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MORRIS  
HOME HOLDINGS LIMITED

**MORRIS HOME HOLDINGS LIMITED**

**慕容家居控股有限公司**

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

**(Stock Code: 1575)**

**SUPPLEMENTAL ANNOUNCEMENT**

**CONNECTED TRANSACTION  
STOCK PURCHASE AGREEMENT**

Reference is made to the announcement of Morris Home Holdings Limited (the “**Company**”) dated 16 May 2023 in relation to the subscription of 423 shares of Series Angel Preferred Stock by the Company under the Stock Purchase Agreement (the “**Announcement**”). Capitalized terms used in this announcement shall have the same meaning as those defined in the Announcement, unless the context requires otherwise.

The Company would like to provide the following supplemental information in relation to the reasons for and benefits of entering into the Stock Purchase Agreement and the transactions contemplated thereunder.

**REASONS FOR AND BENEFITS OF ENTERING INTO THE STOCK PURCHASE AGREEMENT**

As disclosed in the Announcement, the Target Company was established in December 2022 and is currently at an early business development stage. The Target Company intends to develop a business of developing and sale of adjustable beds and medical beds to overseas markets.

## **Business Plan of the Target Company**

Set out below is a summary of the business plan of the Target Company:

### ***Products***

The Company understands that the Target Company possesses the capacity in the design and research and development of its own adjustable beds and medical beds. The self-developed products of the Target Company are (i) elder care rotating residential medical bed, namely Orin, and the mobile phone application with key features such as real-time health monitoring and patient emergency alert targeting seniors over the age of 55 and/or their caregivers and family members (including their adult children) as end users; and (ii) smart adjustable bed frame and mattress with automatic firmness adjustment for enhanced pressure relief and sleep quality, namely Cozy and Cozy Air targeting health-conscious individuals seeking better sleep quality as end users.

The Target Company has completed development of its products, including Orin, Cozy and Cozy Air. The Target Company is currently in the production stage for Orin. An initial batch of 100 Orin beds is currently being manufactured and is expected to be available for sale in the Singapore, Hong Kong and U.S. market by August 2023 (with the accompanying mobile phone application with real-time health monitoring features).

The target customers for Orin are big box retails, furniture stores, nursing homes, rehabilitation specialty stores and community centres, and the target customers for Cozy and Cozy Air for Big box retails and furniture stores, in the United States, Hong Kong, Singapore market.

### ***Marketing and sales***

The Target Company is currently working with a major distributor in the U.S. on the distribution of the products of the Target Company starting in the third quarter of 2023 on a profit-sharing basis.

It is also the Target Company's plan to expand into the Singapore and Hong Kong market via launching its own websites and flagship stores on leading online shopping platforms. The Target Company is in the process of setting up operation entities and building up local operation teams in both Hong Kong and Singapore markets. The Target Company has also sourced experienced and seasoned talents in Hong Kong and Singapore for the development of both markets.

The Company has also considered the sales projection prepared by the Target Company's management with reference to an estimation of the sales volume and selling price with reference to similar products in the market, the size of the market and the growth rate in the targeted markets, preliminary feedbacks from potential customers in the Target Company's promotion and exhibition exercises and the production capacity of the Target Company.

### ***Profitability***

Based on the sales projection, cost budget and business plan provided by the Target Company, it is expected that the Target Company will record net profit during the fourth quarter of 2023 and the first quarter of 2024. The projection is based on Target Company management's current best estimation and may vary depending on the business environment and progress of product development.

### ***Fund-raising and financing***

The Target Company intends to apply the proceeds in the amount of US\$2,850,000 raised from the issue of the shares of Series Angel Preferred Stock for product development, sales and marketing and general working capital, which are expected to be fully utilized by the first quarter of 2024. The Company was given to understand that the Target Company will leverage supply chain financing to support its working capital requirements and it is the plan of the Target Company to commence a new round of fund-raising at the end of 2023.

### **Market analysis**

The Company has conducted market research on the adjustable beds and medical beds industry and understands that it has been experiencing steady growth owing to a number of factors, such as (i) aging population in many developed countries which may require more specialized beds for medical conditions; and (ii) the improvement in living standards and increased recognition on the importance of health (adjustable beds would benefit circulation and reduce back pain).

The adjustable beds and medical beds industry is relatively fragmented, with a number of small and large players operating in the market. The Target Company would be able to tap into such market by offering competitive and specialized products which would cater the needs of target customers and end users.

### **The Group's position in the Target Company**

The Stock Purchase Agreement and Stockholders Rights Agreement were entered into after arm's length negotiations between the parties and reflect a consensus amongst the parties having regard to each party's commercial interest and bargaining power. There is no performance guarantee or other specific compensational mechanism in the Stock Purchase Agreement and Stockholders Rights Agreement in favour of the Group (as well as any other shareholders of the Target Company). Upon Closing, none of the shareholders will hold an

absolute controlling stake in the Target Company (i.e. more than 50% of the voting rights in the Target Company). The Company considers that is consistent with market practice and commercial reality that none of the shareholders of the Target Company will provide or be given any performance guarantee and or other specific compensational covenants.

The Company will not have any board position in the Target Company upon Closing. Immediately after Closing, the Company will hold 423 shares of Series Angel Preferred Stock, representing 15.9804% of the issued share capital of the Target Company. Taking into the Company's minority interest in the Target Company and the arm's length negotiation between the parties, the Company considers that it is not consistent with market practice and commercial reality for the Company to press for board representation. The Company considers its shareholding in the Target Company an investment, through which it will be able to indirectly participate in the Target Company's earnings as a shareholder of the Target Company, and hence will be able to indirectly benefit from the return of the Target Company's business. The Company will keep track of the operations, progress of development, financial performance and other key issues of the Target Company.

The Stockholders Rights Agreement provides sufficient minority protection to the Group in safeguarding its interests as a holder of preferred shares of the Target Company, including pre-emptive right, right of first refusal and right to co-sale. The Company will also enjoy general shareholders' rights, including information rights and voting rights at shareholders' meetings.

### **Potential synergy**

The Group is eager to expand its scope of operations (initially) through investment in industries or investment targets which may create synergy with the business of the Group. The Target Company is a start-up product developer focusing on the R&D and sales of certain specialized products. The Group is comparatively a much larger and mature Group corporation with well-established manufacturing capacity, sourcing channels and marketing capabilities. The Group could act as an incubator offering the Target Company its resources and experiences to the Target Company, for instance:

#### ***Manufacturing***

The Target Company is able to take advantage of the existing manufacturing facilities and human resources of the Group to scale production at a reasonable cost. Given the Group's equity in the Target Company, the relationship between the Target Company and the Group is expected to be more stable. It is well-known that stability of supply chain is an important attribute for customers (e.g. distributors) in making their decisions.

### ***Sales and distribution***

Home care product line has become an emerging focus of furniture retailers worldwide. Certain of the Group's customers, being furniture retailers in the globe, may also be interested in the products of the Target Company. While many of the customers of the Group have built rapport with the Group, the Target Company is able to leverage the Group's sales and distribution channels and network to enter various markets swiftly and efficiently. The Group would also be able to expand its sales network into the customers in the technology-enabled adjustable beds, medical beds and accessories market. The products offered by the Group are more general products for daily use which could also serve more general usages and demands from the prospective customers along with the more specialized products of the Target Company.

### ***Marketing***

Cost savings can be achieved by sharing a wide variety of marketing costs both online through various digital platforms and offline in shared retail footprint and exhibitions. The Group's involvement in the marketing and promotion of the products of the Target Company would also benefit the Group's image and create a positive impression of professionalism and diversification.

The Company appreciates that the Target Company is a connected person of the Company under Chapter 14A of the Listing Rules and will comply with all relevant requirements under the Listing Rules should there be any cooperation between the Target Company and the Group.

### **The Board's assessment**

Following the completion of the restructuring of the debts of two principal subsidiaries of the Company in the PRC and the introduction of new controller and investors by way of a share subscription and placing in 2022, the Group is gradually resuming its operations towards a normal level. The Group is also eager to expand its products offerings through investment in industries or investment targets which may create synergy with the business of the Group.

Based on the Company's operation and financial due diligence on the Target Company, including assessment of the business prospects of the Target Company and market research, the Company considers that the Stock Purchase Agreement represents an attractive investment opportunity. While the Target Company is at an early stage of development, the Company sees this as a precious window which allows the Group to acquire equity of the Target Company at a lower valuation and cost of investment. The Company is optimistic that the Target Company will grow in the future and create long-term returns for the Shareholders.

Having considered the aforementioned, including with limitation (i) the business plan of the Target Company (including sales projection and profitability); (ii) the details of the products (including development progress specifications); and (iii) the growth potential in the Target Company (with reference to the funds utilization plan and financing plan of the Target Company); the Directors (including the independent non-executive Directors) are of the view that the Stock Purchase Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

By order of the Board  
**Morris Home Holdings Limited**  
**Tse Kam Pang**  
*Chairman and Executive Director*

Hong Kong, 7 July 2023

*As at the date of this announcement, the executive Directors are Mr. Tse Kam Pang, Mr. Chong Tsz Ngai and Mr. Zou Gebing; the non-executive Directors are Mr. Tse Hok Kan and Ms. Wu Xiangfei; and the independent non-executive Directors are Professor Alfred Sit Wing Hang, Professor Lee Chack Fan, Professor Kwan Pun Fong Vincent and Ms. Chen Jianhua.*