due to different service scope.

The major terms of the consultancy service agreement are as follows:

<b>Purpose</b>	Our consultancy firm will assist our Group in the sales of our products in the U.S..
<b>Scope of service</b>	<ul style="list-style-type: none"><li>• Prepare market landscape analysis by collecting data of the U.S. furniture market and investigate consumer needs in the U.S.;</li><li>• Monitor the market competition environment and provide strategic sales suggestions;</li><li>• Recommend appropriate sales and marketing strategies for the sales of our products in the U.S.; and</li><li>• Provide other consultancy services that are related to sale of our products in the U.S..</li></ul>
<b>Term of the service</b>	Five years with no renewal provision.
<b>Payment terms</b>	Our Group shall pay consultancy fees and related expenses when incurred.

Service fees are determined based on, among other things, the actual sales and marketing fees and expenses incurred and the performance of service as appraised by our Group.

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The major terms of the brand promotion service agreement entered into between our Group and our agent in the U.S. are as follows:

<b>Purpose</b>	Our agent will assist us in (i) establishing a good image for our Group and our sofas in the U.S.; and (ii) creating and enhancing our brand value and recognition, so as to improve the sales of our products in the U.S..
<b>Scope of service</b>	<ul style="list-style-type: none"><li>• Prepare the brand’s annual promotion plan and brand marketing;</li><li>• Implement brand promotion plan, quarterly key promotion project and quarterly communication strategies;</li><li>• Research on target consumer lifestyle habits and update the competitive landscape in the U.S. furniture market, so as to formulate a detailed implementation plan for media strategy;</li><li>• Prepare research materials and meeting papers; and</li><li>• Provide after-sales services for our products sold in the U.S..</li></ul>
<b>Term of the service</b>	Five years with no renewal provision.
<b>Payment terms</b>	Our Group shall pay brand promotion fees, third party fees and other expenses when incurred.

Such fees are determined based on, among other things, the actual fees and expenses incurred in relation to the brand promotion and the performance of service as appraised by our Group.

### MARKETING

We believe that brand awareness and recognition of our brands are critical to our success. We conduct our marketing activities through a variety of channels, including participation in trade exhibitions, media marketing campaigns, and through our sales and marketing staff. In addition, our consultancy firm and agent in the U.S. assist us in brand building, and sales and marketing.

### Trade exhibitions

We regularly participate in High Point Market trade exhibitions to promote our sofas and to explore new customers. Participation in trade exhibitions is our primary mode of marketing to our existing and potential overseas customers. Since 2010, we have been a regular

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participant at the trade exhibitions in the High Point Market in North Carolina, the U.S. which is held every April and October. Based on publicly available information, the High Point Market attracts more than 75,000 international visitors every six months. Such trade exhibitions generally attract a large number of international sourcing companies, furniture importers and retailers and allow us to market our products on a global scale to potential customers. We maintain regular presence at the High Point Market to help us to build up relationships with retailers who are regular visitors to these exhibitions.

### **Media marketing campaigns**

In order to increase our brand awareness in the U.S., we advertise regularly in Furniture/Today, a business newspaper about the U.S. furniture industry that provides news and research to furniture and bedding retail stores, mass merchants, distributors, executives and suppliers.

### **Sales and marketing staff**

As at the Latest Practicable Date, our sales department consisted of more than 20 staff who are dedicated to sales and marketing of our products. They also collaborate with our consultancy firm and agent in the U.S. to assist us in selling and marketing our sofas in the U.S.. Our sales department staff hold regular meetings with customers to secure purchase orders for our products, keep our customers informed of our product offerings and obtain feedbacks from our customers. These regular meetings also enable us to increase our understanding of our customers' needs and market changes.

### **Transfer pricing**

For the three years ended 31 December 2015, Haining Gelin Furniture, Haining Morris Home Gallery, Haining Morris International and Zhejiang Apollo Leather Products (collectively, the "**Morris Factory**") manufactured sofa covers and sofas and sold them to the furniture division of Morris PRC for onward sales to overseas customers and subsequently via Mstar International Trading (HK) since it was incorporated on 14 January 2014. On the other hand, after the completion of Business Transfer on 31 December 2015, the Morris Factory manufactured sofa covers and sofas and sold them to Mstar International Trading (HK) for onward sales to overseas customers.

In accordance with the transfer pricing analysis prepared by the Group's tax consultant on transfer pricing matters, the Morris Factory can be characterised as contract manufacturers bearing limited risks during the Track Record Period and up to the Latest Practicable Date. The transactional net margin method and the mark-up on total costs ("**MTC**") were selected as the most appropriate transfer pricing method and profit level indicator respectively for the manufacturing transactions of Morris Factory. Based on the benchmarking analysis performed, the margins of Morris Factory fell within/above the 2012 – 2014 weighted-average interquartile range of MTC earned by comparable independent manufacturers during the Track Record Period. On the other hand, Mstar International Trading (HK) maintained a reasonable return for its buy-sell activities during the Track Record Period. The transfer pricing

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arrangement was in compliance with the arm's length principle from a Chinese and Hong Kong transfer pricing perspective. Furthermore, our Group's compliance work in relation to transfer pricing is being handled by our tax consultant. Based on the above, our Group's tax consultant is of the view that the transfer pricing arrangement of the Group has been in compliance with the relevant transfer pricing laws and regulations. The relevant analysis was conducted based on the OECD Transfer Pricing Guidelines, as well as the prevailing China transfer pricing regulations (i.e. Guoshuifa 2009 No. 2, or Circular 2) and Hong Kong transfer pricing regulations (i.e. Departmental Interpretation and Practice Notes No.46).

We have also adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations:

- our Chief Financial Officer, regularly monitors our transfer pricing exposure by reviewing the reasonableness of price in each transaction between our Group companies and related companies and compare such transaction pricing against those with Independent Third Parties and updates our policies as to compliance with the relevant laws and regulations;
- we will prepare, retain and provide contemporaneous related party transactions documents as requested by Circular 2;
- our tax consultant regularly provides training to the senior management relating to updates on relevant transfer pricing laws and regulations; and
- all reporting documents are reviewed by two of our executive Directors before submitting to the relevant tax authority.

### WARRANTIES AND AFTER-SALES SERVICES

We provide one year limited warranty against manufacturing and material defects for various parts, fabric and materials of our sofas. Such warranty is written and presented on the warranty card included in each of our sofas. The warranty covers defective parts of our sofas within the warranty period, during which we are responsible for repairing or replacing the defective parts at our own expenses if such defects are reported to us. Our warranty does not include: (i) any condition resulting from other than ordinary residential wear or any use for which the product was not intended such as use in rental or trade; (ii) any condition resulting from incorrect or inadequate maintenance or care; and (iii) damage resulting from misuse, abuse, negligence, accident or shipping damage. If we determine that the sofa is repairable, we will deliver the relevant hardware accessories to our customers and will arrange the repair to consumers. According to the warranty card, from the expiry of the warranty period, we will not be liable for the labour cost to effect the repair. Furthermore, we will not pay for the packaging or shipping of any sofa to and from the dealer or customer.

If we determine that a reported defect is irreparable, we offset the costs of the relevant item from the total amount the customer paid to us for that sofa. If the defect is attributable by the leather, fabric or any particular components, we may seek compensation from our

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suppliers pursuant to the terms of the relevant supply agreements. Provision of product warranty were approximately RMB2.9 million, RMB3.6 million, RMB5.3 million and RMB3.8 million as at 31 December 2013, 2014 and 2015 and 31 August 2016, respectively. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns.

We also provide after-sales services, such as product return and technical support, to our customers. Furthermore, our agent in the U.S. will provide after-sales services for our products sold in the U.S. pursuant to a brand promotion service agreement detailed in the subsection headed “Sales” under this section. Our agent has a direct contact with our customers and acts as a communication channel between our sales department and our customers. Upon receipt of complaint from our customers, the agent will notify us of the complaints and will liaise with us and the customers to sort out a solution until settled. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute arising from or in connection with the quality of our products. The number of returned products was insignificant and no provision of product return had to be made during the Track Record Period.

### CUSTOMERS

The end customers of our sofas are mainly overseas consumers who tend to have greater demands regarding the quality and functionality of sofas. Our customers of sofas are mainly some of the largest furniture retail chains and retail warehouse clubs located in the U.S.. We sold our sofa covers to furniture manufacturers and retailers primarily in the U.S.. Other furniture products manufactured by us are sold domestically to consumers in the PRC through our direct sale stores in Haining City and Jiaxing City.

For the sales of sofas and sofa covers to customers in the overseas markets, we use mainly FOB (free on board) and payment upon receipt of goods. We offer an average credit term of 30 to 90 days to our customers once the goods have been exported by us or upon customers' receipt of goods pursuant to the terms agreed. They generally settle our invoices by wire transfer in U.S. dollars. For the sales of sofas and other furniture products sold domestically in the PRC, our consumers usually pay by cash in Renminbi.

Our relationship with major customers during the Track Record Period is relatively stable, ranging from three to 14 years as at the Latest Practicable Date and retention ratio is high. For each of the years ended 31 December 2013, 2014 and 2015, approximately 84.8%, 96.7% and 87.9%, respectively, of our customers were repeat customers. We solicit new customers through the participation in trade exhibitions and media marketing campaigns. Our consultancy firm in the U.S. will also assist in the solicitation of new customers. Please refer to the subsection headed “Marketing” under this section for details.

During the Track Record Period and up to the Latest Practicable Date, we did not have material disputes with our customers.

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, sales to our five largest customers in aggregate amounted to approximately RMB659.1 million, RMB556.5 million, RMB630.3 million and RMB367.0 million,



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respectively, representing approximately 66.9%, 67.5%, 68.1% and 63.1%, respectively, of our revenue. For the years ended 31 December 2013, 2014, 2015 and the eight months ended 31 August 2016, sales to our largest customer amounted to approximately RMB221.8 million, RMB178.4 million, RMB202.5 million and RMB132.8 million, representing approximately 22.5%, 21.6%, 21.9% and 22.8%, respectively, of our revenue.

The following table sets forth the details of our five largest customers during the Track Record Period:

Customer	Background	Location	For the year ended 31 December						For the eight months ended 31 August 2016 Approximate % of our revenue	Length of business relationship with our Group as at 31 August 2016	Credit period	Credit term	
			2013 Approximate % of our revenue	Rank	2014 Approximate % of our revenue	Rank	2015 Approximate % of our revenue	Rank					
Customer A	Public company engaging in manufacturing, marketing, importing, distributing and retailing upholstery furniture products	Primarily in the U.S. and Canada	22.5%	1	21.6%	1	21.9%	1	15.9%	2	14 years	30 days	Payment upon receipt of goods/FOB (Note 2)
Customer B	Private company engaging in the operation of furniture retail chain	Primarily in the U.S. and Canada	13.6%	2	7.2%	4	(Note 1)	(Note 1)	(Note 1)	(Note 1)	9 years	60 days	FOB
Customer C	Subsidiary of public company operating membership-only retail warehouse clubs	Primarily in the U.S.	13.1%	3	15.4%	3	15.7%	3	22.8%	1	4 years	90 days	FOB
Customer D	Private company engaging in the operation of furniture retail chain	Primarily in the U.S.	10.5%	4	6.5%	5	5.7%	4	(Note 1)	(Note 1)	6 years	45 days	FOB
Jennifer Convertibles Inc.	Private company engaging in the operation of furniture retail stores	Primarily in the U.S.	7.2%	5	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	7 years	90 days	CNF (Note 2)
Customer E	Public company engaging in the operation of membership warehouses	Primarily in the U.S.	(Note 1)	(Note 1)	16.8%	2	19.5%	2	(Note 1)	(Note 1)	4 years	45 days	Payment upon receipt of goods
Customer F	Private company engaging in the operation of furniture and bedding retail stores	Primarily in the U.S.	(Note 1)	(Note 1)	(Note 1)	(Note 1)	5.3%	5	8.0%	4	7 years	45 days	Payment upon receipt of goods
Customer G	Private company engaging in the operation of furniture retail stores	Primarily in the U.S.	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	6.0%	5	5 years	15 days	FOB
Customer H	A subsidiary of a listed company in Hong Kong engaging in export trading	Primarily in Singapore	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)	10.4%	3	3 years	60 days	FOB

*Notes:*

- Only the figures and rankings of our top five customers for the three years ended 31 December 2015 and for the eight months ended 31 August 2016, respectively, are shown in this table.
- For the three years ended 31 December 2015, the credit term granted was FOB.

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Other than Mr. Zou, who owns 85% of Morris PRC which in turn wholly owns Jennifer Convertibles, Inc., one of our five largest customers during the Track Record Period, none of our Directors or their respective close associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our Group's five largest customers during the Track Record Period and as at the Latest Practicable Date.

### PRICING STRATEGY

We adopt a cost-plus pricing approach taking into account a number of factors in determining prices, including the following factors:

- Cost of raw materials and manufacturing cost (including direct labour costs and overhead costs);
- Expected profit margin;
- Product features and quality;
- Research and development cost involved; and
- Comparable product prices set by our competitors.

### PRODUCT LIFE CYCLE AND SEASONALITY

Our sofas and other furniture products are generally consumer durables. According to the Euromonitor Report, in respect of the products exporting to the U.S., every July to September is usually the off season due to summer heat and consumers vacation habits. Every October to January is the peak season for sofa exports, as the most important holiday season is usually the biggest shopping season. For domestic sales of furniture in the PRC, every April to December is the peak season for furniture sales, as weddings, new home furnishing and relocations mostly take place during these months. The first quarter, after the Chinese New Year and winter season, typically sees the slowest sales.

### COMPETITION

The furniture industry is mature and is highly fragmented and competitive. According to the Euromonitor Report, there are a large number of furniture manufacturers in the PRC which export their products to overseas markets. The key entry barriers to the furniture export industry are brand building, customer resource, design and research and development, and craftsmanship and production technique.

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Our competitors are mainly PRC-based sofa manufacturers. According to the Euromonitor Report, during the period from 2011 and 2015, upholstered sofas exported to the U.S. accounted for about 30% of China's total exports of upholstered sofas in terms of export value. We compete with these PRC-based sofa manufacturers principally on product quality, reputation, know-how, product research, development and design skills, price, product range, delivery and customer service. Our Directors believe that our competitive strengths, details of which are set out in the subsection headed "Our Competitive Strengths" under this section, distinguish us from our competitors.

According to the Euromonitor Report, we are one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015, with a market share of approximately 3.6%. Please refer to the section headed "Industry Overview" in this prospectus for further details of the competitive landscape.

None of our Directors, their respective close associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued share capital, had any interest in any of our competitors during the Track Record Period and as at the Latest Practicable Date.

### **QUALITY CONTROL SYSTEMS**

We focus on the quality of our products and perform various quality inspections and testing procedures, including, among others, carrying out random sampling at different stages of our manufacturing process for sofas, sofa covers and other furniture products.

As at the Latest Practicable Date, we had more than 120 staff in our quality control department, headed by Mr. Zeng Jin, one of our executive Director. Certain senior members of our quality control team have more than ten years of experience in quality control and the upholstered sofa market. Our quality control department is responsible for monitoring the quality control system and ensuring that the quality of our products meets our standards and our customers' requirements. The quality control system of our Group's production process is carried out in four main stages for the compliance of our Group's quality standard and are set out below.

#### **Selection and use of approved suppliers**

Our quality assurance process begins with ensuring that we use quality raw materials. We have maintained a list of approved suppliers compiled by our purchasing department and assisted by production department and quality control department. Please refer to the subsection headed "Raw Materials and Suppliers – Suppliers" under this section for details of our selection process of new suppliers.

### **Incoming inspection**

In the raw material procurement stage, incoming raw materials are subject to detailed quality analysis on a random sampling basis before production. All the leather and fabric we purchased are subject to general visual and manual inspections. We also conduct tests on the leather and fabric at our production facilities to determine the following:

- chromatic aberration – the colour of the leather and fabric to be tested under exposure to different wavelengths of light;
- tensile strength – the maximum stress the leather and fabric can withstand before it tears; and
- abrasion resistance – how resistant the leather and fabric is to continual abrasion.

We maintain a standard form report of our inspection procedures and only those raw materials that pass our quality control tests enter our inventory records and warehouses. Those materials that fail our quality control tests are reported to our purchasing department and quality control department will then return such materials to our suppliers for replacement or refund.

Those raw materials that enter our warehouse will be carefully labelled and organised according to their name of supplier, specifications, quantity, and inventory date. We test the raw materials in our internal laboratory and return raw materials that fail to pass inspection to the suppliers and such materials will not be used for production.

### **Inspection during production process**

During the production process, in-process quality control inspections on a random sampling basis at various stages of production process are carried out. For details, please refer to the subsection headed “Raw Materials and Suppliers – Raw materials” under this section. Any unusual deviations are promptly identified, investigated and corrected.

We have established a standard manual available and committal to all our employees to ensure that the manufacturing process meet with our prescribed specifications and standards. Semi-finished products that fail to meet the quality standards will be removed from the production process, returned to the relevant production station for reworking or reprocessing.

For every new type of product, we will manufacture semi-finished parts of the product and a finished product as prototype. Members of our Haining Research and Development Centre, quality control department and sales department will conduct checks on the quality of semi-finished parts of the product and finished product samples during production process. For details of the inspection process, please refer to subsection headed “Raw Materials and Suppliers – Raw materials” under this section.

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### **Final inspection**

Upon completion of the production process and before packaging and delivering the products to the customers, our quality control department will be responsible for final inspection on all our products to assess product safety, structural integrity and conformity with design and colour specifications to ensure that the products meet the specifications and the standard as specified in the standard manual. If quality defects are found in our products, our quality control team will submit a report to the production department for follow up actions including reworking and reprocessing.

### **ENVIRONMENTAL MATTERS**

We are subject to environmental laws and regulations where our businesses operate. Please refer to the section headed “Regulatory Overview” in this prospectus for further details.

We consider the protection of the environment to be important and we are fully committed to comply with all applicable requirements under the PRC environmental laws and regulations. Our PRC Legal Advisers have confirmed that we are in compliance with the relevant environmental protection laws and regulations. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations. During the Track Record Period, we had not received any complaint from our customers or any other parties in respect of any environmental protection issues, and we had not experienced any material environmental incidents arising from our manufacturing activities. During the same period, no administrative sanctions or penalties had been imposed upon us for the violation of environmental laws or regulations. Our cost for compliance with applicable environmental laws and regulations totalled approximately RMB1.2 million, RMB1.2 million, RMB0.3 million and RMB0.1 million, respectively, for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. We expect annual cost for compliance with applicable environmental laws and regulations for the year ending 31 December 2016 will be approximately RMB0.2 million.

### **OCCUPATIONAL, HEALTH AND SAFETY**

Our operations are subject to regulation and monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

We have established work safety policies and procedures to ensure that our operations are in compliance with applicable work safety laws and regulations as well as our customers’ stringent requirements. Our work safety policies set forth overall principles as well as procedures of internal inspections of work safety related matters. We provide our employees working in our production plants with adequate safety equipment. In addition, we provide work safety-related education to our employees to increase their awareness of safety in the workplace. Our employees are required to follow an operation manual for each major step of our production process. As confirmed by our PRC Legal Advisers, during the Track Record Period, we had complied with the applicable work safety related regulations of the PRC in all material aspects. Our Directors confirm that during the Track Record Period, our Group had not had any work safety related incidents or complaints which materially and adversely affected our business operation.

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During the Track Record Period, we had no work-related fatalities or injuries and there had been no claims for personal or property damages or related compensation paid to the employees.

### EMPLOYEES

As at the Latest Practicable Date, we had over 1,900 full-time employees. Most of our full-time employees are located in our offices and factories in the PRC. The following table sets forth a breakdown of our full-time employees by function:

<b>Employee type</b>	<b>Number of Employees</b>
Production	1,616
Quality control	125
Research and development	41
Purchasing and logistics	11
Sales	22
General administration	86
<b>Total</b>	<b>1,901</b>

Our staff costs comprise staff salaries, social insurance, housing pension and other welfare. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, we incurred staff costs of approximately RMB137.1 million, RMB131.2 million, RMB110.4 million and RMB82.2 million, respectively.

We believe our success depends heavily upon our employees' consistent, quality and reliable services. In order to improve and develop the knowledge, skill level and experience of our employees, we place a strong emphasis on training our employees. We provide on-site training periodically and across operational functions, including introductory training for new employees, technical training, professional and management training.

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, and grounds for termination. We have designed an evaluation system to assess the performance of our employees. This system forms the basis of our determinations of whether an employee should receive salary raises, bonuses or promotion. Most of our staff are trained and promoted internally, which we believe leads to greater employee stability and loyalty.

As at the Latest Practicable Date, we had formed one workers' union in Haining, the PRC. It is voluntary for our staff to join the workers' union. As at 31 August 2016, the workers' union had over 1,480 members. During the Track Record Period, we had not experienced any significant difficulty in recruiting employees nor have we had any significant staff compensation or labour disputes. We consider that we have maintained satisfactory relationship with our employees.

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According to the PRC labour laws and regulations, we are required to pay various statutory employee benefits, including social insurance and housing fund contributions for all employees, to designated government authorities. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, the contribution of social insurance and housing fund by our Group amounted to approximately RMB9.7 million, RMB10.0 million, RMB7.1 million and RMB6.1 million, respectively. As at 31 August 2016, the outstanding balance of provisions we made for social insurance and housing funds was in aggregate approximately RMB25.4 million. Such provisions were made after taking into consideration our payment of statutory employee benefits in arrears, resulting from the difference between the national requirement under PRC laws and regulations and the local requirement and practice where we operate, which are less stringent than the former. As at the Latest Practicable Date, we had not received any notice, penalty-related or otherwise, from the relevant governmental authorities with respect to the payments of statutory employee benefits in arrears. According to the confirmation letters issued by relevant government authorities, (i) no administrative punishment was imposed against the members of our Group during the Track Record Period; and (ii) they will neither require us to pay the shortfall in payment as compared to national requirement under PRC laws and regulations nor impose any administrative punishment against us. We are advised by our PRC Legal Advisers that the local government authorities that issued the confirmation letters are competent supervisors on our activities in terms of the matters referenced in the confirmation letters and such local government authorities are competent to issue such confirmation letters. Based on the above, we believe that the chance that we would be penalised by relevant government authorities for the under-payment of the social insurance and the housing funds is remote. Furthermore, our Controlling Shareholders have undertaken to indemnify our Group for penalties arising or loss suffered, if any, by our Company and they shall waive their rights to claim against our Company voluntarily. Our PRC Legal Advisers have confirmed that the above undertaking made by our Controlling Shareholders are legal and valid and are legally binding.

In order to make full contribution to social insurance and housing funds according to the relevant laws and regulations, we have communicated with and educated our employees with regard to their contributions to social insurance and housing fund contributions required to be made pursuant to the standards as stipulated under the relevant laws and regulations. We have made full contributions for over 800 employees to both social insurance and housing funds according to the relevant PRC laws and regulations since June 2016. The relevant government authorities will deduct the contributions automatically on the 15th day of each month going forward. However, despite our continuous communication with our employees, some of them still refused to fully contribute to the social insurance and housing funds accounts according to the relevant PRC laws and regulations due to their different levels of acceptance of the social welfare scheme and their view that they might not be able to benefit from housing funds contribution. Accordingly, we were still not be able to fully contribute for this portion of employees as at the Latest Practicable Date. We will continuously communicate with and educate our employees regarding the importance of contributing the social insurance and housing funds and will make fully contribution for them once agreed by them. We will also disclose the progress of this matter in this prospectus and our Company's annual report after the Listing.

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When our operations in Cambodia commence in the first half of 2017, we will also be required to contribute to the national social security fund for and on behalf of our employees in Cambodia including occupational risk insurance and health care insurance in accordance with the applicable laws and regulations in Cambodia.


### MAJOR QUALIFICATIONS AND LICENCES

As advised by the PRC Legal Advisers, we have obtained all the relevant licences, permits and approvals in relation to our operation in the PRC.

### INTELLECTUAL PROPERTY

We owned a number of patents in respect of the technologies concerning the production of our sofas. As at the Latest Practicable Date, we had a portfolio of 25 issued patents.

As at the Latest Practicable Date, our Group had registered (i) five trademarks in Hong Kong, and (ii) one domain name in Hong Kong, namely, [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk), which are material to our business.

As at the Latest Practicable Date, our Group was in the process of applying for registration of a trademark “” in the U.S.. Our Directors believe that in the event that we are unable to register or procure any interest in such trademark in the U.S., there will be no material impact on our Group’s business.

Pursuant to the Business Transfer Agreement, Morris PRC has agreed to license all its furniture division related trademarks to our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Haining Morris Home Gallery, Haining Morris International and Mstar International Trading (HK) exclusively. Morris PRC has entered into a trademark transfer agreement with Haining Gelin Furniture on 31 December 2015 for the transfer of 12 trademarks to Haining Gelin Furniture and has submitted applications to the Trademark Office of SAIC on 26 February 2016 in relation to the transfer. Please refer to the subsection headed “B. Our Intellectual Property Rights” in Appendix IV to this prospectus for further details. Our PRC Legal Advisers confirm that the Trademark Transfer Agreement has already taken effect and there is no legal impediment to the transfer of these trademarks. As it will usually take around one to two years to complete the transfer of trademarks in the PRC, Morris PRC as the licensor, further entered into a Trademark Licence Agreement with the abovementioned subsidiaries of our Group as the licensees on 31 December 2015 granting royalty-free, exclusive licences of these trademarks for the period from that date up to the completion of the trademarks transfer. Out of the 12 trademarks to be transferred to us under the Trademark Transfer Agreement, two were in the process of deregistration as at the Latest Practicable Date. Please refer to the section headed “Connected Transactions” in this prospectus for further details.

Save for the patents, trademarks and domain names disclosed in this prospectus, our business and profitability is not materially dependent on any trademark, patent or other intellectual property.



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During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that they were not aware of (i) any infringement of intellectual property rights by us; (ii) any dispute or litigation regarding any intellectual property rights between us and any third party; and (iii) any infringement of our intellectual property rights by any third party.

### INSURANCE

We maintain insurance policies to safeguard against risks and unexpected events. We determine the levels of coverage based on our assessment of risk exposure. The cost of the insurance coverage may fluctuate each year due to claims history and conditions of the insurance and reinsurance markets. As at the Latest Practicable Date, we had, among others, the following insurance coverage. We have purchased comprehensive property insurance covering our facilities and our inventories. We have also purchased product liability insurance, credit insurance and vehicle insurance. We purchase our insurance coverage from a number of domestic and international insurers and review our insurance program regularly.

There are limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with our operations. Consistent with what we believe to be market practice in the PRC, none of our production facilities carries business interruption insurance to cover lost of profit caused by business interruption.

Our Directors believe that our Group's insurance policies are adequate to cover our business operation and consistent with the common industry practice in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not made any material insurance claims.

Our Company will also take out risk insurance policies as soon as practicable by no later than the Listing Date to hedge country risk in Cambodia and mitigate the losses that may be suffered as a result of any potential loss of investment in Cambodia. Our Company has obtained quotation from certain insurers and is currently in the process of negotiating the detailed terms with such insurers. The insurance policies would cover 100% of our losses caused by:

- (i) an expropriatory act or series of expropriatory acts by or under the order of the Cambodian government which violate the international laws and continue for 180 days (the "**Waiting Period**"), including but not limited to confiscation, nationalisation, requisition and sequestration by law, order or administrative action of the Cambodian government, which (a) effectively deprives us of all or part of our interests in Masia Industries; (b) effectively prevents or restricts, through financial, regulatory or other measures, our Cambodia operation and causing total cessation of our Cambodia operation; (c) effectively deprives us of all or part of our real or tangible property in Cambodia; or (d) effectively prevents us from effectively controlling funds in Cambodia which constitute dividends or profits on, or proceeds from the disposal of Masia Industries;

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- (ii) political violence, i.e. a violent act or series of violent acts in Cambodia undertaken with the primary intent of achieving a political objective, i.e. declared or undeclared war, hostile action by national or international armed forces, civil war, revolution, insurrection, civil commotion, riot, terrorism, rebellion, strike or sabotage, which solely and directly causes (a) the damage, destruction or permanent loss of our real or tangible property in Cambodia; or (b) as a result of such damage, destruction or permanent loss, the cessation of our essential Cambodia operation for a period of 365 consecutive days;
- (iii) an act of selective discrimination, i.e. any law, order, decree, regulation or import/export restriction discriminately imposed specifically against us by the Cambodian government, which (a) expressly prevents our Cambodia operation; or (b) legally prevents us from participating in the fundamental benefits of our ownership in Masia Industries for the duration of the Waiting Period;
- (iv) an act of forced abandonment, i.e. a violent act or series of violent acts in Cambodia, i.e. declared or undeclared war, hostile action by national or international armed forces, civil war, revolution, insurrection, civil commotion, terrorism or sabotage, which (a) renders it unreasonably hazardous or impossible for us to operate in Cambodia without risk of physical harm to our essential personnel; (b) continues uninterrupted for the duration of the Waiting Period; and (c) causes the totally cessation of our Cambodia operation; and
- (v) an act of forced divestiture, i.e. the imposition of any law, order, decree, regulation, directive or restriction by the government of the insured's country, which (a) requires us to divest ourselves of our shareholding in Masia Industries; or (b) legally prevents us from participating in the fundamental benefits of our ownership in Masia Industries, resulting in the totally cessation of our involvement in the Cambodia operation for the duration of the Waiting Period.

Normally it will take less than four weeks to complete the insurance procedure for such insurance policies to become effective. We believe that such insurance policy is adequate to cover our Group's business operation in Cambodia and hedge our Group's country risks in Cambodia and the default risk of such insurer is minimal.

## PROPERTIES

As at the Latest Practicable Date, we did not own any property save for a construction-in-progress project in Cambodia. According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of Part II of the Third Schedule to the Companies Ordinance (Winding Up and Miscellaneous Provisions), which requires a valuation report with respect to all our interests in lands and buildings, since as at 31 August 2016, the carrying amount of our property interest was less than 15% of our consolidated total assets.

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As at the Latest Practicable Date, we leased a total of five properties in Haining City and Jiaxing City, Zhejiang Province, the PRC, one property in Cambodia and one property in Hong Kong, respectively with an aggregate gross floor area of approximately 162,097.6 sq.m. for our production plants, offices, warehouses, employees dormitory and direct sale stores. The lessors are entitled to lease these spaces.

The following table sets out a summary of the properties leased by us.

<b>Address and description of location</b>	<b>Use of property</b>	<b>Leased area (sq.m.)</b>	<b>Expiration of lease</b>
1. No. 120 Longxing Road, Haining City, Zhejiang Province, PRC (中國浙江省海寧市隆興路120號)	Production plants and office	40,226.1	1 January 2026
2. No. 115 Shuanglian Road, Haichang Street, Haining City, Zhejiang Province, PRC (中國浙江省海寧市海昌街道雙聯路115號)	Production plants and office	19,990.4	1 January 2026
3. No. 500 Youquan Road, Economy Development District of Haining, Haining City, Zhejiang Province, PRC (中國浙江省海寧市海寧經濟開發區由拳路500號)	Production plant and office	39,312.0	1 January 2026
4. No. 500 Youquan Road, Economy Development District of Haining, Haining City, Zhejiang Province, PRC (中國浙江省海寧市海寧經濟開發區由拳路500號)	Direct sale store and office	1,000.0	1 January 2026

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Address and description of location	Use of property	Leased area (sq.m.)	Expiration of lease
5. Sihanoukville Special Economic Zone, Cambodia (Note)	Production plant, warehouse and employee dormitory	59,782.0	18 September 2063
6. No. 1018 & 1016C, 1st Floor, No. 4026-4027, 4th Floor, and, No. 5025-5027, 5th Floor, Intersection of Jinxia Road, Tongxiang Avenue, Jiaxing City, Zhejiang Province, PRC (中國浙江省嘉興市桐鄉大道錦霞路口一樓1018及1016C號、四樓4026-4027號、五樓5025-5027號)	Direct sale store	1,556.0	30 September 2017
7. Office No. 6707, 67th Floor, The Center, 99 Queen's Road Central, Hong Kong	Office	231.1	31 July 2019

*Note:* In August 2013, Morris PRC, entered into a lease agreement with Sihanoukville Special Economy Zone Co., Ltd. for the lease of a property located in Cambodia. In March 2016, Masia Industries, our Group's subsidiary entered into a contract on transfer of rights over perpetual lease with Morris PRC and Sihanoukville Special Economy Zone Co., Ltd. to transfer the relevant rights under such lease from Morris PRC to Masia Industries with the effective date of such transfer being the date of incorporation of Masia Industries. Such property will be used by Masia Industries as production plant, warehouse and employee dormitory.

## LEGAL PROCEEDINGS

As at the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material and adverse effect on our Group's financial condition or results of operations. We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

## BUSINESS

### LEGAL COMPLIANCE

Our Directors confirm that, save as disclosed in the paragraphs below, our Group had conducted our operations and carried out our business in material compliance with the relevant laws and regulations in the PRC, Hong Kong and Cambodia during the Track Record Period and up to the Latest Practicable Date.

Particulars of non-compliance	Relevant section of the ordinance	Reason(s) for non-compliance	Estimated fine/penalty	Remedial action
Shares of Masia Industries were issued before payment was made in full.	Article 146 of the Law on Commercial Enterprises of Cambodia.	The omission was due to (i) the unfamiliarity of Mr. Zou, Mr. Chen Guohua and Mr. Shen Zhidong with local languages and laws and regulations because a majority of documents, correspondence and laws and regulations are in Khmer; and (ii) the inadvertent oversight of the local agent which assisted us to prepare and submit related documents, and failed to explain the relevant laws and regulations and consequence of non-compliance.	While there is no specific sanction for failing to comply with Article 146 of the Law on Commercial Enterprises of Cambodia, under Article 291 of the Law on Commercial Enterprises of Cambodia, the directors of Masia Industries may be subject to a fine of up to 10,000,000 KHR (equivalent to approximately HK\$19,392) and/or imprisonment of up to 6 months if this breach contributes to any offence committed by Masia Industries. Based on the current practice of the authorities in Cambodia, such sanctions are rarely imposed. To the best of our Cambodian Legal Advisers' knowledge and experience to date, they are not aware of any instance where the Ministry of Commerce has imposed such sanctions. In addition, if an offence occurs arising from or in connection with the deficiency of capital, the directors may also be liable for payment of compensation to third party claimants.	Between 30 April 2014 to 21 May 2014, the sum of US\$1,548,450 was paid by Mstar International Trading (HK) for and on behalf of Morris PRC, and between 14 August 2014 to 17 March 2016, the sum of US\$3,468,634 was made for and on behalf of Masia Investments to Masia Industries. The registered share capital of Masia Industries has been fully paid on 17 March 2016. On 29 March 2016, Masia Industries remitted the excess amount of USD17,084 to Mstar International Trading (HK).

## BUSINESS

Particulars of non-compliance	Relevant section of the ordinance	Reason(s) for non-compliance	Estimated fine/penalty	Remedial action
<p>Mr. Zou, Mr. Chen Guohua, and Mr. Shen Zhidong (<i>Note</i>) declared in the articles of incorporation dated 23 May 2014, which was submitted to the Ministry of Commerce of Cambodia and the Sihanoukville Special Economic Zone Administration that full payment of the registered capital of Masia Industries had been deposited in a bank.</p> <p>The registered share capital was not fully paid to Masia Industries until 17 March 2016.</p>	<p>Article 290 of the Law on Commercial Enterprises of Cambodia.</p>	<p>The omission was due to (i) unfamiliarity Mr. Zou, Mr. Chen Guohua and Mr. Shen Zhidong with local languages and laws and regulations because a majority of documents, correspondence and laws and regulations are in Khmer; and (ii) the inadvertent oversight of the local agent which assisted us to prepare and submit related documents, and failed to explain the relevant laws and regulations and consequence of non-compliance.</p>	<p>The maximum fine that may be imposed against Mr. Zou, Mr. Chen Guohua and Mr. Shen Zhidong for breach of this requirement amounts up to 10,000,000 KHR (equivalent to approximately HK\$19,392). The maximum imprisonment sanction is 6 months. As advised by our Cambodian Legal Advisers, with consideration of the circumstances, nature of and reason for the breaches, the Cambodian Legal Advisers are of the view that the likelihood of prosecution is remote due to the fact that (1) there is no provision in the Law on Commercial Enterprises that empowers or provides specific procedures for the Ministry of Commerce to investigate whether the payment has been fully made before the issuance of shares; and (2) to the best of the Cambodian Legal Advisers' knowledge and experience to date, they are not aware of any instance where the Ministry of Commerce has imposed a sanction on a director for the above breach.</p>	<p>Between 30 April 2014 to 21 May 2014, the sum of US\$1,548,450 was paid by Mstar International Trading (HK) for and on behalf of Morris PRC, and between 14 August 2014 to 17 March 2016, the sum of US\$3,468,634 was made for and on behalf of Masia Investments to Masia Industries. Such payments do not, however, cure the initial declarations made to the Ministry of Commerce in 2014. The registered share capital of Masia Industries has been fully paid on 17 March 2016. On 29 March 2016, Masia Industries remitted the excess amount of USD17,084 to Mstar International Trading (HK).</p>

*Note:* Mr. Shen Zhidong is a supervisor of Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery and a director of Masia Industries. He is independent from our Group's shareholders, Directors and senior management. He has experience in property development, construction development and merchandising, which has enabled him to supervise the preparation works of production facility in Cambodia. As such, he was appointed as a director of Masia Industries.

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## BUSINESS

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After taking into consideration (i) the occurrence of the non-compliance incident was primarily due to past unfamiliarity with the local language, relevant laws and regulations of Cambodia, Mr. Zou and Mr. Chen Guohua have enhanced their knowledge and understanding on the relevant laws and regulations of Cambodia through (a) attending trainings conducted by our Cambodian Legal Advisers on the laws and regulations in relation to our operation in Cambodia, including registration and licensing process for a company in Cambodia and key laws associated with such process; key issues associated with operating a business in Cambodia; an overview of the director and officer liabilities under Cambodian law, an overview of the anti-corruption law in Cambodia and laws and regulations in relation to manufacturing and exportation of our products; and (b) receiving and learning the Legal, Tax and Investment Guide for Cambodia (2014) prepared and provided by our Cambodian Legal Advisers, which provides an overview of the investment process and regulatory regime in Cambodia; (ii) the occurrence of the non-compliance incident was unintentional and did not involve dishonesty or fraud on the part of Mr. Zou and Mr. Chen Guohua; (iii) Mr. Zou and Mr. Chen Guohua responded in a timely manner to rectify the non-compliance once they were aware of such incidents; (iv) Mr. Zou, Mr. Chen Guohua and Masia Industries were not subject to any fines or penalties regarding the incorrect declaration made during the Track Record Period and up to the Latest Practicable Date; (v) Mr. Zou and Mr. Chen Guohua are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations; (vi) we have started to recruit new employees in the PRC and/or Cambodia who are proficient in both Chinese and Khmer to assist our Directors in the translation of documents which are in Khmer language, the operation in Cambodia and the communication with relevant government authorities in Cambodia and (vii) have engaged our Cambodian legal advisors to continue to provide legal advices after the Listing to ensure compliance with the relevant laws and regulations of Cambodia. In addition, Mr. Zou and Mr. Chen Guohua will consult our Cambodian legal advisers in advance of any questions of laws and regulations of Cambodia. The Sole Sponsor concurs with the views of our Directors that the above non-compliance incidents would not affect the competence and integrity of Mr. Zou and Mr. Chen Guohua to act as Directors pursuant to Rules 3.08 and 3.09 of the Listing Rules.

### INTERNAL CONTROL

In order to ensure future compliance with applicable laws and regulations and related policies in different operational aspects, we have adopted the following measures:

- (i) our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO and the Listing Rules and our Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong. We will continue to arrange various trainings to be provided by the legal advisers engaged by us from time to time and/or any appropriate accredited institution to update our Directors on the relevant laws and regulations;

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## BUSINESS

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- (ii) our Directors and senior management have attended trainings conducted by our Cambodian Legal Advisers on the laws and regulations in relation to our operation in Cambodia, including registration and licensing process for a company in Cambodia and key laws associated with such process; key issues associated with operating a business in Cambodia; an overview of the director and officer liabilities under Cambodian law, an overview of the anti-corruption law in Cambodia and laws and regulations in relation to manufacturing and exportation of our products;
- (iii) our Directors and senior management have received and learned the Legal, Tax and Investment Guide for Cambodia (2014) prepared by our Cambodian Legal Advisers, which provides an overview of the investment process and regulatory regime in Cambodia;
- (iv) we have appointed Sinolink Securities (Hong Kong) Company Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules and all other applicable laws, rules, codes and guidelines;
- (v) appointed Ms. Li Oi Lai on 18 March 2016, as the company secretary of our Company, who is responsible for handling company secretarial matters including our Group's compliance with the Companies Ordinance. Ms. Li is responsible for reviewing all relevant company documents to be filed with the Companies Registry of Hong Kong; and
- (vi) have engaged our Cambodian Legal Advisers to continue to provide legal advice and periodical training on regulatory and compliance topics after the Listing to ensure our on-going compliance with the relevant laws and regulations of Cambodia. Our Group will consult our Cambodian Legal Advisers as to Cambodian law in advance in relation to compliance of Cambodia law in respect of Masia Industries.

Having considered (i) the facts and circumstances leading to our non-compliance incident as described above; (ii) enhanced internal control measures taken to address such incidents, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures are adequate and effective in the circumstances and would not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules.



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## DIRECTORS AND SENIOR MANAGEMENT

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### BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors.

The following table sets forth certain information regarding the members of our Board and our senior management.

Name	Age	Date of joining our Group	Present position/title in our Company	Roles and Responsibilities	Date of appointment	Relationship with other Directors and senior management
<i>Executive Directors</i>						
Zou Gebing (鄒格兵)	40	1 May 2002	Executive Director, Chairman and CEO	Overseeing our Group's growth strategy and overall management	18 March 2016	N/A
Chen Guohua (陳國華)	40	1 April 2012	Executive Director and executive vice president	Overseeing strategic development, investment planning and the daily management of our Group	18 March 2016	N/A
Zeng Jin (曾金)	43	2 December 2004	Executive Director, senior vice president and head of production and quality management	Overseeing production planning and manufacturing and quality management	18 March 2016	N/A
Wang Ming (王銘)	40	25 June 2008	Executive Director, vice president, head of import and export and head of sales and marketing	Managing and reviewing import and export contracts and overseas trading documents, arranging for transportation, clearance and inspection of cargos, coordinating with our Group's finance department to arrange for payment and tax refund, developing new markets and clientele and maintaining customers' relationship	18 March 2016	N/A
<i>Independent Non-executive Directors</i>						
Zhang Bingbing (張冰冰)	56	10 December 2016	Independent non-executive Director	Supervising and providing independent judgment to our Board	10 December 2016	N/A
Huang Wenli (黃文禮)	34	10 December 2016	Independent non-executive Director	Supervising and providing independent judgment to our Board	10 December 2016	N/A
Shao Shaomin (邵少敏)	52	10 December 2016	Independent non-executive Director	Supervising and providing independent judgment to our Board	10 December 2016	N/A

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Date of joining our Group	Present position/title in our Company	Roles and Responsibilities	Date of appointment	Relationship with other Directors and senior management
<i>Senior Management</i>						
Peng Yuling (彭玉玲)	53	16 February 2012	Chief financial officer	Managing the financial operations and accounting functions of our Group	31 December 2015	N/A
Shen Jiangping (沈江萍)	42	2 October 2001	Director of human resources	Overseeing recruitment, staff training, reward management and human resources matters of our Group	31 December 2015	N/A
Mr. Xu Jing (徐景)	30	11 May 2015	Head of capital market	Overseeing matters relating to investor relations, fund raising and capital market activities of our Group	12 December 2016	N/A

### Executive Directors

**Mr. Zou Gebing (鄒格兵)**, aged 40, is our Chairman and CEO and was appointed as an executive Director on 18 March 2016. Mr. Zou is responsible for overseeing and mapping our Group's growth strategy and overall management. Mr. Zou is also a director of various members of our Group, namely Morris International, Masia Investments, Mstar International, Musa International, Mstar Home Furnishings, Masia Industries, Mstar International Group (HK), MZL, Mstar International Trading (HK), Haining Gelin Furniture, Haining Morris International, Zhejiang Apollo Leather Products and Haining Morris Home Gallery.

Mr. Zou was involved in several business ventures and has extensive knowledge in the areas of furniture manufacturing, international trading and marketing. Prior to joining our Group, Mr. Zou had been employed as a marketing and development manager in Zhejiang Kasen Industrial Group Co., Ltd. (浙江卡森實業集團有限公司), and a deputy general manager in Hongyang Group Co., Ltd. (海寧宏洋集團有限公司), from July 1997 to March 2000 and from May 2000 to March 2002, respectively, and had been mainly responsible for exploration and development of overseas markets of sofas and other furniture. Mr. Zou joined Morris PRC as part of its management team in May 2002, served as its vice chairman and general manager since February 2005, and became the chairman of Morris PRC in January 2012. Mr. Zou had also served as a corporate tutor for MBA postgraduates (MBA研究生企業導師) in the Management School of Zhejiang University (浙江大學管理學院) from April 2007 to March 2012. With over 15 years of industry experience as mentioned above, Mr. Zou is an experienced entrepreneur in furniture manufacturing related businesses. He was appointed as a member of the 6th Jiaxing Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議嘉興市第六屆委員會) and the 12th Haining Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議海寧市第十二屆委員會) in May 2007 and February 2012, respectively. He was also appointed as the vice chairman of the 6th Council of the Zhejiang Leather Industry Association (浙江省皮革行業協會第六屆理事會) in March 2012. He became the vice chairman of the Zhejiang Young

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## DIRECTORS AND SENIOR MANAGEMENT

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Entrepreneurs' Association (浙江省青年企業家協會) and the senior vice chairman of the Jiaxing Chamber of Commerce, Shanghai (上海嘉興商會) in December 2013. Mr. Zou has obtained a number of awards. In April 2006, Mr. Zou was awarded Zhejiang Youth Wusi Medal (浙江青年五四獎章) by Zhejiang Youth Union (浙江省青年聯合會) and in May 2008, the Chinese Youth Wusi Medal (中國青年五四獎章) by the All-China Youth Federation (中國全國青年聯合會). Meanwhile, Mr. Zou was awarded "Most Influential Person-Touching Jiaxing in 2007" (感動嘉興2007年度最具影響力人物稱號) by the Publicity Department of Jiaxing Municipal Committee of the Communist Party of China (中共嘉興市委宣傳部) in April 2008, and was recognised as a "Talent of Outstanding Contribution to Haining City" (海寧市突出貢獻人才) by the People's Government of Haining (海寧市人民政府) in May 2007 and a "Private Entrepreneur of Outstanding Contribution in the 30th Anniversary of Establishment of Jiaxing City with Revocation of District" (嘉興撤地建市30周年突出貢獻民營企業家) by the People's Government of Jiaxing (嘉興市人民政府) in May 2013. Mr. Zou obtained a bachelor's degree in English from Shanghai International Studies University (上海外國語大學) in the PRC in July 1997 and a master's degree in business administration for senior management from Zhejiang University (浙江大學) in the PRC in March 2007. Mr. Zou was accredited as a senior economist by the Senior Economist Qualification Committee of Zhejiang Province (浙江省高級經濟師資格評審委員會) in December 2007.

**Mr. Chen Guohua (陳國華)**, aged 40, is our executive vice president and was appointed as an executive Director on 18 March 2016. He is also a director of various members of our Group, namely Masia Industries, Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery. Mr. Chen is responsible for strategic development, investment planning and the daily management of our Group. Mr. Chen had served in several governmental sectors in Haining. From February 2000 to July 2003, Mr. Chen had served in the People's Government of Haining as a section member of the General Office (海寧市人民政府辦公室科員), a deputy section leader of the Education and Health Section (海寧市人民政府教衛文體科副科長) and a deputy section leader of the Social Affairs Section (海寧市人民政府社會事業科副科長). Mr. Chen had then served as the section leader of the Information Technology Research Section of the General Office of the People's Government of Haining (海寧市人民政府辦公室信息調研科科長) from August 2003 to April 2008. From April 2008 to March 2012, Mr. Chen had served as the deputy director of the management committee of Jianshan New District of Haining (海寧市尖山新區管理委員會副主任) and the deputy mayor of the People's Government of Huangwan Town in Haining (海寧市黃灣鎮人民政府副鎮長). In April 2012, Mr. Chen was employed by Morris PRC as its vice president, and he was then appointed as an executive vice president of Morris PRC in November 2012. He was employed by our Group as the executive vice president immediately after completion of the Business Transfer in December 2015. Mr. Chen has gained experience in the furniture industry during his employment with Morris PRC and our Group. Mr. Chen graduated from East China University of Science and Technology (華東理工大學) in administrative management in Shanghai, PRC in July 1997.

**Mr. Zeng Jin (曾金)**, aged 43, is our senior vice president and head of production and quality management and was appointed as an executive Director on 18 March 2016. He is responsible for overseeing production planning and manufacturing and quality management our Group. Mr. Zeng has extensive experience in production and quality management. Prior to joining our Group, Mr. Zeng had worked as a technician in Shanghai Hongdun Anti-Counterfeit Material Co., Ltd. (上海宏盾防偽材料有限公司) from August 1997 to May 1998. Mr. Zeng had

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## DIRECTORS AND SENIOR MANAGEMENT

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then worked at Uniplus (Shanghai) Co., Ltd. (綜合實業有限公司) from May 1998 to September 2000. Mr. Zeng then subsequently worked as a quality engineer at Krone Communications (Shanghai) Co., Ltd. (科龍通訊系統(上海)有限公司) from September 2000 to November 2001. Mr. Zeng had then been employed as a plant manager assistant and manager in the engineering department of Shanghai Trayton Furniture Co., Ltd. (上海特雷通家具有限公司) from November 2001 to January 2005. Mr. Zeng then joined Morris PRC and was appointed as a general manager assistant in January 2005 and then as a deputy general manager in November 2011. Mr. Zeng was then employed by our Group as a senior vice president and the head of production and quality management immediately after completion of the Business Transfer in December 2015. Mr. Zeng obtained his double bachelor's degrees in polymer science and computer software from East China University of Science and Technology (華東理工大學) in Shanghai, PRC in July 1997 and master's degree in business administration from Donghua University (東華大學) in Shanghai, PRC in June 2008.

**Mr. Wang Ming (王銘)**, aged 40, is our vice president, head of import and export and head of sales and marketing of our Group, and was appointed as an executive Director on 18 March 2016. Mr. Wang is primarily responsible for managing and reviewing import and export contracts and overseas trading documents, arranging for transportation, clearance and inspection of cargos and coordinating with our Group's finance department to arrange for payment and tax refund, developing new markets and clientele and maintaining customers' relationship. Before joining our Group, Mr. Wang joined Morris PRC in June 2008 as a foreign trade clerk and was appointed as a manager in the foreign trade marketing department (second section) of Morris PRC in February 2013. He then became a manager of the foreign trade, import and export department of Morris PRC in December 2013 and was further appointed as vice president of Morris PRC in January 2015. Mr. Wang was employed by our Group as a vice president and the head of import and export immediately after completion of the Business Transfer in December 2015. Mr. Wang obtained his bachelor's degree in English from Huaibei Coal Industry Teachers College (淮北煤炭師範學院) (now known as Huaibei Normal University (淮北師範大學)) in the PRC in July 2000 and a master's degree in legal theories from Shanghai Normal University (上海師範大學) in the PRC in June 2008.

### Independent non-executive Directors

**Ms. Zhang Bingbing (張冰冰)**, aged 56, was appointed as an independent non-executive Director on 10 December 2016 and is mainly responsible for supervising and providing independent judgment to our Board. She is also the chairman of the nomination committee and a member of each of the audit and remuneration committees of our Company. Prior to joining our Group, she was the vice council chairman (副理事長) and secretary-general (秘書長) of China National Furniture Association (中國家具協會). Ms. Zhang had also been an independent director in Yihua Lifestyle Technology Co. Ltd (宜華生活科技股份有限公司) (formerly known as Guangdong Yihua Timber Industry Co., Ltd. (廣東省宜華木業股份有限公司)) (stock code: 600978) from August 2007 to April 2014 and Xilinmen Furniture Co., Ltd. (喜臨門家具股份有限公司) (stock code: 603008) from September 2009 to September 2015 both of which are listed on the Shanghai Stock Exchange. Ms. Zhang graduated in electronics from Beijing Broadcasting and Television University (北京廣播電視大學) in Beijing, PRC in June 1982. Ms. Zhang received independent director trainings in Shanghai National Accounting Institute (上海國家會計學院) in the PRC in September 2008.

**Mr. Huang Wenli (黃文禮)**, aged 34, was appointed as an independent non-executive Director on 10 December 2016 and is mainly responsible for supervising and providing independent judgment to our Board. He is also the chairman of the remuneration committee and

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## DIRECTORS AND SENIOR MANAGEMENT

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a member of each of the audit and nomination committees of our Company. Mr. Huang was appointed as a researcher, associate professor and assistant to the Dean of China Academy of Financial Research of Zhejiang University of Finance & Economics (浙江財經大學) in June 2015. From August 2013 to September 2015, Mr. Huang was a visiting scholar at Columbia Business School in the U.S.. Mr. Huang received the 51st class general financial grant from the China Postdoctoral Science Foundation Grant (中國博士後科學基金). Mr. Huang was awarded the excellent postgraduate students' award in 2011, the Nandu scholarship band three award for 2009-2010 in 2010, the first-class award of honour for graduate for 2009-2010 in 2010 and the graduate of merit/triple-A graduate award for 2009-2010 in 2010 by Zhejiang University (浙江大學). Mr. Huang received his doctoral degree in mathematics from Zhejiang University (浙江大學) in the PRC in June 2011 and became a postdoctoral fellow at the University of Science and Technology of China (中國科學技術大學) in Anhui, PRC in December 2011. Based on his education background and research experience, Mr. Huang possesses the requisite knowledge relating to finance, risk control and China economy.

**Mr. Shao Shaomin (邵少敏)**, aged 52, was appointed as an independent non-executive Director on 10 December 2016 and is mainly responsible for supervising and providing independent judgment to our Board. He is also the chairman of the audit committee and a member of each of the remuneration and nomination committees of our Company. Mr. Shao acted as a deputy county chief of Deqing County of Zhejiang Province (浙江省德青縣副縣長), a deputy chief of the Issuance and Listing Department of Zhejiang Securities and Futures Management Office (浙江省證券和期貨監督管理辦公室發行上市部副主任) and the head of the Listed Company Supervision Department and Inspection Department of Zhejiang Supervision Bureau of China Securities Regulatory Commission (中國證監會浙江監管局上市公司監管處稽查處處長).

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Shao's positions in other companies are set out below:

Company	Principal business during tenure	Position	Period
Hangzhou Pinghai Investment Co., Ltd. (杭州平海投資有限公司)	Engaging in industrial investment	President	12 October 2007 to 11 October 2010
Cosmos Group Co., Ltd. (廣宇集團股份有限公司)	Engaging in real estate development	Vice president and director	5 September 2013 to present
Yinlun Co., Ltd. (浙江銀輪機械股份有限公司)	Manufacturing of automobile radiator parts	Independent director	21 July 2014 to present
Zhejiang China Light & Textile Industrial City Group Co., Ltd. (浙江中國輕紡城集團股份有限公司)	Engaging in textile industry	Independent director	16 March 2015 to present
Hangzhou Gaoxin Rubber & Plastic Materials Co., Ltd. (杭州高新橡塑材料股份有限公司)	Developing, manufacturing and retailing of high polymer rubber and plastic materials	Independent director	25 March 2012 to present

Mr. Shao has written a book titled “Study on the Outside Director Institution of China” (《我國獨立董事制度研究》), as well as published articles in the academic journal The Journal of World Economy. He has been a part-time tutor in the School of Economics of Zhejiang University (浙江大學經濟學院) since November 2015. Mr. Shao graduated from Zhejiang University (浙江大學) in the PRC with a doctoral degree in economics in June 2004. Mr. Shao received independent director training in Shanghai National Accounting Institute (上海國家會計學院) in the PRC in December 2008. Mr. Shao was designated as a senior accountant by the Senior Accounting Professional Assessment Committee of Zhejiang Province (浙江省會計專業人員高級職務評審委員會) in December 1998 and was admitted as a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2009. Mr. Shao was also appointed as an accredited arbitrator in Hangzhou Arbitration Commission (杭州市仲裁委員會) in June 2013.

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## DIRECTORS AND SENIOR MANAGEMENT

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Except as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there are no other matters that need to be brought to the attention of the Shareholders in connection with the appointment of our Directors, and there is no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, including matters relating to directorships held by our Directors in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this prospectus.

### Senior management

**Ms. Peng Yuling (彭玉玲)**, aged 53, was appointed as the chief financial officer of our Group on 31 December 2015. She is responsible for managing the financial operations and accounting functions of our Group. Prior to joining our Group, Ms. Peng served as a finance manager, a deputy general manager and a director at Haining Jisheng Textile Co., Ltd. (海寧吉盛製衣有限公司) from February 1994 to November 2001. Ms. Peng then subsequently served as a deputy finance manager and a director at Zhejiang Jianshi Industry Co., Ltd. (浙江吉恩仕實業股份有限公司) and a deputy general manager and a director at Haining Jishun Garments Co., Ltd. (海寧吉順製衣有限公司), from December 2001 to December 2005 and from December 2006 to January 2012, respectively. Ms. Peng joined Morris PRC as the chief financial officer in February 2012 and was employed by our Group as the chief financial officer immediately after completion of the Business Transfer in December 2015. Ms. Peng graduated from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) in the PRC in the study of economic management in December 2000. She was accredited as a senior accountant by the Assessment Committee of Senior Accountant Qualification of Zhejiang Province (浙江省會計專業人員高級職務評審委員會) in December 2003.

Ms. Peng has not been a director of any companies, the securities of which are listed on any securities markets in Hong Kong or overseas during the three years preceding the date of this prospectus.

**Ms. Shen Jiangping (沈江萍)**, aged 42, was appointed as the director of human resources of our Group on 31 December 2015. She is responsible for overseeing recruitment, staff training, reward management and human resources matters of our Group. Ms. Shen joined Morris PRC in October 2001 and worked at the human resources department of Morris PRC. Ms. Shen was then promoted to deputy manager and manager in the human resources department of Morris PRC in April 2002 and December 2011, respectively. Ms. Shen was subsequently appointed as manager in the finance department of Morris PRC in June 2014. Ms. Shen was employed by our Group as the director of human resources immediately after completion of the Business Transfer in December 2015. Ms. Shen completed a three year program in accounting at the School of Distance Learning of Zhejiang University (浙江大學遠程教育學院) in the PRC in June 2007. Ms. Shen was accredited as a first level corporate human resources professional (一級企業人力資源管理師) by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) in December 2010.

Ms. Shen has not been a director of any companies, the securities of which are listed on any securities markets in Hong Kong or overseas during the three years preceding the date of this prospectus.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Xu Jing (徐景)**, aged 30, was appointed as the head of capital market of our Group on 12 December 2016 and is mainly responsible for investor relations, fund raising and capital market activities of our Group. Mr. Xu joined our Group on 11 May 2015 as vice president and head of financing of Mstar International Trading (HK) Limited. Mr. Xu has over seven years of experience in corporate finance, investment banking and private equity. Prior to joining our Group, Mr. Xu was the investment manager at SEAVI Advent Ocean Private Equity Limited from September 2013 to May 2015. From July 2010 to September 2013, Mr. Xu was an associate at CCB International Capital Limited involving in corporate finance services. From October 2009 to July 2010, Mr. Xu served in Deloitte and Touche Financial Advisory Services Limited as an associate. Mr. Xu obtained a bachelor of business administration degree with a major in financial services and a minor in accountancy from the Hong Kong Polytechnic University in 2009. He is also a member of the Chartered Financial Analyst Institute and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Xu has not been a director of any companies, the securities of which are listed on any securities markets in Hong Kong or overseas during the three years preceding the date of this prospectus.

### COMPANY SECRETARY

**Ms. Li Oi Lai (李愛麗)**, aged 43, was appointed as the company secretary of our Company on 18 March 2016. Ms. Li has more than 15 years of experience in auditing, accounting and/or company secretarial matters and is currently a manager of SW Corporate Services Group Limited assisting listed companies and private companies in professional company secretarial work. She obtained a bachelor's degree in commerce (honours) in accounting from Hong Kong Shue Yan University in October 2010 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2003. Ms. Li was admitted as a member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators of the United Kingdom in October 2006, a fellow member of the Association of International Accountants in November 2014 and a fellow member of The Hong Kong Institute of Certified Public Accountants in March 2015.

### BOARD COMMITTEES

We have established the following three committees in our Board: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with the terms of reference established by our Board.

#### **Audit committee**

Our audit committee was established by our Board on 10 December 2016 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The audit committee consists of three members, namely Shao Shaomin, Huang Wenli and Zhang Bingbing, all being our independent non-executive Directors. Shao Shaomin has been appointed as the chairman of the audit committee and is our independent



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## DIRECTORS AND SENIOR MANAGEMENT

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non-executive Director with the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control system and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

### **Remuneration committee**

Our remuneration committee was established by our Board on 10 December 2016 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The remuneration committee has three members, namely Huang Wenli, Shao Shaomin and Zhang Bingbing. Huang Wenli has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

### **Nomination committee**

Our nomination committee was established by our Board on 10 December 2016 with written terms of reference in compliance with the Corporate Governance Code. The nomination committee has three members, namely Zhang Bingbing, Huang Wenli and Shao Shaomin. Zhang Bingbing has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on appointments of our Directors, to assess the independence of the independent non-executive Directors, to take up references and to consider related matters.

### **Corporate governance**

Our Company intends to comply with all code provisions under the Corporate Governance Code after the Listing except for paragraph A.2.1 of the Corporate Governance Code, which provides that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Zou currently performs these two roles. Our Board believes that vesting the roles of both chairman and chief executive manager in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Group to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports after the Listing.

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## DIRECTORS AND SENIOR MANAGEMENT

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### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration in the form of salaries, allowances, discretionary bonuses, share options, contributions to retirement benefits schemes and other benefits in kind subject to applicable laws, regulations and rules. The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, contributions to retirement benefits schemes and other benefits in kind) paid to our Directors for the three years ended 31 December 2015 and the eight months ended 31 August 2016 were approximately RMB0.3 million, RMB1.3 million, RMB2.2 million and RMB3.6 million, respectively. The aggregate amount of compensation and benefits in kind paid to the five highest paid individuals of our Group for the three years ended 31 December 2015 and the eight months ended 31 August 2016 were approximately RMB0.6 million, RMB1.8 million, RMB3.4 million and RMB4.7 million, respectively.

Under the arrangements currently in force, the estimated aggregate remunerations, excluding discretionary bonus and share-based payments expense, if any, of our Directors for the year ending 31 December 2016 is approximately HK\$4.8 million.

The independent non-executive Directors receive fees from our Company. All Directors receive reimbursements from our Company for expenses which are necessary and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company and are paid out of the funds of our Company by way of fees for their services as directors, such sums (if any) as our Directors may from time to time determine (not exceeding in aggregate an annual sum excluding other amounts payable (e.g. expenses as remuneration for employment) or such larger amount as our Company may by ordinary resolution determine). Save as disclosed above, our Directors are not entitled to receive any other special benefits from our Company. The compensation of our Directors is determined by the Board which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account requirements of applicable laws, regulations and rules.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

We have adopted the Share Option Scheme. Please refer to the subsection headed “7. Share Option Scheme” in Appendix IV to this prospectus for details.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISER

We have appointed Sinolink Securities (Hong Kong) Company Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

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## SHARE CAPITAL

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### AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

US\$

*Authorised share capital:*

<u>10,000,000,000</u>	Shares	<u>10,000,000</u>
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*Issued and to be issued, fully paid or credited as fully paid:*

100,000	Shares in issue at the date of this prospectus	100
749,900,000	Shares in issue under the Capitalisation Issue	749,900
250,000,000	Shares to be issued pursuant to the Global Offering	250,000
<u>1,000,000,000</u>	Total	<u>1,000,000</u>

### ASSUMPTIONS

The above table assumes that the Global Offering has become unconditional and the issue of Shares pursuant to the Global Offering and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by us under the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKING

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus other than entitlement under the Capitalisation Issue.

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## SHARE CAPITAL

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### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering being unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with such number of Shares (otherwise than by way of rights issue or an issue of shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend, schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by the Shareholders in general meeting) with a total number not exceeding the aggregate of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and Global Offering (without taking into account of any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (ii) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue. This mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate.

For further details of this general mandate, please see the subsection headed “1. Further Information about Our Company – C. Written resolutions of our Shareholder passed on 10 December 2016” in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such number of Shares as will represent up to 10% of the aggregate of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Shares falling to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

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## SHARE CAPITAL

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This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the subsection headed “4. Repurchase by Our Company of Our Own Securities” in Appendix IV to this prospectus.

This mandate will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- (iii) the passing of an ordinary resolution of the Shareholders in a general meeting revoking, varying or renewing such mandate.

For further details of this share repurchase mandate, please see the subsection headed “1. Further Information about Our Company – C. Written resolutions of our Shareholder passed on 10 December 2016” in Appendix IV to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 10 December 2016. Further details of the rules of the Share Option Scheme are set out in the subsection headed “7. Share Option Scheme” in Appendix IV to this prospectus.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares or larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its share capital or capital redemption reserve by its Shareholders passing special resolution. For details, see “Appendix III – 2. Articles of Association – (c) Alteration of capital” to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and Articles, all or any of the special rights attached to our Share or any class of our Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please see the subsection headed “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (d) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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As at the date of the application for the Listing, our Company is owned by the following persons who are directly or indirectly in 5% or more of the nominal value or any share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Nature of interest	Number and class of securities <sup>(Note 1)</sup>	Approximate percentage of interest in our Company
Morris Capital	Beneficial owner	100 ordinary shares of our Company (L)	100%
Mr. Zou <sup>(Note 2)</sup>	Interest of controlled corporation	100 ordinary shares of our Company (L)	100%
Ms. Wu <sup>(Note 3)</sup>	Interest of spouse	100 ordinary shares of our Company (L)	100%

*Note 1:* The letter “L” denotes the person’s long position in such shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou. As such, Mr. Zou will therefore be deemed, or taken to be, interested in the same number of shares in which Morris Capital is interested.

*Note 3:* Ms. Wu is the spouse of Mr. Zou. Under the SFO, Ms. Wu will therefore be deemed, or taken to be, interested in the same number of shares in which Mr. Zou is interested.

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering and assuming that no Share will be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons will have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Nature of interest	Number and class of securities held immediately after completion of the Capitalisation Issue and the Global Offering <sup>(Note 1)</sup>	Approximate percentage of interest in our Company immediately after completion of the Capitalisation Issue and the Global Offering
Morris Capital	Beneficial owner	750,000,000 Shares (L)	75%
Mr. Zou <sup>(Note 2)</sup>	Interest of controlled corporation	750,000,000 Shares (L)	75%
Ms. Wu <sup>(Note 3)</sup>	Interest of spouse	750,000,000 Shares (L)	75%

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## SUBSTANTIAL SHAREHOLDERS

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*Note 1:* The letter “L” denotes the person’s long position in such Shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou. As such, Mr. Zou will therefore be deemed, or taken to be, interested in the same number of Shares in which Morris Capital is interested.

*Note 3:* Ms. Wu is the spouse of Mr. Zou. Under the SFO, Ms. Wu will therefore be deemed, or taken to be, interested in the same number of Shares in which Mr. Zou is interested.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering, and without taking into account any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or the options that may be granted under the Share Option Scheme, have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Global Offering (without taking into account of any allotment and issue of Shares pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), 75% of the issued share capital of our Company will be owned by Morris Capital, which is in turn owned as to 85% by Mr. Zou. Accordingly, Mr. Zou and Morris Capital are our Controlling Shareholders within the meaning of the Listing Rules.

Furthermore, Ms. Wu is the spouse of Mr. Zou, and they would through discussion reach consensus among themselves before making any major decision in respect of our Group to vote in shareholders meetings on an unanimous basis. Our Controlling Shareholders have executed a confirmation, whereby they confirmed the existence of such acting-in-concert arrangement so far as the voting rights of our Company are concerned, and such arrangements will continue to have effect until one year after the Listing. In view of the above, Mr. Zou, Ms. Wu and Morris Capital are considered to be parties acting in concert regarding the control of our Company under the meaning of the Takeovers Code and therefore Ms. Wu is considered to also be one of our Controlling Shareholders within the meaning of the Listing Rules.

Mr. Zou is our Chairman, CEO and executive Director. For details of the background of Mr. Zou, please refer to the section headed “Directors and Senior Management” in this prospectus.

### DELINEATION OF BUSINESS

#### Information on Morris PRC and its relationship with our Group

Prior to the Reorganisation, the business of our Group was carried out by the subsidiaries now comprising our Group and the furniture division of Morris PRC. In the preparation for the Listing, in order to consolidate the relevant business to focus on (i) design, manufacturing and sales of sofas and sofa covers and (ii) sales of sofas and wood based furniture products manufactured by ourselves in our direct sale stores in the PRC, the business formerly operated by the furniture division of Morris PRC was transferred to the subsidiaries now comprising our Group pursuant to the Business Transfer Agreement. After the Reorganisation and Business Transfer, Morris PRC and its subsidiaries, namely Jennifer Convertibles, Inc., Haining Mengnu Leather Co., Ltd. (海寧蒙努皮業有限公司), Haining Morris International Fur Products Co., Ltd. (海寧慕容國際皮草有限公司), Haining Morris Leather Products Co., Ltd. (海寧慕容皮業有限公司), Zhejiang Morris Property Co., Ltd. (浙江慕容世家地產有限公司), Haining Morris Trading Co., Ltd. (海寧慕容貿易有限公司) and Haining Meizheng Advertisement Co., Ltd. (海寧美正廣告有限公司) were excluded from our Group to form the “**Excluded Group**”. Please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus for details of the Business Transfer.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### **Clear delineation between our business and the Excluded Businesses**

After the Reorganisation and completion of Business Transfer on 31 December 2015, the Excluded Group is principally engaged in the processing and sale of clothes, knitwear, accessories and suitcases, property development, advertising, trading of non-furniture products in Haining City, Zhejiang Province, the PRC and operation of domestic furniture retail chains in the eastern part of the U.S. (the “**Excluded Businesses**”). Our Directors are of the view that none of the Excluded Businesses competes, or be expected to compete, directly or indirectly with our Group’s principal business due to their different nature.

### **The business of our Group and Jennifer Convertibles, Inc. (“Jennifer Convertibles”)**

After Reorganisation and completion of Business Transfer, one of the Excluded Businesses, namely the business of operating domestic furniture retail chains in the eastern part of the U.S., is conducted by Jennifer Convertibles, one of the subsidiaries of Morris PRC and a part of the Excluded Group.

#### ***A. Information on Jennifer Convertibles***

Jennifer Convertibles was incorporated in 1986 by Independent Third Parties and began by operating a single retail store in Paramus, New Jersey, U.S.. It was originally listed on the NASDAQ National Market and moved to the Over-The-Counter Bulletin Board in 1995 and moved again to the American Stock Exchange in 2003 and returned to the Over-The-Counter Bulletin Board in 2010 until it was deregistered with the U.S. Securities and Exchange Commission (“**SEC**”) in 2011 following its emergence from bankruptcy. Jennifer Convertibles has become a customer of Morris PRC since 2008. Jennifer Convertibles retails complete lines of furniture, including bedroom furniture, dining room furniture and office furniture pieces, sofa beds, sofas and companion pieces, chairs and recliners as well as various home furnishings and home accessories such as wall art, rugs, lamps, futons, pillow and mattresses.

#### ***B. Chapter 11 protection and the acquisition of Jennifer Convertibles by Morris PRC***

In 2010, Jennifer Convertibles experienced serious financial difficulties. According to the filing of SEC, Jennifer Convertibles recorded substantial net loss of US\$24.3 million and US\$11.0 million for its fiscal year of 2010 and 2009, respectively. On 18 July 2010, Morris PRC, as the largest creditor of Jennifer Convertibles, together with other creditors commenced voluntary cases pursuant to chapter 11 of title 11 of the U.S. Code. On 19 November 2010, Jennifer Convertibles filed their disclosure statement and a joint plan of reorganisation. As part of such reorganisation plan, Morris PRC agreed to convert most of its unsecured debt into equity and received 901,000 shares of Jennifer Convertibles, representing 90.1% of the new equity securities of Jennifer Convertibles. The remainder of the new equity securities of the Jennifer Convertibles were distributed among certain of Jennifer Convertibles’ former creditors.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Despite the negative publicity surrounding Jennifer Convertibles and substantial losses incurred in successive years, it was commercially justifiable for Mr. Zou to accept the reorganisation plan in respect of Jennifer Convertibles by taking into consideration that (i) it was possibly once-in-a-lifetime opportunity for Mr. Zou to gain control of a long-established U.S. furniture retail chains; and (ii) his confidence that the U.S. furniture retail market will recover from the economic downturn that has followed the global financial crisis of 2008 to 2009 and the financial performance of Jennifer Convertibles could turn around through long-term dedication and effort by the management of Jennifer Convertibles through business reorganisation, restructuring and business strategy rebuilding. When Mr. Zou decided to proceed with the acquisition of Jennifer Convertibles, he did not have any intention to vertically integrate its furniture retail business into our Group's business. Instead, Mr. Zou viewed them as two different businesses and set different paths and goals for each of them. For Jennifer Convertibles, Mr. Zou intended to leverage on its established brand name, retail network and management team to build it as a leading retailer in the U.S.. Mr. Zou was well aware that it might be difficult to turn around the financial performance of Jennifer Convertibles in the short term. If solely based on the past financial performance of Jennifer Convertibles, it would not be justifiable for Mr. Zou to decide to acquire a business with such substantial loss.

### *C. Delineation between the business of our Group and Jennifer Convertibles*

Our Group, as a manufacturer, principally engage in the design, manufacturing, sales and marketing of sofas and sofa covers mainly for export to the overseas markets. Our Group is one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015 according to the Euromonitor Report. We have four production facilities in Haining, Zhejiang Province, the PRC and our own research and development team that is responsible for developing new types of sofas and other furniture products. All of the sofa covers and sofas sold by our Group to the U.S. are sold to wholesalers, furniture retail chains and retail warehouse clubs located in the U.S.. On the other hand, Jennifer Convertibles, as a retailer, operated 25 chain stores in the eastern part of the U.S. as at the Latest Practicable Date distributing complete lines of furniture sourced from a wide spectrum of suppliers, including bedroom furniture, dining room furniture and office furniture pieces, sofa beds, sofas and companion pieces, chairs and recliners as well as various home furnishings and home accessories. None of the products sourced and sold by Jennifer Convertibles are manufactured or designed by it. Further, none of the brands of any of the products sourced and sold by Jennifer Convertibles are owned by it. In essence, Jennifer Convertibles' business model is the operating of sourcing and distribution model to various manufacturers and brand owners of furniture products to distribute their products to end customers in the U.S.. The industry and business nature, business model and operation, products and brands, client base, major competitors, management team and structure, marketing method and research and development activities of our Group's business are fundamentally different from those of Jennifer Convertibles. Our direct sale stores in Zhejiang Province mainly operate as a vertical extension of our manufacturing business and an expansion of sales channel of our self-manufactured and own branded products in the local market which are in close proximity to our production facilities to benefit from the convenience of transportation and efficiency of centralised management. Sales generated from such two direct sale stores represented only nil, 3.5%, 1.3% and 0.3% of the total sales of our Group for each of the three years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The following table sets out the key differences between the business of our Group and the business of Jennifer Convertibles:

	<u>Our Group</u>	<u>Jennifer Convertibles</u>	
(i) <b>Business nature</b>	Manufacturer	Retailer	
	<i>Export business</i>	<i>Two direct sale stores in Zhejiang Province</i>	
(ii) <b>Business model and operation</b>	Design, manufacturing and sale of sofas and sofa covers	Design, manufacturing and sale of sofas and wood based furniture products	Operates furniture retail chains by adopting an “sourcing and distribution” model
(iii) <b>Products</b>	Sofas and sofa covers	Sofas and wood based furniture products manufactured by our Group	Various types of furniture and home accessories sourced from suppliers, including bedroom furniture, dining room furniture and office furniture pieces, sofa beds, sofas and companion pieces, chairs and recliners as well as various home furnishings and home accessories (such as wall art, lamps and beddings)
(iv) <b>Brands</b>	“Morris Holdings Limited”	“Morris Zou”	A variety of brands, of which some are U.S. furniture retailers
(v) <b>Geographical markets</b>	Predominantly the U.S., as well as Australia, Ireland, Canada and other overseas markets	Haining City and Jiaxing City, Zhejiang Province, the PRC	Eastern part of the U.S., such as New York, New Jersey and Connecticut
(vi) <b>Client base</b>	Wholesalers and retailers of furniture products	Consumers based in the PRC, in particular, Zhejiang Province	Consumers based in the U.S.
(vii) <b>Major competitors</b>	Sofa manufacturers which mainly export products to the U.S.	Furniture stores in Haining and Jiaxing City, Zhejiang Province, the PRC	Regional or national furniture retail chains in the U.S.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	Our Group	Jennifer Convertibles
<b>(viii) Management</b>	The core senior management of our Group is based in the PRC and Hong Kong, comprising our four executive Directors, namely, Mr. Zou, Mr. Chen Guohua, Mr. Zeng Jin and Mr. Wang Ming	Separate management structure based in the U.S., comprising purchasing, sales, merchandising, warehouse, finance and accounting, administration, human resources, information technology, E-commerce, customer service, advertising and store department. Currently, Mr. Zou is the chief executive officer and chairman. The chief financial officer, Mr. Roy Wayne Stewart, together with other senior management members (comprising deputy chief executive officer, vice presidents, director of information technology and director of purchasing) are all Independent Third Parties without any past or present involvement in the management of our Group. Except for Mr. Zou and Mr. Wang Ming, the latter was a director of Jennifer Convertibles from 12 November 2014 to 19 February 2016, none of our Directors and senior management of our Group has been a board member of Jennifer Convertibles.
<b>(ix) Marketing</b>	Attend various trade exhibitions and advertise regularly in Furniture/Today, a business newspaper about the U.S. furniture industry	No marketing activity up to the Latest Practicable Date
<b>(x) Research and development</b>	<ul style="list-style-type: none"> <li>- Our Haining Research and Development Centre is responsible for developing new types of sofas and other furniture products and their components and finding ways to enhance and improve the functionality of existing products.</li> <li>- Own patents relating to certain sofa functions</li> </ul>	No research and development activity
<b>(xi) Employee skill sets</b>	Skillful production workers and experienced product research and development staff	Experienced sales persons and procurement staff

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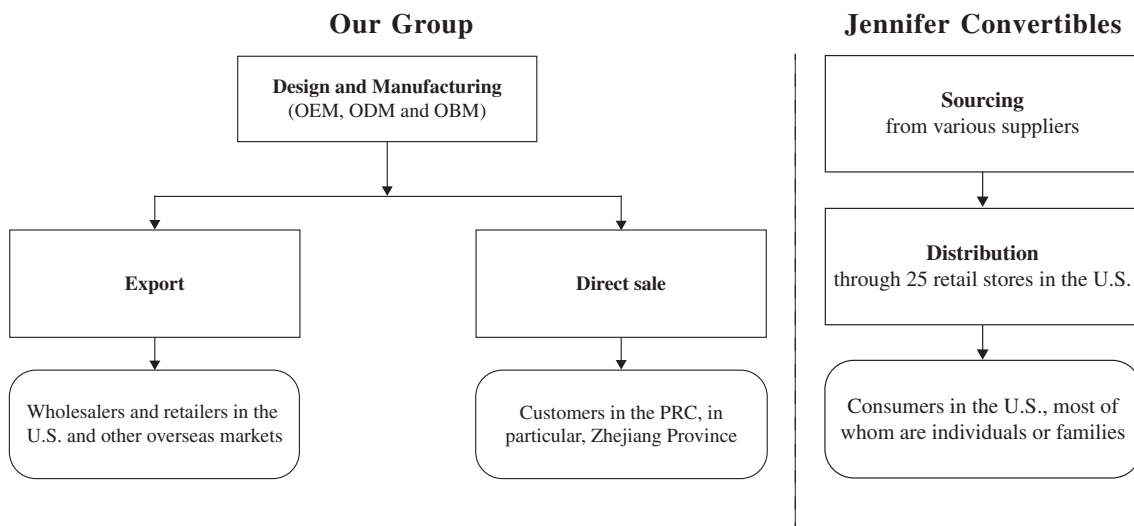
## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Details of the differences of the Group's and Jennifer Convertibles' businesses are set out below:

*i. Different business models*

Our Group, as a manufacturer, operates under a fundamentally different business model as compared to Jennifer Convertibles. In particular, we are a PRC upholstered sofa manufacturer with a business operation model comprising OEM, ODM and OBM that consolidate the functions of design, research and development, manufacturing and sales and marketing. We also sell sofas and wood based furniture products manufactured by our Group under the brand of "Morris Zou" through our two direct sale stores in Haining City and Jiaxing City, Zhejiang Province. By contrast, Jennifer Convertibles is a one-stop-shop furniture retail chain which adopts an "sourcing and distribution" business model, under which Jennifer Convertibles sources different products from a wide spectrum of suppliers including our Group, before it sells and markets the products through its network of 25 retail stores located in eastern part of the U.S.. The following diagram illustrates the different operation flow of the business of our Group and that of Jennifer Convertibles:



*ii. Different products and brands*

Our Group mainly manufactures and sells sofas, sofa covers and an insignificant amount of wood based furniture products. Our products are generally marketed under two brands, namely, "Morris Holdings Limited" and "Morris Zou". We mainly export our "Morris Holdings Limited" branded sofas to the U.S. and sell our "Morris Zou" branded sofas and wood based furniture products domestically in the PRC through our two direct sale stores in Zhejiang Province, the PRC.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Jennifer Convertibles, in contrast, is a one-stop-shop furniture retail chain which sells complete lines of furniture, including bedroom furniture, dining room furniture and office furniture pieces, sofa beds, sofas and companion pieces, chairs and recliners as well as various home furnishings and home accessories that are sourced from a wide spectrum of suppliers, including our Group and a variety of U.S. furniture retailers. For each of the three years ended 31 December 2015 and the eight months ended 31 August 2016, the percentage of Jennifer Convertibles' sales of sofas purchased from our Group accounted for approximately 36%, 24%, 20% and 17% to its total revenue, respectively. Jennifer Convertibles does not design or manufacture any of the products sold in its retail chain but acts as a distribution channel that assists in the sales and marketing of the products of its suppliers through its network of retail stores.

*iii. Different geographical coverage*

We export our sofas and sofa covers to overseas markets including the U.S., Australia, Ireland and Canada. We also sell our self-manufactured sofas and wood based furniture products under our brand of "Morris Zou" through our two direct sale stores in Haining City and Jiaxing City, Zhejiang Province in the PRC.

With respect to Jennifer Convertibles, it focuses its geographical coverage in the eastern part of the U.S., such as New York, New Jersey and Connecticut. Jennifer Convertibles did not have any retail stores outside the territory of the U.S. during the Track Record Period and as at the Latest Practicable Date.

*iv. Different target customers*

Our customers are mainly wholesalers, furniture retail chains and retail warehouse clubs located in the U.S., to which we only sell our products in bulk. The customers for our two self-operated stores Zhejiang are consumers in the PRC, in particular, Zhejiang Province.

By contrast, Jennifer Convertibles sells its products directly to end-consumers in the U.S., most of whom are individuals or families. They purchase products from Jennifer Convertibles through retail and individual purchases.

*v. Different core senior management*

The overall management of our business and operation is conducted by our core senior management, comprising our four executive Directors, namely, Mr. Zou, Mr. Chen Guohua, Mr. Zeng Jin and Mr. Wang Ming. Our core senior management is responsible for the overall administration of the organisation, operational management and supervision of all aspects of the business, such as financial planning, management level recruitment, and marketing strategies of our Group. Our Group coordinates our management through establishment of various departments, segregated by their functions as import and export, sales, finance, design, research and development, production planning, production, quality control and general administration, the duties and functions of which are detailed in the subsection headed "Our

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Management Structure” under the section headed “Business” in this prospectus. All of our management have been educated and worked in the PRC. Our management has accumulated extensive experience in manufacturing, design and export. However, such experience cannot be regarded as equivalent experience in domestic furniture retail market in the U.S..

Jennifer Convertibles has its own management structure, which comprises purchasing, sales, merchandising, warehouse, finance and accounting, administration, human resources, information technology, E-commerce, customer service, advertising and store departments. All of those departments are based in the U.S. and have their own responsible employees. Currently, Mr. Zou is the chief executive officer and chairman. The chief financial officer, Mr. Roy Wayne Stewart, together with other senior management members (comprising deputy chief executive officer, vice presidents, director of information technology and director of purchasing) are all Independent Third Parties without any past or present involvement in the management of our Group. Except for Mr. Zou and Mr. Wang Ming, the latter was a director of Jennifer Convertibles from 12 November 2014 to 19 February 2016, none of our Directors and senior management of our Group has been a board member of Jennifer Convertibles. Since Morris PRC’s acquisition of Jennifer Convertibles in 2010 and up to the Latest Practicable Date, Morris PRC has not assigned any other management or employee to involve in the day-to-day operation and management of Jennifer Convertibles. Mr. Zou, although serves as the chief executive officer of Jennifer Convertibles, is sitting on the board of Jennifer Convertibles to look after his investment interests in Jennifer Convertibles and has not been involved in the day-to-day management of Jennifer Convertibles. Instead, Mr. Zou only travels to the U.S. several times a year to inspect the operation of Jennifer Convertibles and review the report from its local management team. Most of the management of Jennifer Convertibles has been educated and worked in the U.S. and have years of experience in retail business in the U.S..

### *vi. Marketing*

We mainly market our brands and our products by attending various trade exhibitions and advertise ourselves and our products regularly in Furniture/Today, a business newspaper about the U.S. furniture industry that provides news and research to furniture and bedding retail stores, mass merchants, distributors, executives and suppliers.

For Jennifer Convertibles, it markets its products by advertising on TV, radio, mailers and Internet sites, which are determined solely by the local management team of Jennifer Convertibles.

### *vii. Research and development*

Our Haining Research and Development Centre is responsible for developing new types of sofas and other furniture products and their components and finding ways to enhance and improve the functionality of our existing products. We have our own patents in sofa manufacturing, details of which please refer to the subsection headed “Intellectual Property” under the section headed “Business” and Appendix IV to this prospectus. By contrast, Jennifer Convertibles, as a pure retailer, does not conduct any research and development activity.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *viii. Employee skill sets*

Other than Mr. Zou, our employees and senior management do not overlap with those of Jennifer Convertibles. The differences in business model require substantially different skill-sets in the employees hired by our Group and Jennifer Convertibles. We need skillful workers for manufacturing and experienced product research and development staff to develop new products and improve the functionality of our existing products. Over 80% of our employees are production workers. We provide on-site training periodically to our employees across different departments. For example, we train our manufacturing staff to use machines efficiently and our sales and marketing staff to understand our products, the overseas markets and competitors and how to market and represent our own brands to the customers. Our recruitment criteria and employees training programmes are separate from Jennifer Convertibles due to the fundamental differences in the business models.

On the other hand, Jennifer Convertibles operates a retail business which mainly requires good sales persons with retailing sales and marketing skills and procurement staff, who from time to time conduct extensive research into various home furnishing and furniture products to search for marketable products and keep track with the end-consumer market. Jennifer Convertibles' operation depends on its ability to hire, train and retain highly skilled sales and marketing personnel for the development of its business. Hence, Jennifer Convertibles focuses on training its staff on sales and marketing to provide support and services for the end customers in respect of the products supplied by its various suppliers, to assist with sales and distribution of their products to the end customers and to effectively represent and promote the suppliers in its retail stores.

### *ix. Separate source of fund*

Our Group and Jennifer Convertibles obtained source of fund separately.

As illustrated above, the business model and operation, products, geographical markets, client base, major competitors and management base of Jennifer Convertibles can be clearly delineated from our Group's business.

### ***D. The business of our Group and that of Jennifer Convertibles do not rely on each other***

Although Jennifer Convertibles was one of our customers to which products were sold and our Group was one of Jennifer Convertibles' suppliers from which products were sourced during the Track Record Period, neither the business of the Group nor that of Jennifer Convertibles relies on the other.

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our sales to Jennifer Convertibles amounted to approximately RMB70.7 million, RMB34.1 million, RMB31.6 million and RMB30.2 million, respectively, which accounted for approximately 7.2%, 4.1%, 3.4% and 5.2% of our Group's revenue, respectively. Such transactions constitute a continuing connected transaction for our Company upon Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Please see the subsection headed “Non-exempt Continuing Connected Transactions – Jennifer Convertibles Sales Agreement” under the section headed “Connected Transactions” in this prospectus for details. There will not be any material adverse effect on our business if Jennifer Convertibles refuses to purchase its products as we have many other customers. Jennifer Convertibles sources diversified furniture products from a wide spectrum of suppliers. Our Group is only one of the suppliers of Jennifer Convertibles. According to the internal operation record of Jennifer Convertibles, purchase from our Group accounted for approximately 47.0%, 25.3%, 22.5% and 21.2% of the total purchases of Jennifer Convertibles, respectively for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016. The largest supplier of Jennifer Convertibles for each of the years ended 31 December 2014 and 2015 and the eight months ended 31 August 2016 was a large furniture manufacturer based in the U.S.. Purchase by Jennifer Convertibles from such supplier accounted for approximately 17.2%, 39.8%, 48.6% and 43.3% of the total purchases of Jennifer Convertibles for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, respectively. Our Directors are of the view that our Group operates independently from Jennifer Convertibles on the following grounds: (i) pursuant to the Jennifer Convertibles Sales Agreement, the maximum aggregate annual amount of sales by our Group to Jennifer Convertibles for each of the years ending 31 December 2016, 2017 and 2018 is RMB32.0 million. Our Directors also confirm that our Group will ensure that the sales to Jennifer Convertibles will not exceed the annual cap for the relevant year. According to our internal record, our Group’s gross sales to Jennifer Convertibles as to the total gross sales of our Group decreased to approximately 3.6% for the eleven months ended 30 November 2016 and is expected to decrease further for the year ending 31 December 2016. Our sales to Jennifer Convertibles as to the revenue of our Group for the full year ending 31 December 2016 is expected to maintain at a similar level as of the years ended 31 December 2014 and 2015; (ii) on the basis that our sales to Jennifer Convertibles will not exceed RMB32.0 million for the year ending 31 December 2016, it is expected that Jennifer Convertibles will not be one of our top five customers and our Group’s revenue attributable to Jennifer Convertibles will not be material for the year ending 31 December 2016; (iii) according to the internal operation record of Jennifer Convertibles, for the eleven months ended 30 November 2016, purchase from our Group only accounted for approximately 18.5% of the total purchase of Jennifer Convertibles, while the purchase from Jennifer Convertibles’ largest supplier accounted for approximately 43.0% of its total purchase for the same period, which was significantly higher than its purchase from our Group; and (iv) Jennifer Convertibles has commenced sourcing from eight new suppliers since January 2016. As such, in the event our Group decides not to supply products to Jennifer Convertibles, it should be in a position to find alternative brands and suppliers to supply sofas in place of our Group.

### ***E. No intention to inject Jennifer Convertibles into our Group***

As at the Latest Practicable Date, our Controlling Shareholders had no intention to inject Jennifer Convertibles into our Group. If our Controlling Shareholders decide to dispose of Jennifer Convertibles or part thereof in the future, they will grant the right of first refusal to our Group.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Given the above circumstances, in particular, (i) after the Reorganisation and Business Transfer, except for Jennifer Convertibles, neither Morris PRC nor its subsidiaries were engaged in furniture retail business in the U.S. or the PRC; and (ii) our Group's business was clearly delineated from the business of Jennifer Convertibles, our Directors believe that the business of Morris PRC does not and will not directly or indirectly compete with the principal business of our Group and therefore there is no competition.

To further safeguard our Group from any potential competition from our Controlling Shareholders, each of our Controlling Shareholders will enter into the Deed of Non-competition in favour of our Group. Please refer to the subsection headed "Deed of Non-competition" under this section for further details.

Our Controlling Shareholders and our Directors do not have interest in any business which competes or is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing.

#### Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Our executive Director, Chairman and CEO, namely Mr. Zou, is also the controlling shareholder as well as the chairman of Morris PRC. However, there will be no common management between our Company and Morris PRC other than Mr. Zou.

The table below sets forth the Board of our Group and the board of Morris PRC:

	<b>Board of our Group (excluding independent non-executive Directors)</b>	<b>Board of Morris PRC</b>
Mr. Zou Gebing	Executive Director, Chairman and CEO	Chairman
Mr. Chen Guohua	Executive Director and executive vice president	N/A
Mr. Zeng Jin	Executive Director, senior vice president and head of production and quality management	N/A
Mr. Wang Ming	Executive Director, vice president, head of import and export and head of sales and marketing	N/A

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Mr. Zou is not involved in Morris PRC's daily management, and therefore will be able to devote most of his time and attention to management of our Company. As set out in the subsection headed "Delineation of Business" under this section, there is no competition between the business of Morris PRC and that of our Group. Therefore, our Directors believe that Mr. Zou's directorship in Morris PRC will not affect the management independence of our Group.

Our Board comprises a balanced composition of independent non-executive Directors who have sufficient character, integrity and calibre for their views to carry weight, and thus can effectively exercise independent judgement. Our independent non-executive Directors have extensive experience in different professions. Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions. The fact that one of our executive Directors is a Controlling Shareholder will not affect the independence of the Board as a whole.

Furthermore, our Board's main functions include the approval of our Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. Our Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and does not allow any conflict between his duties as a director and his personal interests. If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Directors shall declare such interest to the Board at or prior to the meeting of the Board at which the relevant transactions are to be considered as soon as he becomes aware of the conflicts in accordance with the Articles, the applicable laws of the Cayman Islands and the relevant Listing Rules. The interested Directors shall also abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum in accordance with the Articles. Our Company will also have independent non-executive Directors who will be appointed to the audit, remuneration and nomination committees of our Company to monitor the operation of our Group and be impartially involved in the Board's decision-making.

In addition, our Group has a senior management team which is capable of carrying out the business decision of our Group independently. None of our senior management team has any managerial role or beneficial interest in Morris PRC or has any family relationship with our Controlling Shareholder or any of their respective close associates.

Having considered the above factors and in light of the non-competition undertakings given by our Controlling Shareholders in favour of our Group, our Directors are satisfied that they are able to perform their roles in our Company independently, and are of the view that we are capable of managing our business independently from our Controlling Shareholders and their respective close associates after Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### **Financial independence**

We have an independent financial system and finance team responsible for our own treasury functions and we have made, and will continue to make, financial decisions based on our own business needs.

As at 31 December 2013, 2014 and 2015 and 31 August 2016, the amount of total borrowings of our Group that were secured by the assets of or guaranteed by Mr. Zou and/or his associates was approximately RMB170.0 million, RMB102.6 million, RMB187.7 million and RMB200.0 million, respectively. These borrowings will either be repaid prior to the Listing, or if they are to subsist after the Listing, such guarantees and security will be released, or replaced with corporate guarantees or replacement security given by one or more members of our Group upon the Listing.

For the above reasons, our Directors are of the view that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders after the Listing and thus there is no financial dependence on them.

### **Operational independence**

Our Directors consider that our Group can operate independently from our Controlling Shareholders and their close associates. Our Group has obtained all relevant licences necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders. We do not rely on our Controlling Shareholders for operational, administration or human resources and has been carrying out our own business operations independently. In addition, our organisational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal control measures to facilitate the effective operation of our business.

We also have access to our customers and suppliers who are third parties independently from and not connected with our Controlling Shareholders and their respective close associates. We have our own sales and marketing teams which are led by our senior management, and have our own marketing, distribution and customer relationship operations which are operated independently from our Controlling Shareholders and their respective close associates.

Pursuant to the Business Transfer Agreement, Morris PRC has agreed to license all its furniture division related trademarks to our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Haining Morris Home Gallery, Haining Morris International and Mstar International Trading (HK) exclusively. Morris PRC has entered into a trademark transfer agreement with Haining Gelin Furniture on 31 December 2015 for the transfer of 12 trademarks to Haining Gelin Furniture and has submitted applications to the Trademark Office of SAIC on 26 February 2016 in relation to the transfer. Out of the 12 trademarks to be transferred to us under the Trademark Transfer Agreement, two were in the process of deregistration as at the Latest Practicable Date. Please refer to the subsection headed “B. Our

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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intellectual property rights” in Appendix IV to this prospectus for further details. Our PRC Legal Advisers confirm that the Trademark Transfer Agreement has already taken effect and there is no legal impediment to the transfer of these trademarks. As it will usually take around 1-2 years to complete the transfer of trademarks in the PRC, Morris PRC as the licensor, further entered into a Trademark Licence Agreement with the abovementioned subsidiaries of our Group as the licensees on 31 December 2015 granting royalty-free, exclusive licences of these trademarks for the period from that date up to the completion of the trademarks transfer. Please refer to the section headed “Connected Transactions” in this prospectus for further details. As (i) such licensing arrangement is a transitional arrangement resulted from the Business Transfer and will cease upon completion of the trademark transfer; and (ii) there is no legal impediment to the transfer of these trademarks as confirmed by our PRC Legal Advisers, our Directors consider that such licensing arrangement will not affect the operational independence of our Group.

On 1 January 2016, certain members of our Group entered into the Lease Agreements with Morris PRC for the lease of various premises located in Haining, Zhejiang Province for factory, direct sale store and office use for a term of ten years. Please refer to the subsection headed “Properties” under the section headed “Business” and the subsection headed “The Lease Agreements” under the section headed “Connected Transactions” in this prospectus for further details. Given that (i) the rent payable by our Group under each of the Lease Agreements represents the prevailing market rent for similar properties in neighbouring areas where the premises are located, and the terms of the Lease Agreements are fair, reasonable and on normal commercial terms as confirmed by the Independent Valuer, (ii) our Company does not consider that such premises are crucial to the operation of our Group as the production lines could be relocated at a relatively short period of time and low monetary cost, and (iii) there are various available alternative locations which are suitable for the production of sofas and sofa covers available for rent at prevailing market rate in Haining, Zhejiang Province, the PRC, our Directors are of the view that there is no undue reliance by our Group on our Controlling Shareholders in respect of the leasing arrangements.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Our Directors believe that even if our Group is required to relocate from any or all of the leased properties the relocation will not cause any material disruption on our Group's operation. We have obtained a quote from an independent logistics company with similar experience in factory relocations so as to estimate our relocation cost (including but not limited to the logistic expenses, packaging fee and labour fee) and required time, which are as follows:

No. of property	Property user*	Expected cost for relocation (RMB'000)		Expected total time for relocation (days)*
		Logistic expenses	Other expenses (labour fee, packaging fee)	
1	Zhejiang Apollo Leather Products	192	207	7
2	Haining Gelin Furniture	119		7
3 and 4	Haining Morris Home Gallery; Haining Morris International; and The Research and Development Centre of Haining Gelin Furniture	258		7

\* According to the logistics company, the relocation of the above four properties can be processed at the same time and the expected time for relocation is 7 days in total.

The total expected relocation cost amounts to approximately RMB0.8 million. The expected relocation cost and time for relocation are determined by reference to the quotation and timetable obtained by us from the logistics company. Our Directors consider that the relocation costs and any adverse impact on our Group's operation would be minimal. As disclosed above, pursuant to the Lease Agreements, Morris PRC would bear all the relocation expenses of our Company if our Company is required to move out of the leased properties upon expiry or termination of the Lease Agreements.

Furthermore, to minimise the disruption to its operations in the event of relocation, our Company expects to carry out relocation work in stages instead of ceasing all operations at once during the relocation, so as to minimise any negative impact on our Company's production output and operation.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### DEED OF NON-COMPETITION

Mr. Zou, Ms. Wu and Morris Capital, our Controlling Shareholders (the “**Covenantors**”, and each of them, a “**Covenantor**”), entered into a Deed of Non-competition in favour of our Company (for itself and as trustee for its subsidiaries) on 10 December 2016:

- (a) Subject to the terms and conditions of the Deed of Non-competition, the Covenantors irrevocably and unconditionally undertakes to and covenants with our Company (for itself and as trustee for its subsidiaries) that, during the period in which the Covenantors are subject to the provisions of the deed:
- (i) he/she/it will not, and will procure his/her/its associates and/or the companies controlled by him/her/it (other than members of our Group) not to, directly or indirectly, either on his/her/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be engaged in, invest in, acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise and whether for interest, return or otherwise) any business which is or may be in competition with the business carried on or contemplated to be carried on by any member of our Group from time to time, including but not limited to the design, manufacturing and sales of sofas, sofa covers and other furniture products (the “**Restricted Business**”);
  - (ii) if he/she/it and/or any of his/her/its close associates has received, is offered or has identified any business investment or other business opportunity relating to the Restricted Business (the “**New Business Opportunity**”), he/she/it and/or any of his/her/its close associates shall (i) immediately give a notice in writing to our Company in respect of such New Business Opportunity, setting out all reasonably necessary information for our Group to make an informed assessment; and (ii) use his/her/its/their efforts to assist our Company in acquiring such New Business Opportunity at terms and conditions no less favourable than those available to him/her/it and/or his/her/its close associates;
  - (iii) neither he/she/it nor any of his/her/its close associates, directly or indirectly, carries out, participates or is engaged in, invests in, acquires or holds (in each case whether as a shareholder, director, partner, agent, employee or otherwise and whether for interest, return or otherwise) or is otherwise involved (other than through our Group) in the Restricted Business;
  - (iv) he/she/it will provide all necessary information for our Directors (including the independent non-executive Directors) to review his/her/its compliance with and implementation of the Deed of Non-competition on an annual basis and, if necessary, make annual statements in respect of his/her/its compliance with and implementation of the Deed of Non-competition in the annual reports of our Company;



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (v) he/she/it will allow our Directors, their respective representatives and auditors to have full access to his/her/its records and/or will procure his/her/its close associates to use their best efforts to allow our Directors, their respective representatives and auditors to have full access to their records, in order for him/her/it to meet the terms and conditions of the Deed of Non-competition; and
- (vi) for so long as he/she/it or any of his/her/its close associates, either alone or as a whole, remains our Controlling Shareholder (within the meaning of the Listing Rules) or Director:
  - i. he/she/it will not participate in, carry on or invest in any project or business opportunity that competes or may compete, directly or indirectly, with the business conducted by our Group from time to time;
  - ii. he/she/it will, in accordance with the Articles of Association of our Company and the Listing Rules, declare his/her/its interests and, where required, abstain from voting at any board meeting and/or general meeting of our Company and not be counted as quorum where required, if there is any actual or potential conflict of interests;
  - iii. he/she/it and his/her/its close associates (other than our Group) will not solicit any existing or then existing employee of our Group;
  - iv. without the consent of our Company, he/she/it will not use any information pertaining to the business of our Group which may have come to his/her/its knowledge in his/her/its capacity as our Controlling Shareholder and/or Director for any purposes; and
  - v. he/she/it will procure his/her/its close associates (other than our Group) not to participate in, carry on or invest in any project or business opportunity mentioned above (except pursuant to paragraph (a) below).

The non-competition undertakings made by the Covenantors do not apply in the following circumstances:

- (a) if the information on the principal terms of the New Business Opportunity has been made available to our Group and our Directors, and our Company has confirmed that it, after review by our Directors, (including the independent non-executive Directors, provided that the resolution shall be approved by the majority of independent non-executive Directors at a meeting in the absence of Directors who have beneficial interest in the project or business relating to such New Business Opportunity) will, refuse to operate, participate in or carry on such Restricted Business relating to such New Business Opportunity, then any close associate of the Covenantors (other than our Group) has the right to participate in, carry on or invest

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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in any Restricted Business relating to such New Business Opportunity that have previously been offered to our Group, irrespective of the value of such business. Subject to the foregoing, if the Covenantors or any of his/her/its close associates has decided to directly or indirectly participate in, carry on or invest in any Restricted Business relating to such New Business Opportunity, they shall be subject to any conditions imposed by the independent non-executive Directors and shall disclose to our Company the terms under which they operate, participate or carry on such Restricted Business as soon as practicable; and

- (b) without prejudice to the principle of (a) above, the undertakings made by the Covenantors do not apply to any of the following:
  - (i) holding of shares or other securities issued by our Company or its subsidiaries;
  - (ii) where a company is a company listed on any stock exchange recognised by national laws and holds the shares or securities in any company participating in any Restricted Business, the total interest (within the meaning of Part XV of the SFO) held by each of the Covenantors and his/her/its close associates is less than 5% of the share capital of such company; and
  - (iii) the involvement, participation or engagement in the business of, and/or the holding of interests by any of the Covenantors and/or his/her/its (their) close associates in Morris PRC insofar as it does not conduct or is otherwise engaged in any Restricted Business.

The non-competition undertakings given by our Controlling Shareholders of our Company will take effect from the date on which dealings in our Shares first commence on the Main Board and will cease to have any effect upon the earlier of the date on which:

- (a) our Controlling Shareholders and his/her/its close associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as Controlling Shareholder of our Company; or
- (b) our Shares cease to be listed on the Stock Exchange (except for temporary suspension of our Shares due to any reason).

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group and our Controlling Shareholders are taken:

- (a) our Directors or, if appropriate, disinterested Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial or conflict interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the development and manufacture of sofas and is referred to our Group by our Controlling Shareholders. For this purpose, the disinterested Directors may, from time to time, engage external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;
- (b) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules;
- (c) in the event that there is a conflict of interests in the operations of our Group and our Controlling Shareholders and his/her/its associates, and in respect of any proposed contracts or arrangements between our Group and our Controlling Shareholders and its associates, any Director who is considered to be interested in a particular matter or the subject matter, shall disclose his/her interests to our Board; and
- (d) our independent non-executive Directors shall be delegated with the authority to review on yearly basis the compliance and enforcement of the Deed of Non-Competition and will disclose decisions with basis on matters reviewed in our annual report or by way of announcement to the public in addition to complying with the disclosure requirements under the Listing Rules. Our Controlling Shareholders also undertakes to provide all information necessary for the enforcement of the deed of non-competition as requested by our Company from time to time and confirm compliance with the Deed of Non-competition to our Company on an annual basis.

On the basis that all Directors (except for Mr. Zou) and senior management of our Group will not hold any position in the associated companies of our Controlling Shareholders, and that some of our executive Directors and senior management have extensive and relevant experience in the sofa production industry, our Directors are of the view that our Board will have the expertise to transact business which may potentially involve conflict of interests between our Controlling Shareholders and our Group objectively, impartially and in the best interest of our Company and our Shareholders as a whole.

Our Directors consider that the above corporate governance measures to be sufficient in managing any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

Members of our Group have entered into certain transactions with parties who are connected persons of our Company and these transactions are expected to continue on a continuing or recurring basis after Listing, thereby constituting continuing connected transactions for our Group under the Listing Rules.

### CONNECTED PERSONS

As at the Latest Practicable Date, Morris PRC was owned as to 85% by Mr. Zou and as to 15% by Ms. Wu, both being our Controlling Shareholders. Accordingly, Morris PRC is an associate of Mr. Zou and is therefore a connected person of our Company. Jennifer Convertibles, Inc. is a subsidiary of Morris PRC and is therefore a connected person of our Company.

### EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Trademark Licence Agreement

##### *Principal terms*

Pursuant to the Business Transfer Agreement and the trademark transfer agreement contemplated thereunder, our Company, Haining Gelin Furniture, Zhejiang Apollo Leather Products, Haining Morris Home Gallery, Haining Morris International and Mstar International Trading (HK) as licensees (the “**Licensees**”) entered into trademark licence agreement (the “**Trademark Licence Agreement**”) with Morris PRC (the “**Licensor**”) on 31 December 2015. Pursuant to the Trademark Licence Agreement, the Licensor grants a royalty-free, exclusive licence to the Licensees for the use of 12 trademarks (the “**Licensed Trademarks**”) on their related products. As confirmed by the PRC Legal Advisers, the Trademark Licence Agreement and the licence granted to the Licensees to use the Licensed Trademarks do not violate any applicable PRC laws and regulations.

The Trademark Licence Agreement is effective from 31 December 2015 until the completion of transfer by the Licensor of all such licensed trademarks to Haining Gelin Furniture, but no later than three years from the effective date. In the event that the transfer cannot be completed before the three-year term expires, the Licensor and the Licensees shall resolve the matter by negotiation.

During the trademark licence period, the Licensor undertakes to be responsible for all legal and economic liabilities arising out of any trademark infringement claims asserted by third parties.

For details of the Licensed Trademarks, please see subsection headed “5. Further information about our Business – B. Our intellectual property rights – (a) Trademarks” in Appendix IV to this prospectus. For the details of the transfer of the Licensed Trademarks, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

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## CONNECTED TRANSACTIONS

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### Listing Rules implications

Since the licensed trademarks have been licensed to us on a royalty-free basis and the Trademark Licence Agreement is a transitional arrangement resulted from the Business Transfer, our Directors (including the independent non-executive Directors) are of the opinion that the Trademark Licence Agreement is on normal commercial terms or better. The transactions contemplated under the Trademark Licence Agreement will constitute *de minimis* continuing connected transactions under Rule 14A.76(1) of the Listing Rules upon Listing which will be fully exempt from shareholders' approval, annual review and all disclosure requirements.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the following transactions will constitute continuing connected transactions for our Company which will be exempt from the circular (including independent financial advice) and independent shareholders' approval requirement but will be subject to the announcement and annual reporting requirements under Chapter 14A of the Listing Rules.

#### The Lease Agreements

##### *Principal terms*

Pursuant to the Business Transfer Agreement, Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International each as tenant entered into the following respective lease agreements with Morris PRC as landlord on 1 January 2016 (the "Zhejiang Apollo Leather Products Lease Agreement", the "Haining Gelin Furniture Lease Agreement", the "Haining Morris Home Gallery Lease Agreement" and the "Haining Morris International Lease Agreement", individually, a "**Lease Agreement**", and collectively, the "**Lease Agreements**") for the lease of various premises located in Haining, Zhejiang Province, PRC (the "**Lease Properties**") for factory, direct sale store and office use, the terms of which are as follows:

Lease Agreement	Term	Tenant	Landlord	Leased area (sq. m.)	Rent per annum (RMB)
Zhejiang Apollo Leather Products Lease Agreement	1 January 2016 to 1 January 2026 (both days inclusive)	Zhejiang Apollo Leather Products	Morris PRC	40,226.08	2,896,277.76
Haining Gelin Furniture Lease Agreement	1 January 2016 to 1 January 2026 (both days inclusive)	Haining Gelin Furniture	Morris PRC	19,990.35	1,439,305.20

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## CONNECTED TRANSACTIONS

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Lease Agreement	Term	Tenant	Landlord	Leased area (sq. m.)	Rent per annum (RMB)
Haining Morris Home Gallery Lease Agreement	1 January 2016 to 1 January 2026 (both days inclusive)	Haining Morris Home Gallery	Morris PRC	39,312.00	2,830,464.00
Haining Morris International Lease Agreement	1 January 2016 to 1 January 2026 (both days inclusive)	Haining Morris International	Morris PRC	1,000.00	72,000.00

Each of the Lease Agreements has a term of ten years commencing from 1 January 2016 to 1 January 2026. Pursuant to the respective Lease Agreements, Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International (as the case may be) (i) could renew the Lease Agreements unilaterally upon expiry by three months' prior notice; (ii) has the right of first refusal if the Lease Properties are offered for sale; (iii) could terminate the Lease Agreements unilaterally if they consider that the Lease Properties cannot fulfill their production and operational requirements; and (iv) Morris PRC would bear all the relocation expenses if they are required to move out of the Lease Properties upon expiry or termination of the Lease Agreements.

HKFRS 16 *Leases* will supersede HKAS 17 *Leases* and other standards on leases under HKFRSs and is effective from 1 January 2019. Under HKFRS 16 lessees no longer distinguish between a finance lease and an operating lease. Instead, for virtually all lease contracts the lessee will recognise a lease liability reflecting future lease payments and a "right-of-use" asset. Lessees recognise interest expense on the lease liability and a depreciation charge on the "right-of-use" asset. The Group is currently assessing the impact of this standard upon adoption.

### ***Pricing policy***

The rent under each of the Lease Agreements is determined at arm's length and reflects the market rents. As confirmed by the Independent Valuer who is an Independent Third Party, (i) the rent charged by Morris PRC under each of the Lease Agreements represents the prevailing market rent for similar properties in neighbouring areas at which the Lease Properties are located; and (ii) the terms of the Lease Agreements are fair, reasonable and on normal commercial terms.

### ***Historical transaction amounts***

Our Group did not enter into any lease agreement in respect of the Lease Properties for the years ended 31 December 2013, 2014 and 2015 since Morris PRC and our Group were operated as a single unit before the Business Transfer. As such, our Group had occupied the Lease Properties without payment of rent for the years ended 31 December 2013, 2014 and 2015. For the eight months ended 31 August 2016, the aggregate rent paid by our Group to Morris PRC was approximately RMB4.8 million.

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## CONNECTED TRANSACTIONS

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### *Annual caps*

The rent per annum payable under each of the Lease Agreements shall not exceed the annual caps set out below:

Lease Agreements	Year ending 31 December		
	2016 (RMB)	2017 (RMB)	2018 (RMB)
Zhejiang Apollo Leather Products Lease Agreement	2,896,277.76	2,896,277.76	2,896,277.76
Haining Gelin Furniture Lease Agreement	1,439,305.20	1,439,305.20	1,439,305.20
Haining Morris Home Gallery Lease Agreement	2,830,464.00	2,830,464.00	2,830,464.00
Haining Morris International Lease Agreement	<u>72,000.00</u>	<u>72,000.00</u>	<u>72,000.00</u>
<b>Total:</b>	<u><u>7,238,046.96</u></u>	<u><u>7,238,046.96</u></u>	<u><u>7,238,046.96</u></u>

### *Basis of annual caps*

Our Directors confirm that the annual caps in respect of each of the Lease Agreements are determined on normal commercial terms and with reference to the rent per annum payable under the Lease Agreements.

### *Listing Rules implications*

Since the highest relevant percentage ratio under the Listing Rules in respect of the transactions contemplated under the Lease Agreements is expected to be, on an annual basis, less than 5%, the transactions will be exempt pursuant to Rule 14A.76(2) of the Listing Rules from the circular (including independent financial advice) and independent shareholders' approval requirement but will be subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

### **Jennifer Convertibles Sales Agreement**

#### *Principal terms*

Mstar International Trading (HK) entered into a sales agreement with Jennifer Convertibles, Inc. (the "**Jennifer Convertibles Sales Agreement**") on 1 January 2016, pursuant to which our Group agreed to supply sofas to Jennifer Convertibles, Inc.

The Jennifer Convertibles Sales Agreement is valid until either (i) the expiry of a period of three years or (ii) the date on which Jennifer Convertibles, Inc. ceases to be our connected person, whichever comes earlier. Both parties to the agreement may negotiate to extend the agreement for a further term of three years within two months before the expiry of the three-year term of the agreement unless the agreement is terminated due to Jennifer Convertibles, Inc. ceasing to be our connected person.

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## CONNECTED TRANSACTIONS

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### *Pricing policy*

The price of the sales of sofas by our Group to Jennifer Convertibles, Inc. shall be determined on an arm's length basis with reference to (i) the average selling price of the products of comparable type and model sold to Independent Third Parties in the twelve-month period prior to the relevant transaction; or (ii) where there is no such average selling price available, any most recent available sale price of products of comparable type and model sold to the Independent Third Parties; or (iii) the prevailing market price for the sale of products of comparable type and model, which should be in any event no less favourable to our Group than is available to Independent Third Parties.

### *Historical transaction amounts*

The historical transaction amounts of sales by our Group to Jennifer Convertibles, Inc. are set out below:

	<b>Year ended 31 December</b>			<b>Eight months ended</b>	
				<b>31 August</b>	
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total revenue	70,671	34,135	31,609	19,190	30,241

Sales to Jennifer Convertibles, Inc. increased by 57.6% from approximately RMB19.2 million for the eight months ended 31 August 2015 to approximately RMB30.2 million for the eight months ended 31 August 2016, which was primarily attributable to the substantial increase in demand from Jennifer Convertibles, Inc. due to its double-digit growth in sales in the first half of 2016. Up to the Latest Practicable Date, our sales to Jennifer Convertibles, Inc. amounted to approximately RMB30.2 million. Our Directors confirm that our Group will cease to supply products to Jennifer Convertibles, Inc. this year when our sales to Jennifer Convertibles, Inc. reach the annual cap for the year ending 31 December 2016.

### *Annual caps*

The maximum aggregate annual amount of sales by our Group to Jennifer Convertibles, Inc. for the years ending 31 December 2016, 2017 and 2018 shall not exceed the caps set out below:

	<b>Year ending 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Total revenue	32,000	32,000	32,000



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## CONNECTED TRANSACTIONS

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### *Basis of annual caps*

In determining the above annual caps, our Directors have considered (i) the historical transaction amounts of sales by our Group to Jennifer Convertibles, Inc., (ii) the prevailing market prices of sofas of comparable type and model, and (iii) our Group's anticipated supply of sofas to Jennifer Convertibles, Inc. and under the assumption that (1) our supply to Jennifer Convertibles, Inc. will generally maintain stable for the three years ending 31 December 2018; and (2) there will not be material fluctuation in market price of the relevant sofas for the three years ending 31 December 2018.

### *Listing Rules implications*

Since the highest relevant percentage ratio under the Listing Rules in respect of the transactions contemplated under the Jennifer Convertibles Sales Agreement is expected to be, on an annual basis, less than 5%, the transactions will be exempt pursuant to Rule 14A.76(2) of the Listing Rules from the circular (including independent financial advice) and independent shareholders' approval requirement but will be subject to the announcement, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

### **DIRECTORS' VIEW**

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions described in this section, which have been and shall be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms and are fair and reasonable and in the interests of our Company and shareholders as a whole. Our Directors, including the independent non-executive Directors, are of the view that the proposed annual caps for the non-exempt continuing connected transaction described in this section are fair and reasonable and in the interests of our Company and shareholders as a whole. Having considered (i) the proposed use of the Lease Properties; (ii) that the operation of the Group is expected to be longer than three years; (iii) that long-term nature of the Lease Agreements will prevent the occurrence of relocation costs and any unnecessary initial investment costs; and (iv) that lease agreements of short duration may give rise to uncertainties on the stability of production and be disadvantageous to the Group from commercial perspective, our Directors confirm that the duration of the Lease Agreements, which is longer than three years, is required and it is normal business practice for the Lease Agreements to be of such duration as this would minimise the risk of potential disruption to the Group's business operations.

### **CONFIRMATION FROM THE SOLE SPONSOR**

The Sole Sponsor is of the view that the continuing connected transactions as described in this section have been and shall be entered into (a) in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of our Company and shareholders as a whole, and that the proposed annual caps for these transactions referred to in this section are fair and reasonable and in the interests of our Company and shareholders as a whole; and (b) each of the Lease Agreements was entered into to minimise the risk of potential disruption to the business operations of our Group and confirm that it is normal business practice for our Company to enter into the Lease Agreements of a term longer than three years.

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## CONNECTED TRANSACTIONS

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### APPLICATION FOR WAIVER

In respect of the transactions described under the subsection headed “Non-exempt Continuing Connected Transactions” under this section, as one or more of the applicable percentage ratios (other than the profits ratio) under the Listing Rules is expected to be more than 0.1% but less than 5% on an annual basis, such transactions are subject to the announcement requirement as set out in Rule 14A.35 of the Listing Rules, annual reporting requirements as set out in Rules 14A.49 and 14A.71 of the Listing Rules and the annual review requirements as set out in Rules 14A.55 to 14A.59 and 14A.71(6) of the Listing Rules.

As described above, we expect the non-exempt continuing connected transaction to be carried out on a continuing basis and to extend over a period of time. Our Directors therefore consider that strict compliance with the announcement requirements under the Listing Rules would be impractical and unduly burdensome and would impose unnecessary administrative costs upon us.

Accordingly, we have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement relating to the continuing connected transactions under Rules 14A.35 of the Listing Rules in respect of the transaction described under the subsection headed “Non-exempt Continuing Connected Transactions” under this section.

We will, however, comply at all times with other applicable provisions of the Listing Rules in respect of these non-exempt continuing connected transactions including without limitation Rules 14A.34, 14A.49, 14A.51 to 14A.59 and 14A.71.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as at the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

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## FINANCIAL INFORMATION

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### OVERVIEW

We principally engage in the manufacturing of sofas and sofa covers in the PRC with an integrated design, manufacturing, sales and marketing operation. We mainly export “Morris Holdings Limited” branded sofas to customers in the U.S. as well as sell “Morris Zou” branded sofas and other furniture products domestically through our direct sale stores in Zhejiang Province, the PRC. According to the Euromonitor Report, we are one of the top three PRC upholstered sofa manufacturers in terms of export value to the U.S. in 2015.

We sell a wide range of sofas including stationary sofas and motion sofas, with or without smart home features, under the brand “Morris Holdings Limited” and sofa covers predominantly to overseas markets, including the U.S., Canada, United Kingdom, Australia, Ireland and Korea. Our customers of sofas include some of the largest furniture retail chains and retail warehouse clubs located in the U.S. Such sofas are mainly targeted at overseas consumers who tend to have greater demands regarding the quality and functionality of sofas. The U.S. market is our key export market. Sales to the U.S. market accounted for more than 90% of our revenue for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016.

Our manufacturing facilities are located in Haining, Zhejiang Province, PRC. As at the Latest Practicable Date, we operated 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. Our production facilities in PRC occupied a combined area of 99,529 sq.m. of land and were capable of producing approximately 892,000 pieces of sofas, 1,613,000 pieces of sofa covers and 11,000 pieces of other furniture products per year.

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our revenue was approximately RMB984.0 million, RMB824.7 million, RMB926.5 million and RMB581.6 million, respectively, and our net profits were approximately RMB33.5 million, RMB24.4 million and RMB83.1 million and RMB40.1 million, respectively.

### RECENT DEVELOPMENT

From 1 September 2016 and up to the Latest Practicable Date, our production capacity generally remained at a similar level as that of the year ended 31 December 2015. As at the Latest Practicable Date, we were still in the preparation stage of setting up our production facility in Cambodia.

Our Directors consider that the effect of the recent slowdown in global economy on our Group’s financial position is minimal, given that the economy of the U.S. has maintained relatively stable with its gross domestic product increased by 1.8% in the third quarter of 2016 compared to the second quarter of 2016, and its disposable personal income increased by 0.2% in October 2016 compared to September 2016, according to the Bureau of Economic Analysis of the U.S. Department of Commerce. For the eleven months ended 30 November 2016, the

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## FINANCIAL INFORMATION

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total export value of our sofas and sofa covers decreased slightly by approximately 3.7% as compared to the same period last year. The U.S. dollar continued to appreciate against Renminbi in the period from September to November of 2016 with the daily mid-point ranged from a low of US\$1.00 to RMB6.6513 on 22 September 2016 to a high of US\$1.00 to RMB6.9168 on 25 November 2016 as compared to a low of US\$1.00 to RMB6.4565 on 3 May 2016 to a high of US\$1.00 to RMB6.6971 on 19 July 2016 for the eight months ended 31 August 2016 as announced by the PBOC. The U.S. dollar further appreciated against Renminbi in December 2016, with the daily mid-point price ranged from a low of US\$1.00 to RMB6.8575 on 6 December 2016 to a high of US\$1.00 to RMB6.9508 on 16 December 2016. We consider that the appreciation of the U.S. dollar against Renminbi would have a positive effect on our business, operations and financial results as (i) over 90% of our sales are made to the U.S. market and settled in U.S. dollars; (ii) most of our raw materials are procured within the PRC and settled in Renminbi; and (iii) majority of our expenses for our operations such as selling and administrative expenses are incurred in the PRC and settled in Renminbi.

In order to fulfill the remaining purchase orders placed by Customer C to Morris PRC from April 2015 to November 2015 that were unable to be assigned to our Group upon completion of the Business Transfer on 31 December 2015, Haining Gelin Furniture, Zhejiang Apollo Leather Products and Haining Morris Home Gallery had appointed Morris PRC as an agent in providing export businesses on behalf of them from 31 December 2015 to 30 June 2016. Up to mid June 2016, all such orders from Customer C were completed and delivered. Morris PRC ceased to make any receipts and payments on behalf of our Group after collection of related sales receipts from Customer C.

From 1 January 2016 and up to the Latest Practicable Date, six of our research and development projects were approved by Zhejiang Provincial Economic and Information Technology Commission and 15 were approved by Science Technology Department of Zhejiang Province as provincial-level research and development projects.

We currently expect that our net profit for the year ending 31 December 2016 will decrease as compared to that for the year ended 31 December 2015, which was primarily due to (i) the non-recurring Listing expenses of approximately HK\$18.5 million recorded for the eight months ended 31 August 2016 and approximately RMB4.2 million expected to be charged from 1 September 2016 to 31 December 2016 (assuming an Offer Price of HK\$1.18 per Share, being the mid-point of the indicated Offer Price range between HK\$1.05 and HK\$1.31, and assuming that the Over-allotment Option is not exercised), all of which will be Listing expenses to be recognised as administrative expenses in our consolidated statement of profit or loss and comprehensive income in 2016; and (ii) a gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) of approximately RMB11.3 million in 2015 whereas no such gain will be recorded in 2016.

### **BASIS OF PRESENTATION**

Pursuant to the Reorganisation as described in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, our Company became the holding company of the companies now comprising our Group. The companies now comprising our

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## FINANCIAL INFORMATION

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Group and the furniture division of Morris PRC were under common control of Mr. Zou and Ms. Wu immediately before and after the completion of the Reorganisation. Accordingly, our financial information has been prepared on a consolidated basis by applying the principles of merger method of accounting as if the transfer of the furniture division of Morris PRC and the Reorganisation had been completed at the beginning of the Track Record Period or since the date when the respective subsidiaries were incorporated/established.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period include the results and cash flows of all the companies and business now comprising our Group from the earliest date presented or since the date when the respective subsidiaries and business were incorporated/established or first come under the common control of our Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as at the date of each reporting period of the Track Record Period have been prepared to present the assets and liabilities of the subsidiaries and business using the existing book values from our Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

### FINANCIAL INFORMATION OF THE FURNITURE DIVISION OF MORRIS PRC

The financial results of the subsidiaries now comprising our Group and the financial results of the furniture division of Morris PRC have been consolidated in accordance with HKFRSs, which include all HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants.

The furniture division of Morris PRC did not exist as a legal or statutory entity and no separate statutory accounts were therefore prepared. Accordingly, the financial information of the furniture division of Morris PRC have been prepared to reflect the historical results of operations and the historical assets and liabilities of the furniture division of Morris PRC. The furniture division of Morris PRC historically acted as the import and export vehicle of our Group's business since the export business has been set up and customers/suppliers relationships has been established by Morris PRC. Please refer to the section headed "History, Reorganisation and Corporate Structure" in this prospectus for further details. During the three years ended 31 December 2015, the functions of the furniture division of Morris PRC had gradually transferred to the companies now comprising our Group.

The furniture division of Morris PRC was strategically complementary to our Group as the business activities conducted by the furniture division were essential to the operation of our Group prior to the completion of the Business Transfer. The Business Transfer took place gradually during the three years ended 31 December 2015 as this involved, amongst other things, the negotiation with customers, suppliers, the PRC Customs to replace Morris PRC as the contractual party to companies now comprising our Group. Only after the furniture business functions of Morris PRC had transferred to companies now comprising our Group, our Group can operate the furniture business independently. The completion of such Business

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## FINANCIAL INFORMATION

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Transfer pursuant to the Business Transfer Agreement took place on 31 December 2015, on which the assets and liabilities of Morris PRC that will not be transferred to our Group after the completion of the Business Transfer was accounted for as a deemed distribution to Mr. Zou and Ms. Wu. Please refer to the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section for further details.

The furniture division was a separate reporting unit within the Morris PRC. The customers and suppliers of the furniture division can be clearly delineated from those of other units of Morris PRC. Separate books and records are maintained for the furniture division of Morris PRC. Assets, liabilities, revenues and key expenditures that could be identified as directly attributable to the furniture division were recorded in the books and records of the furniture division of Morris PRC. Where assets and costs were shared with other business divisions of Morris PRC, the allocations were made on specifically identifiable basis that are considered as reasonable by the Directors. Set out below are the details of the basis for segregation of the assets, liabilities, revenue and expenses between the furniture division and non-furniture division of Morris PRC.

### **Buildings and prepaid land lease payments**

The allocation of the net carrying amount of the land and buildings to the furniture division of Morris PRC has been performed based on the ratio of the gross floor area used by the furniture division to the total gross floor area of the buildings.

### **Depreciation of buildings and amortisation of prepaid land lease payments**

The depreciation expenses of buildings and amortisation expenses of prepaid land lease payments are allocated to the furniture division of Morris PRC based on the ratio of the gross floor area used by the furniture division to the total gross floor area of the buildings.

### **Property tax and land use tax**

Property tax and land use tax are allocated to the furniture division of Morris PRC based on the ratio of the gross floor area used by the furniture division to the total gross floor area of the buildings.

### **Cost of human resources and other administrative staff**

Human resources and other administrative staff shared the work and responsibilities among all companies owned by Morris PRC prior to the Reorganisation (the “**Former Group**”). In respect of the human resources staff, the staff cost was allocated based on the ratio of the number of staff worked in companies of the Former Group engaged in the furniture business to the total number of staff worked in the Former Group. In respect of the administrative staff cost, the staff cost was allocated based on the ratio of the revenue generated by companies of the Former Group engaged in the furniture business to the total revenue generated by the Former Group.

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## FINANCIAL INFORMATION

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### DEEMED DISTRIBUTION TO MR. ZOU AND MS. WU

Subsequent to the completion of the Business Transfer on 31 December 2015, the functions formerly operated by the furniture division of Morris PRC are carried out by subsidiaries now comprising our Group. The assets and liabilities remained in the furniture division of Morris PRC after the Business Transfer was deemed distributed in form of dividend distribution in specie to Mr. Zou and Ms. Wu:

	<i>Notes</i>	<b>31 December 2015</b>
		<i>RMB'000</i>
Net assets distributed:		
Property, plant and equipment	<i>(i)</i>	26,558
Prepaid land lease payments	<i>(ii)</i>	17,329
Long term prepayment		23
Inventories	<i>(iii)</i>	109,233
Trade and bills receivables	<i>(iv)</i>	45,009
Prepayments, deposits and other receivables	<i>(v)</i>	35,773
Due from related parties	<i>(vi)</i>	734,446
Trade and bills payables	<i>(vii)</i>	(507,086)
Other payables and accruals	<i>(viii)</i>	(26,641)
Due to related parties	<i>(ix)</i>	(33,660)
Due to group companies, net	<i>(x)</i>	(86,896)
		314,088

*Notes:*

- (i) Mainly represented premises leased by us in Haining, Zhejiang Province in the PRC. On 1 January 2016, our Group has entered into production facilities rental agreements with Morris PRC for the use of the production facilities from 1 January 2016 to 1 January 2026.
- (ii) Represented the leasehold land on which the premises mentioned in note (i) above are erected.
- (iii) Inventories mainly represented raw materials and work-in-progress imported by Morris PRC in transit from suppliers, materials placed in a subcontractor for processing and finished goods in transit to customers.
- (iv) Represented trade receivables from third party customers and bills receivable arising from intra-group sales.
- (v) Represented mainly VAT refundable in relation to the exports of furniture products which is only collectible by Morris PRC and prepayments to suppliers and other utilities providers.
- (vi) Represented mainly the current account with non-furniture division of Morris PRC. As the furniture division of Morris PRC did not operate a bank or cash account or hold any cash equivalents during the three years ended 31 December 2015, all cash payments and cash receipts were made by the treasury function within the non-furniture division of Morris PRC on behalf of the furniture division.
- (vii) Represented mainly trade payables arising from purchases of raw materials and bills payables in respect of intra-group purchases.

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- (viii) Represented mainly the accruals for utilities and carriage outward expenses, VAT and related surcharge payable.
- (ix) Represented current accounts with related companies, which are controlled by the Mr. Zou and Ms. Wu.
- (x) Represented current accounts with companies now comprising our Group that mainly arising from the intra-group sales and purchases transactions.

These assets and liabilities that were deemed distributed and did not pass from Morris PRC to our Group primarily due to that: (i) our Directors consider that the ownership of the premises that houses our Group's production lines is not crucial to the operation of our business and it would not be commercially viable for our Group to acquire these premises from Morris PRC as the substantial capital expenditure required would have an adverse impact on our Group's cash flow and return on equity, which would not be in the best interests of maximising Shareholders' value. Besides, on 1 January 2016, certain subsidiaries of our Group entered into the Lease Agreements with Morris PRC for the lease of our production premises on a long term basis of 10 years with lease term till 1 January 2026. As such, the deemed distribution of such premises would not have any impact on our business operation; (ii) the assignment of rights to collect the receivables and the obligation to settle payables which were deemed distributed requires the consents and approval of third parties including customers, suppliers, banks, and/or regulatory bodies. As those orders which had given rise to such trade receivables have already been completed and related products have already been delivered to the customers, the particulars of the orders, including supplier's information, lead time for delivery and credit period, have been recorded in the sales and accounting systems of such customers. Despite our repeated requests and demands, we have still not obtained consents from related customers to the transfer of the trade receivables from Morris PRC to our Company. In addition, those orders which had given rise to such trade payables have already been completed by related suppliers and their related materials procured by us have already been delivered to the furniture division of Morris PRC, the particulars of the orders, including customer's information, lead time for delivery and credit period, have already been recorded in the sales and accounting systems of such suppliers. Despite our repeated requests and demands, we have still not obtained consents from related suppliers to the transfer of the trade payables from Morris PRC to our Company. Those bills receivables/payables were issued by third party banks and cannot be altered or cancelled once issued; (iii) prepayments, deposits and other receivables mainly consists of VAT refund arisen from exports of furniture products before the Business Transfer which was only collectible by Morris PRC and therefore it was necessary to deem distribute such amount as at 31 December 2015; (iv) inventories that were deemed distributed were imported or processed from materials imported by Morris PRC as importer registered under the PRC Customs through its import and export customs declaration certificate. Pursuant to the relevant laws and regulations in the PRC, importer must strictly control and monitor the imported materials for processing and circulation, sell or export the same via the importer's custom practical manual after processing and write off the same via the relevant custom practical manual after processing. To comply with the relevant customs policies, these inventories that had been imported by Morris PRC were retained in Morris PRC and it was necessary to deem distribute them as at 31 December 2015; and (v) our Directors believe that there was no difference to our Group whether to assign the current account balances of the furniture division of Morris PRC to companies now comprising the Group or directly distribute to Mr. Zou and Ms. Wu using dividend distribution in specie because these amounts due from/to related parties mainly represented amounts due from the non-furniture division of Morris PRC to our Group.



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The assets and liabilities deemed distributed in form of dividend distribution in specie to Mr. Zou and Ms. Wu do not constitute a business on their own for the reasons that: (i) the personnel carrying on the furniture division of Morris PRC has been transferred from Morris PRC to companies now comprising the Group. Such transfer includes but not limited to the transfers of employee labour contracts, social insurance and housing fund payment relationships; (ii) all customers' and suppliers' business relationship of the furniture division of Morris PRC which enable the Group to operate its furniture business has been transferred from Morris PRC to companies now comprising the Group; (iii) the furniture division related patents, patent application rights and trademarks have been transferred from Morris PRC to companies now comprising the Group; and (iv) the upholstered sofas and sofa covers related intellectual property rights have been licensed to companies now comprising the Group by Morris PRC.

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The following table sets out the consolidated statements of financial position of our Group immediately prior to and after the deemed distribution of Morris PRC's furniture division to Mr. Zou and Ms. Wu on 31 December 2015:

	Immediately prior to the deemed distribution <i>RMB'000</i>	Deemed distribution <i>RMB'000</i>	Reclassification adjustment <i>RMB'000</i> <i>(note)</i>	Immediately after the deemed distribution <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant & equipment	67,138	(26,558)	–	40,580
Prepaid land lease payments	24,190	(16,881)	–	7,309
Long term prepayment	23	(23)	–	–
Deferred tax assets	3,665	–	–	3,665
<b>Total non-current assets</b>	<b>95,016</b>			<b>51,554</b>
<b>CURRENT ASSETS</b>				
Inventories	310,066	(109,233)	–	200,833
Trade and bills receivables	328,821	(45,009)	–	283,812
Prepaid land lease payments	604	(448)	–	156
Prepayments, deposits and other receivables	87,972	(35,773)	–	52,199
Due from related parties	745,108	(734,446)	182,535	193,197
Available-for-sale investment	26,000	–	–	26,000
Pledged deposits	96,477	–	–	96,477
Cash and cash equivalents	33,131	–	–	33,131
<b>Total current assets</b>	<b>1,628,179</b>			<b>885,805</b>
<b>CURRENT LIABILITIES</b>				
Trade and bills payables	983,549	(507,086)	–	476,463
Other payables and accruals	84,579	(26,641)	–	57,938
Due to related parties	33,668	(33,660)	95,639	95,647
Due to group companies, net	–	(86,896)	86,896	–
Interest-bearing bank borrowings	198,116	–	–	198,116
Warranty provision	3,915	–	–	3,915
Income tax payables	30,116	–	–	30,116
<b>Total current liabilities</b>	<b>1,333,943</b>			<b>862,195</b>
<b>NET CURRENT ASSETS</b>	<b>294,236</b>			<b>23,610</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>389,252</b>			<b>75,164</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	107	–	–	107
<b>Net assets</b>	<b>389,145</b>			<b>75,057</b>
<b>EQUITY</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	1	–	–	1
Reserves	389,144	(314,088)	–	75,056
<b>Total equity</b>	<b>389,145</b>			<b>75,057</b>

*Note:* The adjustment represents the reclassification of the intra-group balances deemed distributed as the furniture division of Morris PRC was no longer within our Group after completion of the deemed distribution to Mr. Zou and Ms. Wu. Balances with Morris PRC are no longer eliminated on consolidation and classified under due from/to related parties.

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Our Group's consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows for the three years ended 31 December 2015 have been consolidated by combining the financial results and cash flows of the subsidiaries now comprising our Group and the financial results of the furniture division of Morris PRC as if the furniture division of Morris PRC existed as a member of our Group, with the elimination in full of all intra-group transactions, intra-group cash flows and our Group members' transactions and cash flows with the furniture division of Morris PRC. Since the deemed distribution took place on 31 December 2015, the deemed distribution to Mr. Zou and Ms. Wu did not have any impact on our Group's consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows for the three years ended 31 December 2015.

Subsequent to the deemed distribution to Mr. Zou and Ms. Wu on 31 December 2015, our Group had the following transactions with Morris PRC involving the assets which were deemed distributed on 31 December 2015: (i) Lease Agreements entered into on 1 January 2016 for the Lease Properties, details of which were disclosed in the section headed "Connected Transactions" in this prospectus; and (ii) our purchase of processed leather and sofas from Morris PRC, which has been ceased since June 2016 and details of which were disclosed in the subsection headed "Raw Materials and Suppliers" under the section headed "Business" in this prospectus. Given that (i) the rentals paid/payable for the Lease Properties; and (ii) the cost for the purchase of processed leather and sofas from Morris PRC have been and will be reflected in our consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows, the deemed distribution to Mr. Zou and Ms. Wu did not and will not have any impact on our Group's consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows after the deemed distribution on 31 December 2015.

The following table sets out the balances of the assets and liabilities being deemed distributed to Mr. Zou and Ms. Wu as at 31 December 2015, and the subsequent balances of such assets and liabilities as at the Latest Practicable Date according to the internal record of Morris PRC, respectively.

	<i>Notes</i>	<b>31 December 2015</b>	<b>Latest Practicable Date</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Net assets distributed:			
Property, plant and equipment	<i>(i)</i>	26,558	23,265
Prepaid land lease payments	<i>(ii)</i>	17,329	16,918
Long term prepayment		23	23
Inventories	<i>(iii)</i>	109,233	–
Trade and bills receivables	<i>(iv)</i>	45,009	–
Prepayments, deposits and other receivables	<i>(v)</i>	35,773	–
Due from related parties	<i>(vi)</i>	734,446	4,797
Trade and bills payables	<i>(vii)</i>	(507,086)	–
Other payables and accruals	<i>(viii)</i>	(26,641)	–
Due to related parties	<i>(ix)</i>	(33,660)	–
Due to group companies, net	<i>(x)</i>	(86,896)	–
		<u>314,088</u>	<u>45,003</u>

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Our Directors confirmed that the outstanding balances as at the Latest Practicable Date of the assets and liabilities being deemed distributed to Mr. Zou and Ms. Wu as at 31 December 2015, except for property, plant and equipment, prepaid land lease payments and amount due from related parties will be fully settled upon Listing.

*Notes:*

- (i) These property, plant and equipment mainly represented premises leased by us in Haining, Zhejiang Province in the PRC. On 1 January 2016, our Group entered into the Lease Agreement with Morris PRC for the use of the production facilities from 1 January 2016 to 1 January 2026 with annual rent of approximately RMB7.2 million. Please refer to the subsection headed “Non-exempt continuing connected transactions” under the section headed “Connected Transactions” in this prospectus for further details. The decrease in net book value of property, plant and equipment was attributable to the depreciation expenses charged for the corresponding period.
- (ii) This represented the leasehold land on which the premises mentioned in note (i) above are erected. The decrease in prepaid land lease payments was attributable to the amortization cost charged for the corresponding period.
- (iii) Inventories was realised by (i) sale of processed leather and sofas in-transit to our Group, details of which were disclosed in the section headed “Business” in this prospectus, with sales amount of approximately RMB55.4 million and Morris PRC recorded a gross profit of approximately RMB5.4 million. Details of purchase prices and terms of the orders with Morris PRC are disclosed in the section headed “Business” in this prospectus; and (ii) sale of semi-processed leather to independent third parties with sales amount of approximately RMB69.7 million and Morris PRC recorded a gross profit of approximately RMB4.2 million for the corresponding period. The selling prices of the abovementioned sales were determined after arm’s length negotiations.
- (iv) Trade and bills receivables was realised by settlement by cash at their book values.
- (v) Prepayments, deposits and other receivables was mainly realised by settlement by cash at their book values.
- (vi) The amount due from related parties as at 31 December 2015 represented mainly the current account with non-furniture division of Morris PRC. Subsequent to the deemed distribution to Mr. Zou and Ms. Wu, such current account with non-furniture division of Morris PRC was realised by internally eliminated within the books of Morris PRC.
- (vii) Trade and bills payables was settled by cash at their book values.
- (viii) Other payables and accruals was settled by cash at their book values for the corresponding period.
- (ix) The amount due to related parties as at 31 December 2015 represented current accounts with related companies, which are controlled by Mr. Zou and Ms. Wu. Subsequent to the deemed distribution to Mr. Zou and Ms. Wu, such current accounts with related companies were realised by settlement by cash at their book values.
- (x) The net amount due to Group companies was realised by settlement by cash at their book values.

## FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected, and which we expect will continue to affect, our business, financial condition, results of operations and prospects. The following should be read in conjunction with the section headed “Risk Factors” in this prospectus and the Accountants’ Report included as Appendix I to this prospectus.

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### **Economy and consumer demand for our products in the U.S.**

We sell a wide range of sofas and sofa covers to overseas markets. Our results of operations have been and will continue to be influenced by consumer demand for various sofas, in particular, from the U.S., our key export market. For the Track Record Period, most of our five largest customers are located in the U.S.. Sales to the U.S. market accounted for more than 90% of our revenue for the three years ended 31 December 2015 and the eight months ended 31 August 2016. Our financial performance therefore depends significantly on general economic conditions in the U.S. and their impact on consumer confidence and spending. Economic factors in the U.S., such as the unemployment level, oil and energy costs, interest rates, conditions in the housing markets, financial market volatility, recession, and other factors affecting consumer spending behaviour such as acts of terrorism or major epidemics could reduce demand for our products. As described in the Euromonitor Report, consumer spending per household grew at a CAGR of approximately 2.7% from 2010 to 2014.

### **Product mix and customer mix**

Our results of operations and financial conditions are impacted by our product mix and customer mix. We adjusted our product mix from time to time in response to the changing market condition and consumer needs. We currently have a diversified product portfolio consisting of sofas, sofa covers and other furniture products. Our sofas can be categorised into stationary sofas and motion sofas. Some of our sofas are equipped with certain smart home features to combine smart technology with traditional sofa design.

We believe that our past success and future growth depends, to a certain extent, on our ability to maintain our existing customers. We have established stable relationships with our customers. Our customers of sofas include some of the largest furniture retail chains and retail warehouse clubs located in the U.S. Our relationship with the majority of our top customers during the Track Record Period predates the Track Record Period.

### **Production capacity and efficiency**

In order to meet our customer demand, we aim to ensure that we have sufficient production capacity, which affects our revenue, production efficiency and our profitability. As at 31 August 2016, we have three production facilities in Haining, Zhejiang Province. These production facilities occupy combined area of 99,529 sq.m. of land with a total of 15 production lines for sofas, 25 production lines for sofa covers and one production line for other furniture products. For the three years ended 31 December 2015 and the eight months ended 31 August 2016, the designed annual production capacity for sofas was approximately 806,000 pieces, 806,000 pieces, 892,000 pieces and 892,000 pieces, respectively, while the designed annual production capacity for sofa covers was approximately 2,177,000 pieces, 1,712,000 pieces, 1,613,000 pieces and 1,613,000 pieces, respectively. For the three years ended 31 December 2015 and the eight months ended 31 August 2016, the utilisation rate of the production capacity of sofas was approximately 74.8%, 64.9%, 74.4% and 72.0%, respectively, while the utilisation rate of the production capacity of sofa covers was approximately 82.9%, 78.6%, 78.8% and 59.9%, respectively.

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We believe that the scale of our operations allow us to maintain a highly competitive cost structure as we are able to benefit from economies of scale, cost effectiveness and efficiencies in our operations. Our centralised purchasing system in the raw materials merchandising including wood, leather, fabric and foam with a large scale operation enhances our bargaining power to negotiate better prices on such raw materials. We also have detailed quality control system to control the production process and improve product quality. We also believe that our large scale operation equips us with the ability and the production capacity to deliver products as scheduled which is crucial to our customers hence to our success.

### **Cost of raw materials**

Our principal raw materials consist primarily of leather, PU leather, fabric, wood, foam, metal components and other components. We believe that our centralised purchasing system in the raw materials merchandising enhances our bargaining power to negotiate better prices on such raw materials.

Leather is one of the key raw materials for the manufacture of sofas, sofa covers and other furniture products. According to the Euromonitor Report, the average price of imported wet blue leather rose at a CAGR of 1.3% during the period from 2011 to 2015. The average import price of raw cowhide grew at a CAGR of approximately 2.1% during the period from 2011 to 2015.

### **Foreign exchange rate**

As most of our sales are made to the U.S. customers, most of our revenue is denominated in U.S. dollars. However, we pay most of our cost based on the relevant local currency. For PRC operations, we incur and settle the costs of raw materials procured within the PRC, staff salaries, transportation and delivery expenses, local tax payments and marketing cost in Renminbi. For the production facility in Cambodia, we expect to incur and settle the local tax payments in KHR. We are therefore susceptible to currency exchange rate fluctuations between the U.S. dollar, Renminbi and KHR. During the Track Record Period, the daily mid-point exchange rate of U.S. dollar to Renminbi fluctuated from US\$1.00 to RMB6.0930 to US\$1.00 to RMB6.6971 as announced by the PBOC.

We have not entered into any agreements to hedge our exchange rate exposure relating to any of these currencies and there is no assurance that we will be able to enter into such agreements on commercially viable terms in the future.

### **Taxation**

Our profitability and financial performance are affected by applicable tax rates and the availability of preferential tax treatment. Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each reporting period during the Track Record Period. Haining

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Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), being the then wholly-owned subsidiary which our Group disposed of during the year ended 31 December 2015, was designated as a “High and New Technology Enterprise” and accordingly enjoyed a preferential corporate income tax rate of 15% for the years ended 31 December 2013 and 2014. All of our other subsidiaries in the PRC are subject to the PRC statutory income tax rate of 25%.

### **Seasonality**

Our sales are subject to seasonal fluctuations. Historically, we have experienced higher sales from October to January. According to the Euromonitor Report, in respect of the products exporting to the U.S., July to September are usually the off season due to summer heat and customers’ vacation habits. October to January are the peak season for sofa exports, as the most important holiday season is also the biggest shopping season.

### **CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**

The following is a summary of the accounting policies applied in preparing our financial information that we believe most relevant on the application of these judgements and estimates and certain other significant accounting policies. We also have other policies that we consider to be key accounting policies or critical accounting judgement, which are set out in details in notes 2.4 and 3 of the Accountants’ Report in Appendix I to this prospectus.

### **Significant accounting policies**

#### ***Revenue recognition***

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### ***Property, plant and equipment and depreciation***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.8%
Leasehold improvements	Over the shorter of the lease terms and 33.3%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20% to 33.3%
Motor vehicles	20% to 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building, plant and machinery and other items of property, plant equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### ***Research and development costs***

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.



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### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investment classified as available-for-sale are those which one neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition”.

### *Impairment of financial assets*

Our Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### *Provisions*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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Provisions for product warranties granted by our Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

### *Income tax*

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which our Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except: (i) when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except: (i) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. (i) Deferred tax assets and liabilities are measured at the tax

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rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. (ii) Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### *Government grants*

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

### *Foreign currencies*

Our Company's functional currency is U.S. dollars. Because most of the subsidiaries' functional currencies are Renminbi, the financial information is presented in Renminbi. Each entity in our Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in our Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of our Company and certain subsidiaries are currencies other than Renminbi. As at the end of each reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of each reporting period and their profit or loss are translated into Renminbi at the weighted average exchange rates for each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of such operation, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of operations with functional currencies other than Renminbi are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these operations which arise throughout each reporting period are translated into Renminbi at the weighted average exchange rates for each reporting period.

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## FINANCIAL INFORMATION

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### **Significant accounting judgements and estimates**

#### ***Impairment of receivables***

Our Group records impairment of receivables based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgement and estimates. Where the actual outcome or expectation in the future is different from the original estimates, such differences will have an impact on the carrying value of receivables and doubtful debt expenses/write-back of doubtful debt in the reporting period in which such estimate is changed.

#### ***Provision against obsolete and slow-moving inventories***

Our Group reviews an aged analysis of our inventories and the condition of our inventories at the end of each reporting period, and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use in the production. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in the future is different from the original estimates, such differences will have an impact on the carrying value of inventories and the write-down of inventories recognised in the reporting period in which such estimate is changed.

#### ***Impairment of non-financial assets***

Our Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### ***Current tax and deferred tax***

Our Group is subject to income taxes in Hong Kong and Mainland China. We carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining our Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made.

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## FINANCIAL INFORMATION

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### *Derecognition of factored trade receivables and discounted/endorsed bills receivable*

Our Group has entered into arrangements with our bankers in respect of the factoring of trade receivables and discounting of bills receivable, or endorsed certain of our bills receivable accepted by banks to certain of our suppliers in order to settle the trade payables due to such suppliers. Based on an evaluation of the terms and conditions of the arrangements and the credit quality and settlement pattern of the factored trade receivables and discounted/endorsed bills receivable, management has determined that our Group has retained substantially the risks and rewards of certain receivables, which include default risks relating to such receivables. As such, the factored trade receivables and certain discounted/endorsed bills receivable are recognised to the extent of our Group's continuing involvement in these receivables.

### *Warranty provision*

Our Group makes provisions for the warranties we give on the sale of our products taking into account our Group's current sales levels and past experience of the level of repairs and returns. As we are continually upgrading our product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that we will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

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### RESULTS OF OPERATION

The following table sets forth our consolidated statements of profit and loss and other comprehensive income for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
REVENUE	984,026	824,675	926,471	564,958	581,566
Cost of sales	<u>(787,450)</u>	<u>(652,051)</u>	<u>(706,557)</u>	<u>(425,644)</u>	<u>(413,633)</u>
Gross profit	196,576	172,624	219,914	139,314	167,933
Other income and gains	19,350	9,857	34,968	19,669	5,491
Selling and distribution expenses	(75,642)	(68,057)	(79,873)	(52,948)	(48,298)
Administrative expenses	(57,579)	(47,558)	(51,102)	(30,727)	(51,719)
Other expenses and losses	(3,709)	(741)	(2,300)	(1,402)	(475)
Finance costs	<u>(34,922)</u>	<u>(28,321)</u>	<u>(18,441)</u>	<u>(10,501)</u>	<u>(8,516)</u>
PROFIT BEFORE TAX	44,074	37,804	103,166	63,405	64,416
Income tax expense	<u>(10,531)</u>	<u>(13,440)</u>	<u>(20,098)</u>	<u>(13,223)</u>	<u>(24,282)</u>
PROFIT FOR THE YEAR/PERIOD	<u>33,543</u>	<u>24,364</u>	<u>83,068</u>	<u>50,182</u>	<u>40,134</u>
OTHER COMPREHENSIVE INCOME					
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of financial information	<u>(122)</u>	<u>127</u>	<u>1,909</u>	<u>710</u>	<u>273</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<u><u>33,421</u></u>	<u><u>24,491</u></u>	<u><u>84,977</u></u>	<u><u>50,892</u></u>	<u><u>40,407</u></u>
Profit attributable to owners of the parent	<u><u>33,543</u></u>	<u><u>24,364</u></u>	<u><u>83,068</u></u>	<u><u>50,182</u></u>	<u><u>40,134</u></u>
Total comprehensive income attributable to owners of our parent	<u><u>33,421</u></u>	<u><u>24,491</u></u>	<u><u>84,977</u></u>	<u><u>50,892</u></u>	<u><u>40,407</u></u>

## FINANCIAL INFORMATION

### PRINCIPAL STATEMENT OF PROFIT OR LOSS COMPONENTS

#### Revenue

Our revenue is generated primarily through sales of sofas, sofa covers and other furniture products. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our revenue was approximately RMB984.0 million, RMB824.7 million, RMB926.5 million and RMB581.6 million, respectively. The U.S. is the key export market of our products. Sales to the U.S. market accounted for more than 90% of our revenue for each of the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016.

During the Track Record Period, we had further enhanced our ODM and OBM businesses and accordingly increased the sales of sofas and reduced the sales of sofa covers. The table below sets forth our revenue by product type for the periods indicated:

Products	For the year ended 31 December						Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sofas	556,985	56.6	540,258	65.5	666,733	72.0	374,319	66.2	472,515	81.3
Sofa covers	379,327	38.5	253,032	30.7	226,482	24.4	172,151	30.5	104,848	18.0
Others (Note)	47,714	4.9	31,385	3.8	33,256	3.6	18,488	3.3	4,203	0.7
<b>Total</b>	<b>984,026</b>	<b>100.0</b>	<b>824,675</b>	<b>100.0</b>	<b>926,471</b>	<b>100.0</b>	<b>564,958</b>	<b>100.0</b>	<b>581,566</b>	<b>100.0</b>

*Note:* For the year ended 31 December 2013, others primarily included leather products processed by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司), which was disposed of by our Group on 12 January 2015. For the years ended 31 December 2014 and 2015, others primarily included (i) leather products and (ii) wood based furniture products. For the eight months ended 31 August 2016, others primarily included leather pieces and wood based furniture products.

The following table sets forth the number of pieces sold and the average selling price (“ASP”) of our sofas and sofa covers during the Track Record Period:

Unit and Price (Note 1 and 2)	2013		2014		2015		Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB	Number of pieces	ASP RMB
Product type										
Sofas	537,901	1,035	450,339	1,200	530,863	1,256	358,965	1,043	392,724	1,203
Sofa covers	1,166,480	325	764,838	331	363,031	624	288,435	597	167,306	627

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*Notes:*

- 1 The number of sofas and sofa covers sold as set forth in this table is calculated based on the number of single-seater sofas and sofa covers sold, for example, a set of three-seater sofa is counted as three pieces. Our products comprise sofas and sofa covers with different sizes and features.
- 2 The selling price of other furniture products generally has a wide range due to diversified product types. As such, ASP of other furniture products does not have any indicative meaning.

Our sales volume for sofas decreased by approximately 16.3% from 537,901 pieces for the year ended 31 December 2013 to 450,339 pieces for the year ended 31 December 2014, which was primarily due to (i) the decrease in purchase orders for sofas; and (ii) our adjustment of product mix in the year ended 31 December 2014. Our sales volume for sofas increased by approximately 17.9% from 450,339 pieces for the year ended 31 December 2014 to 530,863 pieces for the year ended 31 December 2015, which was primarily due to the increase in sales of our OBM products. Our sales volume for sofas increased by approximately 9.4% from 358,965 pieces for the eight months ended 31 August 2015 to 392,724 pieces for the eight months ended 31 August 2016, which was primarily due to the increase in sales of our OBM products. Our sales volume for sofa covers decreased year by year during the three years ended 31 December 2015, which was primarily due to adjustments of business strategies made by our management to reduce orders of sofa covers in order to focus more on OBM of sofas. Our sales volume for sofa covers decreased by approximately 42.0% from 288,435 pieces for the eight months ended 31 August 2015 to 167,306 pieces for the eight months ended 31 August 2016, which was primarily due to adjustments of business strategies made by our management to reduce orders of sofa covers in order to focus more on OBM of sofas.

The ASP for sofa covers increased from RMB597 for the eight months ended 31 August 2015 to RMB627 for the eight months ended 31 August 2016, which was primarily due to appreciation of the U.S. dollar against Renminbi since our products are mainly denominated in U.S. dollar. The ASP for sofa covers increased from RMB331 for the year ended 31 December 2014 to RMB624 for the year ended 31 December 2015 was primarily due to the increase in sales volume of leather sofa covers, which have relatively higher selling prices than other sofa covers, in the year ended 31 December 2015. The ASP for sofa covers maintained relatively stable at RMB325 for the year ended 31 December 2013 and RMB331 for the year ended 31 December 2014. The ASP for sofas increased from RMB1,043 for the eight months ended 31 August 2015 to RMB1,203 for the eight months ended 31 August 2016, which was primarily due to (i) appreciation of the U.S. dollar against RMB since our products are mainly denominated in U.S. dollar; and (ii) increase in sales of motion sofas and sofas equipped with smart home features. The ASP for sofas increased slightly by approximately 4.7% from RMB1,200 for the year ended 31 December 2014 to RMB1,256 for the year ended 31 December 2015, which was primarily due to (i) the increase in product features; and (ii) increase in sales of motion sofas and sofas equipped with smart home features.



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The following table below sets forth our revenue by business model for the periods indicated:

Business model	For the year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
OEM	379,327	253,032	226,482	172,151	104,848
ODM	113,205	88,575	99,128	73,175	118,451
OBM	491,494	483,068	600,861	319,632	358,267
<b>Total</b>	<u>984,026</u>	<u>824,675</u>	<u>926,471</u>	<u>564,958</u>	<u>581,566</u>

Revenue of our OBM products increased from approximately RMB491.5 million to RMB600.9 million from 2013 to 2015, while revenue of our ODM and OEM products decreased from approximately RMB113.2 million to RMB99.1 million and approximately RMB379.3 million to RMB226.5 million respectively as we gradually shift our business focus to the ODM and OBM products due to the fact that (i) with the increasing labour costs in the PRC, the costs associated with compliance with environmental laws in the PRC and the appreciation of RMB against USD, the operation costs of OEM business in China has been escalating and China has been gradually losing its competitive edge in the OEM business; (ii) with our capabilities of designing and manufacturing products with features recognised by the State Intellectual Property Office in the PRC and our engagement of a business consultancy firm and a sales agent in the U.S., our OBM business has allowed us to cater and satisfy customers' needs and preference and thus maintain a more sustainable business model; and (iii) while the profit margin for our OBM business during the Track Record Period was still lower than that of our OEM business, with our business strengths and strategies in OBM business, we believe there is room for our OBM business to grow and expand, which has been illustrated by the increase of the profit margin of our OBM business from approximately 13.7% for the year ended 31 December 2013 to approximately 30.7% for the eight months ended 31 August 2016, representing an increase of approximately 124.1%. It is our long-term goal to be a manufacturer which provide own-branded and value-added products with more emphasis on research and development, design and brand marketing. As such, we decided to adopt a more attractive pricing policy for our OBM and ODM products for quick launch and promotion. Such pricing strategy have affected the profit margins of OBM and ODM business. However, as we were in the transitional period of business strategies adjustment and the effect of our effort on promotion of our OBM and ODM products was unable to be reflected in the financial results of OBM and ODM in time in the year ended 31 December 2014. As such, the revenue generated from OEM, ODM and OBM all decreased in the year ended 31 December 2014. As we put more effort on marketing and promotion of our OBM products, the sales of our ODM products did not achieve the same growth as that of OBM products. The revenue generated from ODM business for the year ended 31 December 2015, although recorded an increase of approximately 11.9% as compared to the previous year, was still lower than that of the year ended 31 December 2013. Revenue of OBM and ODM products increased by approximately 12.1% and 61.9% respectively for the eight months ended 31 August 2016 as compared to the eight months ended 31 August 2015, primarily due to our continuous efforts in promotion and sales of OBM and ODM products.

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### *Sofas*

Finished sofas are our principal products, which are sold primarily to the U.S. market. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, sales of sofas amounted to approximately RMB557.0 million, RMB540.3 million, RMB666.7 million and RMB472.5 million, respectively. The average selling price for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016 was approximately RMB1,035, RMB1,200, RMB1,256 and RMB1,203 respectively. The selling price of our sofas is determined with reference to the prevailing market conditions as well as our product designs and features.

### *Sofa covers*

Sofa covers are the semi-final products of sofas, which are generally purchased by our customers for further assembly into final product. We manufacture fabric, leather and PU leather sofa covers. The revenue generated from sofa covers for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016 was approximately RMB379.3 million, RMB253.0 million, RMB226.5 million and RMB104.8 million, respectively. The average selling price of sofa covers for the years ended 31 December 2013, 2014, 2015 and the eight months ended 31 August 2016 was approximately RMB325, RMB331, RMB624 and RMB627 respectively.

Please refer to the subsection headed “Period to Period Comparison of Results of Operations” under this section for the fluctuation in revenue during the Track Record Period.

### **Cost of sales**

Our cost of sales mainly consists of (i) costs of raw materials; (ii) salaries and allowance paid to production staff; (iii) transportation and packaging fees; and (iv) others which primarily included utilities expenses, depreciation, repair and maintenance expenses of machineries and non-refundable VAT.

We use various raw materials in our production process, including, primarily, leather, PU leather, fabric, foam, wood, metal components and other components. Our raw materials cost accounted for approximately 75.9%, 72.3%, 78.1% and 74.9% of our cost of sales for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, respectively.

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The table below sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended 31 December						Eight months ended 31 August					
	2013		2014		2015		2015		2016			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%		
Cost of raw materials	598,019	75.9	471,570	72.3	552,079	78.1	329,335	77.4	309,893	74.9		
Salaries and allowance	107,675	13.7	100,886	15.5	86,422	12.2	56,320	13.2	61,076	14.8		
Transportation and packaging fees	28,337	3.6	28,431	4.4	34,484	4.9	19,228	4.5	21,518	5.2		
Others	53,419	6.8	51,164	7.8	33,572	4.8	20,761	4.9	21,146	5.1		
<b>Total</b>	<b>787,450</b>	<b>100.0</b>	<b>652,051</b>	<b>100.0</b>	<b>706,557</b>	<b>100.0</b>	<b>425,644</b>	<b>100.0</b>	<b>413,633</b>	<b>100.0</b>		

The table below sets forth the sensitivity analysis on the impact of hypothetical changes in the cost of raw materials and direct labour on our profit before tax and profit for the periods indicated:

	Increase/ (decrease) in percentage	For the year ended 31 December						Eight months ended 31 August					
		2013		2014		2015		2015		2016			
		Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit after tax	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit after tax	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit after tax	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit after tax	Increase/ (decrease) in profit before tax	Increase/ (decrease) in profit after tax		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Cost of raw materials	5%/	(29,901)	(22,756)	(23,579)	(15,196)	(27,604)	(22,226)	(16,467)	(13,033)	(15,495)	(9,654)		
	(5%)	29,901	22,756	23,579	15,196	27,604	22,226	16,467	13,033	15,495	9,654		
	10%/	(59,802)	(45,513)	(47,157)	(30,392)	(55,208)	(44,453)	(32,934)	(26,065)	(30,989)	(19,308)		
	(10%)	59,802	45,513	47,157	30,392	55,208	44,453	32,934	26,065	30,989	19,308		
Direct labour	5%/	(5,384)	(4,097)	(5,044)	(3,251)	(4,321)	(3,479)	(2,816)	(2,229)	(3,054)	(1,903)		
	(5%)	5,384	4,097	5,044	3,251	4,321	3,479	2,816	2,229	3,054	1,903		
	10%/	(10,768)	(8,195)	(10,089)	(6,502)	(8,642)	(6,959)	(5,632)	(4,457)	(6,108)	(3,805)		
	(10%)	10,768	8,195	10,089	6,502	8,642	6,959	5,632	4,457	6,108	3,805		

Please refer to the subsection headed “Period to Period Comparison of Results of Operations” under this section for the fluctuation in cost of sales during the Track Record Period.

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### Gross profit and gross profit margin

Gross profit represents the excess of revenue over cost of sales. The following table sets forth the gross profit and gross profit margin of our products and the percentage of our total gross profit for the periods indicated:

Products	Year ended 31 December						Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	Gross		Gross		Gross		Gross		Gross	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sofas	80,236	14.4	89,733	16.6	132,583	19.9	80,329	21.5	133,369	28.2
Sofa covers	106,056	28.0	75,364	29.8	74,244	32.8	50,615	29.4	32,865	31.3
Others	10,284	21.6	7,527	24.0	13,087	39.4	8,370	45.3	1,699	40.4
<b>Total</b>	<b>196,576</b>	<b>20.0</b>	<b>172,624</b>	<b>20.9</b>	<b>219,914</b>	<b>23.7</b>	<b>139,314</b>	<b>24.7</b>	<b>167,933</b>	<b>28.9</b>

The following table below sets forth the gross profit and gross profit margin by business model for the periods indicated:

Business model	Year ended 31 December						Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	Gross		Gross		Gross		Gross		Gross	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
OEM	106,056	28.0	75,364	29.8	74,244	32.8	50,615	29.4	32,865	31.3
ODM	23,176	20.5	20,524	23.2	27,151	27.4	18,861	25.8	25,081	21.2
OBM	67,344	13.7	76,736	15.9	118,519	19.7	69,838	21.8	109,987	30.7
<b>Total</b>	<b>196,576</b>	<b>20.0</b>	<b>172,624</b>	<b>20.9</b>	<b>219,914</b>	<b>23.7</b>	<b>139,314</b>	<b>24.7</b>	<b>167,933</b>	<b>28.9</b>

### OEM

Gross profit from OEM products decreased year by year/period by period during the Track Record Period as we gradually shift our business focus to OBM products. Gross profit margin of our OEM products increased year by year/period by period during the Track Record Period, which was primarily due to increase in average selling prices of our sofa covers during the Track Record Period.

### ODM

Gross profit from our ODM products increased from approximately RMB18.9 million for the eight months ended 31 August 2015 to approximately RMB25.1 million for the eight months ended 31 August 2016 due to our continuous efforts in promotion and sales of ODM

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products. Gross profit from our ODM products increased from approximately RMB20.5 million for the year ended 31 December 2014 to approximately RMB27.2 million for the year ended 31 December 2015 due to gradual shift of our business focus to ODM products. Gross profit from our ODM products decreased from approximately RMB23.2 million for the year ended 31 December 2013 to approximately RMB20.5 million for the year ended 31 December 2014 since we were in the transitional period of business strategies adjustment and the effect of our effort on promotion of ODM products was unable to be reflected in the financial results of ODM in time in the year ended 31 December 2014.

Gross profit margin of our ODM products increased year by year during the three years ended 31 December 2015, which was primarily due to increase in selling prices of our sofas during the three years ended 31 December 2015. Gross profit margin of our ODM products decreased from approximately 25.8% for the eight months ended 31 August 2015 to approximately 21.2% for the eight months ended 31 August 2016, which was mainly due to changes in product mix.

### **OBM**

Gross profit from our OBM products increased from approximately RMB69.8 million for the eight months ended 31 August 2015 to approximately RMB110.0 million for the eight months ended 31 August 2016, which was mainly due to our continuous efforts in promotion and sales of OBM products. Gross profit from our OBM products increased from approximately RMB76.7 million for the year ended 31 December 2014 to approximately RMB118.5 million for the year ended 31 December 2015 due to gradual shift of our business focus to OBM products. Gross profit from our OBM products increased from approximately RMB67.3 million for the year ended 31 December 2013 to approximately RMB76.7 million for the year ended 31 December 2014 since there was an increase in average selling price of our OBM products for the year ended 31 December 2014.

Gross profit margin of our OBM products increased year by year during the three years ended 31 December 2015, which was primarily due to increase in selling prices of our sofas during the three years ended 31 December 2015. Gross profit margin of our OBM products increased for the eight months ended 31 August 2016 over the correspondence period in 2015 primarily due to (i) the decrease in unit cost of some of the major raw materials; and (ii) the depreciation of Renminbi against U.S. dollar since our products are mainly denominated in U.S. dollar while our raw materials are mainly settled in Renminbi.

Please refer to the subsection headed “Period to Period Comparison of Results of Operations” under this section for the fluctuation in gross profit and gross profit margin during the Track Record Period.

### **Other income and gains**

Our other income and gains primarily consists of interest income, net exchange gains, government subsidies and gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) in the year ended 31 December 2015. For the years ended 31

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December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our other income and gains was approximately RMB19.4 million, RMB9.9 million, RMB35.0 million and RMB5.5 million, respectively. The net exchange gains primarily arose from appreciation of US\$ against RMB in the year ended 31 December 2015 and eight months ended 31 August 2016. The government subsidies were subsidies received from local governments in Zhejiang Province in respect of significant tax contribution and significant contribution to sofa export.

Please refer to the subsection headed “Period to Period Comparison of Results of Operations” under this section for the fluctuation in other income and gains during the Track Record Period.

The table below sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended 31 December			Eight months ended 31 August	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
				(Unaudited)	
<b>Other income and gains</b>					
Interest income	7,097	5,767	2,008	1,125	1,328
Exchange gains, net	–	–	18,681	6,810	4,100
Government subsidies	9,961	3,352	2,714	263	25
Sales of scrap materials	1,909	34	148	129	–
Product development income	–	611	–	–	–
Gain on disposal of a subsidiary	–	–	11,336	11,336	–
Gain on disposal of items of property, plant and equipment, net	56	–	–	–	–
Gain on disposal of an available-for-sale investment	–	–	–	–	9
Others	327	93	81	6	29
	<u>19,350</u>	<u>9,857</u>	<u>34,968</u>	<u>19,669</u>	<u>5,491</u>

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### Selling and distribution expenses

Our selling and distribution expenses principally comprise (i) carriage outwards expenses which mainly include the delivery expenses charged by logistics companies for delivery of our products from warehouse to the ports and loading charge and declaration charges; (ii) commission paid mainly to a consultancy firm and an agent based in the U.S.; (iii) export credit insurance purchased to insure payment of credit by our customers; (iv) advertising and promotion expenses; and (v) exhibition expenses. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our selling and distribution expenses was RMB75.6 million, RMB68.1 million, RMB79.9 million and RMB48.3 million, respectively. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Carriage outwards and declaration charges	53,140	70.2	42,394	62.2	55,306	69.3	33,393	63.1	27,658	57.3
Commission paid	7,752	10.2	7,906	11.6	7,248	9.1	7,776	14.7	11,454	23.7
Insurance	4,425	5.8	3,233	4.8	3,743	4.7	2,909	5.5	722	1.5
Advertising and promotion	2,706	3.6	3,999	5.9	3,866	4.8	1,072	2.0	1,689	3.5
Exhibition	1,555	2.1	1,035	1.5	2,440	3.1	2,331	4.4	2,936	6.1
Others	6,064	8.1	9,490	14.0	7,270	9.0	5,467	10.3	3,839	7.9
<b>Total</b>	<b>75,642</b>	<b>100.0</b>	<b>68,057</b>	<b>100.0</b>	<b>79,873</b>	<b>100.0</b>	<b>52,948</b>	<b>100.0</b>	<b>48,298</b>	<b>100.0</b>

Please refer to the subsection headed “Period to Period Comparison of Results of Operations” under this section for the fluctuation in selling and distribution expenses during the Track Record Period.

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### Administrative expenses

Our administrative expenses primarily consist of (i) salaries, social insurance, housing pension and other welfare paid to management and staff other than production staff; (ii) exchange loss primarily resulted from the depreciation of US\$ against RMB for the years ended 31 December 2013 and 2014; (iii) travel and entertainment expenses; (iv) rent of premises and utility expenses; (iv) bank charges; (v) depreciation; and (vi) Listing expenses. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our administrative expenses was RMB57.6 million, RMB47.6 million, RMB51.1 million and RMB51.7 million, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December						Eight months ended 31 August			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff salaries and welfare	28,406	49.3	29,721	62.5	25,589	50.1	15,840	51.6	22,993	44.5
Exchange losses	13,667	23.7	583	1.2	–	–	–	–	–	–
Travel and entertainment	4,861	8.4	4,858	10.2	4,864	9.5	3,292	10.7	1,904	3.7
Rent of premises and utility expenses	1,913	3.3	3,497	7.4	3,927	7.7	2,715	8.8	2,795	5.4
Bank charges	2,963	5.1	2,346	4.9	3,438	6.7	2,875	9.4	1,000	1.9
Depreciation	1,983	3.4	1,496	3.1	1,302	2.5	1,109	3.6	1,093	2.1
Listing expenses	–	–	–	–	3,102	6.1	–	–	18,474	35.7
Others	3,786	6.8	5,057	10.7	8,880	17.4	4,896	15.9	3,460	6.7
<b>Total</b>	<b>57,579</b>	<b>100.0</b>	<b>47,558</b>	<b>100.0</b>	<b>51,102</b>	<b>100.0</b>	<b>30,727</b>	<b>100.0</b>	<b>51,719</b>	<b>100.0</b>

### Other expenses and losses

Other expenses and losses primarily consist of disposal loss of property, plant and equipment and impairment of trade and bills receivables. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our other expenses and losses was approximately RMB3.7 million, RMB0.7 million, RMB2.3 million and RMB0.5 million, respectively.



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### Finance costs

Our finance costs primarily consist of interest expenses on bank borrowings and discounted bills. For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, our finance costs was approximately RMB34.9 million, RMB28.3 million, RMB18.4 million and RMB8.5 million, respectively.

### Income tax expense

Income tax expense consists of current tax and deferred tax that we incurred. The following table sets forth a breakdown of our taxation expenses for the periods indicated.

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Current tax charge for the year/period					
– PRC	10,698	12,272	12,421	11,929	18,917
– Hong Kong	–	3,051	7,272	421	1,014
Deferred tax	(167)	(1,883)	405	873	4,351
	<u>10,531</u>	<u>13,440</u>	<u>20,098</u>	<u>13,223</u>	<u>24,282</u>
Tax charge for the year/period	<u>10,531</u>	<u>13,440</u>	<u>20,098</u>	<u>13,223</u>	<u>24,282</u>

Current tax primarily consists of PRC enterprise income tax payable by our PRC subsidiaries. Our tax charge has accounted for the tax credit from utilisation of previous years' tax losses of approximately RMB5.4 million, nil, RMB10.3 million and nil for the years ended 31 December 2013, 2014 and 2015 and for the eight months 31 August 2016. If the impact of tax credit arising from the utilisation of previous years' tax losses were excluded during the Track Record Period, our profit for the year would have decreased to RMB28.2 million and RMB72.7 million for the years ended 31 December 2013 and 31 December 2015, respectively. As at 31 August 2016, we had tax losses carried forward of approximately RMB5.2 million. Deferred tax assets have not been recognised in respect of the tax losses carried forward as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by our Company to our shareholders.

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### **Eight months ended 31 August 2016 compared with eight months ended 31 August 2015**

##### *Revenue*

Our revenue increased by approximately 2.9%, from approximately RMB565.0 million for the eight months ended 31 August 2015 to approximately RMB581.6 million for the eight months ended 31 August 2016, which was primarily attributable to a significant increase in

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sales volume of sofas which have relatively higher average selling price than sofa covers and partially offset by a decrease in sales volume of sofa covers due to adjustments of business strategies made by our management to reduce orders of sofa covers in order to focus more on OBM of sofas.

### *Cost of sales*

Our cost of sales decreased by approximately 2.8% from approximately RMB425.6 million for the eight months ended 31 August 2015 to approximately RMB413.6 million for the eight months ended 31 August 2016, which was primarily due to the decrease in unit cost of some of the major raw materials.

### *Gross profit and gross profit margin*

Our gross profit increased by approximately 20.5% from approximately RMB139.3 million for the eight months ended 31 August 2015 to approximately RMB167.9 million for the eight months ended 31 August 2016, which was primarily due to (i) the decrease in unit cost of some of the major raw materials; and (ii) the depreciation of Renminbi against U.S. dollar since our products are mainly denominated in U.S. dollar while our raw materials are mainly settled in Renminbi. Our gross profit margin increased from approximately 24.7% for the eight months ended 31 August 2015 to 28.9% for the eight months ended 31 August 2016.

### *Other income and gains*

Our other income and gains decreased by approximately 72.1% from approximately RMB19.7 million for the eight months ended 31 August 2015 to approximately RMB5.5 million for the eight months ended 31 August 2016. Such decrease was primarily due to a gain of approximately RMB11.3 million on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) recorded in the eight months ended 31 August 2015.

### *Selling and distribution expenses*

Our selling and distribution expenses decreased by approximately 8.8% from approximately RMB52.9 million for the eight months ended 31 August 2015 to approximately RMB48.3 million for the eight months ended 31 August 2016, which was primarily due to the combined effects of (i) decrease in carriage charges as more products were shipped in a nearby port and a general decrease in forwarder charges in 2016; and (ii) increase in commission paid due to the agency fee paid to Morris PRC, which arose from engaging Morris PRC as an agent in providing import and export businesses under the agency agreement.

### *Administrative expenses*

Administrative expenses increased by approximately 68.3% from approximately RMB30.7 million for the eight months ended 31 August 2015 to approximately RMB51.7 million for the eight months ended 31 August 2016, which was primarily due to the Listing expenses of approximately RMB18.5 million incurred in the eight months ended 31 August 2016.

### *Other expenses and losses*

Other expenses and losses decreased from approximately RMB1.4 million for the eight months ended 31 August 2015 to approximately RMB0.5 million for the eight months ended 31 August 2016, which was primarily due to a decrease of impairment of trade and bills receivables.

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### *Finance costs*

Our finance costs decreased from approximately RMB10.5 million for the eight months ended 31 August 2015 to approximately RMB8.5 million for the eight months ended 31 August 2016 primarily due to a decrease of discounted bill interest expenses, partially offset by an increase of bank borrowings interest expenses.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased slightly by approximately 1.6% from approximately RMB63.4 million for the eight months ended 31 August 2015 to approximately RMB64.4 million for the eight months ended 31 August 2016.

### *Income tax expense*

Our income tax expense increased by approximately 83.6% from approximately RMB13.2 million for the eight months ended 31 August 2015 to approximately RMB24.3 million for the eight months ended 31 August 2016. In addition, the effective tax rate increased from approximately 20.9% for the eight months ended 31 August 2015 to approximately 37.7% for the eight months ended 31 August 2016. The substantial increase in both income tax expense and effective tax rate for the eight months ended 31 August 2016 was mainly attributable to (i) the impact of expenses not deductible for tax of RMB4.7 million which was mainly attributable to the Listing expenses incurred during the eight months ended 31 August 2016; (ii) a decrease in the impact of tax losses utilised from previous years by approximately RMB5.7 million; and partially offset by the impact of a super-deduction of eligible research and development expenditure of RMB3.5 million for the eight months ended 31 August 2016 arising from the manufacturing costs incurred by the Group that qualified for an additional 50% tax deduction for PRC corporate income tax purpose in accordance with the Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses (關於完善研究開發費用稅前加計扣除政策的通知) which was promulgated by the Ministry of Finance, the SAT and the Ministry of Science and Technology on 2 November 2015 and with effect from 1 January 2016.

### *Profit for the period*

As a result of the foregoing, our profit for the period decreased by approximately 20.0% from approximately RMB50.2 million for the eight months ended 31 August 2015 to approximately RMB40.1 million for the eight months ended 31 August 2016. If exclude the one-off Listing expenses incurred during the eight months ended 31 August 2016 and disposal gain recorded in the eight months ended 31 August 2015, our profit for the period would increase by approximately 50.9% from approximately RMB38.8 million for the eight months ended 31 August 2015 to approximately RMB58.6 million for the eight months ended 31 August 2016.

## **Year ended 31 December 2015 compared with year ended 31 December 2014**

### *Revenue*

Our revenue increased by approximately 12.3%, from approximately RMB824.7 million for the year ended 31 December 2014 to approximately RMB926.5 million for the year ended 31 December 2015, which was primarily attributable to (i) the increase in average selling price

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of our products. The increase in the average selling price of sofas is mainly due to the increase in product features. The increase in average selling price of sofa covers is mainly due to more sales of leather sofa covers which have relatively high selling price than sofa covers of other materials we provide; and (ii) the increase in sales volume of sofas which have relatively higher average selling price than sofa covers.

### *Cost of sales*

Our cost of sales increased by approximately 8.4% from approximately RMB652.1 million for the year ended 31 December 2014 to approximately RMB706.6 million for the year ended 31 December 2015, which was primarily due to the increase in cost of raw materials resulted from the increase in sales volume of sofas, which usually consumed more types of raw materials in the production than other products.

### *Gross profit and gross profit margin*

Our gross profit increased by approximately 27.4%, from approximately RMB172.6 million for the year ended 31 December 2014 to approximately RMB219.9 million for the year ended 31 December 2015, which was primarily due to (i) increase in average selling price of our sofas and sofa covers. The increase in the average selling price of sofas is mainly due to the increase in product features. The increase in average selling price of sofa covers is mainly due to more sales of leather sofa covers which have relatively high selling price than sofa covers of other materials we produce; and (ii) our effort on the improvement of production efficiency and cost management. Our gross profit margin increased from approximately 20.9% for the year ended 31 December 2014 to approximately 23.7% for the year ended 31 December 2015, which was mainly due to our adjustment in product mix of relatively higher gross margin than those of the previous year.

### *Other income and gains*

Our other income and gains increased by approximately 254.8% from approximately RMB9.9 million for the year ended 31 December 2014 to approximately RMB35.0 million for the year ended 31 December 2015. Such increase was primarily due to (i) an exchange gain of approximately RMB18.7 million in the year ended 31 December 2015 resulting from appreciation of US\$ against RMB, which is the functional currency of our major operating subsidiaries; and (ii) a gain on disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) in 2015.

### *Selling and distribution expenses*

Our selling and distribution expenses increased by approximately 17.4% from approximately RMB68.1 million for the year ended 31 December 2014 to approximately RMB79.9 million for the year ended 31 December 2015, which was primarily due to the increase in carriage outwards expenses and declaration and certificate charges which is in line with the increase in our sales volume and exhibition fee due to our increasing marketing effort in promotion of our OBM products.

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### *Administrative expenses*

Administrative expenses increased by approximately 7.5% from approximately RMB47.6 million for the year ended 31 December 2014 to approximately RMB51.1 million for the year ended 31 December 2015, which was primarily due to the Listing expenses incurred in the year ended 31 December 2015.

### *Other expenses and losses*

Other expenses and losses increased by approximately 210.4% from approximately RMB0.7 million for the year ended 31 December 2014 to approximately RMB2.3 million for the year ended 31 December 2015, which was primarily due to an increase in impairment of trade and bills receivables and an increase in loss on disposal of property, plant and equipment.

### *Finance costs*

Our finance costs decreased by approximately 34.9% from approximately RMB28.3 million for the year ended 31 December 2014 to approximately RMB18.4 million for the year ended 31 December 2015, which was primarily due to (i) significant decrease in bills payable arising from intra-group purchases outstanding during the year; and (ii) reduction of borrowings amount due to the disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) in the year ended 31 December 2015.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately 172.9% from approximately RMB37.8 million for the year ended 31 December 2014 to approximately RMB103.2 million for the year ended 31 December 2015.

### *Income tax expense*

Our income tax expenses increased by approximately 49.5% from approximately RMB13.4 million for the year ended 31 December 2014 to approximately RMB20.1 million for the year ended 31 December 2015, which was mainly attributable to increase in profit before tax by approximately 172.9% in the year ended 31 December 2015 as a result of the reasons discussed above. The effective tax rate decreased from 35.6% for the year ended 31 December 2014 to 19.5% for the year ended 31 December 2015, which was primarily due to (i) the increase in tax loss utilised from previous years; and (ii) the impact of expenses not deductible for tax of RMB9.2 million for the year ended 31 December 2015 which was mainly attributable to certain inter-companies expenses including selling expenses incurred by PRC companies which were not allowed for tax deduction in accordance with the relevant PRC tax regulation.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by approximately 240.9% from approximately RMB24.4 million for the year ended 31 December 2014 to approximately RMB83.1 million for the year ended 31 December 2015.

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### Year ended 31 December 2014 compared with year ended 31 December 2013

#### *Revenue*

Our revenue decreased by approximately 16.2% from approximately RMB984.0 million for the year ended 31 December 2013 to approximately RMB824.7 million for the year ended 31 December 2014, which was primarily due to the substantial decrease in sales volume of sofa covers in the year ended 31 December 2014 because our management adjusted business strategies mainly to reduce orders of sofa covers in order to focus more on OBM. During the Track Record Period, our OEM products were sofa covers which were mainly sold to Customer A while our OBM products were sofas sold to various customers. Since the unit price of our OBM products is much higher than our OEM products and are more value-added, and the customer base of OBM products is more extensive, our Group has adjusted our business strategies to reduce orders of sofa covers which are OEM products to focus more on the development of our own brand of products which are OBM products in order to enhance the overall value and competitiveness of our products and further expand our customer base. However, as we were in the transitional period of business strategies adjustment during the above period and the effect of our effort on promotion of our OBM products was unable to be reflected in the financial results of OBM in time in the year ended 31 December 2014. As such, the revenue generated by our OBM products were not able to fully offset the decrease in revenue of sofa covers.

#### *Cost of sales*

Our cost of sales decreased by approximately 17.2% from approximately RMB787.5 million for the year ended 31 December 2013 to approximately RMB652.1 million for the year ended 31 December 2014, which reflected the decrease in sales volume of our products.

#### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by approximately 12.2%, from approximately RMB196.6 million for the year ended 31 December 2013 to approximately RMB172.6 million for the year ended 31 December 2014, which was primarily due to (i) the substantial decrease in sales volume of sofa covers in the year ended 31 December 2014; and (ii) the decrease in cost of sales that were in line with the decrease in sales volume of our products. Our gross profit margin maintained relatively stable at approximately 20.0% for the year ended 31 December 2013 and approximately 20.9% for the year ended 31 December 2014.

#### *Other income and gains*

Our other income and gains decreased by approximately 49.1% from approximately RMB19.4 million for the year ended 31 December 2013 to approximately RMB9.9 million for the year ended 31 December 2014. Such change was primarily the result of (i) the reduction in government subsidies for the year ended 31 December 2014; and (ii) the decrease in the sales of scrap materials of approximately RMB1.9 million.

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### *Selling and distribution expenses*

Our selling and distribution expenses decreased by approximately 10.0% from approximately RMB75.6 million for the year ended 31 December 2013 to approximately RMB68.1 million for the year ended 31 December 2014, which was primarily due to the reductions in carriage outwards expenses, insurance, and declaration and certificate charges due to the decrease in our sales volume.

### *Administrative expenses*

Administrative expenses decreased by approximately 17.4% from approximately RMB57.6 million for the year ended 31 December 2013 to approximately RMB47.6 million for the year ended 31 December 2014, which was primarily due to the decrease in exchange loss of approximately RMB13.1 million as appreciation of RMB against US\$ slowed down in 2014.

### *Other expenses and losses*

Our other expenses and losses decreased by approximately 80.0%, from approximately RMB3.7 million for the year ended 31 December 2013 to approximately RMB0.7 million for the year ended 31 December 2014. Such decrease was primarily attributable to a decrease in impairment of trade and bills receivables.

### *Finance costs*

Our finance costs decreased by approximately 18.9%, from approximately RMB34.9 million for the year ended 31 December 2013 to approximately RMB28.3 million for the year ended 31 December 2014, which was primarily due to the decrease in both bank borrowings and discounted bills as our working capital needs reduced.

### *Profit before tax*

As a result of the foregoing, our profit before tax decreased by approximately 14.2% from approximately RMB44.1 million for the year ended 31 December 2013 to approximately RMB37.8 million for the year ended 31 December 2014.

### *Income tax expense*

Our income tax expense increased by approximately 27.6% from approximately RMB10.5 million for the year ended 31 December 2013 to approximately RMB13.4 million for the year ended 31 December 2014. In addition, the effective tax rate increased from 23.9% for the year ended 31 December 2013 to 35.6% for the year ended 31 December 2014. The substantial increase in both income tax expenses and effective tax rate in 2014 was mainly attributable to (i) the absence of PRC subsidiaries tax losses available for utilisation in 2014 while approximately RMB5.4 million was utilised in 2013; and (ii) withholding tax on the distributable profits derived from the Group's PRC subsidiaries of approximately RMB1.7 million in 2014.

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### *Profit for the year*

As a result of the foregoing, our profit for the year decreased by approximately 27.4%, from approximately RMB33.5 million for the year ended 31 December 2013 to approximately RMB24.4 million for the year ended 31 December 2014.

### LIQUIDITY AND CAPITAL RESOURCES

#### Financial resources

Our sources of cash are principally a combination of cash generated from operations, bank borrowings and bills financing. Our cash requirements are related primarily to production and operating activities, repayment of bank borrowings and capital expenditures. Going forward, we do not expect any material changes to the underlying drivers of our sources of cash and uses of cash, except for the net proceeds from the Global Offering which will be used according to our use of proceeds plan as detailed in the section headed “Future Plans and Use of Proceeds” in this prospectus. We expect that more diversified sources of financing will strengthen our financial capability.

#### Cash flows

The following table sets forth our cash flows for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016:

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)				
Net cash flows from operating activities	57,442	34,204	110,636	38,518	92,524
Net cash flows from/(used in) investing activities	(56,904)	186,231	(18,628)	7,508	(114,715)
Net cash flows from/(used in) financing activities	(87,417)	(241,278)	(70,073)	5,130	47,057
Net increase/(decrease) in cash and cash equivalents	(86,879)	(20,843)	21,935	51,156	24,866
Cash and cash equivalents at beginning of year/period	118,187	31,297	10,640	10,640	33,131
Effect of foreign exchange rate changes, net	(11)	186	556	336	2,260
Cash and cash equivalents at end of year/period	<u>31,297</u>	<u>10,640</u>	<u>33,131</u>	<u>62,132</u>	<u>60,257</u>



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### *Cash flows from operating activities*

For the eight months ended 31 August 2016, our net cash generated from operating activities amounted to approximately RMB92.5 million, which primarily reflected our profit before tax of approximately RMB64.4 million, as positively adjusted primarily by (i) a decrease in trade and bills receivables of approximately RMB72.1 million due to that June to August of each year is normally not our peak season of sales; (ii) an increase in trade and bills payables of approximately RMB51.7 million primarily due to increase in purchases to prepare for our peak season in 3 months before 31 August 2016 as compared to the 3 months before 31 December 2015, offset primarily by increase in inventory of approximately RMB101.8 million due to expected production needs for our peak season, which usually occurs in every October to January.

For the eight months ended 31 August 2015, our net cash generated from operating activities amounted to approximately RMB38.5 million, which primarily reflected our profit before tax of approximately RMB63.4 million, as positively adjusted primarily by an increase in trade and bills payables of approximately RMB36.3 million, which was caused by the increase of purchase to prepare for our peak season in 3 months before 31 August 2015 as compared to the 3 months before 31 December 2014, offset primarily by (i) an increase in inventory of approximately RMB34.2 million due to increase in raw materials for expected production needs for our peak season, which usually occurs in every October to January; and (ii) an increase in trade and bills receivables of approximately RMB10.1 million due to increase in sales.

For the year ended 31 December 2015, our net cash generated from operating activities amounted to approximately RMB110.6 million, which primarily reflected our profit before tax of approximately RMB103.2 million, as positively adjusted primarily by an increase in trade and bills payables of approximately RMB176.0 million mainly as a result of an increase of purchase due to increase in our sales, offset primarily by (i) an increase in inventories by approximately RMB54.8 million mainly due to an increase in work in progress stored at our warehouses as at 31 December 2015 for processing into finished products; (ii) an increase in trade and bills receivables by approximately RMB71.3 million mainly due to an increase of sales in the fourth quarter of 2015 as compared to the same period in 2014; and (iii) an increase in prepayments, deposits and other receivables by approximately RMB52.2 million mainly due to prepaid Listing expenses and an increase in advances to certain suppliers.

For the year ended 31 December 2014, our net cash generated from operating activities amounted to approximately RMB34.2 million, which primarily reflected our profit before tax of approximately RMB37.8 million, as positively adjusted primarily by (i) depreciation of property, plant and equipment of approximately RMB15.4 million; and (ii) finance costs of approximately RMB28.3 million, offset primarily by an increase in inventories by approximately RMB46.5 million primarily due to slow down in the sales of our products in the year ended 31 December 2014.

For the year ended 31 December 2013, our net cash generated from operating activities amounted to approximately RMB57.4 million, which primarily reflected our profit before tax of approximately RMB44.1 million, as positively adjusted primarily by (i) finance costs of

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approximately RMB34.9 million; and (ii) an increase in trade and bills payables by approximately RMB21.2 million, offset primarily by an increase in inventories by approximately RMB56.0 million mainly due to slow down in the sales of our products in the year ended 31 December 2014.

### *Cash flows from investing activities*

For the eight months ended 31 August 2016, our net cash flows used in investing activities amounted to approximately RMB114.7 million, which were mainly attributable to (i) net advance to related parties of approximately RMB85.0 million; (ii) an increase in pledged deposits of approximately RMB40.3 million due to a higher pledged deposits for our bills payables and bank loans required by banks; and (iii) a loan to Mr. Zou of approximately RMB13.4 million, primarily offset by proceeds from disposal of an available-for-sale investment of approximately RMB26.0 million.

For the eight months ended 31 August 2015, our net cash flows generated from investing activities amounted to approximately RMB7.5 million, which were mainly attributable to proceeds from disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) of approximately RMB15.3 million, and was partially offset by net advance to related parties of approximately RMB9.3 million.

For the year ended 31 December 2015, our net cash flows used in investing activities amounted to approximately RMB18.6 million, which were mainly attributable to cash used for purchases of an available-for-sale investment of approximately RMB26.0 million and an increase in pledged deposits by approximately RMB40.8 million. Our cash outflow was partially offset by repayment from related parties of approximately RMB38.3 million and proceeds from disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) of approximately RMB15.3 million.

For the year ended 31 December 2014, our net cash flows from investing activities amounted to approximately RMB186.2 million, which were mainly attributable to cash generated from (i) a decrease in pledged deposits by approximately RMB150.4 million; and (ii) repayment from related parties of approximately RMB51.6 million and was partially offset by payment for purchases of items of property, plant and equipment of approximately RMB21.8 million.

For the year ended 31 December 2013, our net cash flows used in investing activities amounted to approximately RMB56.9 million, which were mainly attributable to an increase in pledged deposits by approximately RMB74.1 million and was partially offset by repayment from related parties of approximately RMB20.1 million.

### *Cash flows from financing activities*

For the eight months ended 31 August 2016, our net cash flows generated from financing activities amounted to approximately RMB47.1 million, which were mainly attributable to an increase in bank borrowings of approximately RMB341.4 million, and was partially offset by repayment of bank borrowings of approximately RMB285.7 million.

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For the eight months ended 31 August 2015, our net cash flows generated from financing activities amounted to approximately RMB5.1 million, which were mainly attributable to an increase in bank borrowings of approximately RMB277.0 million, and was partially offset by (i) repayment of bank borrowings of approximately RMB190.7 million; and (ii) changes in discounted bills loans of approximately RMB70.7 million.

For the year ended 31 December 2015, net cash flows used in financing activities were approximately RMB70.1 million, which were mainly attributable to repayment of (i) discounted bills loans of approximately RMB132.1 million; and (ii) bank borrowings of RMB381.2 million. The cash outflow was partially offset by proceeds from bank borrowings of RMB461.7 million to supplement our working capital.

For the year ended 31 December 2014, net cash flows used in financing activities were approximately RMB241.3 million, which were mainly attributable to (i) repayment of discounted bills loans of approximately RMB130.2 million; and (ii) repayment of bank borrowings of approximately RMB261.0 million, offset primarily by proceeds from bank borrowings of RMB178.2 million.

For the year ended 31 December 2013, net cash flows used in financing activities were approximately RMB87.4 million, which were mainly attributable to repayment of (i) other borrowings of approximately RMB120.0 million; (ii) bank borrowings of approximately RMB141.0 million; and (iii) discounted bills loans of approximately RMB62.9 million. The cash outflow was partially offset by proceeds from bank borrowings of approximately RMB271.5 million to supplement our working capital.

### NET ASSETS

Our net assets increased from approximately RMB75.1 million as at 31 December 2015 to approximately RMB115.5 million as at 31 August 2016, which was primarily resulted from the net profit of approximately RMB40.1 million recorded for the eight months ended 31 August 2016. Our net assets increased from approximately RMB305.4 million as at 31 December 2014 to approximately RMB389.1 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily resulted from the net profit of approximately RMB83.1 million recorded for the year ended 31 December 2015. Our net assets decreased from approximately RMB389.1 million immediately prior to the deemed distribution as at 31 December 2015 to approximately RMB75.1 million as at 31 December 2015, as a result of the deemed distribution to Mr. Zou and Ms. Wu, please refer to the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section for further details. Our net assets increased from approximately RMB280.9 million as at 31 December 2013 to approximately RMB305.4 million as at 31 December 2014 mainly as a result of the profit of RMB24.4 million recorded for the year ended 31 December 2014.

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### NET CURRENT ASSETS

The following table sets out our current assets and liabilities as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution	As at	As at
	2013	2014	2015	2015	31 August 2016	30 November 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)		(Unaudited)
<b>CURRENT ASSETS</b>						
Inventories	216,298	258,522	200,833	310,066	301,982	296,182
Trade and bills receivables	373,492	409,458	283,812	328,821	165,300	224,028
Prepayments, deposits and other receivables	48,586	39,396	52,355	88,576	44,611	31,447
Due from related parties	996,248	792,949	193,197	745,108	213,087	76,128
Loan to a Director	–	–	–	–	13,382	–
Available-for-sale investment	–	–	26,000	26,000	–	–
Pledged deposits	225,454	75,087	96,477	96,477	136,747	213,527
Cash and cash equivalents	31,297	10,640	33,131	33,131	60,257	65,515
<b>Total current assets</b>	<u>1,891,375</u>	<u>1,586,052</u>	<u>885,805</u>	<u>1,628,179</u>	<u>935,366</u>	<u>906,827</u>
<b>CURRENT LIABILITIES</b>						
Trade and bills payables	1,382,634	1,105,492	476,463	983,549	509,572	421,354
Other payables and accruals	73,474	81,690	57,938	84,579	58,829	54,714
Due to related parties	52,157	68,842	95,647	33,668	7,412	–
Interest-bearing bank borrowings	220,450	137,650	198,116	198,116	251,632	279,707
Warranty provision	2,876	3,605	3,915	3,915	4,840	4,543
Income tax payables	10,698	25,967	30,116	30,116	36,468	49,314
<b>Total current liabilities</b>	<u>1,742,289</u>	<u>1,423,246</u>	<u>862,195</u>	<u>1,333,943</u>	<u>868,753</u>	<u>809,632</u>
<b>Net current assets</b>	<u><u>149,086</u></u>	<u><u>162,806</u></u>	<u><u>23,610</u></u>	<u><u>294,236</u></u>	<u><u>66,613</u></u>	<u><u>97,195</u></u>

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As at 30 November 2016, we had net current assets of approximately RMB97.2 million as compared to net current assets of approximately RMB66.6 million as at 31 August 2016. This change was primarily due to the combined effect of (i) an increase in the pledged deposits by approximately RMB76.8 million due to an increase in bills payables and bank loans guaranteed by pledged deposits; (ii) a decrease in due from related parties and loan to a director by approximately RMB150.3 million; (iii) a decrease in accounts payables by approximately RMB88.2 million due to settlements to suppliers; and (iv) an increase in interest-bearing bank borrowings by approximately RMB28.1 million.

As at 31 August 2016, we had net current assets of approximately RMB66.6 million as compared to net current assets of approximately RMB23.6 million as at 31 December 2015. This change was primarily due to the combined effect of (i) an increase in inventories of approximately RMB101.1 million primarily due to expected production needs for our peak season, which usually occurs in every October to January; (ii) a decrease in trade and bills receivables of approximately RMB118.5 million primarily due to that June to August of each year is normally not our peak season of sales; (iii) a decrease in due to related parties of approximately RMB88.2 million; and (iv) an increase in interest-bearing bank borrowings of approximately RMB53.5 million due to increased working capital needs as a result of an increase in sales for the eight months ended 31 August 2016.

Immediately prior to the deemed distribution as at 31 December 2015, we had net current assets of approximately RMB294.2 million as compared to net current assets of approximately RMB162.8 million as at 31 December 2014. This change was primarily due to the combined effect of (i) an increase in inventories of approximately RMB51.5 million primarily due to the increase in production volume in 2015 and an estimation of more sales in the coming period; (ii) a decrease in trade and bills receivables of approximately RMB80.6 million due to the discounting of less low credit rating bills which could not satisfy the derecognition criteria of the relevant accounting standard, to obtain financing from banks; (iii) an increase in prepayments, deposits and other receivables of approximately RMB49.2 million primarily as a result of increase in VAT refund to which the Group's export sales are entitled and increase in prepaid Listing expenses; (iv) a decrease in trade and bills payables of approximately RMB121.9 million due to decrease in using bills for financing intra-group purchases and disposal of Haining Mengnu Leather Products Co., Ltd (海寧蒙努皮革製品有限公司) in the year ended 31 December 2015; and (v) an increase in interest-bearing bank borrowings of approximately RMB60.5 million due to increased working capital needs as a result of increased in sales in the year ended 31 December 2015. Our net current asset decreased from approximately RMB294.2 million immediately prior to the deemed distribution as at 31 December 2015 to approximately RMB23.6 million as at 31 December 2015 as a result of the deemed distribution to Mr. Zou and Ms. Wu. Please refer to the subsection headed "Deemed Distribution to Mr. Zou and Ms. Wu" under this section for further details.

As at 31 December 2015, we had net current assets of approximately RMB23.6 million as compared to net current assets of approximately RMB162.8 million as at 31 December 2014. Such change was primarily due to the deemed distribution to Mr Zou and Ms Wu, which resulted in a substantial decrease in net current assets by RMB270.6 million, partly offset by increase in (i) pledged deposits of RMB21.4 million; and (ii) cash and cash equivalents of RMB22.5 million; and (iii) available-for-sale investment of RMB26.0 million. For details of the deemed distribution to Mr Zou and Ms Wu, please see the subsection headed "Deemed Distribution to Mr Zou and Ms Wu" under this section.

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As at 31 December 2014, we had net current assets of approximately RMB162.8 million as compared to net current assets of RMB149.1 million as at 31 December 2013. This change was primarily due to the combined effect of (i) an increase in inventories of RMB42.2 million primarily due to slow down in the sales of our products in the year ended 31 December 2014; (ii) a decrease in due from related parties of RMB203.3 million; (iii) a decrease in pledged deposits of RMB150.4 million as a result of a reduction of discounted bills loans due to reduced sale volume; (iv) a decrease in trade and bills payables of RMB277.1 million; and (v) a decrease in interest-bearing bank borrowings of RMB82.8 million as a result of reduced sale volume.

As at 31 December 2013, our net current assets were RMB149.1 million.

### Inventory analysis

Our inventory mainly comprised raw materials such as leather and fabric, work in progress of processed leather and sofa covers for further processing into sofas and finished goods of leather and fabric sofas and sofa covers.

The following table sets out the summary of our inventory balances as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution	As at
	2013	2014	2015	2015	31 August 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	91,041	96,841	25,990	48,218	123,944
Work in progress	106,957	136,158	162,382	225,452	117,748
Finished goods	18,300	25,523	12,461	36,396	60,290
	<u>216,298</u>	<u>258,522</u>	<u>200,833</u>	<u>310,066</u>	<u>301,982</u>

Our inventories increased by approximately 50.4%, from approximately RMB200.8 million as at 31 December 2015 to approximately RMB302.0 million as at 31 August 2016, which was primarily due to (i) an increase in procurement of raw materials for expected production needs for our peak season, which usually occurs in every October to January; (ii) an increase in finished goods to prepare for the increasing demand in our peak season, which usually occurs in every October to January; and (iii) a decrease in inventories as at 31 December 2015 as a result of deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed distribution to Mr. Zou and Ms. Wu” under this section.

Our inventories increased by approximately 19.9%, from approximately RMB258.5 million as at 31 December 2014 to approximately RMB310.1 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to the increase in production volume in 2015 and an estimation of more sales in the coming period.

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Our inventories decreased from approximately RMB310.1 million immediately prior to the deemed distribution as at 31 December 2015 to approximately RMB200.8 million as at 31 December 2015 as a result of the deemed distribution to Mr Zou and Ms Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

Our inventories increased by approximately 19.5% from approximately RMB216.3 million as at 31 December 2013 to approximately RMB258.5 million as at 31 December 2014, which was primarily due to slow down in the sales of our products in the year ended 31 December 2014.

We actively monitor our inventory levels for slow moving inventory, obsolescence or declines in market value. Please refer to the subsection headed “Raw Materials and Suppliers – Inventory control and management” under the section headed “Business” in this prospectus for further details. We made provision for obsolete and slow-moving inventories of approximately RMB3.7 million, RMB2.5 million, RMB2.7 million and RMB0.6 million for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, respectively. We also wrote down some of our inventories to net realisable value by approximately RMB0.3 million, RMB1.0 million, nil and nil for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016, respectively.

The following table sets out the average inventory turnover days as at the dates indicated:

	<b>Year ended 31 December</b>			<b>Immediately prior to the deemed distribution 2015</b>	<b>Eight months ended 31 August 2016</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>		
Average inventory turnover day	89.2	132.9	118.6	146.9	145.9

*Note:* Average inventory turnover days is calculated based on the average balance of inventory divided by cost of sales for the relevant year/period and multiplied by 365 days for the year ended 31 December 2013, 2014 and 2015, and by 240 days for the eight months ended 31 August 2016. Average balance of inventory is calculated as the sum of inventory at the beginning of the year/period plus inventory at the end of the year/period and divided by two.

The average inventory turnover days increased from approximately 118.6 days for the year ended 31 December 2015 to approximately 145.9 days for the eight months ended 31 August 2016 due to (i) an increase in procurement of raw materials for expected production needs for our peak season, which usually occurs in every October to January; (ii) an increase in finished goods to prepare for the increasing demand in our peak season, which usually occurs in every October to January; and (iii) a decrease in inventories as at 31 December 2015 as a result of deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

The average inventory turnover days increased from approximately 132.9 days for the year ended 31 December 2014 to approximately 146.9 days for the year ended 31 December 2015 immediately prior to the deemed distribution, which was primarily due to the increase in inventories in the end of 2015 in the estimation of more sales in the coming period.

The average inventory turnover days decreased from approximately 146.9 days for the year ended 31 December 2015 immediately prior to the deemed distribution to approximately 118.6 days for the year ended 31 December 2015 as a result of the deemed distribution to Mr Zou and Ms Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

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The average inventory turnover days increased from approximately 89.2 days for the year ended 31 December 2013 to approximately 132.9 days for the year ended 31 December 2014, which was primarily due to slow down in the sales of our products in the year ended 31 December 2014.

Inventories amounted to approximately RMB146.0 million, representing approximately 48.4% of the inventory balance as at 31 August 2016, have been used or sold as at 30 November 2016.

### Trade and bills receivables analysis

Our trade and bills receivables primarily consist of (i) trade receivables arising from sales of sofas and sofa covers to our customers and (ii) bills receivables mainly arising from intra-group sales of sofas and sofa covers. We generally grant a credit period between 30 and 90 days to our customers, including third parties customers and related parties customers.

The following table sets out the balances of our trade and bills receivables, net of impairment losses, as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution 2015	As at 31 August 2016
	2013 RMB'000	2014 RMB'000	2015 RMB'000	RMB'000 (Unaudited)	RMB'000
Trade receivables from third parties	137,497	149,279	169,429	210,648	119,564
Trade receivables from related companies	51,060	80,107	31,155	31,155	4,264
Impairment of trade receivables	(5,658)	(6,265)	–	(7,313)	(68)
Trade receivables, net	182,899	223,121	200,584	234,490	123,760
Bills receivable					
– arising from intra-group sales	189,593	185,217	83,228	94,331	21,741
– arising from transactions with Morris PRC under agency agreement	–	–	–	–	19,769
– arising from third party sales	1,000	1,120	–	–	30
	<u>373,492</u>	<u>409,458</u>	<u>283,812</u>	<u>328,821</u>	<u>165,300</u>



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The trade and bills receivables decreased by approximately 41.8% from approximately RMB283.8 million as at 31 December 2015 to approximately RMB165.3 million as at 31 August 2016, which was primarily due to that June to August of each year is normally not our peak season of sales.

The trade and bills receivables decreased by approximately 19.7% from approximately RMB409.5 million as at 31 December 2014 to approximately RMB328.8 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to the discounting of less low credit rating bills which could not satisfy the derecognition criteria of the relevant accounting standard, to obtain financing from banks.

The difference in trade and bills receivable as at 31 December 2015 and that of immediately prior to the deemed distribution as at 31 December 2015 was due to the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

Our trade and bills receivables increased by approximately 9.6% from approximately RMB373.5 million as at 31 December 2013 to approximately RMB409.5 million as at 31 December 2014, which was primarily due to longer collection period of receivables from Jennifer Convertibles, Inc. in 2014.

The following table sets out the ageing analysis of our trade and bills receivables, based on the invoice date, as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution	As at
	2013	2014	2015	2015	31 August 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	186,429	172,652	205,266	242,581	125,149
4 to 6 months	91,878	83,197	36,837	39,856	26,521
7 to 12 months	66,623	103,957	41,386	45,200	13,630
Over 1 year	28,562	49,652	323	1,184	–
	<u>373,492</u>	<u>409,458</u>	<u>283,812</u>	<u>328,821</u>	<u>165,300</u>

We seeks to maintain strict control over our outstanding receivables and overdue balances are reviewed regularly be our management. We do not hold any collateral or other credit enhancement over our trade and bills receivable balances. Majority of our trade receivables are insured by “China Export and Credit Insurance Corporation” such that our Group would be compensated in the event of default by customers.

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The following table sets out the ageing analyses of our trade and bills receivables that are neither individually nor collectively considered to be impaired as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution 2015	As at 31 August 2016
	2013 RMB'000	2014 RMB'000	2015 RMB'000	RMB'000 (Unaudited)	RMB'000
Neither past due nor impaired	308,542	319,818	257,983	302,131	154,195
Less than 3 months past due	31,668	22,990	13,454	13,454	10,101
3 to 6 months past due	4,527	7,937	5,931	5,931	575
Over 6 months past due	<u>28,755</u>	<u>58,713</u>	<u>6,444</u>	<u>7,305</u>	<u>429</u>
	<u><u>373,492</u></u>	<u><u>409,458</u></u>	<u><u>283,812</u></u>	<u><u>328,821</u></u>	<u><u>165,300</u></u>

The following table sets out our average trade receivables turnover days for the years/period indicated:

	Year ended 31 December			Immediately prior to the deemed distribution 2015	Eight months ended 31 August 2016
	2013	2014	2015		
Average trade receivables turnover days <sup>(1)</sup>	<u>67.1</u>	<u>89.9</u>	<u>83.5</u>	<u>90.1</u>	<u>66.9</u>

*Note:* Average trade receivables turnover days is calculated based on the average net trade receivables divided by the revenue for the relevant year/period multiplied by 365 days for the year ended 31 December 2013, 2014 and 2015, and by 240 days for the eight months ended 31 August 2016. Average net trade receivables is calculated as the sum of net trade receivables at the beginning of the year/period plus net trade receivables at the end of the year/period and divided by two.

The average trade receivables turnover days decreased from approximately 83.5 days for the year ended 31 December 2015 to approximately 66.9 days for the eight months ended 31 August 2016, which was primarily attributable to that June to August of each year is normally not our peak season of sales. The average trade receivables turnover days remained stable at approximately 89.9 days for the year ended 31 December 2014 and approximately 90.1 days for the year ended 31 December 2015 immediately prior to the deemed distribution. The average trade receivables turnover days decreased from approximately 90.1 days for the year ended 31 December 2015 immediately prior to the deemed distribution to approximately 83.5

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days for the year ended 31 December 2015 as a result of the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section. The average trade receivables turnover days increased from approximately 67.1 days for the year ended 31 December 2013 to approximately 89.9 days for the year ended 31 December 2014, which was primarily attributable to the combined effects of longer collection period of receivables from Jennifer Convertibles, Inc. and decrease in sales in 2014.

As at 30 November 2016, approximately RMB123.1 million, or 99.5% of the trade receivables outstanding as at 31 August 2016 had been subsequently settled.

### Prepayments, deposits and other receivables

The major components of our prepayments, deposits and other receivables are primarily (i) prepayments to suppliers; (ii) deposits for import and export; and (iii) input VAT.

	As at 31 December			Immediately prior to the deemed distribution 2015	As at 31 August 2016
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	2,138	6,379	20,266	28,540	2,561
Deposits and other receivables	45,606	32,175	31,933	59,432	41,889
Current portion of prepaid land lease payments	842	842	156	604	161
	<u>48,586</u>	<u>39,396</u>	<u>52,355</u>	<u>88,576</u>	<u>44,611</u>

Our deposits and other receivables decreased from approximately RMB45.6 million as at 31 December 2013 to approximately RMB32.2 million as at 31 December 2014, which was primarily due to the decrease in VAT refund to which our Group’s export sales are entitled in the year ended 31 December 2014, which was in line with the decrease in sales in the year ended 31 December 2014. Our deposits and other receivables increased from approximately RMB32.2 million as at 31 December 2014 to approximately RMB59.4 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to an increase in VAT refund to which our Group’s export sales were entitled in the year ended at 31 December 2015, which was in line with the increase in sales in the year ended 31 December 2015. Our deposits and other receivables increased from approximately RMB31.9 million as at 31 December 2015 to approximately RMB41.9 million as at 31 August 2016, which was primarily due to an increase in customs required deposit percentage due to lower ratings of the import and export licences held by the subsidiaries now comprising the Group as compared to the import and export licence held by Morris PRC prior to the Business Transfer.

Our prepayments increased from approximately RMB2.1 million as at 31 December 2013 to approximately RMB6.4 million as at 31 December 2014, which was primarily due to the increase in prepayments to certain suppliers for the purchase of raw materials such as raw cow

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hides and prepayments for insurance to secure trade receivables from our customers. Our prepayments increased from approximately RMB6.4 million as at 31 December 2014 to approximately RMB28.5 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to prepaid Listing expenses and an increase in advances to certain suppliers. Our prepayments decreased from approximately RMB20.3 million as at 31 December 2015 to approximately RMB2.6 million as at 31 August 2016, which was primarily due to a decrease in prepayments to suppliers for purchasing of raw materials.

The difference in balances of prepayment, deposits and other receivables as at 31 December 2015 and that of immediately prior to the deemed distribution as at 31 December 2015 was due to the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

### Trade and bills payables

Our trade and bills payables primarily relate to (i) our purchase of raw materials from third parties suppliers; and (ii) bills payable arising from our intra-group purchases of sofa covers for further processing into the finished sofas. Trade payables are normally settled on terms of 30 to 180 days. Bills payables are normally settled on a term of 180 days.

The following table sets out the balances of our trade and bills payable as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution 2015	As at 31 August 2016
	2013 RMB'000	2014 RMB'000	2015 RMB'000	RMB'000 (Unaudited)	RMB'000
Trade payables to third parties	298,623	326,137	290,587	377,323	349,048
Trade payables to related companies	19,562	594	4	4	1,265
Bills payable					
– arising from intra-group purchases	981,709	750,568	152,900	505,950	54,758
– arising from transactions with Morris PRC under an agency agreement	–	–	–	–	19,703
– arising from a related party purchase	–	–	–	–	3,378
– arising from third party purchases	82,740	28,193	32,972	100,272	81,420
	<u>1,382,634</u>	<u>1,105,492</u>	<u>476,463</u>	<u>983,549</u>	<u>509,572</u>

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Our trade and bills payables increased from approximately RMB476.5 million as at 31 December 2015 to approximately RMB509.6 million as at 31 August 2016, which was primarily due to an increase in purchases to prepare for our peak season in 3 months before 31 August 2016 as compared to the 3 months prior to 31 December 2015.

Bills payable arising from intra-group purchases decreased from RMB152.9 million as at 31 December 2015 to RMB54.8 million as at 31 August 2016, which was primarily due to settlement and derecognition of bills payable when the bills matured during the eight months ended 31 August 2016.

As at 31 August 2016, bills payable arising from transactions with Morris PRC under the agency agreement amounted to RMB19.7 million. Please refer to the subsection headed “Transfer of Functions and Certain Assets of the Furniture Division in Morris PRC to our Group” under the section headed “History, Reorganisation and Corporate Structure” in this prospectus for further details of the agency arrangement. Such agency arrangement has ceased since mid June 2016. These bills payable arising from transactions with Morris PRC under the agency agreement will be fully settled and derecognised upon maturity.

For the eight months ended 31 August 2016, we purchased leather from Morris PRC, details of which please refer to the subsection headed “Raw Materials and Suppliers” under the section headed “Business” in this prospectus. Bills payable arising from purchases from Morris PRC amounted to RMB3.4 million as at 31 August 2016. We have ceased to purchase leather from Morris PRC since June 2016. These bills payable arising from transactions with Morris PRC purchases will be fully settled and derecognised upon maturity.

Our trade and bills payables decreased from approximately RMB1,105.5 million as at 31 December 2014 to approximately RMB983.5 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to (i) decrease in using bills for financing intra-group purchases; (ii) disposal of Haining Mengnu Leather Products Co., Ltd (海寧蒙努皮革製品有限公司) in the year ended 31 December 2015; and (iii) partly offset by the increase in trade payables to third parties from the purchases of inventories. Our trade and bills payables decreased from approximately RMB983.5 million immediately prior to the deemed distribution as at 31 December 2015 to approximately RMB476.5 million as at 31 December 2015 as a result of the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section. Our trade and bills payables decreased from approximately RMB1,382.6 million as at 31 December 2013 to approximately RMB1,105.5 million as at 31 December 2014, which was primarily due to decrease in using bills for financing intra-group purchases, and decrease in intra-group purchases which was in line with decrease in sales.

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The intra-group bills financing arose from intra-group transactions. Zhejiang Apollo Leather Products manufactures sofa covers, part of which are then sold to Haining Morris Home Gallery and Haining Gelin Furniture through the furniture division of Morris PRC for production of sofas and then exported to the overseas customers through the furniture division of Morris PRC. The remaining sofa covers are sold to the furniture division of Morris PRC which are then exported to the overseas customers. Bills have been used in each type of intra-group sale and purchase transaction above.

As at 31 December 2013, 2014, 2015 and immediately prior to the deemed distribution as at 31 December 2015 and 31 August 2016, certain bills payable were secured by pledged deposits provided by Morris PRC with aggregate carrying amounts of approximately RMB417.8 million, RMB286.4 million, RMB236.1 million, RMB236.1 million and nil, respectively. In addition, certain bills payable were secured by personal guarantees, life insurance policy and properties provided by our Controlling Shareholders, corporate guarantees provided by Morris PRC and other related companies controlled by our Controlling Shareholders, and corporate guarantees provided by independent third parties. Such pledged assets and/or personal/corporate guarantees provided by our Controlling Shareholders and/or related companies controlled by our Controlling Shareholders will be released before or upon Listing.

The following table sets out the ageing analysis of our trade and bills payables, based on the invoice date, as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution	As at
	2013	2014	2015	2015	31 August 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Within 1 month	94,926	75,476	47,127	110,911	174,856
1 to 3 months	408,979	222,395	132,452	232,833	113,755
3 to 6 months	565,947	479,153	196,048	448,966	164,334
Over 6 months	312,782	328,468	100,836	190,839	56,627
	<u>1,382,634</u>	<u>1,105,492</u>	<u>476,463</u>	<u>983,549</u>	<u>509,572</u>

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The following table sets out our average trade payables turnover days for the years/period indicated:

	<b>Year ended 31 December</b>			<b>Immediately prior to the deemed distribution 2015</b>	<b>Eight months ended 31 August 2016</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>		
Average trade payables turnover days	115.2	180.5	159.5	181.9	185.9

*Note:* Average trade payables turnover days is calculated based on the average trade payables divided by cost of sales for the relevant year/period multiplied by 365 days for the year ended 31 December 2013, 2014 and 2015, and by 240 days for the eight months ended 31 August 2016. Average trade payables is calculated as the sum of trade payables at the beginning of the year/period and trade payables at the end of the year/period and divided by two.

The average trade payables turnover days increased from approximately 159.5 days for the year ended 31 December 2015 to approximately 185.9 days for the eight months ended 31 August 2016, which was primarily attributable to an increase in purchases to prepare for our peak season in 3 months before 31 August 2016 as compared to the 3 months before 31 December 2015. Our average trade payables turnover days remained stable at 180.5 days for the year ended 31 December 2014 and approximately 181.9 days for the year ended 31 December 2015 immediately prior to the deemed distribution because we normally use bills, which normally has credit terms of 180 days, to settle trade payables. The average trade payables turnover days decreased from approximately 181.9 days for the year ended 31 December 2015 immediately prior to the deemed distribution to approximately 159.5 days for the year ended 31 December 2015 as a result of the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section. The average trade payables turnover days increased from approximately 115.2 days to approximately 180.5 days for the years ended 31 December 2013 and 2014 primarily because we reduced purchase from overseas suppliers which normally granted relatively short credit term to us. We had average trade payables turnover day longer than our average credit term granted by our suppliers since we settled more trade payables by bills, which normally has credit term of 180 days. However, we couldn’t derecognise the relevant trade payables even though we already settled the relevant trade payables by bills as we couldn’t meet certain criteria for derecognition of financial liability pursuant to the relevant accounting standard. The relevant trade payables are derecognised when the respective bills payables are matured.

As at 30 November 2016, approximately RMB213.4 million, or 60.9% of the trade payables outstanding as at 31 August 2016 were settled.

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### Other payables and accruals

The following table sets forth our other payables and accruals as at the dates indicated:

	As at 31 December			Immediately prior to the deemed distribution	As at 31 August
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	62,680	68,881	51,490	73,896	46,733
Accruals	7,633	9,123	5,569	8,440	11,192
Receipt in advance	3,161	3,686	879	2,243	904
	<u>73,474</u>	<u>81,690</u>	<u>57,938</u>	<u>84,579</u>	<u>58,829</u>

Other payables primarily consist of other tax payables and staff welfare payables. Our other payables decreased from RMB51.5 million as at 31 December 2015 to approximately RMB46.7 million as at 31 August 2016, which was primarily due to a decrease in other tax payables. Our other payables increased from RMB68.9 million as at 31 December 2014 to approximately RMB73.9 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to the increase in other tax payables in relation to miscellaneous taxes such as VAT, business tax, city construction tax, city education tax as a result of increased sales in 2015. The other payables increased by approximately 9.9% from approximately RMB62.7 million as at 31 December 2013 to approximately RMB68.9 million as at 31 December 2014, which was primarily due to the increase in staff welfare payables resulted from increase of allowances to our staff and increase in payables of construction of production facility in Cambodia.

Our accruals mainly comprise (i) accrued training allowance for staff; and (ii) accrued carriage inward expense to a logistics company for the delivery of imported raw materials. Our accruals increased from approximately RMB5.6 million as at 31 December 2015 to approximately RMB11.2 million as at 31 August 2016, which was primarily due to increase in accruals of Listing expenses of approximately RMB4.1 million. Our accruals decreased from approximately RMB9.1 million as at 31 December 2014 to approximately RMB8.4 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to the decrease in the number of staff as a result of the disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司). Our accruals increased from approximately RMB7.6 million as at 31 December 2013 to approximately RMB9.1 million as at 31 December 2014, which was primarily due to the increase in salaries in 2014.

Our receipt in advance mainly consists of payment in advance from local customers for leather processed by Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司). Our receipt in advance remained stable at approximately RMB0.9 million as at 31 December 2015 and 31 August 2016. Our receipt in advance decreased from approximately RMB3.7 million as at 31 December 2014 to approximately RMB2.2 million immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to the disposal of Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) in 2015. The receipt in advance increased slightly from approximately RMB3.2 million as at 31 December 2013 to approximately RMB3.7 million as at 31 December 2014, which was primarily due to the increase in orders received from customers for processed leather.



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The difference in balances of other payables and accruals as at 31 December 2015 and that of immediately prior to the deemed distribution as at 31 December 2015 was due to the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

### Amount due from/(to) related parties

An analysis of the balances with related parties is as follows:

	As at 31 December			Immediately prior to the deemed distribution	As at 31 August
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
<b>Amounts due from related parties</b>					
Morris PRC	925,284	731,435	182,534	727,743	202,813
Haining Morris International Leather Garment Co., Ltd.* (“Morris Garment”) (海寧慕容國際皮草有限公司)	26	26	1	1	–
Haining Morris Leather Co., Ltd.	23,605	–	–	–	96
Zhejiang Morris Property Co., Ltd.	392	528	10	211	–
Haining Morris Trading Co., Ltd.	76	7,793	1,170	1,170	162
Haining Morris Coffee Catering Co., Ltd.	–	176	176	176	–
Morris Capital Limited	–	–	12	12	23
Jennifer Convertibles, Inc.	5,101	6,260	–	–	–
Mr. Zou	41,497	46,470	9,016	15,517	9,510
Ms. Wu	267	261	278	278	483
	<u>996,248</u>	<u>792,949</u>	<u>193,197</u>	<u>745,108</u>	<u>213,087</u>
<b>Loan to a Director</b>					
Mr. Zou	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,382</u>

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	As at 31 December			Immediately prior to the deemed distribution	As at 31 August
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
<b>Amounts due to related parties</b>					
Morris PRC	–	–	95,639	–	7,412
Haining Morris International Leather Garment Co., Ltd.	8	9,030	–	29,926	–
Haining Morris Leather Co., Ltd.	51,372	25,676	–	–	–
Zhejiang Morris Property Co., Ltd.	777	–	–	–	–
Haining Morris Trading Co., Ltd.	–	5,618	8	8	–
Jennifer Convertibles, Inc.	–	3,518	–	3,734	–
Mr. Zou	–	25,000	–	–	–
	<u>52,157</u>	<u>68,842</u>	<u>95,647</u>	<u>33,668</u>	<u>7,412</u>

\* For identification purpose only

The amounts due from Morris PRC was approximately RMB925.3 million, RMB731.4 million, RMB182.5 million, RMB727.7 million and RMB202.8 million as at 31 December 2013, 2014, 2015 and immediately prior to the deemed distribution as at 31 December 2015 and 31 August 2016, respectively. The balances as at 31 December 2013 and 2014 were resulted from receipts and payments by non-furniture division of Morris PRC on behalf of the furniture division of Morris PRC. The furniture division of Morris PRC historically acted as the import and export vehicle of our Group's business since the export business has been set up and customers/suppliers relationships has been established by the furniture division of Morris PRC. However, the furniture division of Morris PRC did not operate a bank or cash account or hold any cash equivalents during the three years ended 31 December 2015, as a result, all cash payments and cash receipts were made by the treasury function within the non-furniture division of Morris PRC on behalf of the furniture division of Morris PRC. The cash and cash equivalents balances recorded in the statement of financial position of our Group during the three years ended 31 December 2015 and subsequently after the completion of the Business Transfer, represented cash and cash equivalents of subsidiaries now comprising our

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Group, being Mstar International Trading (HK), Haining Mengnu Leather Products Co., Ltd., Zhejiang Apollo Leather Products, Haining Gelin Furniture and Haining Morris Home Gallery, all of which have maintained bank accounts with relevant banks. For the three years ended 31 December 2015, on behalf of the furniture division of Morris PRC by non-furniture division of Morris PRC, the relevant receipts from third party customers and Jennifer Convertibles, Inc. were RMB966.6 million, RMB439.7 million and RMB228.2 million, respectively and the relevant payments to third party suppliers and operating cost were RMB225.0 million, RMB216.2 million and RMB179.8 million, respectively.

After the Business Transfer on 31 December 2015 and up to the Latest Practicable Date, Morris PRC did not make any receipts and payments on behalf of our Group, except for Morris PRC continued to receive payments on behalf of our Group from Customer C, which was due to the fulfillment of purchase orders placed by Customer C to Morris PRC from April to November 2015. Such payment arrangement will cease immediately upon the fulfillment of the remaining purchase orders and collection of related sales receipts from Customer C which is expected to be no later than Listing. Since 20 November 2015, Customer C has started placing purchase orders directly to Mstar International Trading (HK).

The amounts due from Morris PRC as at 31 December 2015 and 31 August 2016 were the amounts due from Morris PRC by the companies within the Group. As a result of the deemed distribution to Mr. Zou and Ms. Wu, the furniture division of Morris PRC was no longer within the Group. Therefore, such balance was not eliminated on consolidation since 31 December 2015. The amounts due from Morris PRC increased from approximately RMB182.5 million as at 31 December 2015 to approximately RMB202.8 million as at 31 August 2016, which was primarily due to advances to Morris PRC for its working capital purpose.

No amount due to Morris PRC as at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015, respectively. As a result of the deemed distribution to Mr. Zou and Ms. Wu, the furniture division of Morris PRC was no longer within the Group. Therefore the amounts due to Morris PRC by the companies within the Group of approximately RMB95.6 million and RMB7.4 million were not eliminated on consolidation as at 31 December 2015 and 31 August 2016, respectively.

Our Directors confirmed that the balances of amounts due from/(to) Morris PRC has been settled before 2 December 2016.

Save as disclosed above, all the other amounts due from/(to) related parties were non-trade in nature. The balances with our Controlling Shareholders are unsecured, interest-free and repayable on demand. The loan to Mr. Zou is unsecured, interest-free and repayable on demand. The loan to Mr. Zou and the amounts due from Mr. Zou have been settled on 22 November 2016.

Our Directors confirmed that all non-trade balances with the related companies and Controlling Shareholders will be settled upon Listing.

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### Related Party Transactions

With respect to the related parties transactions set forth in note 35 to the Accountants' Report set forth in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

Save for the sales to Jennifer Convertibles, Inc., none of the related party transactions set out in Note 35 to the Accountants' Report in Appendix I to this Prospectus will continue after Listing. Furthermore, we have leased certain premises from Morris PRC for use as our factory, direct sale store and office. These transactions will constitute related party transactions. For details of the continuing connected transactions, see the section headed "Connected Transactions" in this prospectus.

### TRANSFER OF FINANCIAL ASSETS

#### Transferred financial assets that are not derecognised in their entirety

The table below set forth the factored trade receivables, discounted and endorsed bills receivables with recourse at the end of each year/period during the Track Record Period. None of the Group's factored trade receivables, discounted and endorsed bills receivables were without recourse during the Track Record Period.

		<b>As at 31 December</b>			<b>Immediately prior to the deemed distribution 2015</b>	<b>As at 31 August 2016</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Factored trade receivables with recourse	<i>(i)</i>	–	–	80,489	80,489	50,732
Discounted bills receivables with recourse	<i>(ii)</i>	82,000	52,660	–	–	–
Endorsed bills receivables with recourse	<i>(iii)</i>	67,294	127,892	82,888	92,760	41,539

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*(i) Factored trade receivables with recourse*

As part of our normal business, our Group entered into a trade receivable factoring arrangement (the “**Factoring Arrangement**”) with recourse and transferred certain trade receivables to a bank. Under the Factoring Arrangement, our Group was exposed to the default risk of the trade debtors after the transfer. The aggregate carrying amount of the trade receivables transferred under the Factoring Arrangement that has not been settled and continued to be recognised by our Group immediately prior to the deemed distribution as at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and as at 31 December 2015 and 31 August 2016 was approximately RMB80.5 million, RMB80.5 million and RMB50.7 million, respectively. No such Factoring Arrangement was entered into by our Group as at 31 December 2013 and 2014.

*(ii) Discounted bills receivables with recourse*

As at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and as at 31 December 2015 and 31 August 2016, our Group discounted certain bills receivable accepted by banks in the PRC in respect of intra-group sale transactions to banks on a recourse basis to obtain financing. Our Directors are of the view that our Group is exposed to default risks of certain issuing banks after the transfer, and therefore, our Group continued to recognise the full carrying amounts of the discounted bills receivable from such issuing banks (the “**Discounted Bills**”) and the associated loans and liabilities. Subsequent to the transfer of the Discounted Bills, our Group did not retain any rights on the use of the Discounted Bills, including the sale, transfer or pledge of the Discounted Bills to any other third parties. As at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and as at 31 December 2015 and 31 August 2016, the aggregate carrying amounts of the Discounted Bills were approximately RMB82.0 million, RMB52.7 million, nil, nil and nil, respectively.

*(iii) Endorsed bills receivables with recourse*

As at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and as at 31 December 2015 and 31 August 2016, our Group endorsed certain bills receivable accepted by banks in the PRC to certain of our suppliers in order to settle the trade payables due to such suppliers. Our Directors are of the view that our Group has retained the substantial risks and rewards, which include default risks of certain issuing banks after the endorsement, and accordingly, our Group continued to recognise the full carrying amounts of the endorsed bills receivable from such issuing banks (the “**Endorsed Bills**”) and the associated trade payables settled. Subsequent to the endorsement, our Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. As at 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and as at 31 December 2015 and 31 August 2016, the aggregate carrying amounts of the Endorsed Bills were approximately RMB67.3 million, RMB127.9 million, RMB92.8 million, RMB82.9 million and RMB41.5 million, respectively.

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### **Transferred financial assets that are derecognised in their entirety**

At 31 December 2013, 2014, immediately prior to the deemed distribution as at 31 December 2015 and 2015 and 31 August 2016, our Group discounted and endorsed certain bills receivable accepted by banks in Mainland China (the “**Derecognised Bills**”) to certain banks in order to obtain additional financing or certain of our suppliers in order to settle the trade payables due to such suppliers with carrying amounts in aggregate of approximately RMB709.9 million, RMB493.3 million, RMB372.3 million, RMB310.1 million and RMB184.8 million, respectively. The Derecognised Bills had a maturity of one to six months at the end of each reporting period during the Track Record Period. In accordance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法), the holders of the Derecognised Bills have a right of recourse against our Group if the PRC banks default (the “**Continuing Involvement**”). Our Directors are of the view that our Group has transferred substantially all risks and rewards relating to the Derecognised Bills because the default risk of these PRC banks is assessed to be minimal. Accordingly, we have derecognised the full carrying amounts of the Derecognised Bills and the associated liabilities. The maximum exposure to loss from our Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. Our Directors are of the view that the fair values of our Group’s Continuing Involvement in the Derecognised Bills are not significant. During the Track Record Period, our Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during each reporting period or cumulatively. The discounting and endorsement had been made evenly throughout each reporting period during the Track Record Period.

### **CAPITAL EXPENDITURES**

#### **Capital expenditures during the Track Record Period**

Our Group’s capital expenditures for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016 principally consisted of expenditures on acquisitions of plant and machinery, furniture, fixtures, and office equipment, motor vehicles, leasehold improvements and construction in progress. We have funded our historical capital expenditures mainly through cash flows generated from operating activities and bank borrowings.

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The following table sets out our Group's historical capital expenditures during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Historical capital expenditures</b>				
Plant and machinery	1,356	1,017	505	2,761
Furniture, fixtures and office equipment	858	431	255	272
Motor vehicles	2,130	216	405	–
Leasehold improvements	–	845	442	–
Construction in progress	594	23,132	5,251	–
<b>Total</b>	<u>4,938</u>	<u>25,641</u>	<u>6,858</u>	<u>3,033</u>

### Capital commitments

Our Group had the following capital commitments as at the dates indicated:

	As at 31 December			As at 31 August
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for				
– Buildings	<u>25,584</u>	<u>2,568</u>	<u>545</u>	<u>562</u>

Our Group's capital commitments as at 31 December 2013, 2014 and 2015 and 31 August 2016 principally represented our commitment in relation to expenditure on buildings located in Cambodia.

### Operating lease commitments

Our Group leases an office property, showrooms and factory premises under operating lease arrangements. The leases for these properties are negotiated for terms ranging from 1.5 to 10 years.

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Our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i> <i>RMB'000</i>
Within one year	1,014	4,719	1,487	3,059
In the second to fifth years, inclusive	1,561	2,141	–	3,924
	<u>2,575</u>	<u>6,860</u>	<u>1,487</u>	<u>6,983</u>

As disclosed in the section headed “Connected Transactions” in this prospectus, pursuant to the respective Lease Agreements, Zhejiang Apollo Leather Products, Haining Gelin Furniture, Haining Morris Home Gallery and Haining Morris International (as the case may be) could terminate the Lease Agreements unilaterally if they consider that the Lease Properties cannot fulfill their production and operational requirements. As a result, the rents as stipulated in the respective Lease Agreements were not included in the above operating lease commitments.

### INDEBTEDNESS

#### Interest-bearing bank borrowings

The following table sets out our interest-bearing bank borrowings, all of which were repayable within one year or on demand, as at the dates indicated:

	As at 31 December			As at	As at
	2013	2014	2015	31 August	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i> <i>RMB'000</i>	<i>2016</i> <i>RMB'000</i> (Unaudited)
<b>Current – secured</b>					
Bank loans	138,450	84,990	117,627	200,900	241,769
Discounted bills loans with recourse	82,000	52,660	–	–	–
Factoring loans with recourse	–	–	80,489	50,732	37,938
<b>Total</b>	<u>220,450</u>	<u>137,650</u>	<u>198,116</u>	<u>251,632</u>	<u>279,707</u>



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As at 31 December 2013, 2014 and 2015, 31 August 2016 and 30 November 2016, our Group's bank borrowings were denominated in the following currencies:

	As at 31 December			As at	As at
	2013	2014	2015	31 August	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i>	<i>2016</i>
				<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)
RMB	220,450	137,650	70,450	200,900	200,450
US\$	–	–	127,666	50,732	79,257
<b>Total</b>	<b>220,450</b>	<b>137,650</b>	<b>198,116</b>	<b>251,632</b>	<b>279,707</b>

The following table sets out an effective interest rate analysis of our bank borrowings as at the dates indicated:

	As at 31 December			As at	As at
	2013	2014	2015	31 August	30 November
				2016	2016
Bank borrowings	4.2% to 7.2%	4.7% to 7.5%	1.4% to 8.5%	1.3% to 7.4%	1.3% to 7.4%

Our total outstanding bank borrowings amounted to RMB220.5 million, RMB137.7 million, RMB198.1 million, RMB251.6 million and RMB279.7 million respectively as at 31 December 2013, 2014 and 2015, 31 August 2016 and 30 November 2016. Our bank borrowings amount fluctuated during the Track Record Period in accordance with the financing needs in that year.

As at 31 December 2013, 2014 and 2015, certain borrowings are secured by (i) a pledge of the Group's land and building; (ii) a pledged deposit provided by Morris PRC; (iii) pledges of certain parcels of land and buildings which were provided by Morris PRC; (iv) pledges of certain properties which were provided by our Controlling Shareholders; (v) a pledge of our Group's receivable from Morris PRC; (vi) personal guarantees provided by our Controlling Shareholders; (vii) corporate guarantees provided by Morris PRC; (viii) corporate guarantees provided by Zhejiang Morris Property Co., Ltd., a company controlled by our Controlling Shareholders; and (ix) corporate guarantees provided by independent third parties. As at 31 August 2016 and 30 November 2016, the abovementioned (i) a pledge of the Group's land and building; (ii) a pledged deposit provided by Morris PRC; and (iii) a pledge of our Group's receivable from Morris PRC have been released. As such, certain borrowings of our Group are secured by the remaining pledges and guarantees and also our Group's trade receivables.

As at 30 November 2016, bank borrowings of approximately RMB200.0 million are secured by pledged assets and/or personal/corporate guarantees provided by our Controlling Shareholders and/or companies controlled by our Controlling Shareholders which will be released or replaced before or upon the Listing.

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## FINANCIAL INFORMATION

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Our bank borrowings increased by approximately 27.0%, from approximately RMB198.1 million as at 31 December 2015 to approximately RMB251.6 million as at 31 August 2016, which was primarily attributable to net drawdown of bank borrowings of approximately RMB53.5 million for the eight months ended 31 August 2016.

Our bank borrowings increased by approximately 43.9%, from approximately RMB137.7 million as at 31 December 2014 to approximately RMB198.1 million as at 31 December 2015, which was primarily attributable to addition of factoring loans with recourse of RMB80.5 million.

Our bank borrowings decreased by approximately 37.6%, from approximately RMB220.5 million as at 31 December 2013 to approximately RMB137.7 million as at 31 December 2014, which was primarily attributable to the decrease in both bank borrowings and discounted bills as our working capital needs reduced.

As at 30 November 2016, our total banking facilities in the PRC and outside the PRC were RMB285.8 million and US\$29.0 million respectively, among which RMB241.8 million and US\$5.5 million (equivalent to approximately RMB37.9 million) were utilised as at 30 November 2016.

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## FINANCIAL INFORMATION

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### CONTINGENT LIABILITIES

As at the dates indicated, our Group had the following financial guarantees:

	As at 31 December			As at	As at
	2013	2014	2015	31 August	30 November
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i>	<i>2016</i>
			<i>RMB'000</i>		<i>RMB'000</i>
Guarantees given to banks in connection with facilities granted to:					
Related party –					
Morris PRC	50,000	170,000	150,000	120,000	120,000
Third parties	<u>67,000</u>	<u>43,000</u>	<u>24,200</u>	<u>–</u>	<u>–</u>
	<u>117,000</u>	<u>213,000</u>	<u>174,200</u>	<u>120,000</u>	<u>120,000</u>
Utilised to the extent of the following amounts by:					
Related party –					
Morris PRC	50,000	154,700	103,324	82,000	82,000
Third parties	<u>65,200</u>	<u>43,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>115,200</u>	<u>197,700</u>	<u>103,324</u>	<u>82,000</u>	<u>82,000</u>

Our Group provided guarantees to third party companies due to their relationship with Mr. Zou. As at the Latest Practicable Date, all such financial guarantees provided to third parties were released. We will release all financial guarantees provided to Morris PRC before Listing.

Save for the financial guarantees disclosed above, our Group did not have any significant contingent liabilities as at the end of each reporting period during the Track Record Period.

Our Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since 31 August 2016 and up to the Latest Practicable Date.

Except as disclosed above and apart from intra-group liabilities and normal trade payables, as at 30 November 2016, being latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## FINANCIAL INFORMATION

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since 30 November 2016.

### LISTING EXPENSES

We expect to incur a total of approximately RMB39.9 million (which is equivalent to approximately HK\$44.7 million) of Listing expenses (assuming an Offer Price of HK\$1.18, being the mid-point of the indicative Offer Price range between HK\$1.05 and HK\$1.31, and assuming that the Over-allotment Option is not exercised) until the completion of the Global Offering, of which approximately RMB3.1 million and RMB18.5 million of the Listing expenses were charged as administrative expense on our consolidated statements of profit or loss and comprehensive income for the year ended 31 December 2015 and for eight months ended 31 August 2016, respectively. Approximately RMB4.2 million is expected to be charged to our consolidated statement of comprehensive income for the period beginning 1 September 2016 and ending 31 December 2016, and approximately RMB14.1 million is directly attributable to the issue of Shares to the public and to be capitalised. Listing expenses represent professional fees and other fees incurred in connection with the Listing, including underwriting commissions but excluding discretionary bonus. The Listing expenses above are the best estimate as at the Latest Practicable Date and for reference only and the actual amount may differ from this estimate.

### KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios during the Track Record Period:

	As at/for the year ended 31			Immediately	As at/
	December			prior to the	for the eight
	2013	2014	2015	deemed	months ended
				distribution	31 August
	2013	2014	2015	2015	2016
Net profit margin <sup>(1)</sup>	3.4%	3.0%	9.0%	9.0%	6.9%
Return on assets <sup>(2)</sup>	1.7%	1.4%	8.9%	4.8%	N/A <sup>(9)</sup>
Return on equity <sup>(3)</sup>	11.9%	8.0%	110.7%	21.3%	N/A <sup>(9)</sup>
Current ratio <sup>(4)</sup>	108.6%	111.4%	102.7%	122.1%	107.7%
Quick ratio <sup>(5)</sup>	96.1%	93.3%	79.4%	98.8%	72.9%
Gearing ratio <sup>(6)</sup>	78.5%	45.1%	264.0%	50.9%	217.9%
Debt to equity ratio <sup>(7)</sup>	67.3%	41.6%	219.8%	42.4%	165.7%
Interest coverage ratio <sup>(8)</sup>	2.3	2.3	6.6	6.6	8.6

Notes:

- 1 Net profit margin is calculated as our profit for the year/period divided by revenue for the relevant year/period multiplied by 100%.
- 2 Return on assets equals profit for the year divided by total assets as at the end of the year multiplied by 100%.

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## FINANCIAL INFORMATION

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- (3) Return on equity equals profit for the year divided by total equity as at the end of the year multiplied by 100%.
- (4) Current ratio equals our current assets divided by current liabilities as at the end of the year/period multiplied by 100%.
- (5) Quick ratio equals our current assets less inventories divided by current liabilities as at the end of the year/period multiplied by 100%.
- (6) Gearing ratio equals total interest-bearing bank borrowings divided by total equity as at the end of the year/period multiplied by 100%.
- (7) Debt to equity ratio equals total interest-bearing bank borrowings less cash and cash equivalents at the end of the year/period divided by total equity at the end of the year/period multiplied by 100%.
- (8) Interest coverage ratio equals profit before interest and tax of the year/period divided by finance costs of the same year/period.
- (9) Such ratio is not applicable as it is not comparable to annual numbers.

### **Analysis of key financial ratios**

#### ***Net profit margin***

Our profit margin decreased from approximately 9.0% for the year ended 31 December 2015 to approximately 6.9% for the eight months ended 31 August 2016, which was primarily attributable to an increase in Listing expenses by RMB18.5 million.

Our net profit margin increased from approximately 3.0% for the year ended 31 December 2014 to approximately 9.0% for the year ended 31 December 2015, which was primarily attributable to (i) our effort on the improvement of production efficiency and cost management; and (ii) exchange gains of approximately RMB18.7 million and gain on disposal of a subsidiary of approximately RMB11.3 million, respectively.

Our net profit margins were approximately 3.4%, 3.0%, and 9.0% for the years ended 31 December 2013, 2014 and 2015, respectively. Our net profit margin remained relatively stable for the year ended 31 December 2014 as compared to that of the year ended 31 December 2013.

#### ***Return on assets***

Our return on assets ratio increased from approximately 1.4% for the year ended 31 December 2014 to approximately 4.8% for the year ended 31 December 2015 immediately prior to the deemed distribution, which was primarily due to a substantial increase in our net profit recorded in the year ended 31 December 2015.

Our return on assets ratio decreased approximately from 1.7% for the year ended 31 December 2013 to approximately 1.4% for the year ended 31 December 2014, which was primarily attributable to that the decrease in our net profit for the year ended 31 December 2014.

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### *Return on equity*

Our return on equity ratio increased from approximately 8.0% for the year ended 31 December 2014 to approximately 21.3% for the year ended 31 December 2015 immediately prior to the deemed distribution, which was primarily due to a substantial increase in our net profit recorded in the year ended 31 December 2015.

Our return on equity ratio decreased from approximately 11.9% for the year ended 31 December 2013 to approximately 8.0% for the year ended 31 December 2014, which was primarily attributable to the decrease in net profit for the year ended 31 December 2014 and increase in our total equity.

### *Current ratio*

Our current ratio increased from approximately 102.7% as at 31 December 2015 to approximately 107.7% as at 31 August 2016. Such increase was primarily due to increase in inventories as a result of the expected production needs for our peak season, which usually occurs in every October to January.

Our current ratio increased from approximately 111.4% as at 31 December 2014 to approximately 122.1% immediately prior to the deemed distribution as at 31 December 2015. Such increase was primarily due to a combined effect of an increase in current assets and a decrease in current liabilities.

Our current ratio remained relatively stable of approximately 108.6% as at 31 December 2013 and approximately 111.4% as at 31 December 2014.

### *Quick ratio*

Our quick ratio decreased from approximately 79.4% as at 31 December 2015 to approximately 72.9% as at 31 August 2016, which was primarily due to the increase in inventories by approximately 50.4% as at 31 August 2016.

Our quick ratio increased from approximately 93.3% as at 31 December 2014 to approximately 98.8% immediately prior to the deemed distribution as at 31 December 2015, which was in line with the movement in current ratio as at 31 December 2014 to 31 December 2015.

Our quick ratio decreased from approximately 96.1% as at 31 December 2013 to approximately 93.3% as at 31 December 2014, which was primarily due to the increase in inventories by approximately 19.5% as at 31 December 2014.

### *Gearing ratio*

Our gearing ratio decreased from approximately 264.0% as at 31 December 2015 to approximately 217.9% as at 31 August 2016, which was primarily due to a greater proportional increase in our total equity than in interest-bearing bank borrowings as at 31 August 2016.

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Our gearing ratio increased from approximately 45.1% as at 31 December 2014 to approximately 50.9% immediately prior to the deemed distribution as at 31 December 2015, which was primarily due to an increase in the interest-bearing borrowings as a result of increased working capital needs from increased business volume in the year ended 31 December 2015.

Our gearing ratio decreased from approximately 78.5% as at 31 December 2013 to approximately 45.1% as at 31 December 2014, which was primarily due to decrease in interest-bearing bank borrowings and increase in total equity, as at 31 December 2014.

### *Debt to equity ratio*

Our debt to equity ratio decreased from approximately 219.8% as at 31 December 2015 to approximately 165.7% as at 31 August 2016, which was primarily due to a greater proportional increase in our total equity than in interest-bearing bank borrowings as at 31 August 2016.

Our debt to equity ratio remained stable approximately 41.6% as at 31 December 2014 to 42.4% immediately prior to the deemed distribution as at 31 December 2015.

Our debt to equity ratio decreased from approximately 67.3% as at 31 December 2013 to approximately 41.6% as at 31 December 2014, which was primarily due to the decrease in interest-bearing bank borrowings and increase in total equity as at 31 December 2014.

### *Interest coverage ratio*

Our interest coverage ratio remained stable at 2.3 for the years ended 31 December 2013 and 2014 and increased to approximately 6.6 for the year ended 31 December 2015, which was primarily due to (i) a substantial increase in profit before interest and tax by approximately 83.9% for the year ended 31 December 2015 as compared to that for the year ended 31 December 2014; and (ii) a substantial decrease in total equity by approximately 75.4% as at 31 December 2015 as compared to that as at 31 December 2014 due to the completion of Business Transfer on 31 December 2015, details of which are set out in the subsection headed “Deemed Distribution to Mr. Zou and Ms. Wu” under this section.

Our interest coverage ratio increased from approximately 6.6 times for the year ended 31 December 2015 to approximately 8.6 times for the eight months ended 31 August 2016, which was primarily due to a decrease in finance costs for the eight months ended 31 August 2016 as compared to that for the eight months ended 31 August 2015.

The changes of each key financial ratios as at/for the year ended 31 December 2015 immediately prior to the deemed distribution from that as at/for the year ended 31 December 2015 were due to the deemed distribution to Mr. Zou and Ms. Wu, details of which are set out in the subsection headed “Deemed distribution to Mr. Zou and Ms. Wu” under this section.

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### WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration the internal resources and banking facilities presently available to our Group, and the estimated net proceeds of the Global Offering, our Directors are satisfied, after due and careful inquiry, that our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing from the date of this prospectus.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Except for the commitments and financial guarantees set forth in this section, we have not entered into any material off-balance sheet transactions or arrangements as at 31 August 2016.

### DISTRIBUTABLE RESERVES

As at 31 August 2016, our Company had no distributable reserves available for distribution to our Shareholders.

### DIVIDEND POLICY

Our Company currently intends to pay out an annual dividend payment at a payout ratio of not less than 20%. The declaration of future dividends will be subject to the decision by our Board and will depend on, among other things, the earnings, financial condition, cash requirements and availability, the availability of funds to meet the financial covenants of our Group's bank loans, if any and any other factors that our Directors may consider relevant.

Our ability to make dividend payments will also depend upon the availability of dividends received from our subsidiary companies. PRC law requires foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiary companies may also subject to PRC withholding tax and be restricted if they incur debt or losses. Assuming we are able, in accordance with these contractual and legal restrictions, to pay dividends, the declaration of, payment and amount of dividends will still be subject to the discretion of our Directors in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, our business opportunities, our financial condition and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, payments by subsidiaries of cash dividends to us and legal, tax and regulatory restrictions. In addition, our Controlling Shareholders will be able to influence our dividend policy. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.



## FINANCIAL INFORMATION

### DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rule 13.13 to 13.19 of the Listing Rules upon the Listing of the Shares on the Stock Exchange.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, save for the impact brought by the Listing expenses on our net profit for the year ending 31 December 2016, there has been no material adverse change in our financial or trading position or prospects of our Group since 31 August 2016, being the date on which the latest financial information of our Group was reported in the Accountants' Report included in Appendix I to this prospectus.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our consolidated net tangible assets of our Group attributable to owners of our Company as if the Global Offering had taken place on 31 August 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 August 2016 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of our Group as at 31 August 2016 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below:

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2016 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share	
				<i>RMB</i> <i>(Note 3)</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$1.05 per Share	115,464	216,800	332,264	0.332	0.371
Based on the Offer Price of HK\$1.31 per Share	115,464	273,483	388,947	0.389	0.435

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*Notes:*

- 1 The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2016 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- 2 The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.05 per Share and HK\$1.31 per Share being low and high end of the indicative offer price range, after deduction of the underwriting fees and commissions (taking into no account of any discretionary fee and excluding approximately RMB21.6 million Listing expenses which have been accounted for prior to 31 August 2016) payable by our Group and takes no account of any Share which may be issued upon the exercise of the Over-allotment Option and may be granted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as described in the section headed "Share Capital" in this prospectus, in connection with the Global Offering.
- 3 The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is calculated based on 1,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering and the Capitalisation Issue on 12 January 2017, but takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.
- 4 The unaudited pro forma adjusted consolidated net tangible assets per share is translated to Hong Kong dollars at exchange rate of RMB0.8944 to HK\$1.00 which was the PBOC rate prevailing on the Latest Practicable Date. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- 5 Except from those mentioned above, no adjustment has been made to our unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group, entered into subsequent to 31 August 2016.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including interest rate risk, foreign currency risk, credit risk and liquidity risk. We manage our exposure to these and other market risks through regular operating and financial activities.

#### **Interest rate risk**

Interest rate risk exposure refers to the risk of changes in market interest rates relates to the long-term debt obligations with a floating interest rate. Since our Group did not have any long-term debt obligations or debt obligations with a floating interest rate, our Group's exposure to interest rate risk is minimal.

#### **Foreign currency risk**

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

Our Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

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## FINANCIAL INFORMATION

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The following table demonstrates the sensitivity at the end of each of the reporting period during the Track Record Period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of our Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of our Group's equity.

	<b>Increase/ (decrease) in exchange rates</b>	<b>Increase/ (decrease) in profit before tax</b>
	<i>%</i>	<i>RMB'000</i>
<b>At 31 December 2013</b>		
If RMB weakens against US\$	5	8,268
If RMB strengthens against US\$	(5)	(8,268)
<b>At 31 December 2014</b>		
If RMB weakens against US\$	5	15,254
If RMB strengthens against US\$	(5)	(15,254)
<b>At 31 December 2015</b>		
If RMB weakens against US\$	5	5,231
If RMB strengthens against US\$	(5)	(5,231)
<b>At 31 August 2016</b>		
If RMB weakens against US\$	5	1,063
If RMB strengthens against US\$	(5)	(1,063)

### Credit risk

Our Group trades only with recognised and creditworthy third parties. It is our Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant.

The credit risk of our Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, amounts due from related parties, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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## FINANCIAL INFORMATION

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Our Group had certain concentrations of credit risks as the following percentage of trade and bills receivables were due from our Group's largest external customer and our Group's five largest external customers out of the Group's total trade and bills receivables excluding the bills receivable arising from intra-group sales transactions:

	As at 31 December		As at 31 August	
	2013	2014	2015	2016
	%	%	%	%
Due from our Group's largest external customer	12	8	8	24
Due from our Group's five largest external customers	63	53	72	60

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 of the Accountants' Report included in Appendix I to this prospectus.

### Liquidity risk

Our Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain contingency plan for funding to ensure that our Group maintains sufficient cash to meet our liquidity requirements.

## FINANCIAL INFORMATION

The following table details the remaining contractual maturities as at 31 December 2013, 2014 and 2015 and 31 August 2016 of our Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, based on rates as at 31 December 2013, 2014 and 2015 and 31 August 2016) and the earliest date that our Group could be required to repay:

	<b>Within 1 year or on demand</b>			
	<b>As at 31 December</b>			<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>31 August</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2016</b>
Trade and bills payables	1,382,634	1,105,492	476,463	509,572
Financial liabilities included in other payables and accruals	15,545	23,144	9,899	21,786
Due to related parties	52,157	68,842	95,647	7,412
Interest-bearing bank borrowings	<u>224,960</u>	<u>140,486</u>	<u>198,670</u>	<u>252,233</u>
	<u><u>1,675,296</u></u>	<u><u>1,337,964</u></u>	<u><u>780,679</u></u>	<u><u>791,003</u></u>

	<b>Within 1 year or on demand</b>			
	<b>As at 31 December</b>			<b>As at</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>31 August</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2016</b>
The maximum amount of the guarantees given to banks in connection with banking facilities granted to:				
– Morris PRC	50,000	154,700	103,324	82,000
– Third parties	<u>65,200</u>	<u>43,000</u>	<u>–</u>	<u>–</u>
	<u><u>115,200</u></u>	<u><u>197,700</u></u>	<u><u>103,324</u></u>	<u><u>82,000</u></u>

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See the subsection headed “Our Business Strategies” under the section headed “Business” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$1.18 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus, and assuming that the Over-allotment Option is not exercised), will be approximately HK\$250.3 million, after deduction of underwriting fees and commissions (taking into no account of any discretionary fee) and estimated expenses incurred by us in connection with the Global Offering, which is approximately HK\$44.7 million.

If the Offer Price is fixed at HK\$1.31 per Offer Share (being the high end of the Offer Price range stated in this prospectus, and assuming that the Over-allotment Option is not exercised), we will receive additional net proceeds of approximately HK\$31.7 million.

If the Offer Price is fixed at HK\$1.05 per Offer Share (being the low end of the Offer Price range stated in this prospectus, and assuming that the Over-allotment Option is not exercised), the net proceeds we receive will be reduced by approximately HK\$31.7 million.

We intend to use the net proceeds of the Global Offering for the following purposes:

- (i) Approximately 31.3%, or HK\$78.4 million will be used for the further expansion of our sales and marketing network in both overseas markets and the PRC.
  - Approximately HK\$60.0 million or approximately 24.0% will be used for extending the reach in the overseas markets such as the U.S., Canada, Australia. We intend to participate in more trade fairs, such as Las Vegas Market, which is held twice a year, and other trade shows in the target markets, to increase our exposure to prospective customers. We plan to attend at least three trade fairs every year after Listing. Based on our experience and actual expenditure in attending overseas trade fairs during the past years, we estimate that the expense of participation of each trade fair would be around HK\$3.0 million, depending on the size of the leased area, costs of products exhibited, transportation and decoration of showroom in the trade fair. In addition, we will recruit more sales personnel to reinforce our sales effort on export business and engage more U.S. sales agents after Listing to assist in expanding our sales network in the U.S.. We intend to recruit no less than 6 U.S. sales agents and 7 sales personnel for each of the years ending 31 December 2017, 2018, 2019 and 2020. The cost of the addition of sales personnel, including the recruitment expenses, salary and staff benefit and sales commission, are estimated to be approximately HK\$1.0 million each year. The sales commission and related marketing expenses payable to and incurred by the additional sales agents engaged are estimated to be HK\$5.0 million each year.

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## FUTURE PLANS AND USE OF PROCEEDS

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- Approximately HK\$18.4 million or approximately 7.3% will be used for expanding and strengthening our sales channels network in the PRC by establishment of the domestic sales and marketing teams, opening of flagship stores in the Yangtze River Delta region and setting up our e-commerce platform. We intend to recruit no less than 15 sales and marketing staff for each of the years ending 31 December 2017 and 2018, who will be responsible for setting out sales strategies and sales plans, organizing marketing and promotion activities and supervising the implementation of sales activities by staff in our direct sale stores. The cost of the domestic sales and marketing team, including the recruitment expenses, salary and staff benefit is estimated to be approximately HK\$2.0 million in the year ending 31 December 2017. We estimate that the expenditure in relation to the set-up of each flagship store, including but not limited to the rent of the stores, decoration and renovation of the stores, recruitment of stores' staff and utilities, will be approximately HK\$4.0 million. The estimated expenditure of establishment of each of other direct sale stores will be approximately HK\$2.0 million.

During the Track Record Period, our Group had adopted the following sales and marketing strategies:

- (a) We have attended the High Point Market held in High Point, North Carolina in the U.S., one of the largest home furnishings industry trade shows in the world, with an increase of our exhibition areas from 8,930 square feet in 2013 to 28,136 square feet in 2016;
- (b) We have expanded our sales and marketing team from 11 personnel in 2013 to 22 as at Latest Practicable Date;
- (c) We have engaged a consultancy firm and a sales agent in the U.S. to specifically advise us on the sales and marketing strategies and activities to be adopted by our Group for the U.S. market; and
- (d) Since 2015, we started to place advertisement in the leading furniture magazine "Furniture/Today", an industry publication in the U.S., on a regular basis.

The costs and expenses associated with our participation in trade fairs during the Track Record Period had increased from RMB1.6 million in 2013 to RMB2.4 million in 2015, and have further increased to RMB2.9 million for the eight months ended 31 August 2016. Meanwhile, the commission payable to our U.S. consultancy firm and sales agent and the costs for advertising and promotional activities have increased from RMB10.5 million in 2013 to RMB11.1 million in 2015, and have further increased to RMB13.1 million for the eight months ended 31 August 2016.

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## FUTURE PLANS AND USE OF PROCEEDS

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Our Directors consider that participation of trade fairs and reinforcement of our sales strength are the two major sales and marketing strategies for our Group which have successfully helped our Company in shifting the focus from OEM business to OBM and ODM business, contributing to a higher average selling prices and an improved overall gross profit margin of our products during the Track Record Period. Based on our Group's past and current sales and marketing strategies as set out above, our Directors consider that the current plan of using 31.3% of the net proceeds of the Global Offering for the expansion of sales and marketing network in both overseas markets and the PRC is commensurate with our Group's historical sales and marketing strategies.

The detailed plan and expected time frame are set out below:

	For the year ending				Total
	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Overseas wholesale market business</b>					
Participation in trade fairs	9.0	9.0	9.0	9.0	36.0
Reinforcement of sales team	1.0	1.0	1.0	1.0	4.0
Engagement of U.S. sales agents	5.0	5.0	5.0	5.0	20.0
	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>	<u>20.0</u>
Subtotal	<u>15.0</u>	<u>15.0</u>	<u>15.0</u>	<u>15.0</u>	<u>60.0</u>
<b>PRC direct sale business</b>					
Build up of sales team	2.0	2.0	–	–	4.0
Set-up costs for flagship stores	4.0	4.0	–	–	8.0
Set-up costs for standard direct sale stores	2.0	2.0	–	–	4.0
E-commerce	0.8	0.6	0.5	0.5	2.4
	<u>0.8</u>	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>	<u>2.4</u>
Subtotal	<u>8.8</u>	<u>8.6</u>	<u>0.5</u>	<u>0.5</u>	<u>18.4</u>
<b>Total</b>	23.8	23.6	15.5	15.5	78.4



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## FUTURE PLANS AND USE OF PROCEEDS

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- (ii) Approximately 26.4%, or HK\$66.1 million will be used to repay part of our outstanding bank borrowings.

Bank	Outstanding principal amount (RMB)	Interest rate (per annum)	Maturity	Usage
Bank 1	20 millions	7.4%	February 2017	Working capital purpose
	3 millions	7.4%	February 2017	Working capital purpose
Bank 2	15 millions	5.22%	January 2017	Working capital purpose
	5 millions	5.22%	April 2017	Working capital purpose
Bank 3	14 millions	6.14%	July 2017	Working capital purpose

- (iii) Approximately 26.0%, or HK\$65.0 million will be used for the enhancement of our brand recognition in the furniture market through various mediums, such as television, newspapers, magazines, internet and participation in trade fairs to increase our brand exposure to existing and prospective customers, to intensify our marketing efforts through marketing and promotion of our existing self-branded furniture, and to develop our design capabilities.
- (iv) Approximately 9.8%, or HK\$24.5 million will be used for general working capital and other general corporate purposes.
- (v) Approximately 6.5%, or HK\$16.3 million will be used for the expansion of our manufacturing capabilities in Cambodia. For details, please refer to the subsection headed “Our Business Strategies – Expand our manufacturing capabilities in Cambodia and reduce production cost” under the section headed “Business” and the subsection headed “Risks Relating to Doing Business in Cambodia” under the section headed “Risk Factors” in this prospectus. During the Track Record Period, our capital expenditures, excluding the capital expenditures in construction in progress, amounted to approximately RMB11.5 million. As a result of such capital expenditure and our efforts in improving our manufacturing capabilities, our design production capacity of sofas has increased from 806,000 pieces for the year ended 31 December 2013 to 892,000 pieces for the eight months ended 31 August 2016. Our Directors consider that it has been our Company’s strategy to enhance our machinery and equipment in order to cope with the increasing sales volume of our sofas, and thus our plan to expand our manufacturing capabilities in Cambodia is commensurate with our Group’s historical strategies.

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## FUTURE PLANS AND USE OF PROCEEDS

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If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to us from the offering of these additional Shares will be approximately HK\$47.9 million, assuming an Offer Price of HK\$1.31 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and will be approximately HK\$38.4 million, assuming an Offer Price of HK\$1.05 per Offer Share (being the low end of the Offer Price range stated in this prospectus). We intend to apply the additional net proceeds to the above uses in the proportions stated above.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Sole Global Coordinator and Sole Bookrunner

Sinolink Securities (Hong Kong) Company Limited

#### Joint Lead Managers

Sinolink Securities (Hong Kong) Company Limited  
China Galaxy International Securities (Hong Kong) Co., Limited

#### Co-lead Managers

Innovax Capital Limited  
Gransing Securities Co., Limited  
Convoy Investment Services Limited  
BMI Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 25,000,000 Shares for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to (i) the Listing Committee of the Stock Exchange granting the Listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Scheme, (ii) the International Underwriting Agreement having been signed and becoming unconditional, and (iii) certain other conditions described in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter has agreed to subscribe, or procure subscribers to subscribe, for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriter) in its absolute discretion may, by giving notice in writing to our Company terminate the Hong Kong Underwriting Agreement, if any of the following events occur prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - (i) any material change or prospective change (whether or not permanent) in the business or in the business or in the financial or trading position of our Group; or
  - (ii) any change or development involving a prospective change or development, or any event or series of events resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, the PRC, Cambodia, the United States, the Cayman Islands, the BVI or any other jurisdictions where any member of our Group is incorporated or operates (collectively, the “**Relevant Jurisdictions**”); or
  - (iii) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
  - (iv) any new laws or any material change or development involving a prospective material change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
  - (v) a material change or development or event involving a prospective material change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
  - (vi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
  - (vii) any event, act or omission which gives rise or is likely to give rise to any material liability of any of our Company, our Controlling Shareholders and our executive Directors under the Hong Kong Underwriting Agreement pursuant to the indemnities contained therein; or

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## UNDERWRITING

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- (viii)(i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or (ii) any general moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (ix) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (x) any event or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threats of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- (xi) a materialisation of any of the risks set out in the section headed “Risk Factors” in this prospectus which has had, or is reasonably expected to have, or result in any material adverse effect; or
- (xii) a material devaluation of the Hong Kong dollar and the Renminbi against any foreign currency; or
- (xiii) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xiv) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (xv) a prohibition on our Company for whatever reason from allotting the Shares pursuant to the terms of the Global Offering; or
- (xvi) non-compliance of any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xvii) an order or petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group (other than members’ voluntary winding up when such member of our Group is solvent);
- (xviii) save as disclosed in the Prospectus any material loss or damage sustained by any member of our Group; or

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## UNDERWRITING

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- (xix) save as disclosed in this prospectus, any litigation or claim of material importance of any third party being instigated against any member of our Group; or
- (xx) a Director being charged with an indictable offence or prohibited by the operation of law or otherwise disqualified from taking part in the management of a company; or
- (xxi) the chairman or president of our Company vacating his office; or
- (xxii) the commencement by any governmental, regulatory or judicial body or organisation of any action against a Director or an announcement by any governmental, regulatory or judicial body or organisation that it intends to take any such action; or
- (xxiii) any matter or event resulting in a material breach of any of the warranties, representations or undertakings contained in the Hong Kong Underwriting Agreement or there has been a material breach of any other provisions thereof; or
- (xxiv) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus in any material respect (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC,

which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (A) is or will or likely to have a material adverse effect on the business, financial, trading or other condition or prospects of our Group taken as a whole, or
  - (B) has or will or likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares, or
  - (C) is or will or likely to make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Hong Kong Underwriting Agreement, the International Underwriting Agreement, and/or the Global Offering to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Global Offering on the terms and in the manner contemplated in this prospectus, or
- (b) there has come to the notice of the Sole Global Coordinator that:
- (i) any of the warranties given by our Company, our Controlling Shareholders and our executive Directors under the Hong Kong Underwriting Agreement or pursuant to the International Underwriting Agreement is inaccurate, misleading or breached in any material respect when given or as repeated, or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect; or

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## UNDERWRITING

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- (ii) any statement contained in this prospectus, the Application Forms, the Formal Notice or any announcement or advertisement issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if the relevant document was to be issued at that time, constitute a material omission therefrom, or that any forecasts, expressions of opinion, intention or expectation expressed in the relevant document are not, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
- (iii) there has been a material breach on the part of any of our Company, our Controlling Shareholders and our executive Directors of any of the obligations of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (iv) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom; or
- (v) approval by the Listing Committee of the Listing of, and permission to deal in, the Offer Shares to be issued or sold (including any additional Offer Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vi) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

### **UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES**

#### **Undertaking by our Company**

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within such period), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

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## UNDERWRITING

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### Undertaking by each of our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering, the Over-allotment Option and the Stock Borrowing Agreement, or unless in compliance with the requirements of the Listing Rules, it/he/she shall not, and shall procure that the relevant registered holder(s) (if any) of our Shares in which it/he/she has a beneficial interest shall not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (a) within the period commencing on the date by reference to which disclosure of the shareholding of it/him/her is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares first commence on the Main Board (“**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares or other securities of our Company in respect of which it/he/she are shown by this prospectus to be the beneficial owner; or
- (b) within six months commencing on the day immediately following the expiry of the First Six-Month Period (“**Second Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Controlling Shareholders’ Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would cease to be a Controlling Shareholder of our Company.

In addition, in accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange and our Company that, within the period commencing on the date with reference to which disclosure of its/his/her shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will immediately inform our Company of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by any of our Controlling Shareholders in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) when he/she/it or the relevant requested holder(s) receive indications, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.



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## UNDERWRITING

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### UNDERTAKINGS TO THE HONG KONG UNDERWRITERS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

#### Undertakings by our Company

We have irrevocably and unconditionally undertaken to the Sole Global Coordinator and the Hong Kong Underwriters, and each of our Controlling Shareholders and Directors has irrevocably and unconditionally undertaken to and covenants with the Sole Global Coordinator and the Hong Kong Underwriters that it/he/she will procure our Company that:

- (a) except pursuant to the Global Offering, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules, not to, unless with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares or any voting right or any other right attaching thereto or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the First Six-month Period;
- (b) not at any time during the First Six-month Period, issue or create any mortgage, pledge, charge or security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Global Offering, the Capitalisation Issue or the exercise of the subscription rights attaching to the Over-allotment Option or any share options to be granted under the Share Option Scheme or under the circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules or under Note 2 to Rule 10.07 of the Listing Rules;
- (c) not at any time within the the period of 18 months immediately following the expiry of the First Six-Month Period (the “**18-month Period**”) do any of the acts set out in (a) and (b) above, such that any of our Controlling Shareholders, directly or indirectly, would cease to be a Controlling Shareholder of our Company (within the meaning defined in the Listing Rules); and

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## UNDERWRITING

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- (d) in the event that our Company does any of the acts set out in (a) and (b) above after the expiry of the First Six-month Period or the 18-month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Provided that none of the above undertaking shall (a) restrict our Company's ability to sell, pledge, mortgage or charge any share capital or other securities of or any other interest in any of our subsidiaries provided that such sale or any enforcement of such pledge, mortgage or charge will not result in such subsidiaries ceasing to be a subsidiary of our Company; or (b) restrict any of our subsidiaries from issuing any share capital or other securities thereof or any other interests therein provided that any issue will not result in that subsidiary ceasing to be a subsidiary of our Company.

### **Undertaking by each of our Controlling Shareholders**

Each of our Controlling Shareholders has irrevocably and unconditionally jointly and severally represented, warranted, undertaken to and covenanted with our Company, the Sole Global Coordinator and the Hong Kong Underwriters that, except pursuant to the Global Offering and Stock Borrowing Agreement and unless in compliance with the Listing Rules, it/he/she shall not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), directly or indirectly, and shall procure that none of his, her or its close associates or companies controlled by it/him/her or any nominee or trustee holding in trust for it/him/her shall:

- (a) offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of our Shares (or any interest therein or any of the voting or other rights attaching thereto) in respect of which it/he/she is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any Shares (or any interest therein or any of the voting or other rights attaching thereto) during the First Six-month Period; or
- (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares (or any interest therein or any of the voting rights or other rights attaching thereto) or such securities, at any time during the First Six-month Period, save as provided under Note 2 to Rule 10.07(2) of the Listing Rules and subject always to compliance with the provisions of the Listing Rules, and the event of a disposal of any Shares (or any interest therein or any of the voting or other rights

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## UNDERWRITING

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attaching thereto) or securities at any time during the 18-month Period, (1) such disposal shall not result in any of our Controlling Shareholders ceasing to be a Controlling Shareholder of our Company at any time during the 18-month Period; and (2) it/he/she shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

Without prejudice to our Controlling Shareholders' undertaking above, each of our Controlling Shareholders further irrevocably and unconditionally undertakes to the Sole Global Coordinator, the Hong Kong Underwriters and our Company that within the First Six-month Period and the 18-month Period it/he/she shall:

- (a) if and when it/he/she pledges or charges, directly or indirectly, any Shares (or any interest therein or any of the voting rights or other rights attaching thereto) or other securities of our Company beneficially owned by it/him/her (or any beneficial interest therein), immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) if and when it/he/she receives indications, either verbal or written, from any pledgee or chargee that any Shares (or any interest therein or any of the voting rights or other rights attaching thereto) or other securities of our Company (or any beneficial interest therein) pledged or charged by it/him/her will be disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

## INTERNATIONAL OFFERING

### **International Underwriting Agreement**

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with, among others, the International Underwriters and other parties named therein. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure purchasers for such International Offer Shares. It is expected that pursuant to the International Underwriting Agreement, our Company and our Controlling Shareholders will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement in the subsection headed "Undertakings to the Hong Kong Underwriters Pursuant to the Hong Kong Underwriting Agreement" under this section.

### **Over-allotment Option**

Our Company is expected to grant to the International Underwriters the Over-allotment Option exercisable by the Sole Global Coordinator, on behalf of the International Underwriters, at any time until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of

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## **UNDERWRITING**

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37,500,000 additional Shares, representing 15% of the Offer Shares, at the Offer Price per Offer Share under the International Offering, solely to cover over-allocations, if any, under the International Offering. For further details of the Over-allotment Option, please refer to the section headed “Structure of the Global Offering” in this prospectus.

### **COMMISSION AND EXPENSES**

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Underwriting Agreement. In addition, we may, at our sole discretion, pay the Sole Global Coordinator an additional incentive fee of up to an aggregate of 0.5% of the aggregate Offer Price for all the Shares offered and sold in the Global Offering. For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate payable to the International Offering, and such commission will be paid to the International Underwriters but not the Hong Kong Underwriters.

The aggregate commissions and fees, together with the Listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately RMB39.9 million in total assuming no exercise of the Over-allotment Option (based on the mid-point of our indicative price range for the Global Offering).

### **STAMP TAXES**

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

### **SOLE SPONSOR’S AND UNDERWRITERS’ INTERESTS IN OUR GROUP**

Except as disclosed in this prospectus and except for its obligations under the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have no shareholding interests in our Company or in any other member of our Group and do not have any right or option, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for the shares or other securities of our Company or any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliates may hold a certain portion of our Shares in connection with the performance of their obligations under the Underwriting Agreements.

### **INDEMNITY**

Our Company and each of our Controlling Shareholders have agreed to jointly and severally indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or our Controlling Shareholders of the Hong Kong Underwriting Agreement as the case may be.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering consists of (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of initially 25,000,000 Shares (subject to adjustment as mentioned below) (representing approximately 10% of the initial total number of Offer Shares) in Hong Kong as described in the subsection headed “The Hong Kong Public Offering” under this section; and
- the International Offering of initially 225,000,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) (representing approximately 90% of the initial total number of Offer Shares) which will conditionally be placed with selected professional, institutional, and other investors outside the United States in offshore transactions in accordance with Regulation S.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in International Offer Shares under the International Offering, but may not do both.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation and, in the case of the International Offering only, the Over-allotment Option as described below in the paragraphs headed “Over-allotment Option” and “Stabilisation” of this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

### THE HONG KONG PUBLIC OFFERING

#### Number of Shares initially offered

Under the Hong Kong Public Offering, our Company is initially offering 25,000,000 Shares at the Offer Price for subscription by the public in Hong Kong, representing approximately 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed “The Hong Kong Public Offering – Conditions of the Hong Kong Public Offering” under this section.

### Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares in the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the Listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option), the Shares to be issued upon the exercise of the options which have been or may be granted under the Share Option Scheme, and such Listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than the date which is 30 days after the date of this prospectus.

**If, for any reason, the Offer Price is not agreed on or before Tuesday, 10 January 2017 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in The Standard (in

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## STRUCTURE OF THE GLOBAL OFFERING

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English) and Hong Kong Economic Times (in Chinese) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares.” In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, 12 January 2017 provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the subsection headed “Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for termination” under the section headed “Underwriting” in this prospectus has not been exercised.

### **Allocation**

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) and up to the total value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for the Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 12,500,000 Hong Kong Offer Shares (being 50% of the 25,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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### Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached as further described below:

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 25,000,000 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 75,000,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 100,000,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 125,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator and the Sole Sponsor deem appropriate. In addition, the Sole Global Coordinator and the Sole Sponsor may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Sole Global Coordinator has the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportions as the Sole Global Coordinator deems appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.31 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the subsection headed "Pricing and Allocation" under this section below, is less than the maximum price of HK\$1.31 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

## **THE INTERNATIONAL OFFERING**

### **Number of Shares offered**

Subject to reallocation as described above, the International Offering will consist of 225,000,000 Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering, assuming that the Over-allotment Option is not exercised. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares initially offered under the International Offering will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Allocation**

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the subsection headed “Pricing and Allocation” under this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit, of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

### **Reallocation**

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “The Hong Kong Public Offering – Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### **OVER-ALLOTMENT OPTION**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the day on which trading of the Shares commences on the Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue up to 37,500,000 additional Shares, representing in aggregate 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Shares allotted and issued will represent approximately 3.61% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

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## STRUCTURE OF THE GLOBAL OFFERING

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### PRICING AND ALLOCATION

#### Determination of the Offer Price

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Thursday, 5 January 2017, and in any event on or before Tuesday, 10 January 2017, and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

#### Offer Price range

The Offer Price will not be more than HK\$1.31 per Offer Share and is expected to be not less than HK\$1.05 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

#### Change to Offer Price range

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk), a notice of reduction in the number of Offer Shares and/or the indicative Offer Price range, in connection with such reduction. Upon issue of such notice, the revised number of Offer Shares and/or indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range.

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## STRUCTURE OF THE GLOBAL OFFERING

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**Applicants should have regard to the possibility that any notice in connection with any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.** Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. In the absence of any such notice published in relation to the reduction in the Offer Price, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees, SFC transaction levy and the Stock Exchange trading fees in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$282.0 million, assuming an Offer Price per Offer Share of HK\$1.31, or approximately HK\$218.7 million, assuming an Offer Price per Offer Share of HK\$1.05.

### **Announcement of Offer Price and basis of allocation**

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allocation of Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, 11 January 2017, in the manner set out in the paragraph “How to Apply for Hong Kong Offer Shares – Publication of results” in this prospectus.

### **STABILISATION**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. It may be effected in jurisdictions where it is permissible to do so and subject to all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

Sinolink Securities (Hong Kong) Company Limited has been appointed by us as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) made under the SFO. In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the Shares

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## STRUCTURE OF THE GLOBAL OFFERING

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at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Short sales involve the sale by the Stabilising Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilising Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilising Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares while the Global Offering is in progress. Any market purchases of our Offer Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, or any person acting for it to conduct any such stabilising action. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares which may be made available upon exercise of the Over-allotment Option, being up to 37,500,000 Shares, which is in aggregate 15% of the Shares initially available under the Global Offering.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilising actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares;
- (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above;
- (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price;
- (v) selling or agreeing to sell any of our Shares in order to liquidate any position established as a result of those purchases; and
- (vi) offering or attempting to do anything as described in paragraphs (ii), (iii), (iv) or (v) above.

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## STRUCTURE OF THE GLOBAL OFFERING

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Stabilising actions by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

Specifically, prospective applicants for and investors in our Shares should note that:

- (i) as a result of effecting transactions to stabilise or maintain the market price of the Shares, the Stabilising Manager or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- (ii) there is no certainty as to the extent to which and the time period for which the Stabilising Manager will maintain such a long position;
- (iii) investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may include a decline in the market price of the Shares;
- (iv) stabilisation cannot be used to support the price of the Shares for longer than the stabilisation period, which begins on the Listing Date and ends on Saturday, 4 February 2017, being the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilisation period is expected to expire on Saturday, 4 February 2017. As a result, demand for the Shares, and their market price, may fall after the end of the stabilising period;
- (v) the price of any security (including the Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- (vi) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Sole Global Coordinator (or its affiliates and agents) may choose to borrow Shares from Shareholders of our Company under stock borrowing arrangements (being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercise of the Over-allotment Option.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Stabilising Manager will enter into the Stock Borrowing Agreement with Morris Capital Limited, one of our Controlling Shareholders, whereby the Stabilising Manager may borrow Shares from Morris Capital Limited on the following conditions:

- (a) the stock borrowing will only be effected by the Stabilising Manager for the settlement of over-allocations in connection with the International Offering;
- (b) the maximum number of Shares borrowed from Morris Capital Limited will be limited to 37,500,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Morris Capital Limited must be returned to it or its nominees (as the case may be) no later than the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or (iii) such earlier time as may be agreed in writing between Morris Capital Limited and the Stabilising Manager;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to Morris Capital Limited by the Stabilising Manager in relation to such stock borrowing arrangement.

The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. The Stock Borrowing Arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set forth in Rule 10.07(3) of the Listing Rules. No payment will be made to Morris Capital Limited by the Stabilising Manager or its agent in relation to such Stock Borrowing Agreement.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 12 January 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 12 January 2017.

The Shares will be traded in board lots of 2,000 Shares each and the stock code is 1575.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Friday, 30 December 2016 until 12:00 noon on Thursday, 5 January 2017:

- (i) the following office of the Sole Global Coordinator:

**Sole Global Coordinator**

Sinolink Securities (Hong Kong)  
Company Limited

**Address**

Units 2503, 2505-06, 25/F, Low Block,  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the branches of the following receiving banks:

### **Wing Lung Bank Limited**

	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
<b>Kowloon</b>	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
	Sham Shui Po Branch	111 Tai Po Road

### **Bank of Communications Co., Ltd. Hong Kong Branch**

	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Quarry Bay Sub-Branch	Shops 3 and 4 on G/F., 981A-981F King's Road, Chung Hing Mansion, Quarry Bay
<b>Kowloon</b>	Shamshuipo Sub-Branch	Shop G1-G3, G11-G13, G19-G21, G/F., Golden Centre, 94 Yen Chow Street, Sham Shui Po
	Wong Tai Sin Sub-Branch	Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin
<b>New Territories</b>	Tseung Kwan O Sub-Branch	Shop Nos. 252A, 252B & 253 on Level 2, Metro City Phase I, Tseung Kwan O

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 December 2016, until 12:00 noon on Thursday, 5 January 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Limited – Morris Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- 9:00 a.m. to 5:00 p.m. on Friday, 30 December 2016.
- 9:00 a.m. to 1:00 p.m. on Saturday, 31 December 2016.
- 9:00 a.m. to 5:00 p.m. on Tuesday, 3 January 2017.
- 9:00 a.m. to 5:00 p.m. on Wednesday, 4 January 2017.
- 9:00 a.m. to 12:00 noon on Thursday, 5 January 2017.

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 5 January 2017, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

## **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to deposit any Share certificate(s) into CCASS and/or to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional instructions for Yellow Application Form**

You may refer to the Yellow Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 30 December 2016 until 11:30 a.m. on Thursday, 5 January 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 5 January 2017 or such later time under the “Effects of bad weather on the opening of the applications lists” in this section.

### **No multiple applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
**Customer Service Centre**  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

### **Giving electronic application instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of giving electronic application instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- 9:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Friday, 30 December 2016
- 8:00 a.m. to 1:00 p.m.<sup>(1)</sup> on Saturday, 31 December 2016
- 8:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Tuesday, 3 January 2017
- 8:00 a.m. to 8:30 p.m.<sup>(1)</sup> on Wednesday, 4 January 2017
- 8:00 a.m.<sup>(1)</sup> to 12:00 noon on Thursday, 5 January 2017

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*Note:*

- 1 These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 30 December 2016 until 12:00 noon on Thursday, 5 January 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 5 January 2017, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 5 January 2017.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the subsection headed “Pricing and Allocation” under the section headed “Structure of the Global Offering” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 January 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 5 January 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 11 January 2017 in The Standard (in English) and Hong Kong Economic Times (in Chinese) on our Company’s website at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.morrisholdings.com.hk](http://www.morrisholdings.com.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Wednesday, 11 January 2017;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 11 January 2017 to 12:00 midnight on Tuesday, 17 January 2017;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 11 January 2017 to Monday, 16 January 2017 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 11 January 2017 to Friday, 13 January 2017 at all the receiving banks’ designated branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.31 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 11 January 2017.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 11 January 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Share certificates will only become valid at 8:00 a.m. on Thursday, 12 January 2017 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 January 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified on your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 January 2017, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 January 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Wednesday, 11 January 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

*If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant’s stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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*If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m., on Wednesday, 11 January 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 January 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 11 January 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via electronic application instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### *Deposit of Share certificates into CCASS and refund of application monies*

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 11 January 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Wednesday, 11 January 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 January 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 11 January 2017. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 11 January 2017.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the Listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



22nd Floor,  
CITIC Tower,  
1 Tim Mei Avenue,  
Central, Hong Kong  
30 December 2016

The Directors  
Morris Holdings Limited

Sinolink Securities (Hong Kong) Company Limited

Dear Sirs,

We set out below our report on the financial information of Morris Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2013, 2014 and 2015, and the eight months ended 31 August 2016 (the “Track Record Period”), and the consolidated statements of financial position of the Group as at 31 December 2013, 2014 and 2015 and 31 August 2016, and the statements of financial position of the Company as at 31 December 2013, 2014 and 2015 and 31 August 2016, together with the notes thereto (the “Financial Information”), and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the eight months ended 31 August 2015 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 December 2016 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2013. Pursuant to a group reorganisation (the “Reorganisation”) as described in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, which was completed on 31 December 2015, the Company became the holding company of the subsidiaries comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the end of the Track Record Period, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Track Record Period are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014 and 2015, and the eight months ended 31 August 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

### **Directors’ responsibility**

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

### **Reporting accountants’ responsibility**

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

**Opinion in respect of the Financial Information**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 31 August 2016, and of the Company as at 31 December 2013, 2014 and 2015 and 31 August 2016, and of the financial performance and cash flows of the Group for each of the Track Record Period.

**Review conclusion in respect of the Interim Comparative Information**

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

## I. FINANCIAL INFORMATION

## (A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Eight months ended 31 August	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
REVENUE	5	984,026	824,675	926,471	564,958	581,566
Cost of sales		<u>(787,450)</u>	<u>(652,051)</u>	<u>(706,557)</u>	<u>(425,644)</u>	<u>(413,633)</u>
Gross profit		196,576	172,624	219,914	139,314	167,933
Other income and gains	5	19,350	9,857	34,968	19,669	5,491
Selling and distribution expenses		<u>(75,642)</u>	<u>(68,057)</u>	<u>(79,873)</u>	<u>(52,948)</u>	<u>(48,298)</u>
Administrative expenses		<u>(57,579)</u>	<u>(47,558)</u>	<u>(51,102)</u>	<u>(30,727)</u>	<u>(51,719)</u>
Other expenses and losses		<u>(3,709)</u>	<u>(741)</u>	<u>(2,300)</u>	<u>(1,402)</u>	<u>(475)</u>
Finance costs	6	<u>(34,922)</u>	<u>(28,321)</u>	<u>(18,441)</u>	<u>(10,501)</u>	<u>(8,516)</u>
PROFIT BEFORE TAX	7	44,074	37,804	103,166	63,405	64,416
Income tax expense	10	<u>(10,531)</u>	<u>(13,440)</u>	<u>(20,098)</u>	<u>(13,223)</u>	<u>(24,282)</u>
PROFIT FOR THE YEAR/PERIOD		<u>33,543</u>	<u>24,364</u>	<u>83,068</u>	<u>50,182</u>	<u>40,134</u>
OTHER COMPREHENSIVE INCOME						
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>						
Exchange differences on translation of financial information		<u>(122)</u>	<u>127</u>	<u>1,909</u>	<u>710</u>	<u>273</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>33,421</u>	<u>24,491</u>	<u>84,977</u>	<u>50,892</u>	<u>40,407</u>
Profit attributable to owners of the parent		<u>33,543</u>	<u>24,364</u>	<u>83,068</u>	<u>50,182</u>	<u>40,134</u>
Total comprehensive income attributable to owners of the parent		<u>33,421</u>	<u>24,491</u>	<u>84,977</u>	<u>50,892</u>	<u>40,407</u>



## (B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
	Notes	2013	2014	2015	31 August
		RMB'000	RMB'000	RMB'000	2016
					RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	94,068	103,947	40,580	42,220
Prepaid land lease payments	15	35,168	34,352	7,309	7,424
Long term prepayment		483	308	–	–
Deferred tax assets	26	2,771	3,963	3,665	2,874
Total non-current assets		132,490	142,570	51,554	52,518
<b>CURRENT ASSETS</b>					
Inventories	16	216,298	258,522	200,833	301,982
Trade and bills receivables	17	373,492	409,458	283,812	165,300
Prepayments, deposits and other receivables	18	48,586	39,396	52,355	44,611
Due from related parties	23	996,248	792,949	193,197	213,087
Loan to a Director	23	–	–	–	13,382
Available-for-sale investment	19	–	–	26,000	–
Pledged deposits	20	225,454	75,087	96,477	136,747
Cash and cash equivalents	20	31,297	10,640	33,131	60,257
Total current assets		1,891,375	1,586,052	885,805	935,366
<b>CURRENT LIABILITIES</b>					
Trade and bills payables	21	1,382,634	1,105,492	476,463	509,572
Other payables and accruals	22	73,474	81,690	57,938	58,829
Due to related parties	23	52,157	68,842	95,647	7,412
Interest-bearing bank borrowings	24	220,450	137,650	198,116	251,632
Warranty provision	25	2,876	3,605	3,915	4,840
Income tax payables		10,698	25,967	30,116	36,468
Total current liabilities		1,742,289	1,423,246	862,195	868,753
NET CURRENT ASSETS		149,086	162,806	23,610	66,613
TOTAL ASSETS LESS CURRENT LIABILITIES		281,576	305,376	75,164	119,131
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	26	691	–	107	3,667
Net assets		280,885	305,376	75,057	115,464
<b>EQUITY</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	27	1	1	1	1
Reserves	28(a)	280,884	305,375	75,056	115,463
Total equity		280,885	305,376	75,057	115,464

## (C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Note	Attributable to owners of the parent					Total RMB'000
	Share capital RMB'000 (note 27)	Merger reserve RMB'000 (note 28(a)(i))	Exchange fluctuation reserve RMB'000 (note 28(a)(ii))	Reserve funds RMB'000 (note 28(a)(iii))	Retained profits RMB'000	
At 1 January 2013	–	8	5,614	4,747	235,894	246,263
Profit for the year	–	–	–	–	33,543	33,543
Other comprehensive income for the year:						
Exchange differences on translation of financial information	–	–	(122)	–	–	(122)
Total comprehensive income for the year	–	–	(122)	–	33,543	33,421
Issue of shares	1	–	–	–	–	1
Capital contribution by the Controlling Shareholders	–	1,200	–	–	–	1,200
At 31 December 2013 and 1 January 2014	1	1,208*	5,492*	4,747*	269,437*	280,885
Profit for the year	–	–	–	–	24,364	24,364
Other comprehensive income for the year:						
Exchange differences on translation of financial information	–	–	127	–	–	127
Total comprehensive income for the year	–	–	127	–	24,364	24,491
Transfer from retained profits	–	–	–	9,927	(9,927)	–
At 31 December 2014 and 1 January 2015	1	1,208*	5,619*	14,674*	283,874*	305,376
Profit for the year	–	–	–	–	83,068	83,068
Other comprehensive income for the year:						
Exchange differences on translation of financial information	–	–	1,909	–	–	1,909
Total comprehensive income for the year	–	–	1,909	–	83,068	84,977
Disposal of a subsidiary Deemed distribution to the Controlling Shareholders	–	–	–	(6,593)	6,593	–
Distribution to the then shareholders	30	–	–	–	(314,088)	(314,088)
	–	(1,208)	–	–	–	(1,208)

	Attributable to owners of the parent					Total RMB'000
	Share capital RMB'000 (note 27)	Merger reserve RMB'000 (note 28(a)(i))	Exchange fluctuation reserve RMB'000 (note 28(a)(ii))	Reserve funds RMB'000 (note 28(a)(iii))	Retained profits RMB'000	
At 31 December 2015 and 1 January 2016	1	–*	7,528*	8,081*	59,447*	75,057
Profit for the period	–	–	–	–	40,134	40,134
Other comprehensive income for the period:						
Exchange differences on translation of financial information	–	–	273	–	–	273
Total comprehensive income for the period	–	–	273	–	40,134	40,407
At 31 August 2016	<u>1</u>	<u>–*</u>	<u>7,801*</u>	<u>8,081*</u>	<u>99,581*</u>	<u>115,464</u>
At 1 January 2015	1	1,208	5,619	14,674	283,874	305,376
Profit for the period (unaudited)	–	–	–	–	50,182	50,182
Other comprehensive income for the period:						
Exchange differences on translation of financial information (unaudited)	–	–	710	–	–	710
Total comprehensive income for the period (unaudited)	–	–	710	–	50,182	50,892
Disposal of a subsidiary (unaudited)	–	–	–	(6,593)	6,593	–
Distributions to the then shareholders (unaudited)	–	(1,208)	–	–	–	(1,208)
At 31 August 2015 (unaudited)	<u>1</u>	<u>–</u>	<u>6,329</u>	<u>8,081</u>	<u>340,649</u>	<u>355,060</u>

\* These reserve accounts comprise the consolidated reserves of RMB280,884,000, RMB305,375,000, RMB75,056,000 and RMB115,463,000 in the consolidated statements of financial position as at 31 December 2013, 2014 and 2015 and 31 August 2016, respectively.

## (D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Eight months ended 31 August	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		44,074	37,804	103,166	63,405	64,416
Adjustments for:						
Interest income	5	(7,097)	(5,767)	(2,008)	(1,125)	(1,328)
Depreciation	7	18,345	15,422	6,328	5,109	1,956
Loss/(gain) on disposal of items of property, plant and equipment, net	7	(56)	23	834	34	6
Gain on disposal of an available-for-sale investment	5	–	–	–	–	(9)
Gain on disposal of a subsidiary	29	–	–	(11,336)	(11,336)	–
Recognition of prepaid land lease payments	7	696	843	599	399	105
Impairment of trade receivables	7	3,270	607	1,366	1,366	68
Write-down of inventories to net realisable value	7	295	1,041	–	–	–
Provision against obsolete and slow-moving inventories	7	3,665	2,470	2,717	1,810	638
Write-off of inventories	7	3,368	171	566	–	–
Product warranty additional provision	7	2,878	3,555	5,273	969	3,831
Finance costs	6	34,922	28,321	18,441	10,501	8,516
		<u>104,360</u>	<u>84,490</u>	<u>125,946</u>	<u>71,132</u>	<u>78,199</u>
Increase in inventories		(55,970)	(46,530)	(54,826)	(34,208)	(101,787)
Decrease/(increase) in trade and bills receivables		(4,300)	487	(71,312)	(10,099)	72,134
Decrease/(increase) in prepayments, deposits and other receivables		1,380	(1,096)	(52,167)	(6,017)	7,749
Increase/(decrease) in trade and bills payables		21,168	(3,345)	175,979	36,250	51,746
Increase/(decrease) in other payables and accruals		(5,082)	3,078	7,422	(831)	1,610
Decrease in warranty provision		(3,770)	(2,826)	(4,963)	(2,266)	(3,203)
		<u>57,786</u>	<u>34,258</u>	<u>126,079</u>	<u>53,961</u>	<u>106,448</u>
Cash generated from operations		(344)	(54)	(15,443)	(15,443)	(13,924)
Income tax paid						
Net cash flows from operating activities		<u>57,442</u>	<u>34,204</u>	<u>110,636</u>	<u>38,518</u>	<u>92,524</u>



## (E) STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December			As at
		2013	2014	2015	31 August
		RMB'000	RMB'000	RMB'000	2016
					RMB'000
<b>NON-CURRENT ASSET</b>					
Investment in a subsidiary	14	1	1	1	1
<b>CURRENT ASSETS</b>					
Prepayments	18	–	11	14	–
Due from related parties	23	1	1	1	1
Total current assets		1	12	15	1
<b>CURRENT LIABILITIES</b>					
Due to subsidiaries	14	1	40	103	2,953
Total current liabilities		1	40	103	2,953
<b>NET CURRENT LIABILITIES</b>		–	(28)	(88)	(2,952)
<b>TOTAL ASSETS LESS</b>					
<b>CURRENT LIABILITIES</b>					
		–	(27)	(87)	(2,951)
Net assets/(liabilities)		<u>1</u>	<u>(27)</u>	<u>(87)</u>	<u>(2,951)</u>
<b>EQUITY/(DEFICIENCY</b>					
<b>IN ASSETS)</b>					
Share capital	27	1	1	1	1
Reserves	28(b)	–	(28)	(88)	(2,952)
Total equity/(deficiency		<u>1</u>	<u>(27)</u>	<u>(87)</u>	<u>(2,951)</u>
in assets)					

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of sofas, sofa covers and other furniture products (collectively referred to as the "Relevant Business").

In preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, a business transfer agreement was entered into between Morris Group Co., Ltd.\* (慕容集團有限公司) ("Morris PRC"), the Company and certain subsidiaries now comprising the Group, pursuant to which the furniture business formerly operated by the furniture division of Morris PRC was transferred to certain subsidiaries now comprising the Group and the business transfer (the "Business Transfer") was completed on 31 December 2015. Subsequent to the Business Transfer, certain subsidiaries now comprising the Group appointed Morris PRC as an agent in providing import and export business on behalf of them from 31 December 2015 to 30 April 2016 and extended to 30 June 2016 pursuant to a supplemental agreement dated 20 April 2016.

The furniture division of Morris PRC did not exist as a legal or statutory entity and no separate statutory accounts were therefore prepared. The financial information of the furniture division of Morris PRC has been prepared to reflect the historical results of operations and the historical assets and liabilities of the furniture business of Morris PRC.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

As at the end of the Track Record Period, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Morris International Group Limited <sup>(a)</sup>	British Virgin Islands ("BVI") 27 December 2013	US\$100	100%	–	Investment holding
Masia Investments Limited <sup>(a)</sup>	BVI 27 December 2013	US\$100	–	100%	Investment holding
Mstar International Group Limited <sup>(a)</sup>	BVI 27 December 2013	US\$100	–	100%	Investment holding
Musa International Limited <sup>(a)</sup>	BVI 27 December 2013	US\$100	–	100%	Investment holding
Mstar Home Furnishings Limited <sup>(a)</sup>	BVI 27 December 2013	US\$100	–	100%	Investment holding
Mstar International Group (HK) Limited <sup>(b)</sup>	Hong Kong 15 January 2014	HK\$100	–	100%	Investment holding

Company name	Place and date of incorporation/ registration and place of operations	Issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mstar International Trading (HK) Limited <sup>(b)</sup>	Hong Kong 14 January 2014	HK\$100	–	100%	Trading of sofas, sofa covers and other furniture products
Morris Zou Limited (formerly known as Jennifer Convertibles (HK) Limited) <sup>(b)</sup>	Hong Kong 30 March 2015	HK\$100	–	100%	Investment holding
Mozo Investments Limited <sup>(c)</sup>	Hong Kong 4 December 2009	HK\$10,000	–	100%	Investment holding
Haining Morris International Home Furnishings Co., Ltd. (海寧慕容國際家居有限公司)* <sup>(d)</sup>	The People's Republic of China (the "PRC") 25 September 2014	RMB2,000,000	–	100%	Trading of other furniture products
Zhejiang Apollo Leather Products Co., Ltd. (浙江阿波羅皮革製品有限公司)* <sup>(e)</sup>	The PRC 22 October 2001	US\$615,000	–	100%	Manufacture and sale of sofa covers
Haining Morris Home Gallery Co., Ltd. (海寧慕容世家家居有限公司)* <sup>(e)</sup>	The PRC 23 December 2005	US\$3,000,000	–	100%	Manufacture and sale of upholstered sofas
Haining Gelin Furniture Co., Ltd. (海寧格林家具有限公司)* <sup>(e)</sup>	The PRC 4 November 2004	US\$2,100,000	–	100%	Manufacture and sale of upholstered sofas
Masia Industries Co., Ltd. (formerly known as Morris Zou (Cambodia) Co., Ltd.) <sup>(f)</sup>	The Kingdom of Cambodia ("Cambodia") 27 December 2013	US\$5,000,000	–	100%	Not yet commenced operation

*Notes:*

- (a) No statutory financial statements have been prepared for these entities since their incorporation as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (b) The statutory financial statements of these entities for the years ended 31 December 2014 and 2015 (or since the date of incorporation, where later than the beginning of the Track Record Period) prepared under HKFRSs were audited by RIW C.P.A. Limited, certified public accountants registered in Hong Kong.
- (c) The statutory financial statements of Mozo Investments Limited for the year ended 31 December 2013 prepared under HKFRSs were audited by Taka CPA Limited, certified public accountants registered in Hong Kong. The statutory financial statements for the years ended 31 December 2014 and 2015 prepared under HKFRSs were audited by RIW C.P.A. Limited, certified public accountants registered in Hong Kong.



- (d) This company is registered as a domestic enterprise under the laws of the PRC. The statutory financial statements for the years ended 31 December 2014 and 2015 prepared under PRC Generally Accepted Accounting Principles were audited by Haining Zhengming Certified Public Accountants (海寧正明會計師事務所有限責任公司), certified public accountants registered in the PRC.
- (e) These companies are registered as Sino-foreign equity joint ventures under the laws of the PRC. On 19 November 2015, Haining Gelin Furniture Co., Ltd. was converted to a wholly-owned foreign enterprise under the laws of the PRC. The statutory financial statements for the years ended 31 December 2013, 2014 and 2015 prepared under PRC Generally Accepted Accounting Principles were audited by Haining Zhengming Certified Public Accountants (海寧正明會計師事務所有限責任公司), certified public accountants registered in the PRC.
- (f) The statutory financial statements of Masia Industries Co., Ltd. for the years ended 31 December 2014 and 2015 prepared under Cambodian International Financial Reporting Standards were audited by Ernst & Young (Cambodia) Ltd., certified public accountants registered in Cambodia.
- \* The English names of these entities represent management's best effort at translating their Chinese names as these entities did not register any official English names.

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group. The companies now comprising the Group and the furniture division of Morris PRC were under common control of Mr. Zou Gebing ("Mr. Zou") and Ms. Wu Xiangfei ("Ms. Wu", spouse of Mr. Zou) (collectively the "Controlling Shareholders") immediately before and after the completion of the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a consolidated basis by applying the principles of merger method of accounting as if the transfer of the furniture division and the Reorganisation had been completed at the beginning of the Track Record Period or since the date when the respective subsidiaries were incorporated/established.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period include the results and cash flows of all the companies and business now comprising the Group from the earliest date presented or since the date when the respective subsidiaries and business were incorporated/established or first come under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at the end of each reporting period of the Track Record Period have been prepared to present the assets and liabilities of the subsidiaries and business using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

## 2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

All HKFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period and in the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except for an available-for-sale investment which has been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

**Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and its subsidiaries now comprising the Group and the furniture division of Morris PRC for the Track Record Period. The financial statements of the subsidiaries now comprising the Group and the furniture division of Morris PRC are prepared for the same reporting period as the Company, using consistent accounting policies as explained in note 2.4 below.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

**2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs**

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 9	<i>Financial Instruments</i> <sup>2</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
HKFRS 16	<i>Leases</i> <sup>3</sup>
Amendments to HKAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>1</sup>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and Associate or Joint Venture</i> <sup>4</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date is determined but is available for early adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During the Track Record Period, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts on impairment arising from the adoption of HKFRS 9 are summarised as follows:

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and bills receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and bills receivables upon the adoption of HKFRS 9. A reasonable estimate will be available once a detailed review has been completed. The adoption of HKFRS 9 might have an impact on the Group's financial performance and financial position, including the measurement of financial assets and disclosures. In particular, the adoption of an expected credit losses impairment model may result in earlier recognition of credit losses of the Group's trade and bills receivables.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018.

Amendments to HKFRS 15 address implementation questions that were discussed by the Joint Transition Resource Group for Revenue Recognition on: (a) identifying performance obligations; (b) application guidance on principal versus agent and licences of intellectual property; and (c) transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying it.

The Group is in the process of performing a detailed assessment of the potential impact of the application of HKFRS 15 and expects to adopt HKFRS 15 on 1 January 2018. The impact to the Group is expected to include more comprehensive disclosure as requested by the new standard. In addition, contract that contains two or more performance obligations would be accounted for separately and this might have an impact on the pattern of revenue and profit recognition.

HKFRS 16 will supersede HKAS 17 *Leases* and other standards on leases under HKFRSs and is effective from 1 January 2019. Under HKFRS 16 lessees no longer distinguish between a finance lease and an operating lease. Instead, for virtually all lease contracts the lessee will recognise a lease liability reflecting future lease payments and a "right-of-use" asset. Lessees recognise interest expense on the lease liability and a depreciation charge on the "right-of-use" asset. The Group expects to adopt HKFRS 16 on 1 January 2019.

As set out in note 33 to the Financial Information, the Group had total future minimum lease payments under non-cancellable operating leases as at 31 August 2016 amounted to RMB6,983,000. The directors of the Company are currently assessing the impact of HKFRS 16 upon adoption and expect that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and financial liabilities.

The management of the Group does not anticipate that the application of other new and revised HKFRSs will have a significant impact on its results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.8%
Leasehold improvements	Over the shorter of the lease terms and 33.3%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20% to 33.3%
Motor vehicles	20% to 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building, plant and machinery and other items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

#### **Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

#### **Research and development costs**

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### **Investments and other financial assets**

##### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses and losses.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed item

of financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses and losses in profit or loss.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings and are recognised initially at fair value and net of directly attributable transaction costs.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.



*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

**Employee benefits***Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s operations in Mainland China are required to participate in central pension schemes operated by the local municipal governments, the assets of which are held separately from those of the Group. Contributions are made by the Group based on a percentage of the participating employees’ salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes. The Group’s employer contributions vest fully once made.

**Borrowing costs**

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

**Foreign currencies**

The Company’s functional currency is United States dollar (“US\$”). Because most of the subsidiaries’ functional currencies are RMB, the Financial Information is presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of operations with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these operations which arise throughout each reporting period are translated into RMB at the weighted average exchange rates for each reporting period.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

**Impairment of receivables**

The Group records impairment of receivables based on assessment of the recoverability of receivables. The identification of impairment of receivables requires management's judgement and estimates. Where the actual outcome or expectation in the future is different from the original estimates, such differences will have an impact on the carrying value of receivables and doubtful debt expenses/write-back of doubtful debt in the reporting period in which such estimate is changed.

**Provision against obsolete and slow-moving inventories**

The Group reviews an aged analysis of its inventories and the condition of its inventories at the end of each reporting period, and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use in the production. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the actual outcome or expectation in the future is different from the original estimates, such differences will have an impact on the carrying value of inventories and the write-down of inventories recognised in the reporting period in which such estimate is changed.

**Impairment of non-financial assets**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Current tax and deferred tax**

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made. The carrying amounts of current tax payables and deferred tax assets and liabilities are set out in the consolidated statements of financial position and note 26 to the Financial Information.

**Derecognition of factored trade receivables and discounted/endorsed bills receivable**

The Group has entered into arrangements with its bankers in respect of the factoring of trade receivables and discounting of bills receivable, or endorsed certain of its bills receivable accepted by banks to certain of its suppliers in order to settle the trade payables due to such suppliers. Based on an evaluation of the terms and conditions of the arrangements and the credit quality and settlement pattern of the factored trade receivables and discounted/endorsed bills receivable, management has determined that the Group has retained substantially the risks and rewards of certain receivables, which include default risks relating to such receivables. As such, the factored trade receivables and certain discounted/endorsed bills receivable are recognised to the extent of the Group's continuing involvement in these receivables.

**Warranty provision**

As further explained in note 25 to the Financial Information, the Group makes provisions for the warranties it gives on the sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

#### 4. SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of sofas, sofa covers and other furniture products. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

##### Geographical information

###### (a) Revenue from external customers

Geographical information in respect of revenue from external customers is not presented since most of the Group's revenue from external customers, based on the locations of the products delivered to the customers, is generated in the United States of America. Accordingly, in the opinion of the Directors, the presentation of geographical information would provide no additional useful information to the users of this Financial Information.

###### (b) Non-current assets

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
China (including Hong Kong)	122,576	108,476	10,844	9,230
Cambodia	7,143	30,131	37,045	40,414
	<u>129,719</u>	<u>138,607</u>	<u>47,889</u>	<u>49,644</u>

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

##### Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for each reporting period during the Track Record Period is set out below:

	Year ended 31 December			Eight months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer 1	221,785	178,371	202,472	159,826	92,070
Customer 2	128,960	126,958	145,878	81,474	132,836
Customer 3	134,064	N/A*	N/A*	N/A*	N/A*
Customer 4	103,665	N/A*	N/A*	N/A*	N/A*
Customer 5	N/A*	138,551	180,308	62,230	N/A*
Customer 6	N/A*	N/A*	N/A*	N/A*	60,576
	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>60,576</u>

\* The corresponding revenue of these customers is not disclosed as they individually did not contribute 10% or more of the Group's total gross revenue for the relevant reporting period.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and value-added tax.

An analysis of the Group's revenue, other income and gains is as follows:

Notes	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
<b>Revenue</b>					
Sales of goods	984,026	824,675	926,471	564,958	581,566
<b>Other income and gains</b>					
Interest income	7,097	5,767	2,008	1,125	1,328
Exchange gains, net	–	–	18,681	6,810	4,100
Government subsidies <sup>#</sup>	9,961	3,352	2,714	263	25
Sales of scrap materials	1,909	34	148	129	–
Product development income	–	611	–	–	–
Gain on disposal of a subsidiary	29	–	11,336	11,336	–
Gain on disposal of items of property, plant and equipment, net	56	–	–	–	–
Gain on disposal of an available-for-sale investment	19	–	–	–	9
Others	327	93	81	6	29
	<u>19,350</u>	<u>9,857</u>	<u>34,968</u>	<u>19,669</u>	<u>5,491</u>

<sup>#</sup> Subsidies have been received from the local governments in Zhejiang Province in respect of the Group's significant tax contribution and significant contribution to sofa export. There were no unfulfilled conditions or contingencies relating to these subsidies as at 31 December 2013, 2014 and 2015 and 31 August 2016.

## 6. FINANCE COSTS

	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Interest on bank loans	11,729	6,870	4,662	3,007	6,174
Interest on discounted bills	23,193	21,451	13,779	7,494	2,342
	<u>34,922</u>	<u>28,321</u>	<u>18,441</u>	<u>10,501</u>	<u>8,516</u>

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Eight months ended 31 August	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Cost of inventories sold		780,122	648,369	703,274	423,834	412,995
Depreciation	13	18,345	15,422	6,328	5,109	1,956
Recognition of prepaid land lease payments	15	696	843	599	399	105
Loss/(gain) on disposal of items of property, plant and equipment, net		(56)	23	834	34	6
Minimum lease payments under operating leases		1,252	2,511	4,264	1,289	8,950
Auditors' remuneration		47	66	33	–	324
Employee benefit expense:						
Salaries, wages and benefits in kind		129,540	123,512	103,719	66,407	77,795
Pension scheme contributions*		7,553	7,731	6,661	4,394	4,442
		<u>137,093</u>	<u>131,243</u>	<u>110,380</u>	<u>70,801</u>	<u>82,237</u>
Provision against obsolete and slow-moving inventories**		3,665	2,470	2,717	1,810	638
Write-down of inventories to net realisable value**		295	1,041	–	–	–
Write-off of inventories**		3,368	171	566	–	–
Impairment of trade receivables, net***	17	3,270	607	1,366	1,366	68
Product warranty additional provision	25	2,878	3,555	5,273	969	3,831
Foreign exchange differences, net		<u>13,668</u>	<u>603</u>	<u>(18,681)</u>	<u>(6,810)</u>	<u>(4,100)</u>

\* As at 31 December 2013, 2014 and 2015 and 31 August 2016, the Group had no forfeited contributions available to reduce its contributions to pension schemes in future years.

\*\* The above items are included in "Cost of sales" on the face of the consolidated statements of profit or loss and other comprehensive income.

\*\*\* This item is included in "Other expenses and losses" on the face of the consolidated statements of profit or loss and other comprehensive income.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive Directors, non-executive Directors and independent non-executive Directors prior to 18 December 2013 since the Company was only incorporated in the Cayman Islands subsequent to that date.

Mr. Zou was appointed as a director of the Company on 18 December 2013 and was redesignated as an executive Director and the chief executive officer of the Company on 18 March 2016. Mr. Chen Guohua, Mr. Zeng Jin and Mr. Wang Ming were appointed as executive Directors of the Company on 18 March 2016. Ms. Zhang Bingbing, Mr. Huang Wenli and Mr. Shao Shaomin were appointed as independent non-executive Directors of the Company on 10 December 2016.

Certain Directors of the Company received remuneration from the furniture division of Morris PRC and certain subsidiaries now comprising the Group for their appointments as directors of the Company or in their capacity as employees of the Group. The remuneration of each of these Directors is set out below:

	Fees <i>RMB'000</i>	Salaries, allowances, and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
<b>For the year ended 31 December 2013</b>					
Executive Directors:					
Mr. Chen Guohua	–	61	–	4	65
Mr. Zeng Jin	–	72	63	5	140
Mr. Wang Ming	–	63	36	8	107
	–	196	99	17	312
<b>For the year ended 31 December 2014</b>					
Executive Directors:					
Mr. Zou	–	1,001	–	–	1,001
Mr. Zeng Jin	–	82	80	7	169
Mr. Wang Ming	–	57	63	4	124
	–	1,140	143	11	1,294
<b>For the year ended 31 December 2015</b>					
Executive Directors:					
Mr. Zou	–	1,153	811	–	1,964
Mr. Chen Guohua	–	11	–	–	11
Mr. Zeng Jin	–	136	35	12	183
Mr. Wang Ming	–	5	–	–	5
	–	1,305	846	12	2,163
<b>For the eight months ended 31 August 2015 (unaudited)</b>					
Executive Directors:					
Mr. Zou	–	777	804	–	1,581
Mr. Chen Guohua	–	–	–	–	–
Mr. Zeng Jin	–	91	35	8	134
Mr. Wang Ming	–	–	–	–	–
	–	868	839	8	1,715
<b>For the eight months ended 31 August 2016</b>					
Executive Directors:					
Mr. Zou	846	1,954	–	19	2,819
Mr. Chen Guohua	184	106	6	19	315
Mr. Zeng Jin	184	106	6	19	315
Mr. Wang Ming	98	45	6	6	155
	1,312	2,211	18	63	3,604



For the year ended 31 December 2013, the remuneration of Mr. Zeng Jin and Mr. Wang Ming disclosed above was also included in the remuneration of the five highest paid individuals as set out in note 9 to the Financial Information.

For the year ended 31 December 2014, the remuneration of Mr. Zou and Mr. Zeng Jin disclosed above was also included in the remuneration of the five highest paid individuals as set out in note 9 to the Financial Information.

For the year ended 31 December 2015 and the eight months ended 31 August 2015, the remuneration of Mr. Zou disclosed above was also included in the remuneration of the five highest paid individuals as set out in note 9 to the Financial Information.

For the eight months ended 31 August 2016, the remuneration of Mr. Zou, Mr. Chen Guohua and Mr. Zeng Jin disclosed above was also included in the remuneration of the five highest paid individuals as set out in note 9 to the Financial Information.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016 included two, two, one, one and three Directors of the Company, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five highest paid employees for each reporting period during the Track Record Period are analysed as follows:

	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Fees	–	–	–	–	1,215
Salaries, allowances and benefits in kind	246	1,377	2,578	1,452	3,195
Discretionary bonuses	364	370	811	804	173
Pension scheme contributions	35	36	25	23	69
	<u>645</u>	<u>1,783</u>	<u>3,414</u>	<u>2,279</u>	<u>4,652</u>

The number of highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015 (Unaudited)	2016
Nil to HK\$1,000,000	5	4	4	4	3
HK\$1,000,001 to HK\$1,500,000	–	1	–	–	1
HK\$1,500,001 to HK\$2,000,000	–	–	–	1	–
HK\$2,000,001 to HK\$2,500,000	–	–	1	–	–
HK\$3,000,001 to HK\$3,500,000	–	–	–	–	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each reporting period during the Track Record Period.

The PRC statutory income tax rate is 25%. Haining Mengnu Leather Products Co., Ltd.\* (海寧蒙努皮革製品有限公司), being the then wholly-owned subsidiary which the Group disposed of during the year ended 31 December 2015, was designated as a “High and New Technology Enterprise” and accordingly enjoyed a preferential corporate income tax (“CIT”) rate of 15% during the years ended 31 December 2013 and 2014.

\* The English name of this entity represents management’s best effort at translating its Chinese name as this entity did not register any official English name.

Taxes on profits assessable in elsewhere have been calculated at the rate of tax prevailing in the jurisdictions in which the Group operates.

	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
				(Unaudited)	
Current tax charge for the year/period					
– PRC	10,698	12,272	12,421	11,929	18,917
– Hong Kong	–	3,051	7,272	421	1,014
Deferred tax (note 26)	(167)	(1,883)	405	873	4,351
Tax charge for the year/period	<u>10,531</u>	<u>13,440</u>	<u>20,098</u>	<u>13,223</u>	<u>24,282</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates of the jurisdictions in which the majority of the Company’s subsidiaries are domiciled to the tax expense at the Group’s effective tax rate is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
				(Unaudited)	
Profit before tax	<u>44,074</u>	<u>37,804</u>	<u>103,166</u>	<u>63,405</u>	<u>64,416</u>
Tax at the statutory tax rates	10,998	7,919	21,180	15,713	16,335
Lower tax rate for specific province or enacted by local authority	885	328	–	–	–
Effect of withholding tax at 10% on the distributable profits of the Group’s PRC subsidiaries	691	1,698	107	534	5,731
Expenses not deductible for tax	2,651	1,168	9,185	1,807	4,678
Super-deduction of eligible research and development expenditure	(347)	(431)	–	–	(3,520)
Income not subject to tax	(293)	–	(419)	(92)	(535)
Tax losses utilised from previous years	(5,393)	–	(10,337)	(5,662)	–
Tax losses not recognised	1,332	2,779	396	923	1,593
Others	7	(21)	(14)	–	–
Tax charge for the year/period	<u>10,531</u>	<u>13,440</u>	<u>20,098</u>	<u>13,223</u>	<u>24,282</u>

For the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2015 and 2016, the weighted average applicable tax rates were 25.0%, 20.9%, 20.5%, 24.8% and 25.4%, respectively. The change in the weighted average applicable tax rate was caused by a change in the profitability of the certain subsidiaries of the Group in the respective jurisdictions.

**11. DIVIDEND**

No dividend has been paid or declared by the Company since its incorporation and up to the end of the Track Record Period.

**12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation.

**13. PROPERTY, PLANT AND EQUIPMENT****Group**

	<b>Buildings</b>	<b>Leasehold</b>	<b>Plant and</b>	<b>Furniture,</b>	<b>Motor</b>	<b>Construction</b>	<b>Total</b>
	<i>RMB'000</i>	<i>improvements</i>	<i>machinery</i>	<i>and office</i>	<i>vehicles</i>	<i>in progress</i>	<i>RMB'000</i>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>equipment</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>RMB'000</i>			
<b>31 December 2013</b>							
At 1 January 2013:							
Cost	75,173	1,831	116,716	9,674	10,810	2,257	216,461
Accumulated depreciation	(21,133)	(1,176)	(70,198)	(8,034)	(6,212)	–	(106,753)
Net carrying amount	<u>54,040</u>	<u>655</u>	<u>46,518</u>	<u>1,640</u>	<u>4,598</u>	<u>2,257</u>	<u>109,708</u>
At 1 January 2013,							
net of accumulated depreciation	54,040	655	46,518	1,640	4,598	2,257	109,708
Additions	–	–	1,356	858	2,130	594	4,938
Disposals	–	–	(335)	–	(1,898)	–	(2,233)
Depreciation	(4,441)	(678)	(10,981)	(596)	(1,649)	–	(18,345)
Transfers	–	223	–	–	–	(223)	–
At 31 December 2013,							
net of accumulated depreciation	<u>49,599</u>	<u>200</u>	<u>36,558</u>	<u>1,902</u>	<u>3,181</u>	<u>2,628</u>	<u>94,068</u>
At 31 December 2013:							
Cost	75,173	2,054	117,006	10,532	10,252	2,628	217,645
Accumulated depreciation	(25,574)	(1,854)	(80,448)	(8,630)	(7,071)	–	(123,577)
Net carrying amount	<u>49,599</u>	<u>200</u>	<u>36,558</u>	<u>1,902</u>	<u>3,181</u>	<u>2,628</u>	<u>94,068</u>

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>31 December 2014</b>							
At 1 January 2014:							
Cost	75,173	2,054	117,006	10,532	10,252	2,628	217,645
Accumulated depreciation	(25,574)	(1,854)	(80,448)	(8,630)	(7,071)	-	(123,577)
Net carrying amount	49,599	200	36,558	1,902	3,181	2,628	94,068
At 1 January 2014,							
net of accumulated depreciation	49,599	200	36,558	1,902	3,181	2,628	94,068
Additions	-	845	1,017	431	216	23,132	25,641
Disposals	-	-	(253)	-	(1)	-	(254)
Depreciation	(4,441)	(371)	(9,037)	(583)	(990)	-	(15,422)
Transfers	-	648	1,920	-	-	(2,568)	-
Exchange realignment	-	(3)	-	-	-	(83)	(86)
At 31 December 2014,	45,158	1,319	30,205	1,750	2,406	23,109	103,947
net of accumulated depreciation	45,158	1,319	30,205	1,750	2,406	23,109	103,947
At 31 December 2014:							
Cost	75,173	3,543	117,947	10,963	10,450	23,109	241,185
Accumulated depreciation	(30,015)	(2,224)	(87,742)	(9,213)	(8,044)	-	(137,238)
Net carrying amount	45,158	1,319	30,205	1,750	2,406	23,109	103,947
<b>31 December 2015</b>							
At 1 January 2015:							
Cost	75,173	3,543	117,947	10,963	10,450	23,109	241,185
Accumulated depreciation	(30,015)	(2,224)	(87,742)	(9,213)	(8,044)	-	(137,238)
Net carrying amount	45,158	1,319	30,205	1,750	2,406	23,109	103,947
At 1 January 2015,							
net of accumulated depreciation	45,158	1,319	30,205	1,750	2,406	23,109	103,947
Additions	-	442	505	255	405	5,251	6,858
Disposals	(16,581)	-	(766)	(197)	(25)	-	(17,569)
Disposal of a subsidiary	29	-	(21,104)	-	(76)	-	(21,180)
Depreciation	(3,232)	(345)	(1,510)	(548)	(693)	-	(6,328)
Deemed distribution to the Controlling Shareholders	30	-	-	(457)	(756)	-	(26,558)
Exchange realignment	-	25	-	9	-	1,376	1,410
At 31 December 2015, net of accumulated depreciation	-	1,441	7,330	812	1,261	29,736	40,580
At 31 December 2015:							
Cost	-	4,022	18,492	5,366	1,279	29,736	58,895
Accumulated depreciation	-	(2,581)	(11,162)	(4,554)	(18)	-	(18,315)
Net carrying amount	-	1,441	7,330	812	1,261	29,736	40,580

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>31 August 2016</b>							
At 1 January 2016:							
Cost	–	4,022	18,492	5,366	1,279	29,736	58,895
Accumulated depreciation	–	(2,581)	(11,162)	(4,554)	(18)	–	(18,315)
Net carrying amount	–	1,441	7,330	812	1,261	29,736	40,580
At 1 January 2016, net of accumulated depreciation							
	–	1,441	7,330	812	1,261	29,736	40,580
Additions	–	–	2,761	272	–	–	3,033
Disposals/write off	–	(390)	–	(12)	–	–	(402)
Depreciation	–	(368)	(1,085)	(146)	(357)	–	(1,956)
Exchange realignment	–	12	–	8	–	945	965
At 31 August 2016, net of accumulated depreciation	–	695	9,006	934	904	30,681	42,220
At 31 August 2016:							
Cost	–	3,653	21,253	5,624	1,279	30,681	62,490
Accumulated depreciation	–	(2,958)	(12,247)	(4,690)	(375)	–	(20,270)
Net carrying amount	–	695	9,006	934	904	30,681	42,220

#### 14. INVESTMENT IN A SUBSIDIARY

##### Company

	As at 31 December			As at
	2013	2014	2015	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2016 <i>RMB'000</i>
Unlisted share, at cost	1	1	1	1

The amounts due to subsidiaries included in the Company's current liabilities are unsecured, interest-free and repayable on demand.

The carrying amount of the amounts due to subsidiaries approximates to their fair value due to their short term maturity.

## 15. PREPAID LAND LEASE PAYMENTS

## Group

		As at 31 December			As at
	Note	2013	2014	2015	31 August
		RMB'000	RMB'000	RMB'000	2016
					RMB'000
Carrying amount at beginning of the year/period		29,416	36,010	35,194	7,465
Amortisation		(696)	(843)	(599)	(105)
Additions		7,401	–	–	–
Disposals		–	–	(10,248)	–
Deemed distribution to the Controlling Shareholders	30	–	–	(17,329)	–
Exchange realignment		(111)	27	447	225
		<u>36,010</u>	<u>35,194</u>	<u>7,465</u>	<u>7,585</u>
Carrying amount at end of the year/period		36,010	35,194	7,465	7,585
Current portion included in prepayments, deposits and other receivables		(842)	(842)	(156)	(161)
		<u>(842)</u>	<u>(842)</u>	<u>(156)</u>	<u>(161)</u>
Non-current portion		<u>35,168</u>	<u>34,352</u>	<u>7,309</u>	<u>7,424</u>

As at the end of the Track Record Period, the title certificate with respect to the land with a carrying amount of RMB7,585,000 in Cambodia leased by Masia Industries Co., Ltd., the Group's subsidiary, from the Sihanoukville Special Economy Zone Co., Ltd., was not registered in the name of Masia Industries Co., Ltd.. Notwithstanding, the Directors are of the opinion that Masia Industries Co., Ltd. is entitled to the lawful and valid occupation and use of the buildings and land to which the above-mentioned land use rights relate based on the lease agreement and the subsequent assignment.

## 16. INVENTORIES

## Group

		As at 31 December			As at
		2013	2014	2015	31 August
		RMB'000	RMB'000	RMB'000	2016
					RMB'000
Raw materials		91,041	96,841	25,990	123,944
Work in progress		106,957	136,158	162,382	117,748
Finished goods		18,300	25,523	12,461	60,290
		<u>216,298</u>	<u>258,522</u>	<u>200,833</u>	<u>301,982</u>

## 17. TRADE AND BILLS RECEIVABLES

## Group

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Trade receivables from third parties	137,497	149,279	169,429	119,564
Trade receivables from related companies	51,060	80,107	31,155	4,264
Impairment of trade receivables	(5,658)	(6,265)	–	(68)
	<u>182,899</u>	<u>223,121</u>	<u>200,584</u>	<u>123,760</u>
Trade receivables, net				
Bills receivable				
– arising from intra-group sales	189,593	185,217	83,228	21,741
– arising from transactions with Morris PRC under an agency arrangement	–	–	–	19,769
– arising from third party sales	1,000	1,120	–	30
	<u>373,492</u>	<u>409,458</u>	<u>283,812</u>	<u>165,300</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to two months, extending up to two to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

As at the end of each reporting period during the Track Record Period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 3 months	186,429	172,652	205,266	125,149
4 to 6 months	91,878	83,197	36,837	26,521
7 to 12 months	66,623	103,957	41,386	13,630
Over 1 year	28,562	49,652	323	–
	<u>373,492</u>	<u>409,458</u>	<u>283,812</u>	<u>165,300</u>

An ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Neither past due nor impaired	308,542	319,818	257,983	154,195
Less than 3 months past due	31,668	22,990	13,454	10,101
3 to 6 months past due	4,527	7,937	5,931	575
Over 6 months past due	28,755	58,713	6,444	429
	<u>373,492</u>	<u>409,458</u>	<u>283,812</u>	<u>165,300</u>

The movements in provision for impairment of trade receivables are as follows:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
At beginning of year/period	2,388	5,658	6,265	–
Impairment losses recognised (note 7)	3,270	607	1,366	68
Disposal of a subsidiary	–	–	(317)	–
Deemed distribution to the Controlling Shareholders	–	–	(7,314)	–
	<u>–</u>	<u>–</u>	<u>(7,314)</u>	<u>–</u>
At end of year/period	<u>5,658</u>	<u>6,265</u>	<u>–</u>	<u>68</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB5,658,000, RMB6,265,000, Nil and RMB68,000 with the same amounts as carrying amounts as at 31 December 2013, 2014 and 2015 and 31 August 2016, respectively.

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and the receivables are not expected to be recovered.

#### Trade receivables from related companies

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Jennifer Convertibles, Inc.	49,403	79,838	30,900	4,264
Haining Morris Leather Co., Ltd.* ("Morris Leather") (海寧慕容皮業有限公司)	1,368	–	–	–
Haining Morris Trading Co., Ltd.* ("Morris Trading") (海寧慕容貿易有限公司)	289	14	–	–
Haining Morris Coffee Catering Co., Ltd.* ("Morris Coffee Catering") (海寧慕容咖啡餐飲有限公司)	–	255	255	–
	<u>–</u>	<u>255</u>	<u>255</u>	<u>–</u>
	<u>51,060</u>	<u>80,107</u>	<u>31,155</u>	<u>4,264</u>

#### Maximum amounts outstanding on trade receivables from related companies during the year/period ended:

	31 December			31 August
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Jennifer Convertibles, Inc.	77,793	99,410	126,948	35,464
Morris Leather	1,368	1,368	–	–
Morris Trading	289	1,079	14	–
Morris Coffee Catering	–	255	255	255
Morris PRC	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The above related companies are controlled by the Controlling Shareholders. The trade receivables from the related companies are unsecured, non-interest-bearing and have a repayment term of 30 to 90 days. The above trade receivables from related companies as at 31 August 2016 will be settled prior to the Listing.

\* The English names of these entities represent management's best effort at translating their Chinese names as these entities did not register any official English names.



## 18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

## Group

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
Prepayments	2,138	6,379	20,266	2,561
Deposits and other receivables	45,606	32,175	31,933	41,889
Current portion of prepaid land lease payments	842	842	156	161
	<u>48,586</u>	<u>39,396</u>	<u>52,355</u>	<u>44,611</u>

## Company

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
Prepayments	<u>–</u>	<u>11</u>	<u>14</u>	<u>–</u>

None of the above assets were either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 19. AVAILABLE-FOR-SALE INVESTMENT

## Group

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
Unlisted principal-protected investment, at fair value	<u>–</u>	<u>–</u>	<u>26,000</u>	<u>–</u>

During the year ended 31 December 2015, the Group has entered into a contract of a structured investment with a financial institution. The structured investment is principal-protected at the maturity date and the expected annual rate of return is 1.9% per annum. In the opinion of the Directors, the available-for-sale investment is expected to be realised within 12 months after the end of the reporting period. Accordingly, the investment is classified as a current asset in the consolidated statement of financial position. During the year ended 31 December 2015, no gain/loss in respect of the Group's available-for-sale investment was recognised in other comprehensive income or reclassified from other comprehensive income to profit or loss for the year ended 31 December 2015. The structured investment had been settled during the eight months ended 31 August 2016 and the related gain from this investment amounting to RMB9,000 was recognised.

The fair value of available-for-sale investment requires the Directors to make estimates about the expected future cash flows from future proceeds when the investment matures and the fair value has been estimated to be the principal plus estimated return. The Directors believe that the estimated fair value recorded in the consolidated statement of financial position is reasonable, and that it was the most appropriate value at the end of the reporting period.

Below is the significant unobservable input to the valuation of the available-for-sale investment together with a quantitative sensitivity analysis as at 31 December 2015:

	Significant unobservable input	Input	Sensitivity of fair value to the input
Unlisted available-for-sale investment	Estimated return rate	1.9%	2% increase/(decrease) in estimated rate of return would result in a increase/(decrease) in fair value by RMB114,000

#### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's available-for-sale investment:

As at 31 December 2015

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investment: Unlisted principal-protected investment	–	–	26,000	26,000

During the Track Record Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets.

## 20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

### Group

	As at 31 December			As at
	2013 RMB'000	2014 RMB'000	2015 RMB'000	31 August 2016 RMB'000
Cash and bank balances	256,751	85,727	129,608	197,004
Less: Pledged deposits for bills payable	(225,454)	(75,087)	(96,477)	(136,747)
Cash and cash equivalents	<u>31,297</u>	<u>10,640</u>	<u>33,131</u>	<u>60,257</u>
Cash and cash equivalents denominated in:				
RMB	31,295	2,799	12,242	4,725
Hong Kong dollars ("HK\$")	2	420	1,331	1,393
US\$	–	7,421	19,558	54,139
	<u>31,297</u>	<u>10,640</u>	<u>33,131</u>	<u>60,257</u>

RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 21. TRADE AND BILLS PAYABLES

## Group

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Trade payables to third parties	298,623	326,137	290,587	349,048
Trade payables to related companies	19,562	594	4	1,265
Bills payable				
– arising from intra-group purchases	981,709	750,568	152,900	54,758
– arising from transactions with Morris PRC under an agency arrangement	–	–	–	19,703
– arising from a related party purchase	–	–	–	3,378
– arising from third party purchases	82,740	28,193	32,972	81,420
	<u>1,382,634</u>	<u>1,105,492</u>	<u>476,463</u>	<u>509,572</u>

An ageing analysis of the trade and bills payables as at the end of each reporting period during the Track Record Period, based on the invoice date, is as follows:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 1 month	94,926	75,476	47,127	174,856
1 to 3 months	408,979	222,395	132,452	113,755
3 to 6 months	565,947	479,153	196,048	164,334
Over 6 months	312,782	328,468	100,836	56,627
	<u>1,382,634</u>	<u>1,105,492</u>	<u>476,463</u>	<u>509,572</u>

The trade and bills payables are non-interest-bearing. Trade payables are normally settled on terms of 30 to 180 days while bills payable are settled on a term of 180 days.

Certain bills payable were secured by pledged deposits with aggregate carrying amounts as listed below:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Pledged deposits of the Group (note 20)	225,454	75,087	96,477	136,747
Pledged deposits provided by Morris PRC, a company controlled by the Controlling Shareholders	417,765	286,388	236,133	–

In addition to the above, certain bills payable were secured by personal guarantees, life insurance policy and properties provided by the Controlling Shareholders, corporate guarantees provided by Morris PRC and Zhejiang Morris Property Co., Ltd.\* (“Morris Real Estate”) (浙江慕容世家地產有限公司), which are related companies controlled by the Controlling Shareholders, and corporate guarantees provided by independent third parties. The pledged assets and/or personal/corporate guarantees provided by the Controlling Shareholders and/or companies controlled by the Controlling Shareholders will be released or replaced prior to the Listing.

**Trade payables to related companies:**

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Morris Trading	19,562	594	4	–
Morris PRC	–	–	–	1,265
	<u>19,562</u>	<u>594</u>	<u>4</u>	<u>1,265</u>

The above related companies are controlled by the Controlling Shareholders. The trade payables to these related companies were unsecured, non-interest-bearing and have a repayment term of 30 days.

\* The English name of this entity represents management's best effort at translating its Chinese name as this entity did not register any official English name.

**22. OTHER PAYABLES AND ACCRUALS**

**Group**

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Other payables	62,680	68,881	51,490	46,733
Accruals	7,633	9,123	5,569	11,192
Receipt in advance	<u>3,161</u>	<u>3,686</u>	<u>879</u>	<u>904</u>
	<u>73,474</u>	<u>81,690</u>	<u>57,938</u>	<u>58,829</u>

Other payables and accruals are non-interest-bearing and are normally repayable on demand.

## 23. BALANCES WITH RELATED PARTIES

An analysis of the balances with related parties is as follows:

**Group**

Notes	As at 31 December				Maximum outstanding amount during the year/period ended				
	2013		2014		31 December		31 August		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Amounts due from related parties</b>									
Morris PRC	(a)	925,284	731,435	182,534	202,813	925,284	925,284	731,534	481,970
Haining Morris International Leather Garment Co., Ltd.* ("Morris Garment") (海寧慕容國際皮草有限公司)	(a)	26	26	1	–	26	26	26	1
Morris Leather	(a)	23,605	–	–	96	24,932	23,605	–	96
Morris Real Estate	(a)	392	528	10	–	392	528	528	10
Morris Trading	(a)	76	7,793	1,170	162	76	7,793	7,793	1,170
Morris Coffee Catering	(a)	–	176	176	–	–	176	176	176
Morris Capital Limited	(a)	–	–	12	23	–	–	12	23
Jennifer Convertibles, Inc.	(a)	5,101	6,260	–	–	5,101	6,260	–	–
Mr. Zou	(b)	41,497	46,470	9,016	9,510	41,497	46,470	46,470	9,510
Ms. Wu	(b)	267	261	278	483	267	267	278	483
		<u>996,248</u>	<u>792,949</u>	<u>193,197</u>	<u>213,087</u>				
<b>Loan to a Director</b>									
Mr. Zou	(b)	–	–	–	13,382	–	–	–	13,382

Notes	As at 31 December			As at	
	2013	2014	2015	31 August	
	RMB'000	RMB'000	RMB'000	2016	
				RMB'000	
<b>Amounts due to related parties</b>					
Morris PRC	(a)	–	–	95,639	7,412
Morris Garment	(a)	8	9,030	–	–
Morris Leather	(a)	51,372	25,676	–	–
Morris Real Estate	(a)	777	–	–	–
Morris Trading	(a)	–	5,618	8	–
Jennifer Convertibles, Inc.	(a)	–	3,518	–	–
Mr. Zou	(b)	–	25,000	–	–
		<u>52,157</u>	<u>68,842</u>	<u>95,647</u>	<u>7,412</u>

## Company

	Notes	As at 31 December		As at 31 August		Maximum outstanding amount during the year/period ended			
		2013	2014	2015	2016	31 December		31 August	
		RMB'000	RMB'000	RMB'000	RMB'000	2013	2014	2015	2016
<b>Amounts due from related parties</b>									
Morris Capital Limited	(a)	-	-	1	1	-	-	1	1
Mr. Zou	(b)	1	1	-	-	1	1	1	-
		<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>

## Notes:

(a) These entities are controlled by the Controlling Shareholders.

(b) Mr. Zou and Ms. Wu are the Controlling Shareholders of the Group.

\* The English name of this entity represents management's best effort at translating its Chinese name as this entity did not register any official English name.

The outstanding balances with the above related parties represented balances that were non-trade in nature, unsecured, interest-free and were repayable on demand. The balances as at 31 August 2016 had been settled by cash on/before 2 December 2016.

## 24. INTEREST-BEARING BANK BORROWINGS

## Group

	2013		As at 31 December 2014			2015			As at 31 August 2016			
	Effective interest rate	Maturity	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	
<b>Current – secured</b>												
Bank loans	6.4%- 7.2%	On demand	68,000	5.6%- 7.3%	On demand	44,500	4.4%- 8.5%	On demand	60,000	4.4%- 7.4%	On demand	165,900
Bank loans	6.3%- 7.2%	2014	70,450	5.9%- 7.5%	2015	40,490	1.4%- 8.5%	2016	57,627	4.4%- 4.6%	2017	35,000
Discounted bills loans with recourse	4.2%- 7%	2014	82,000	4.7%- 6.2%	2015	52,660	-	-	-	-	-	-
Factoring loans with recourse	-	-	-	-	-	-	3.0%	2016	80,489	1.3%- 3.4%	2016	50,732
			<u>220,450</u>			<u>137,650</u>			<u>198,116</u>			<u>251,632</u>

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
Analysed into:				
Bank borrowings repayable				
within one year or on demand	220,450	137,650	198,116	251,632

Notes:

- (a) Certain of the Group's secured bank loans are secured by:
- (i) a pledge of the Group's land and building with an aggregate carrying amount of RMB11,196,000 and RMB10,416,000 as at 31 December 2013 and 2014, respectively;
  - (ii) a pledged deposit of RMB500,000 as at 31 December 2013, 2014 and 2015 which was provided by Morris PRC, a company controlled by the Controlling Shareholders;
  - (iii) pledges of certain parcels of land and buildings as at 31 December 2013 and 2014 and 31 August 2016 which were provided by Morris PRC;
  - (iv) pledges of certain properties as at 31 December 2015 and 31 August 2016 which were provided by the Controlling Shareholders;
  - (v) a pledge of the Group's receivable from Morris PRC amounting to RMB13,247,000 as at 31 December 2015;
  - (vi) personal guarantees provided by the Controlling Shareholders as at 31 December 2013, 2014 and 2015 and 31 August 2016;
  - (vii) corporate guarantees provided by Morris PRC as at 31 December 2013, 2014 and 2015 and 31 August 2016;
  - (viii) corporate guarantees provided by Morris Real Estate, a company controlled by the Controlling Shareholders, as at 31 December 2013 and 31 August 2016;
  - (ix) corporate guarantees provided by independent third parties as at 31 December 2013, 2014 and 2015 and 31 August 2016; and
  - (x) pledges of certain properties as at 31 August 2016 which were provided by Morris Real Estate, a company controlled by the Controlling Shareholders.

The pledged assets and/or personal/corporate guarantees provided by the Controlling Shareholders and/or companies controlled by the Controlling Shareholders will be released or replaced prior to the Listing.

(b) The Group's bank borrowings were denominated in the following currencies:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
RMB	220,450	137,650	70,450	200,900
US\$	–	–	127,666	50,732
	<u>220,450</u>	<u>137,650</u>	<u>198,116</u>	<u>251,632</u>

(c) The Group's bank loans were at fixed interest rates.

## 25. WARRANTY PROVISION

### Group

	Year ended 31 December			Eight months
	2013	2014	2015	ended
	RMB'000	RMB'000	RMB'000	31 August
				2016
				RMB'000
At beginning of year/period	3,768	2,876	3,605	3,915
Additional provision ( <i>note 7</i> )	2,878	3,555	5,273	3,831
Amount utilised during the year/period	(3,770)	(2,826)	(4,963)	(3,203)
Exchange realignment	–	–	–	297
At end of year/period	<u>2,876</u>	<u>3,605</u>	<u>3,915</u>	<u>4,840</u>

The Group provides one-year warranties to certain customers on its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.



## 26. DEFERRED TAX

## Group

## Deferred tax assets

	Unrealised profit arising from intra-group transactions			Eight months ended 31 August 2016 RMB'000
	Year ended 31 December			
	2013 RMB'000	2014 RMB'000	2015 RMB'000	
At beginning of year/period	1,913	2,771	3,963	3,665
Credited/(charged) to profit or loss during the year/period	858	1,192	(298)	(791)
At end of year/period	<u>2,771</u>	<u>3,963</u>	<u>3,665</u>	<u>2,874</u>

The Group has tax losses arising in Mainland China of RMB49,592,000, RMB62,826,000, RMB1,346,000 and RMB5,196,000 as at 31 December 2013, 2014 and 2015 and 31 August 2016, respectively, that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## Deferred tax liabilities

	Withholding taxes			Eight months ended 31 August 2016 RMB'000
	Year ended 31 December			
	2013 RMB'000	2014 RMB'000	2015 RMB'000	
At beginning of year/period	–	691	–	107
Charged/(credited) to profit or loss during the year/period	691	(691)	107	3,560
At end of year/period	<u>691</u>	<u>–</u>	<u>107</u>	<u>3,667</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 27. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2013 with authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.

	2013		As at 31 December 2014		2015		As at 31 August 2016	
	US\$'000	RMB'000 equivalent	US\$'000	RMB'000 equivalent	US\$'000	RMB'000 equivalent	US\$'000	RMB'000 equivalent
Authorised: 50,000 ordinary shares of US\$1 each	50		50		50		50	
Issued and fully paid: 100 ordinary shares of US\$1 each	-	1	-	1	-	1	-	1

The movements in the Company's issued share capital during the Track Record Period are as follows:

	Number of ordinary shares in issue	Issued capital RMB'000
At 18 December 2013 (date of incorporation)	-	-
Issue of shares	100	1
At 31 December 2013, 1 January 2014, 31 December 2014, 1 January 2015, 31 December 2015, 1 January 2016 and 31 August 2016	100	1

On the date of incorporation, one ordinary share was allotted and issued by the Company to the initial subscriber at US\$1 per share and such one share was transferred to Mr. Zou on the same day. On the same day, 99 ordinary shares were allotted and issued to Mr. Zou at par value.

The movements in the Company's authorised and issued share capital after the Track Record Period are as follows:

Pursuant to the written resolutions of the shareholder passed on 10 December 2016, each share of the Company of US\$1 in the issued and unissued share capital of the Company was sub-divided into 1,000 shares of US\$0.001 each, such that the authorised share capital of the Company became US\$50,000 divided into 50,000,000 shares of US\$0.001 each and the issued share capital of the Company became US\$100 divided into 100,000 shares of US\$0.001 each.

Pursuant to the written resolutions of the shareholder passed on 10 December 2016, the authorised share capital of the Company was increased from US\$50,000 to US\$10,000,000 by the creation of a further 9,950,000,000 shares of US\$0.001 each.

**28. RESERVES****(a) Group**

The amounts of the Group's reserves and the movements therein for each reporting period during the Track Record Period are presented in the consolidated statements of changes in equity.

**(i) Merger reserve**

The merger reserve represents the reserve arising pursuant to the Reorganisation as detailed in note 1 above. The capital contribution by the Controlling Shareholders and the distributions to the then shareholders were settled through current account with related parties.

**(ii) Exchange fluctuation reserve**

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

**(iii) Reserve funds**

The transfers from retained profits to the reserve funds were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC.

**(b) Company**

	<b>Exchange fluctuation reserve</b> <i>RMB'000</i>	<b>Accumulated losses</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 18 December 2013 (the date of incorporation)	–	–	–
Loss and total comprehensive income for the period	–	–	–
At 31 December 2013 and at 1 January 2014	–	–	–
Loss and total comprehensive income for the year	–	(28)	(28)
At 31 December 2014 and at 1 January 2015	–	(28)	(28)
Loss and total comprehensive income for the year	–	(60)	(60)
At 31 December 2015 and at 1 January 2016	–	(88)	(88)
Loss for the period	–	(2,806)	(2,806)
Other comprehensive income for the period:			
Exchange differences on translation of financial information	(58)	–	(58)
Total comprehensive income for the period	(58)	(2,806)	(2,864)
At 31 August 2016	(58)	(2,894)	(2,952)

## 29. DISPOSAL OF A SUBSIDIARY

	<i>Notes</i>	<b>Year ended 31 December 2015 RMB'000</b>
Net assets disposed of:		
Property, plant and equipment	13	21,180
Long term prepayment		308
Trade and bills receivables		44,077
Prepayments, deposits and other receivables		2,757
Due from group companies, net		50,482
Cash and cash equivalents		1,527
Pledged deposits		19,360
Trade and bills payables		(67,698)
Other payables and accruals		(3,815)
Interest-bearing bank borrowing		(62,714)
		<hr/>
Gain on disposal of a subsidiary	5	5,464
		11,336
		<hr/>
		16,800
		<hr/> <hr/>
Satisfied by:		
Cash		16,800
		<hr/> <hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<b>Year ended 31 December 2015 RMB'000</b>
Cash consideration	16,800
Cash and cash equivalents disposed of	(1,527)
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	15,273
	<hr/> <hr/>

**30. DEEMED DISTRIBUTION TO THE CONTROLLING SHAREHOLDERS**

Pursuant to the business transfer agreement entered into between Morris PRC, the Company and certain subsidiaries now comprising the Group, as part of the Reorganisation, the furniture business formerly operated by the furniture division of Morris PRC was transferred to certain subsidiaries now comprising the Group during the three years ended 31 December 2015 and the transfer was completed on 31 December 2015 (the "Transfer Completion Date"). The assets and liabilities of the furniture division of Morris PRC set out below were not transferred, assigned or novated to the subsidiaries now comprising the Group as at the Transfer Completion Date and were treated as a deemed distribution to the Controlling Shareholders in connection with the Reorganisation:

	<i>Notes</i>	<b>31 December 2015 RMB'000</b>
Net assets distributed:		
Property, plant and equipment	13	26,558
Prepaid land lease payments	15	17,329
Long term prepayment		23
Inventories		109,233
Trade and bills receivables		45,009
Prepayments, deposits and other receivables		35,773
Due from related parties		734,446
Trade and bills payables		(507,086)
Other payables and accruals		(26,641)
Due to related parties		(33,660)
Due to group companies, net		(86,896)
		<u>314,088</u>

**31. FINANCIAL GUARANTEES**

At the end of each reporting period during the Track Record Period, the Group had the following financial guarantees:

	<i>Notes</i>	<b>As at 31 December</b>			<b>As at</b>
		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>31 August 2016</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees given to banks in connection with facilities granted to:					
Related party – Morris PRC	<i>(a)</i>	50,000	170,000	150,000	120,000
Third parties	<i>(b)</i>	67,000	43,000	24,200	–
		<u>117,000</u>	<u>213,000</u>	<u>174,200</u>	<u>120,000</u>
Utilised to the extent of the following amounts by:					
Related party – Morris PRC		50,000	154,700	103,324	82,000
Third parties		65,200	43,000	–	–
		<u>115,200</u>	<u>197,700</u>	<u>103,324</u>	<u>82,000</u>

*Notes:*

- (a) All guarantees provided by the Group to related parties will be released prior to the Listing.
- (b) All guarantees provided by the Group to third parties have been released in January 2016.

The Directors of the Company consider that the fair value of the guarantees is not significant. Accordingly, these guarantees were not provided for in the Financial Information.

**32. CONTINGENT LIABILITIES**

Except for the financial guarantees detailed in note 31, the Group and the Company did not have any significant contingent liabilities as at the end of each reporting period during the Track Record Period.

**33. OPERATING LEASE ARRANGEMENTS – AS LESSEE**

The Group leases an office property, showrooms and factory premises under operating lease arrangements. The leases for these properties are negotiated for terms ranging from 1.5 to 10 years.

At the end of each reporting period during the Track Record Period, the Group had total future minimum lease payments during under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within one year	1,014	4,719	1,487	3,059
In the second to fifth years, inclusive	1,561	2,141	–	3,924
	<u>2,575</u>	<u>6,860</u>	<u>1,487</u>	<u>6,983</u>

**34. COMMITMENTS**

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments as at the end of each reporting period during the Track Record Period:

	As at 31 December			As at
	2013	2014	2015	31 August
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Contracted, but not provided for:				
Buildings	<u>25,584</u>	<u>2,568</u>	<u>545</u>	<u>562</u>

At the end of each reporting period during the Track Record Period, the Company had no significant commitments.

**35. RELATED PARTY TRANSACTIONS**

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following significant transactions with related parties during the Track Record Period and the eight months ended 31 August 2015:

	Year ended 31 December			Eight months	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<u>Morris Trading</u>					
Sales of finished goods	1,044	6,628	–	–	–
Purchases of raw materials	17,510	4,469	–	–	–
Purchases of finished goods	–	–	413	–	–
<u>Morris Real Estate</u>					
Sales proceeds from disposal of items of property, plant and equipment	2,093	–	–	–	–

	Year ended 31 December			Eight months ended 31 August	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Jennifer Convertibles, Inc.					
Sales of finished goods	70,671	34,135	31,609	19,190	30,241
Haining Mengnu Furniture Co., Ltd.* (海寧蒙努傢私有限公司)					
Purchases of finished goods	1,117	-	-	-	-
Morris PRC					
Purchases of inventories	-	-	-	-	55,379
Purchases of electricity	-	-	-	-	1,379
Rental expenses	-	-	-	-	4,825
Agency fee	-	-	-	-	5,531

The above related parties are companies controlled by the Controlling Shareholders. The transactions were conducted on terms and conditions mutually agreed between the relevant parties.

\* The English name of this entity represents management's best effort at translating its Chinese name as this entity did not register any official English name.

(b) Other transactions with related parties:

- (i) In 2015, certain land and buildings with carrying amounts of RMB10,248,000 and RMB16,581,000, respectively, were transferred from the Group to Morris PRC, a company controlled by the Controlling Shareholders. The transfer at carrying amounts was settled through current account with Morris PRC.
- (ii) During the Track Record Period, certain of the Group's bills receivable arising from intra-group sales were novated to non-furniture division of Morris PRC. Such bills receivable had aggregate face values of RMB83,000,000, RMB62,650,000 and RMB39,400,000 as at 31 December 2013, 2014 and 2015, respectively. The related bills receivable matured in the subsequent year to which they relate.
- (iii) During the year ended 31 December 2015, the Group's trade receivables from Jennifer Convertibles, Inc. amounting to RMB76,776,000 were novated to Morris PRC.
- (iv) During the Track Record Period, certain performance bonds in respect of import and export guarantee provided by non-furniture division of Morris PRC on behalf of the Group amounted to RMB3,000,000, RMB3,000,000 and RMB4,000,000 as at 31 December 2013, 2014 and 2015, respectively.
- (v) On 31 December 2015, the Group has entered into a trademark transfer agreement with Morris PRC, pursuant to which certain trademarks were transferred to the Group at nil consideration.

(c) Outstanding balances with related parties

Other than balances with related parties disclosed elsewhere in the Financial Information, the Group had no outstanding balances with related parties as at the end of each reporting period during the Track Record Period.

(d) Compensation of key management personnel of the Group

	Year ended 31 December			Eight months ended 31 August	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Fees	–	–	–	–	1,312
Salaries, allowances and benefits in kind	274	1,164	1,826	1,093	3,297
Discretionary bonuses	134	148	845	839	106
Pension scheme contributions	24	11	13	10	87
Total compensation paid to key management personnel	432	1,323	2,684	1,942	4,802

Further details of Directors' emoluments are included in note 8 to the Financial Information.

### 36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period during the Track Record Period are as follows:

#### As at 31 December 2013

##### Group

##### *Financial assets*

	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	373,492	373,492
Financial assets included in prepayments, deposits and other receivables	241	241
Due from related parties	996,248	996,248
Pledged deposits	225,454	225,454
Cash and cash equivalents	31,297	31,297
	1,626,732	1,626,732

##### *Financial liabilities*

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	1,382,634	1,382,634
Financial liabilities included in other payables and accruals	15,545	15,545
Due to related parties	52,157	52,157
Interest-bearing bank borrowings	220,450	220,450
	1,670,786	1,670,786



**Company***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due from related parties	1	1

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due to a subsidiary	1	1

**As at 31 December 2014****Group***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Trade and bills receivables	409,458	409,458
Financial assets included in prepayments, deposits and other receivables	1,082	1,082
Due from related parties	792,949	792,949
Pledged deposits	75,087	75,087
Cash and cash equivalents	10,640	10,640
	<u>1,289,216</u>	<u>1,289,216</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Trade and bills payables	1,105,492	1,105,492
Financial liabilities included in other payables and accruals	23,144	23,144
Due to related parties	68,842	68,842
Interest-bearing bank borrowings	137,650	137,650
	<u>1,335,128</u>	<u>1,335,128</u>

**Company***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due from related parties	12	12

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due to subsidiaries	40	40

**As at 31 December 2015****Group***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Available-for- sale financial assets</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investment	–	26,000	26,000
Trade and bills receivables	283,812	–	283,812
Financial assets included in prepayments, deposits and other receivables	31,933	–	31,933
Due from related parties	193,197	–	193,197
Pledged deposits	96,477	–	96,477
Cash and cash equivalents	33,131	–	33,131
	<u>638,550</u>	<u>26,000</u>	<u>664,550</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Trade and bills payables	476,463	476,463
Financial liabilities included in other payables and accruals	9,899	9,899
Due to related parties	95,647	95,647
Interest-bearing bank borrowings	198,116	198,116
	<u>780,125</u>	<u>780,125</u>

**Company***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due from related parties	15	15

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due to subsidiaries	103	103

**As at 31 August 2016****Group***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Trade and bills receivables	165,300	165,300
Financial assets included in prepayments, deposits and other receivables	15,571	15,571
Due from related parties	213,087	213,087
Loan to a Director	13,382	13,382
Pledged deposits	136,747	136,747
Cash and cash equivalents	60,257	60,257
	<u>604,344</u>	<u>604,344</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Trade and bills payables	509,572	509,572
Financial liabilities included in other payables and accruals	21,786	21,786
Due to related parties	7,412	7,412
Interest-bearing bank borrowings	251,632	251,632
	<u>790,402</u>	<u>790,402</u>

**Company***Financial assets*

	<b>Loans and receivables</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due from a related party	1	1

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Due to subsidiaries	2,953	2,953

**37. TRANSFERS OF FINANCIAL ASSETS****Transferred financial assets that are not derecognised in their entirety**

- (a) At 31 December 2013, 2014 and 2015 and 31 August 2016, the Group discounted certain bills receivable accepted by banks in Mainland China in respect of intra-group sale transactions to banks on a recourse basis to obtain financing. In the opinion of the Directors, the Group is exposed to default risks of certain issuing banks after the transfer, and therefore, the Group continued to recognise the full carrying amounts of the discounted bills receivable from such issuing banks (the “Discounted Bills”) and the associated loans and liabilities. Subsequent to the transfer, the Group did not retain any rights on the use of the Discounted Bills, including the sale, transfer or pledge of the Discounted Bills to any other third parties. As at 31 December 2013, 2014 and 2015 and 31 August 2016, the aggregate carrying amounts of the Discounted Bills were RMB82,000,000, RMB52,660,000, Nil and Nil, respectively.
- (b) At 31 December 2013, 2014 and 2015 and 31 August 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks of certain issuing banks after the endorsement, and accordingly, the Group continued to recognise the full carrying amounts of the endorsed bills receivable from such issuing banks (the “Endorsed Bills”) and the associated trade payables settled. Subsequent to the endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. As at 31 December 2013, 2014 and 2015 and 31 August 2016, the aggregate carrying amounts of the Endorsed Bills were RMB67,294,000, RMB127,892,000, RMB82,888,000 and RMB41,539,000, respectively.
- (c) As part of its normal business, the Group entered into a trade receivable factoring arrangement (the “Factoring Arrangement”) with recourse and transferred certain trade receivables to a bank. Under the Factoring Arrangement, the Group was exposed to the default risk of the trade debtors after the transfer. The aggregate carrying amounts of the trade receivables transferred under the Factoring Arrangement that has not been settled and continued to be recognised by the Group as at 31 December 2015 and 31 August 2016 were RMB80,489,000 and RMB50,732,000, respectively. No such Factoring Arrangement was entered into by the Group as at 31 December 2013 and 2014.

**Transferred financial assets that are derecognised in their entirety**

At 31 December 2013, 2014 and 2015 and 31 August 2016, the Group discounted and endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain banks in order to obtain additional financing or certain of its suppliers in order to settle the trade payables due to such suppliers with carrying amounts in aggregate of RMB709,867,000, RMB493,337,000, RMB310,089,000 and RMB184,775,000, respectively. The Derecognised Bills had a maturity of one to six months at the end of each reporting period during the Track Record Period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The Derecognised Bills were honoured by reputable banks in the PRC, such as Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China and other reputable banks rating at AAA by national credit rating agencies. In the opinion of the Directors, these banks have good reputation and credit quality, and the risk of default of these bills receivable on maturity is remote, and therefore, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills since after the transfer the Group's exposure to the variability in the amounts of the net cash flows of the transferred asset is not significant. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated liabilities. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the Track Record Period, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during each reporting period or cumulatively. The discounting and endorsement has been made evenly throughout each reporting period during the Track Record Period.

**38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

The carrying amounts and fair values of the Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings and amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of unlisted available-for-sale investment as at 31 December 2015 has been estimated based on the principal and the yield rate quoted from the financial institution. The fair value measurement of the available-for-sale investment was in Level 3.

The Group did not have any financial assets measured at fair value as at 31 December 2013 and 2014 and 31 August 2016. The Group did not have any financial liabilities measured at fair value as at 31 December 2013, 2014 and 2015 and 31 August 2016.

During the Track Record Period, there was no transfer of fair value measurement between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

**Interest rate risk**

Interest rate risk exposure refers to the risk that the fair value or future cash flows of the Group's bank loans will fluctuate because of changes in market interest rates. As at 31 December 2013, 2014 and 2015 and 31 August 2016, if interest rates at that date had been 10 basis points higher with all other variables held constant, profit for the year ended 31 December 2013, 2014 and 2015 and eight months ended 31 August 2016 would have been RMB30,000, RMB30,000, RMB42,000 and RMB107,000, respectively, higher arising as a result of a decrease in the fair value of fixed rate bank loans. If interest rates at that date had been 10 basis points lower with all other variables held constant, profit for the year ended 31 December 2013, 2014 and 2015 and eight months ended 31 August 2016 would have been RMB30,000, RMB30,000, RMB42,000 and RMB107,000, respectively, lower arising as a result of an increase in the fair value of fixed rate bank loans.

**Foreign currency risk**

Foreign currency risk means the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Track Record Period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

**Group**

	<b>Increase/ (decrease) in exchange rates</b>	<b>Increase/ (decrease) in profit before tax</b>
	%	RMB'000
At 31 December 2013		
If RMB weakens against US\$	5	8,268
If RMB strengthens against US\$	(5)	(8,268)
At 31 December 2014		
If RMB weakens against US\$	5	15,254
If RMB strengthens against US\$	(5)	(15,254)
At 31 December 2015		
If RMB weakens against US\$	5	5,231
If RMB strengthens against US\$	(5)	(5,231)
At 31 August 2016		
If RMB weakens against US\$	5	1,063
If RMB strengthens against US\$	(5)	(1,063)

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged deposits, amounts due from related parties, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group had certain concentrations of credit risks as the following percentage of trade and bills receivables were due from the Group's largest external customer and the Group's five largest external customers out of the Group's total trade and bills receivables excluding the bills receivable arising from intra-group sales transactions:

**Group**

	As at 31 December			As at
	2013	2014	2015	31 August
	%	%	%	2016
				%
Due from the Group's largest external customer	12	8	8	24
Due from the Group's five largest external customers	63	53	72	60

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 to the Financial Information.

**Liquidity risk**

The Group's objectives are to maintain a prudent financial policy, to monitor liquidity ratios against risk limits and to maintain a contingency plan for funding to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

The following table details the remaining contractual maturities as at 31 December 2013, 2014 and 2015 and 31 August 2016 of the Group's and Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, based on rates as at 31 December 2013, 2014 and 2015 and 31 August 2016) and the earliest date that the Group and the Company could be required to repay:

**Group**

	Within 1 year or on demand			As at
	As at 31 December			31 August
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,382,634	1,105,492	476,463	509,572
Financial liabilities included in other payables and accruals	15,545	23,144	9,899	21,786
Due to related parties	52,157	68,842	95,647	7,412
Interest-bearing bank borrowings	224,960	140,486	198,670	252,233
	<u>1,675,296</u>	<u>1,337,964</u>	<u>780,679</u>	<u>791,003</u>

	Within 1 year or on demand			As at
	As at 31 December			31 August
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
The maximum amount of the guarantees given to banks in connection with banking facilities granted to:				
– Morris PRC	50,000	154,700	103,324	82,000
– Third parties	65,200	43,000	–	–
	<u>115,200</u>	<u>197,700</u>	<u>103,324</u>	<u>82,000</u>

**Company**

	Within 1 year or on demand			As at
	As at 31 December			31 August
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Due to subsidiaries	<u>1</u>	<u>40</u>	<u>103</u>	<u>2,953</u>

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a gearing ratio, which is total interest-bearing bank borrowings divided by the total equity. Total equity refers to equity attributable to owners of the parent. The gearing ratios as at the end of each reporting period during the Track Record Period were as follows:

**Group**

	As at 31 December			As at
	As at 31 December			31 August
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings (note 24)	220,450	137,650	198,116	251,632
Equity attributable to owners of the parent	280,885	305,376	75,057	115,464
Gearing ratio	<u>78.5%</u>	<u>45.1%</u>	<u>264.0%</u>	<u>217.9%</u>



**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 August 2016.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

The information set out in this appendix does not form part of the Accountants' Report on the financial information of the Group for the Track Record Period prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included in this prospectus for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our consolidated net tangible assets of our Group attributable to owners of our Company as if the Global Offering had taken place on 31 August 2016.

This unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 August 2016 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of our Group as at 31 August 2016 as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report:

	Consolidated net tangible assets of our Group attributable to owners of our parent as at 31 August 2016 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share <i>RMB</i> <i>HK\$</i> <i>(Note 3)</i> <i>(Note 4)</i>	
Based on an Offer Price of HK\$1.05 per Share	115,464	216,800	332,264	0.332	0.371
Based on an Offer Price of HK\$1.31 per Share	115,464	273,483	388,947	0.389	0.435

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*Notes:*

1. The consolidated net tangible assets of our Group attributable to owners of our parent as at 31 August 2016 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$1.05 per Share and HK\$1.31 per Share being low and high end of the indicative offer price range, after deduction of the underwriting fees and commissions (taking into no account of any discretionary fee and excluding approximately RMB21.6 million Listing expenses which have been accounted for prior to 31 August 2016) payable by our Group and takes no account of any Share which may be issued upon the exercise of the Over-allotment Option and may be granted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as described in the section headed "Share Capital" in this prospectus, in connection with the Global Offering.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of our parent per Share is calculated based on 1,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering and the Capitalisation Issue on 12 January 2017, but takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.
4. The unaudited pro forma adjusted consolidated net tangible assets of our Group per Share is translated to Hong Kong dollars at the exchange rate of RMB0.8944 to HK\$1.00 which was the PBOC rate prevailing on the Latest Practicable Date. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
5. Except for those mentioned above, no adjustment has been made to our unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of our Group, entered into subsequent to 31 August 2016.

**B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.*

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

22nd Floor,  
CITIC Tower,  
1 Tim Mei Avenue,  
Central, Hong Kong  
30 December 2016

**To the Directors of Morris Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Morris Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of the adjusted consolidated net tangible assets of the Group as at 31 August 2016 and related notes as set out on Section A of Appendix II to the prospectus dated 30 December 2016 (the “Prospectus”) issued by the Company (the “Pro Forma Financial Information”) in connection with the global offering of the shares of the Company (the “Global Offering”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section A of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Global Offering on the Group’s financial position as at 31 August 2016 as if the transaction had taken place at 31 August 2016. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the eight months ended 31 August 2016, on which an accountants’ report has been published.

**Directors’ responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting accountant's responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the Global Offering on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

*This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus, a copy of the Memorandum and Articles of Association is available for inspection.*

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 December 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 10 December 2016 and will become effective on the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### ***(i) Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company

may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(ii) Power to dispose of the assets of the Company or any subsidiary***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

***(iii) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

***(iv) Loans and provision of security for loans to Directors***

There are provisions in the Articles prohibiting the making of loans to Directors.



(v) *Financial assistance to purchase shares of the Company or its subsidiaries*

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company. There is no provision in the Articles that prohibits the Company from giving financial assistance for the purchase shares of its subsidiaries.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

***(vii) Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he

held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(viii) Retirement, appointment and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to

retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law; or
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms

as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

***(ix) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

***(x) Proceedings of the Board***

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

***(xi) Register of Directors and officers***

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to

this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to



compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged

for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN COMPANIES LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.



The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 12 July 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any

branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the subsection headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**1. FURTHER INFORMATION ABOUT OUR COMPANY****A. Incorporation**

Our Company was incorporated as an exempted company in the Cayman Islands under the Companies Law on 18 December 2013. Our Company's registered office is located at Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Our Company has established our principal place of business in Unit 6707, 67/F, The Center, 99 Queen's Road Central, Hong Kong and has been registered with the Companies Registry of Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 March 2016, with Ms. Li Oi Lai appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to the Cayman Islands company law. Its constitution comprises the Memorandum of Association and Articles of Association. A summary of various provisions of the Memorandum and Articles and relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

**B. Changes in Share Capital of our Company**

The authorised share capital of our Company as at the date of its incorporation was US\$50,000 divided into 50,000 shares of US\$1.00 each. The following sets out the changes in our Company's issued share capital since our Company's incorporation:

- (a) On 18 December 2013, one subscriber's Share of US\$1.00 was allotted and issued as fully paid to the initial subscriber and was further transferred to Mr. Zou;
- (b) On 18 December 2013, 99 Shares of US\$1.00 each were allotted and issued as fully paid to Mr. Zou;
- (c) On 21 May 2015, the 100 fully-paid Shares were transferred from Mr. Zou to Morris Capital;
- (d) Pursuant to the written resolutions of our Shareholder passed on 10 December 2016, each Share of the Company of US\$1.00 in the issued and unissued share capital of the Company was sub-divided into 1,000 Shares of US\$0.001 each, such that the authorised share capital of the Company became US\$50,000 divided into 50,000,000 Shares of US\$0.001 each and the issued share capital of the Company became US\$100 divided into 100,000 Shares of US\$0.001 each;
- (e) Pursuant to the written resolutions of our Shareholder passed on 10 December 2016, the authorised share capital of our Company was increased from US\$50,000 to US\$10,000,000 by the creation of a further 9,950,000,000 Shares of US\$0.001 each.

A total of 25,000,000 new Shares will be offered to the public by way of Hong Kong Public Offering.



Conditional on the share premium account of our Company being credited with the proceeds from the Global Offering, US\$749,900 will be capitalised from the share premium account and applied in paying up in full at par 749,900,000 Shares which will be allotted and issued to Morris Capital on or before the Listing as part of the Capitalisation Issue.

Immediately following the Global Offering and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), the issued share capital of our Company will be US\$1,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid and 9,000,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as aforesaid, there has been no alteration in the share capital of our Company since its incorporation.

#### **C. Written resolutions of our Shareholder passed on 10 December 2016**

Pursuant to the written resolutions of our Shareholder passed on 10 December 2016, among other things:

- (a) each Share of the Company of US\$1.00 in the issued and unissued share capital of the Company was sub-divided into 1,000 Shares of US\$0.001 each, such that the authorised share capital of the Company became US\$50,000 divided into 50,000,000 Shares of US\$0.001 each and the issued share capital of the Company became US\$100 divided into 100,000 Shares of US\$0.001 each;
- (b) the authorised share capital of our Company was increased from US\$50,000 to US\$10,000,000 by the creation of a further 9,950,000,000 Shares of US\$0.001 each;
- (c) conditional on the conditions as set out in the section headed “Structure of the Global Offering” in this prospectus:
  - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and Shares which may be required to be allotted and issued upon the exercise of the Over-allotment Option;
  - (ii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise US\$749,900 standing to the credit of the share premium account of our Company applying such sum in paying up in full at par 749,900,000 Shares for allotment and issue to Morris Capital:

- (iii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto;
- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issues or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or under any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of shares of our Company in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of our Company or a specific authority granted by the Shareholders in general meeting, Shares with a total number not exceeding the aggregate of (1) 20% of the total number of the Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme or the Over-allotment Option); and (2) the aggregate number of Shares repurchased under the repurchase mandate as mentioned in paragraph (v) below. Such mandate shall remain in effect until whichever is the earliest of:
  - (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable laws of Cayman Islands; or
  - (3) the passing of an ordinary resolution of the shareholders of our Company in a general meeting revoking, varying or renewing such mandate;
- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the total number of the Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme or the Over-allotment Option), such mandate shall remain in effect until whichever is the earliest of:
  - (1) the conclusion of the next annual general meeting of our Company;
  - (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association or any applicable laws of the Cayman Islands; or

- (3) the passing of an ordinary resolution of the shareholders of our Company in a general meeting revoking, varying or renewing such mandate; and
- (vi) the general mandate mentioned in paragraph (iv) above be extended by the addition of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred in to paragraph (v) above provided such extended amount shall not exceed 10% of the number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering; and
- (d) the Memorandum was approved and adopted; and
- (e) the Articles were conditionally approved and adopted.

## **2. CHANGES IN SHARE CAPITAL OF OUR SUBSIDIARIES**

Our subsidiaries are set out under the Accountants' Report as included in Appendix I to this prospectus. Save for the subsidiaries mentioned in Appendix I to this prospectus, our Company has no other subsidiaries. Save as disclosed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

## **3. REORGANISATION**

In preparation for the Global Offering, we underwent the Reorganisation, details of which are set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus. Following the Reorganisation, our Company became the holding company of our Group.

A diagram showing our Group structure after the Reorganisation and immediately upon completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised and no Share has been allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) is set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus.

## **4. REPURCHASE BY OUR COMPANY OF OUR OWN SECURITIES**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

**(a) Provisions of the Listing Rules**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

***(i) Shareholders' approval***

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions of our Shareholder passed on 10 December 2016, a general mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of our Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares which may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme or the Over-allotment Option). The general mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first (the "**Buyback Mandate**").

***(ii) Source of funds***

Any repurchases must be financed out of funds legally available for such purpose in accordance with the memorandum and articles of association of our Company, the Listing Rules and any applicable laws and regulations from time to time in force of the Cayman Islands.

***(iii) Connected parties***

Under the Listing Rules, our Company shall not knowingly repurchase shares from a core connected person (as defined in the Listing Rules) and a core connected person shall not knowingly sell his shares to our Company, on the Stock Exchange.

**(b) Exercise of the Buyback Mandate**

Exercise in full of the Buyback Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the Listing, could accordingly result in up to 100,000,000 Shares being repurchased by our Company during the period in which the Buyback Mandate remains in force. On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Buyback Mandate were to be exercised in full, there might be a material adverse impact on the working capital and/or gearing position of our Group (as compared with the position disclosed in this prospectus). However, our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

**(c) Reasons for repurchases**

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and Shareholders. Our Directors believe that such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share or both.

**(d) Funding of repurchases**

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our memorandum and articles of association, the Listing Rules and the applicable laws and regulations from time to time in force of the Cayman Islands. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or from sums standing to the credit of the share premium account of our Company or out of the proceeds of a fresh issue of share made for the purpose of the repurchase or, if authorised by the articles of association of our Company and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of our Company or from sums standing to the credit of the share premium account of our Company, or if authorised by our Articles of Association and subject to the Companies Law, out of capital.

**(e) General**

None of our Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company or its subsidiaries, if the Buyback Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules, the Memorandum and the Articles and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, in the event that the Buyback Mandate is exercised.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code due to any repurchase made pursuant to the Buyback Mandate immediately after the Listing.

**5. FURTHER INFORMATION ABOUT OUR BUSINESS**

**A. Summary of our material contracts**

We have entered into the following contracts (not being contracts entered into in the ordinary course of our business) within two years immediately preceding the date of this prospectus which are or may be material:

- (a) the Business Transfer Agreement;
- (b) an equity transfer agreement dated 8 July 2014 entered into between Morris PRC and Masia Investments, pursuant to which Morris PRC transferred its entire interest in Masia Industries to Masia Investments for RMB1.00 as nominal consideration;

- (c) an equity transfer agreement dated 11 January 2015 entered into between Haining Mengnu Leather Products Co., Ltd. (海寧蒙努皮革製品有限公司) and Haining Gelin Furniture, pursuant to which Haining Mengnu Leather Products Co., Ltd. transferred its entire equity interest in Haining Morris International to Haining Gelin Furniture at a consideration of RMB2,000,000;
- (d) a sale and purchase agreement dated 15 September 2015 entered into between Ms. Wu and Mstar International, pursuant to which Ms. Wu transferred her 10,000 shares in Mozo Investments, which represented its entire issued share capital, to Mstar International at a consideration of HK\$10,000;
- (e) an equity transfer agreement dated 6 November 2015 entered into between Morris PRC and Mozo Investments, pursuant to which Morris PRC transferred its 49% equity interest in Haining Gelin Furniture to Mozo Investments at a consideration of RMB9,033,433;
- (f) an equity transfer agreement dated 19 November 2015 entered into between Morris PRC and Haining Gelin Furniture, pursuant to which Morris PRC transferred its 73.17% equity interest in Zhejiang Apollo Leather Products to Haining Gelin Furniture at a consideration of RMB8,603,594.48;
- (g) an equity transfer agreement dated 19 November 2015 entered into between Morris PRC and Haining Gelin Furniture, pursuant to which Morris PRC transferred its 51% equity interest in Haining Morris Home Gallery to Haining Gelin Furniture at a consideration of RMB13,079,442.23;
- (h) the Deed of Non-competition;
- (i) the Deed of Indemnity; and
- (j) the Hong Kong Underwriting Agreement.

**B. Our intellectual property rights****(a) Trademarks****(i) Registered trademarks owned by our Group**

As at the Latest Practicable Date, we had registered the following trademarks which are material to our business:

Trademark	Place of Registration	Registration number	Name of registrant	Class	Expiry date
	Hong Kong	303503538	Company	20, 35	11 August 2025
	Hong Kong	303503547	Company	20, 35	11 August 2025
	Hong Kong	303503556	Company	20, 35	11 August 2025
	Hong Kong	303512998	Company	20, 35	20 August 2025
Morris Zou	Hong Kong	303625443	Company	20, 35	10 December 2025

**(ii) Licensed trademarks to our Group**

As at the Latest Practicable Date, we had licensed the following trademarks from Morris PRC which are material to our business. For details, please see the subsection headed “Exempt Continuing Connected Transactions – Trademark Licence Agreement” under the section headed “Connected Transactions” and the subsection headed “Independence from Our Controlling Shareholders – Operational independence” under the section headed “Relationship with Controlling Shareholders” in this prospectus:

Trademark	Place of Registration	Registration number	Name of registrant/licensor	Name of licensee	Class	Expiry date of the registered trademark
杰妮芙 <sup>(Note 1)</sup>	PRC	10606405	Morris PRC	Haining Gelin Furniture	20	6 May 2023
慕容氏	PRC	10606381	Morris PRC	Haining Gelin Furniture	20	6 June 2023
Morris Home Gallery	PRC	10606395	Morris PRC	Haining Gelin Furniture	20	20 June 2023




Trademark	Place of Registration	Registration number	Name of registrant/licensor	Name of licensee	Class	Expiry date of the registered trademark
Jennifer Convertibles <i>(Note 1)</i>	PRC	10606414	Morris PRC	Haining Gelin Furniture	20	27 June 2023
Morris Zou	PRC	10909250	Morris PRC	Haining Gelin Furniture	20	13 August 2023
Zou	PRC	10909391	Morris PRC	Haining Gelin Furniture	24	13 August 2023
慕容	PRC	10606386	Morris PRC	Haining Gelin Furniture	20	27 July 2023
MORRIS ZOU	PRC	12989516	Morris PRC	Haining Gelin Furniture	20	13 January 2025
MORRIS ZOU	PRC	12987487	Morris PRC	Haining Gelin Furniture	24	13 January 2025
	PRC	13918702	Morris PRC	Haining Gelin Furniture	20	13 March 2025
MU RONG	PRC	13918716	Morris PRC	Haining Gelin Furniture	20	27 February 2025
MORRIS	PRC	13918734	Morris PRC	Haining Gelin Furniture	20	6 August 2025

*Note 1:* These trademarks were in the process of deregistration from the Trademark Office.

*(iii) Application for registration of trademarks*

As at the Latest Practicable Date, we had made the following trademark registration application:

Trademark	Place of Registration	Application number	Name of applicant	Class	Date of application
	U.S.	86887519	Company	20	26 January 2016

**(b) Patents****(i) Granted patents to our Group**

As at the Latest Practicable Date, our Group was the registered proprietor of the following patents which are material to our business:

<b>Patent</b>	<b>Place of Registration</b>	<b>Registration number</b>	<b>Name of registrant</b>	<b>Type</b>	<b>Expiry date</b>
One type of sofa with lighting top plate	PRC	ZL201120476707.1	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa with concealed handrail	PRC	ZL201120479405.X	Haining Gelin Furniture	Utility Model	24 November 2021
One type of framework of sofa handrail	PRC	ZL201120479370.X	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa framework	PRC	ZL201120479400.7	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa back	PRC	ZL201120479305.7	Haining Gelin Furniture	Utility Model	24 November 2021
One type of massage sofa	PRC	ZL201120479291.9	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa	PRC	ZL201120477242.1	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa cushion	PRC	ZL201120479295.7	Haining Gelin Furniture	Utility Model	24 November 2021
One type of sofa framework	PRC	ZL201120479383.7	Haining Gelin Furniture	Utility Model	24 November 2021
One type of movable sofa	PRC	ZL201120477643.7	Haining Gelin Furniture	Utility Model	24 November 2021
Sofa (1)	PRC	ZL201130381114.2	Haining Gelin Furniture	Design	24 October 2021
Sofa (2)	PRC	ZL201130381137.3	Haining Gelin Furniture	Design	24 October 2021
Sofa (3)	PRC	ZL201130381125.0	Haining Gelin Furniture	Design	24 October 2021
Sofa (4)	PRC	ZL201130381139.2	Haining Gelin Furniture	Design	24 October 2021
Sofa (5)	PRC	ZL201130381136.9	Haining Gelin Furniture	Design	24 October 2021
Sofa (6)	PRC	ZL201130381115.7	Haining Gelin Furniture	Design	24 October 2021
Sofa (7)	PRC	ZL201130381123.1	Haining Gelin Furniture	Design	24 October 2021
Sofa (8)	PRC	ZL201130381121.2	Haining Gelin Furniture	Design	24 October 2021
Sofa (9)	PRC	ZL201130381140.5	Haining Gelin Furniture	Design	24 October 2021

Patent	Place of Registration	Registration number	Name of registrant	Type	Expiry date
Sofa (10)	PRC	ZL201130381141.X	Haining Gelin Furniture	Design	24 October 2021
Multi-function chairs for the elderly with heating and massage functions	PRC	ZL201620128532.8	Haining Gelin Furniture	Utility Model	17 February 2026
One type of multi-function space-saving sofa	PRC	ZL201620130791.4	Haining Gelin Furniture	Utility Model	21 February 2026
Auto foam cutting machine	PRC	ZL 201620139114.9	Haining Gelin Furniture	Utility Model	23 February 2026
Auto sofa cover fabric cutting machine	PRC	ZL201620305693.X	Zhejiang Apollo Leather Products	Utility Model	12 April 2026
One type of refined leather coating equipment	PRC	ZL201620310657.2	Zhejiang Apollo Leather Products	Utility Model	12 April 2026

(ii) *Application for patents*

As at the Latest Practicable Date, our Group was the applicant of the following patents which are material to our business:

Patent	Place of Registration	Registration number	Name of registrant	Type	Date of Application
Compressing and packaging machine for sofa accessories	PRC	ZL201610102183.7	Haining Gelin Furniture	Invention	24 February 2016
Memory foam sofa bed	PRC	ZL201610094358.4	Haining Gelin Furniture	Invention	22 February 2016
One type of multi-function space-saving sofa	PRC	ZL201610093669.9	Haining Gelin Furniture	Invention	22 February 2016
Sound suppression, resistance reduction and noise reduction for production of artificial sofa leather	PRC	ZL201610230402.X	Zhejiang Apollo Leather Products	Invention	13 April 2016

Patent	Place of Registration	Registration number	Name of registrant	Type	Date of Application
Knowhow for manufacturing high temperature resistant and flame retardant PU leather	PRC	ZL201610227825.6	Zhejiang Apollo Leather Products	Invention	13 April 2016
Knowhow for manufacturing cold temperature resistant PU sofa leather	PRC	ZL201610228736.3	Zhejiang Apollo Leather Products	Invention	13 April 2016
Knowhow for manufacturing sofa fabric using digital jacquard functions	PRC	ZL201610229082.6	Zhejiang Apollo Leather Products	Invention	13 April 2016
One type of sofa with self-adjusting headrest	PRC	ZL201610409367.8	Haining Gelin Furniture	Invention	12 June 2016
One type of multi-function composite sofa	PRC	ZL201610415565.5	Haining Gelin Furniture	Invention	14 June 2016
One type of multi-function single sofa	PRC	ZL201610423064.1	Haining Gelin Furniture	Invention	14 June 2016

(c) *Domain name*

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain name which is material to our business:

Domain name	Registrant	Registration date	Expiry date
MORRISHOLDINGS.COM.HK	Mstar International Trading (HK)	29 April 2015	29 April 2020

## 6. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### A. Disclosure of interests

#### (a) *Disclosure of interests of Directors and chief executive*

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering without taking into account any shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or the Over-allotment Option, the interests and short positions of our Directors and chief executive of our Company in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have taken under such provisions), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein will be as follows:

#### (i) *Our Company*

<b>Name of Director/chief executive</b>	<b>Nature of Interest</b>	<b>Number of securities<sup>(Note 1)</sup></b>	<b>Approximate percentage of shareholding</b>
Mr. Zou <sup>(Note 2)</sup>	Interest of controlled corporation	750,000,000 Shares (L)	75%

*Note 1:* The letter “L” denotes the person’s long position in such Shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou. Under the SFO, Mr. Zou will therefore be deemed, or taken to be, interested in the same number of Shares in which Morris Capital is interested.

#### (ii) *Morris Capital<sup>(Note 1)</sup>*

<b>Name of Director/chief executive</b>	<b>Nature of Interest</b>	<b>Number of securities<sup>(Note 2)</sup></b>	<b>Approximate percentage of shareholding</b>
Mr. Zou	Interest of controlled corporation	85 shares of US\$1 each (L)	85%

*Note 1:* Morris Capital holds more than 50% of our Shares. Therefore, Morris Capital is the holding company and an associated corporation of our Company.

*Note 2:* The letter “L” denotes the person’s long position in such shares.

*(b) Disclosure of interests of substantial shareholders*

To the best of the knowledge of our Directors, the following person(s) will, immediately after the completion of the Capitalisation Issue and the Global Offering without taking into account any shares that may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or the Over-allotment Option, have an interest or short position in the Shares or underlying shares which are required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company or any other members of our Group:

*(i) Our Company*

<b>Name of Director/chief executive</b>	<b>Nature of Interest</b>	<b>Number of securities<sup>(Note 1)</sup></b>	<b>Approximate percentage of shareholding</b>
Morris Capital	Beneficial owner	750,000,000 Shares (L)	75%
Mr. Zou <sup>(Note 2)</sup>	Interest of controlled corporation	750,000,000 Shares (L)	75%
Ms. Wu <sup>(Note 3)</sup>	Interest of spouse	750,000,000 Shares (L)	75%

*Note 1:* The letter “L” denotes the person’s long position in such Shares.

*Note 2:* Morris Capital is owned as to 85% by Mr. Zou. Under the SFO, Mr. Zou will therefore be deemed, or taken to be, interested in the same number of Shares in which Morris Capital is interested.

*Note 3:* Ms. Wu is the spouse of Mr. Zou. Under the SFO, Ms. Wu will therefore be deemed, or taken to be, interested in the same number of Shares in which Mr. Zou is interested.

**B. Particulars of Directors' service contracts and letters of appointment***Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for a fixed term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term. Commencing from the Listing Date, each of our executive Directors is entitled to an initial annual salary set out below, such salary to be reviewed annually by our Board and the remuneration committee of our Company. In addition, each of our executive Directors is entitled to such discretionary management bonus by reference to the consolidated net profits of our Group after taxation as our Board and the remuneration committee of our Company may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of our Board approving the amount of annual salary, management bonus and other benefits payable to him. The current basic annual salary of our executive Directors are as follows:

<b>Name</b>	<b>Annual salary (HK\$)</b>
Zou Gebing	2,800,000
Chen Guohua	720,000
Zeng Jin	720,000
Wang Ming	600,000

*Independent non-executive Directors*

The independent non-executive Directors have been appointed for a term of three years commencing from the Listing Date renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment subject to retirement by rotation and re-election at annual general meetings of our Company and until terminated by not less than three months' notice in writing served by either our Company or the respective Director. Our Company intends to pay a director's fee of HK\$120,000 per annum to each of the independent non-executive Directors. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

**C. Directors' remuneration**

During the Track Record Period, the aggregate of the remuneration (including salaries and allowance) paid and benefits in kind granted by our Group to our Directors for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the eight months ended 31 August 2016 was approximately RMB0.3 million, RMB1.3 million, RMB2.2 million and RMB3.6 million, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding any discretionary bonus, if any, payable to our Director) payable by our Group to and benefits in kind receivable by our Directors for the year ending 31 December 2016 are estimated to be approximately HK\$4.8 million. None of our Directors or any past directors of any member of our Group had been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. There has been no arrangement under which a Director had waived or agreed to waive any emoluments during the Track Record Period.

**D. Disclaimers**

Save as disclosed in this appendix, as at the Latest Practicable Date:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme, our Directors were not aware of any person who immediately following completion of the Capitalisation Issue and the Global Offering will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;
- (b) none of our Directors and chief executive of our Company had for the purposes of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFO, an interest or short position in the shares, underlying shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to Appendix 10 of the Listing Rules once the Shares are listed on the Stock Exchange;



- (c) none of our Directors nor the experts named in the subsection headed “8. Other Information – G. Qualifications of experts” in this Appendix had any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors and Substantial Shareholders was materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group or otherwise be interested in our five largest customers and/or five largest suppliers; and
- (e) Save for the Underwriting Agreements, none of the experts named in the subsection headed “8. Other Information – G. Qualifications of experts” in this Appendix had any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 7. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by our Shareholder on 10 December 2016.

For the purpose of this section, unless the context otherwise requires:

- “Board” means our board of Directors from time to time or a duly authorised committee thereof;
- “Eligible Person” means any full-time or part-time employee of our Company or any member of our Group, including any executive director, non-executive director and independent non-executive director, adviser and consultant of our Group;
- “Option” means an option to subscribe for Shares granted pursuant to the Share Option Scheme;
- “Option Period” means in respect of any particular Option, the period to be determined and notified by our Board to each Participant, which period may commence on a day on or after the date upon which the Option is accepted or deemed to be accepted in accordance with the Share Option Scheme but shall end in any event not later than 10 years from such date;

“Other Schemes”	means any other share option schemes adopted by our Group from time to time pursuant to which options to subscribe for Shares may be granted;
“Participant”	means any Eligible Person who accepts or is deemed to have accepted the offer of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Participant;
“Shareholders”	means shareholders of our Company from time to time;
“Subsidiary”	means a company which is for the time being and from time to time a subsidiary (within the meaning of section 15 of the Companies Ordinance) of our Company, whether incorporated in Hong Kong or elsewhere; and
“Trading Day”	means a day on which trading of Shares take place on the Stock Exchange.

**(a) Purpose of the Share Option Scheme**

The Share Option Scheme enables our Company to grant Options to the Eligible Persons as incentives or rewards for their contributions to our Group.

**(b) Who may join**

Our Board may, at its absolute discretion, invite any Eligible Persons to take up Options at a price calculated in accordance with sub-paragraph (d) below. Upon acceptance of the Option, the Eligible Person shall pay HK\$1.00 to our Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted.

**(c) Grant of Option**

Any grant of Options must not be made after inside information has come to our knowledge until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year, quarter-year period or any interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be

granted will cover any period of delay in the publication of results announcement. Our Directors must not grant any Option to an Eligible Person who is our Director during the periods or times in which directors of the listed issuer are prohibited from dealing in shares pursuant to Appendix 10 to the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

The total number of Shares issued and to be issued upon exercise of the Options granted to a Participant under the Share Option Scheme and Other Schemes (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue from time to time, and provided that if approved by Shareholders in general meeting with such Participant and his associates abstaining from voting, our Company may make a further grant of Options to such Participant (the “**Further Grant**”) notwithstanding that the Further Grant would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted under the Share Option Scheme and Other Schemes to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of the Further Grant representing in aggregate over 1% of the Shares in issue from time to time. In relation to the Further Grant, our Company must send a circular to the Shareholders, which discloses the identity of the relevant Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant under the Share Option Scheme and Other Schemes) and the information required under the Listing Rules. The number and terms (including the subscription price) of Options which is the subject of the Further Grant shall be fixed before the relevant Shareholders’ approval and the date of meeting of our Board for proposing the Further Grant should be taken as the date of grant for the purpose of calculating the relevant subscription price.

**(d) Price of Shares**

The subscription price for the Shares subject to Options will be a price determined by our Board and notified to each Participant and shall be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the Options, which must be a Trading Day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five Trading Days immediately preceding the date of grant of the Options; and (iii) the nominal value of a Share. For the purpose of calculating the subscription price, in the event that on the date of grant, our Company has been listed for less than five Trading Days, the new issue price per Share under the initial public offerings of Shares shall be used as the closing price for any Trading Day falling within the period before the Listing Date.

**(e) Maximum number of Shares**

- (i) The total number of Shares which may be issued upon the exercise of all Options to be granted under the Share Option Scheme and Other Schemes must not, in aggregate, exceed 10% of the Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) provided that the Options lapsed in accordance with the terms of the Share Option Scheme or Other Schemes will not be counted for the purpose of calculating the Scheme Mandate Limit. On the basis of 1,000,000,000 Shares in issue on the Listing Date, the Scheme Mandate Limit will be equivalent to 100,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date.

- (ii) Subject to the approval of Shareholders in general meeting, our Company may refresh the Scheme Mandate Limit to the extent that the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and Other Schemes under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of such Shareholders' approval provided that Options previously granted under the Share Option Scheme and Other Schemes (including those outstanding, cancelled, exercised or lapsed in accordance with the terms thereof) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. In relation to the Shareholders' approval referred to in this paragraph (ii), our Company shall send a circular to the Shareholders containing the information required by the Listing Rules.
- (iii) Subject to the approval of Shareholders in general meeting, our Company may also grant Options beyond the Scheme Mandate Limit provided that Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specifically identified by our Company before such Shareholders' approval is sought. In relation to the Shareholders' approval referred to in this paragraph (iii), our Company shall send a circular to its Shareholders containing a generic description of the identified Eligible Persons, the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Persons, an explanation as to how the terms of such Options serve the intended purpose and such other information required by the Listing Rules.
- (iv) Notwithstanding the foregoing, our Company may not grant any Options if the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and Other Schemes exceeds 30% of the Shares in issue from time to time.

**(f) Time of exercise of Option**

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Board to each Participant provided that the period within which the Option must be exercised shall not be more than 10 years from the date of the grant of Option. The exercise of an Option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Share Option Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Share Option Scheme.

**(g) Rights are personal to grantee**

An Option shall be personal to the Participant and shall not be assignable or transferable and no Participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest whether legal or beneficial in favour of any third party over or in relation to any Option. Any breach of the foregoing by the Participant shall entitle our Company to cancel any Option or any part thereof granted to such Participant (to the extent not already exercised) without incurring any liability on our Company.

**(h) Rights on death**

If a Participant dies before exercising the Options in full, his or her personal representative(s) may exercise the Options in full (to the extent that it has become exercisable on the date of death and not already exercised) within a period of 12 months from the date of death, failing which such Options will lapse.

**(i) Changes in capital structure**

In the event of any alteration in the capital structure of our Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party) or otherwise howsoever in accordance with the legal requirements and requirements of the Stock Exchange, such corresponding alterations (if any) shall be made in the number of Shares (without fractional entitlements) subject to the Options so far as unexercised, and/or the subscription price.

Except alterations made on a Capitalisation Issue, any alteration to the number of Shares which is the subject of the Option and the subscription price shall be conditional on the auditors of our Company or an independent financial adviser appointed by our Company confirming in writing to our Board that the alteration is made on the basis that the proportion of the issued share capital of our Company to which a Participant is entitled after such alteration shall remain the same as that to which he or she was entitled before such alteration. No such alteration shall be made to the effect of which would be to enable any Share to be issued at less than its nominal value or which would result in the aggregate amount payable on the exercise of any Option in full being increased.

**(j) Rights on take-over**

If a general offer (whether by way of takeover offer, repurchase offer or scheme of arrangement or otherwise in like manner) has been made to all the Shareholders (other than the offeror and/or any persons acting in concert with the offeror), to acquire all or part of the issued Shares, and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Participant shall be entitled to exercise his or her outstanding Option in full or any part thereof within 14 days after the date on which such offer becomes or is declared unconditional. For the purposes of this sub-paragraph, “acting in concert” shall have the meaning ascribed to it under the Takeovers Code.

**(k) Rights on a compromise or arrangement**

- (i) If an application is made to the court (otherwise than where our Company is being voluntarily wound up), pursuant to the Companies Law or the Companies (Winding Up and Miscellaneous Provisions) Ordinance, in connection with a proposed compromise or arrangement between our Company and our creditors (or any class of them) or between our Company and our Shareholders (or any class of them), a Participant may by notice in writing to our Company, within a period of 21 days after the date of such application, exercise his or her outstanding Option in full extent or to the extent specified in such note. Upon the compromise or arrangement becoming effective, all Options shall lapse except insofar as exercised. Notice of the application referred to herein and the effect thereof shall be given by our Company to all Participants as soon as practicable.
- (ii) In the event of a notice being given by our Company to our Shareholders to convene a general meeting for the purpose of approving a resolution to voluntarily wind up our Company when our Company is solvent, our Company shall on the day of such notice to each Shareholder or as soon as practicable, give notice thereof to all Participants. Thereupon each Participant shall be entitled to exercise all or any of his or her outstanding Options at any time no later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the Participant credited as fully paid.

**(l) Lapse of Option**

An Option shall lapse forthwith and not exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the Option as may be determined by the Board;
- (ii) subject to paragraphs (o) and (p), the expiry of the Option Period;
- (iii) the first anniversary of the death of the Participant;
- (iv) the commencement of the winding up of our Company;

- (v) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the date on which such member of our Group terminates the Participant's employment or removes the Participant from his or her office on the ground that the Participant has been guilty of misconduct, has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty. A resolution of our Board or the board of directors of the relevant member of our Group to the effect that such employment or office has or has not been terminated or removed on one or more grounds specified in this sub-paragraph shall be conclusive;
- (vi) in the event that the Participant was an employee or director of any member of our Group on the date of grant of Option to him or her, the expiry of a period of three months from the date of the Participant ceasing to be an employee or director of such member of our Group by reason of:
- (1) his or her retirement on or after attaining normal retirement age or, with the express consent of the Board in writing for the purpose of this sub-paragraph, at a younger age;
  - (2) ill health or disability recognised as such expressly by our Board in writing for the purpose of this sub-paragraph;
  - (3) the company by which he or she is employed and/or of which he or she is a director (if not our Company) ceasing to be a subsidiary of our Company;
  - (4) expiry of his or her employment contract or vacation of his or her office with such member of our Group such contract or office is not immediately extended or renewed; or
  - (5) at the discretion of our Board, any reason other than death or the reasons described in sub-paragraph (v) or (vi)(1) to (4);
- (vii) the expiry of any period referred to in paragraph (k) above, provided that in the case of paragraph (k)(i), all Options granted shall lapse upon the proposed compromise or arrangement becoming effective; and
- (viii) the date the Participant commits any breach of the provisions of paragraph (g).

**(m) Ranking of Shares**

Shares allotted and issued upon the exercise of an Option will be subject to all provisions of our Company's articles of association as amended from time to time and shall rank *pari passu* in all respects with the fully paid or credited as fully paid Shares in issue on the date of such allotment or issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment or issue.

**(n) Cancellation of Options granted**

Any cancellation of Options granted in accordance with the Share Option Scheme but not exercised must be approved by the grantee concerned in writing. In the event that our Board elects to cancel any Options and issue new ones to the same grantee, the issue of such new Options may only be made with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

**(o) Period of Share Option Scheme**

The Share Option Scheme will be valid and effective for a period of ten years commencing on the Listing Date, after which period no further Options may be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects and Options granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

**(p) Alteration to and termination of Share Option Scheme**

The Share Option Scheme may be altered in any respect by resolution of our Board except that, (a) any alteration to the advantage of the Participants or the Eligible Persons (as the case may be) relating to matters contained in Chapter 17 of the Listing Rules; and (b) any material alteration to the terms and conditions of the Scheme or any change to the terms of Options granted, except where the alterations take effect automatically under the existing terms of the Scheme, shall first be approved by the Shareholders in general meeting (with the Eligible Persons, the Participants and their associates abstaining from voting) provided that if the proposed alteration shall adversely affect any Options granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the consent or sanction of the Participants in accordance with the terms of the Share Option Scheme.

Our Company may, by ordinary resolution in general meeting, at any time terminate the operation of the Share Option Scheme before the end of its life and in such event no further Options will be offered but the provisions of the Share Option Scheme shall remain in all other respects in full force and effect in respect of Options granted prior thereto but not yet exercised at the time of termination, which shall continue to be exercisable in accordance with their terms of grant. Details of the Options granted, including Options exercised or outstanding, under the Share Option Scheme, and (if applicable) Options that become void or non-exercisable as a result of termination must be disclosed in the circular to the Shareholders seeking approval for the new scheme to be established after such termination.



**(q) Granting of Options to a Director, chief executive or substantial shareholder of our Company or any of their associates**

Where Options are proposed to be granted to a Director, chief executive or substantial shareholder of our Company or any of their respective associates, the proposed grant must be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).

If a grant of Options to a substantial Shareholder or an independent non-executive Director, or any of their respective associates will result in the total number of the Shares issued and to be issued upon exercise of the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Share Option Scheme or Other Schemes in any 12-month period up to and including the date of the grant (i) representing in aggregate over 0.1% (or such other percentage as may from time to time specified by the Stock Exchange) of the Shares in issue from time to time, and (ii) having an aggregate value, based on the closing price of the Shares at the date of the grant, in excess of HK\$5 million, then the proposed grant of Options must be approved by the Shareholders. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting. The circular must contain the information required under Rule 17.04(3) of the Listing Rules. In addition, Shareholders' approval as described above will also be required for any change in terms of the Options granted to an Eligible Person who is a substantial Shareholder, an independent non-executive Director or any of their respective associates.

The circular must contain the following:

- (i) details of the number and terms of the Options (including the subscription price relating thereto) to be granted to each Eligible Person, which must be fixed before the relevant Shareholders' meeting, and the date of Board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the subscription price;
- (ii) a recommendation from our independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the Options in question) to independent Shareholders as to voting; and
- (iii) all other information as required by the Listing Rules. For the avoidance of doubt, the requirements for the granting of Options to a Director or chief executive of the Company (as defined in the Listing Rules) set out in this paragraph (q) do not apply where the Eligible Person is only a proposed Director or proposed chief executive of the Company.

**(r) Performance target**

The exercise of an Option may be subject to the achievement of performance target and/or any other conditions to be notified by our Board to each Participant, which our Board may in its absolute discretion determine.

**(s) Conditions of Share Option Scheme**

The Share Option Scheme is conditional on (i) the passing of a written resolution to adopt the Share Option Scheme by our sole shareholder in general meeting; and (ii) the Stock Exchange granting approval for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of Options.

As at the Latest Practicable Date, no Options had been granted or agreed to be granted by our Company under the Share Option Scheme.

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of Options granted under Share Option Scheme.

## **8. OTHER INFORMATION**

### **A. Tax and other indemnities**

The Controlling Shareholders (the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph “5. Further information about our business – A. Summary of our material contracts” of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any taxation (including tax penalty, if any) falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date on which the Global Offering becomes unconditional or any event, act or omission occurring or deemed to occur on or before such date whether alone or in conjunction with any other event, act, omission or circumstance whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Company (for itself and as trustee for each subsidiary) on a joint and several basis in relation to and to hold each member of our Group harmless from, among other matters, the amount of any and all taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction entered into or occurring on or before the Listing Date.

The Deed of Indemnity does not cover any claim and the Indemnifier shall be under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the consolidated audited accounts of our Company or the audited accounts of the relevant Group members up to 31 August 2016 (the “**Accounts**”);
- (b) the taxation arises or is incurred as a result of a retrospective change in law and/or a retrospective increase of tax rates coming into force after the date on which the Global Offering becomes unconditional;
- (c) such claim for taxation or liability would not have arisen but for any act or omission of, or transaction by any member of our Group voluntarily effected (other than pursuant to a legally binding commitment created on or before the date on which the Global Offering becomes unconditional) without the prior written consent or agreement of the Indemnifiers; or
- (d) provision or reserve made for such taxation in the Accounts is established to be an overprovision or an excessive reserve.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands or the BVI or Hong Kong, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

## **B. Litigation**

Save as disclosed in the subsections headed “Legal Proceedings” and “Legal Compliance” under the section headed “Business” in this prospectus, as at the Latest Practicable Date, we were not involved in any material litigation, arbitration or administrative proceedings. So far as our Directors are aware, no such material litigation, arbitration or administrative proceedings are pending or threatened against any member of our Group.

## **C. Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the Listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Our Company agreed to pay the Sole Sponsor an aggregate fee of HK\$4.8 million as the sponsor to our Company for the Global Offering.

**D. Compliance adviser**

In accordance with the requirements of the Listing Rules, our Company will appoint Sinolink Securities (Hong Kong) Company Limited as its compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

**E. Preliminary expenses**

Our estimated preliminary expenses are approximately HK\$50,000 and have been paid by our Company.

**F. Promoters**

Our Company has no promoter.

**G. Qualifications of experts**

The qualifications of the experts, as defined under the Listing Rules, who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

<b>Name</b>	<b>Qualifications</b>
Sinolink Securities (Hong Kong) Company Limited	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities under the SFO
Ernst & Young	Certified public accountants
AllBright Law Offices	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Mekong Law Group	Cambodian legal advisers
Mei & Mark LLP	U.S. legal advisers
Euromonitor	Industry consultant

**H. Consents of experts**

Each of Sinolink Securities (Hong Kong) Company Limited, Ernst & Young, AllBright Law Offices, Conyers Dill & Pearman, Mekong Law Group, Mei & Mark LLP and Euromonitor has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or summaries of opinions (as the case may be) and the references to its name included in this prospectus the form and context in which they appear.

**I. Binding effect**

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**J. Miscellaneous**

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
- (b) No share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) No founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (d) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 August 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (e) There has not been any interruption in the business of our Group which has had a material adverse effect on the financial position of our Group in the 24 months preceding the date of this prospectus;

- (f) None of the experts named in “G. Qualifications of experts” above:
  - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of our Group;
- (g) No company within our Group is presently listed on any stock exchange or traded on any trading system;
- (h) Our Company has no outstanding convertible debt securities or debentures; and
- (i) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

**K. Related party transactions**

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 34 of the Accountants’ Report in Appendix I to this prospectus.

**L. Bilingual prospectus**

Pursuant to Rule 19.36(5) of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) copies of the material contracts referred to the subsection headed “5. Further Information about Our Business – A. Summary of our material contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the subsection headed “8. Other Information – H. Consents of experts” in Appendix IV to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Stevenson, Wong & Co., at 4th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the years ended 31 December 2013, 2014 and 2015 and the eight months ended 31 August 2016;
- (d) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our legal advisers as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (f) the PRC legal opinions issued by AllBright Law Offices, our PRC Legal Advisers, in respect of general matters of our Group and the property interests of our Group;
- (g) the legal opinions issued by Mekong Law Group, the legal advisers to our Company as to Cambodian law, in respect of certain Cambodian laws and regulations applicable to our Group;
- (h) the legal opinions issued by Mei & Mark LLP, the legal advisers to our Company as to U.S. law, in respect of certain U.S. laws and regulations applicable to our Group;

- (i) the material contracts referred to the subsection headed “5. Further Information about Our Business – A. Summary of our material contracts” in Appendix IV to this prospectus;
- (j) the Euromonitor Report;
- (k) the written consents referred to in the subsection headed “8. Other Information – H. Consents of experts” in Appendix IV to this prospectus;
- (l) the service contracts and appointment letters of our Directors referred to in the subsection headed “6. Further Information about Our Directors and Substantial Shareholders – B. Particulars of Directors’ service contracts and letters of appointment” in Appendix IV to this prospectus;
- (m) the Cayman Companies Law; and
- (n) the rules of the Share Option Scheme.





MORRIS  
HOLDINGS LIMITED

MORRIS HOLDINGS LIMITED  
慕容控股有限公司