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MORRIS
HOME HOLDINGS LIMITED

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慕容家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1575)

CONNECTED TRANSACTION STOCK PURCHASE AGREEMENT

THE STOCK PURCHASE AGREEMENT

On 16 May 2023, the Company, Uphonest Capital, Fortune Future, the Target Company, the Founders and the Founders Holdcos entered into the Stock Purchase Agreement, pursuant to which, among others, the Target Company as issuer agreed to issue an aggregate of 847 shares of Series Angel Preferred Stock and the Company, Uphonest Capital and Fortune Future as subscribers agreed to subscribe for 423, 265 and 159 shares of Series Angel Preferred Stock, for a respective consideration of US\$1,600,000, US\$650,000 and US\$600,000, respectively.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Zou is (through Morris Capital) indirectly interested in 666,500,000 Shares, representing approximately 24.24% of the issued Shares and is therefore a substantial shareholder of the Company (who is also an executive Director). As Mr. Zou is (through Morris International) interested in 70% of the issued share capital of the Target Company, the Target Company is an associate of Mr. Zou and hence a connected person of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, Mr. Tse (the chairman of the Company and an executive Director) is indirectly interested in 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares, and is therefore a controlling shareholder of the Company. As Fortune Future (being one of the Investors) is wholly owned by Mr. Tse, Fortune Future is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules. In view of the above, the Stock Purchase Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Stock Purchase Agreement exceeds 0.1% but all are less than 5%, the transactions contemplated under the Stock Purchase Agreement are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 16 May 2023, the Company, Uphonest Capital, Fortune Future, the Target Company, the Founders and the Founders Holdcos entered into the Stock Purchase Agreement, pursuant to which, among others, the Target Company as issuer agreed to issue an aggregate of 847 shares of Series Angel Preferred Stock and the Company, Uphonest Capital and Fortune Future as subscribers agreed to subscribe for 423, 265 and 159 shares of Series Angel Preferred Stock, for a respective consideration of US\$1,600,000, US\$650,000 and US\$600,000, respectively.

THE STOCK PURCHASE AGREEMENT

The principal terms of the Stock Purchase Agreement are set out as follows:

Date

16 May 2023

Parties

- (i) the Company;
- (ii) Uphonest Capital;
- (iii) Fortune Future;
- (iv) the Target Company;
- (v) the Founders (i.e. Mr. Zou, Mr. Xie Ying (謝穎) and Mr. Ma Qiang (馬強)); and
- (vi) the Founders Holdcos (i.e. Morris International, JohnM International and LX International).

As at the date of this announcement, the entirety of the issued share capital in Fortune Future is held by Mr. Tse. Among the Founders Holdcos, Morris International is wholly owned by Mr. Zou, who is one of the Founders. As at the date of this announcement, the Target Company is held as to 70% of its issued share capital by Morris International.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Uphonest Capital, Mr. Xie Ying (謝穎), Mr. Ma Qiang (馬強), JohnM International, LX International and their ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Consideration

The Investors shall purchase, and the Target Company shall sell or convert (for Uphonest Capital) to the Investors, that number of the shares of Series Angel Preferred Stock set forth below at a purchase price of US\$3,777.78 per share, against payment by the Investors of the total purchase price therefor set forth in the table below:

Investors	Number of shares of Series Angel Preferred Stock	Total cash purchase price (US\$)
Uphonest Capital*	265	650,000*
The Company	423	1,600,000
Fortune Future	159	600,000
Total	847	2,850,000

* Uphonest Capital entered into a simple agreement for future equity dated 26 November 2022 (the "SAFE") with the Target Company, pursuant to which Uphonest Capital has paid US\$650,000 to the Target Company in exchange for equity in the Target Company (the "Equity") which would automatically convert into shares of Series Angel Preferred Stock. Pursuant to the SAFE, the Equity may be converted into 265 shares of Series Angel Preferred Stock.

The consideration of the sale and purchase of the Series Angel Preferred Stock was arrived at after arm's length negotiations between the Target Company and the Investors, having considered the (i) long-term business prospects and development of the Target Company with reference to its business model and business plan; (ii) the market conditions in the adjustable beds and medical beds industry; and (iii) the financial condition of the Target Company.

The Company intends to settle the consideration through the internal funds of the Company.

Payment

Upon Closing, payment shall be made by the Investors by wire transfer of immediately available funds to a bank account designated by the Target Company, by cancellation of indebtedness of the Company to the Investors or conversion agreed by the Target Company and the Investors or by any combination of such methods.

The consideration will be paid in cash by the Company upon Closing.

Conditions Precedent

Conditions to the Investor's obligations at the Closing

The obligations of an Investor to purchase the shares of Series Angel Preferred Stock at the Closing are subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

- (i) The representations and warranties of the Target Company set forth in the Stock Purchase Agreement shall be true and correct in all material respects as of the Closing.
- (ii) The Target Company shall have, in all material respects, performed and complied with all agreements, obligations and conditions contained in the Stock Purchase Agreement that are required to be performed or complied with by it on or before the Closing.
- (iii) The Target Company shall have delivered to the Investors purchasing shares of Series Angel Preferred Stock at the Closing a certificate certifying that the conditions specified in (i) and (ii) above have been fulfilled.
- (iv) Except for any notices required or permitted to be filed after the Closing with certain United States federal and state securities commissions, all authorizations, approvals and permits, if any, of any governmental authority of the United States or of any state that are required in connection with the lawful issuance and sale of the shares of Series Angel Preferred Stock pursuant to the Stock Purchase Agreement shall have been obtained and shall be effective as of the Closing.
- (v) The Target Company and the Investors, as applicable, shall have executed and delivered the Stockholders Rights Agreement.
- (vi) All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incidents thereto shall be reasonably satisfactory in form and substance to the Investors participating in the Closing, and the Investors (or its counsel) shall have received all such counterpart original and certified or other copies of such documents as reasonably requested.

Conditions to the Target Company's obligations at the Closing

The obligations of the Target Company to sell the shares of Series Angel Preferred Stock to an Investor at the Closing is subject to the fulfillment, on or before the Closing, of each of the following conditions, unless otherwise waived:

- (i) The representations and warranties of the Investor set forth in the Stock Purchase Agreement, with respect to the Investor that is purchasing any shares of Series Angel Preferred Stock at the Closing shall be true and correct in all respects as of the Closing.
- (ii) The Investor shall have performed and complied with all agreements, obligations and conditions contained in the Stock Purchase Agreement that are required to be performed or complied with by the Investor on or before the Closing, including delivery to the Company of the purchase price specified for the Investor in the Stock Purchase Agreement.
- (iii) Except for any notices required or permitted to be filed after the Closing with certain United States federal and state securities commissions, all authorizations, approvals and permits, if any, of any governmental authority of the United States or of any state that are required in connection with the lawful issuance and sale of the shares of Series Angel Preferred Stock pursuant to the Stock Purchase Agreement shall have been obtained and shall be effective as of the Closing.
- (iv) The Investor, as applicable, shall have executed and delivered the Stockholders Rights Agreement.

Closing

The Closing shall take place remotely via the exchange of documents and signatures on the date of the Stock Purchase Agreement or at such other time and place as the Target Company and the Investors mutually agreed upon in writing.

STOCKHOLDERS RIGHTS AGREEMENT

According to the Stockholders Rights Agreement to be entered into between the Target Company, the Investors, the Founders and the Founders Holdcos upon Closing, the principal rights of the Series Angel Preferred Stock are set out below:

Pre-emptive right

Subject to applicable securities laws, the Investors that hold shares of then outstanding Shares shall have a preemptive right to purchase its *pro rata* share of all Equity Securities, as defined below, that the Target Company may, from time to time, propose to sell and issue after the date of the Stockholders Rights Agreement, other than the Equity Securities.

“Equity Securities” shall mean (i) any shares of the Company’s common stock (the **“Common Stock”**), shares of the Company’s preferred stock or other security of the Company (the **“Preferred Stock”**), (ii) any security convertible into or exercisable or exchangeable for, with or without consideration, any Common Stock, Preferred Stock or other security (including any option to purchase such a convertible security), (iii) any security carrying any warrant or right to subscribe to or purchase any Common Stock, Preferred Stock or other security or (iv) any such warrant or right.

Right of first refusal

Each Key Holder unconditionally and irrevocably grants to the Investors a right of first refusal to purchase all or any portion of shares of capital stock owned by the Investors, the Founders and Founder Holdcos (collectively, the **“Key Holders”** and each a **“Key Holder”**), or issued to a Key Holder after the date of the Stockholders Rights Agreement (including, without limitation, in connection with any stock split, stock dividend, recapitalization, reorganization, or the like, but does not include any shares of Preferred Stock or of Common Stock that are issued or issuable upon conversion of Preferred Stock (the **“Transfer Stock”**)) that such Key Holder may propose to transfer, at the same price and on the same terms and conditions as those offered to the prospective transferee (the **“Right of First Refusal”**).

Each Key Holder unconditionally and irrevocably grants to the Target Company a secondary refusal right to purchase all or any portion the Transfer Stock not purchased by the Investor pursuant to the Right of First Refusal (the **“Second Refusal Right”**).

Right to co-sale

If any Transfer Stock subject to a proposed transfer by a Key Holder is not purchased pursuant to the Right of First Refusal or the Second Refusal Right and thereafter is to be sold to a prospective transferee, the Investors (the **“Participating Investors”**) may elect to exercise its right of co-sale and participate on a pro rata basis in the proposed transfer (the **“Right of Co-Sale”**).

If any prospective transferee refuses to purchase securities subject to the Right of Co-Sale from the Participating Investors or upon the failure to negotiate in good faith a purchase and sale agreement reasonably satisfactory to the Participating Investors, no Key Holder may sell any Transfer Stock to such prospective transferee unless and until, simultaneously with such sale, such Key Holder purchases all securities subject to the Right of Co-Sale from the Participating Investors on the same terms and conditions (including the proposed purchase price).

INFORMATION ON THE PARTIES

Information on the Company and the Group

The Company is incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1575). The Group is principally engaged in the manufacturing and sales of sofas, sofa covers and other furniture products.

Information of Uphonest Capital

Uphonest Capital is a limited partnership established under the laws of Delaware, U.S. and is principally engaged in investment. UPHONEST CAPITAL GP III, LLC is the general partner of Uphonest Capital, being an investment fund having a wide investor base.

Information of Fortune Future

Fortune Future is a company incorporated under the laws of The British Virgin Islands with limited liability, the shares of which are directly wholly owned by Mr. Tse. It is principally engaged in investment holding.

Information of Mr. Zou

Mr. Zou is an executive Director and a substantial shareholder of the Company who is indirectly interested in 666,500,000 Shares, representing approximately 24.24% of the issued Shares.

Information of Mr. Xie Ying (謝穎)

Mr. Xie Ying (謝穎) is an individual who is principally engaged in the investment business.

Information of Mr. Ma Qiang (馬強)

Mr. Ma Qiang (馬強) is an individual who is principally engaged in the investment business.

Information of Morris International

Morris International is a company incorporated under the laws of The British Virgin Islands with limited liability, the shares of which are directly wholly owned by Mr. Zou. It is principally engaged in investment holding.

Information of JohnM International

JohnM International is a company incorporated under the laws of British Virgin Islands with limited liability and is principally engaged in investment holding. It is owned as to 100% of its shares by Mr. Ma Qiang (馬強).

Information of LX International

LX International is a company incorporated under the laws of British Virgin Islands with limited liability and is principally engaged in investment holding. It is owned as to 100% of its shares by Mr. Xie Ying (謝穎).

INFORMATION ON THE TARGET COMPANY

The Target Company is a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware, United States on 5 December 2022. The Target Company is principally engaged in developing and sales of adjustable beds and medical beds to overseas markets.

Set out below the shareholding structure of the Target Company as at the date of this announcement and immediately before Closing:

Shareholders	Class of Shares	Number of Shares	Percentage of Shares (%)
LX International	Ordinary	270	15.00%
JohnM International	Ordinary	270	15.00%
Morris International	Ordinary	1,260	70.00%
Total		1,800	100.00%

Set out below the shareholding structure of the Target Company immediately after Closing:

Shareholders	Class of Shares	Number of Shares	Percentage of Shares (%)
LX International	Ordinary	270	10.2002%
JohnM International	Ordinary	270	10.2002%
Morris International	Ordinary	1,260	47.6011%
Uphonest Capital	Series Angel Preferred Stock	265	10.0113%
The Company	Series Angel Preferred Stock	423	15.9804%
Fortune Future	Series Angel Preferred Stock	159	6.0068%
Total		2,647	100.00%

Financial Information of the Target Company

Set out below is the key unaudited financial information of the Target Company for the period (i) from its incorporation to 31 December 2022 and (ii) from 1 January 2023 to 31 March 2023:

	For the period	
	From	From
	incorporation	1 January
	(i.e. 5 December	2023 to
	2022) to	31 March
	31 December	2023
	2022	(RMB)
	(RMB)	(RMB)
Revenue	–	–
Profit/(Loss) before taxation	(115,900)	(1,363,200)
Profit/(Loss) after taxation	(115,900)	(1,363,200)

As at 31 March 2023, the unaudited net asset value of the Target Company assuming the conversion into shares of Series Angel Preferred Stock pursuant to the SAFE was approximately RMB3,138,007.

Following Closing, the Company will hold 15.9804% of the shares in the Target Company and hence the financial results of the Target Company will not be consolidated in the accounts of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE STOCK PURCHASE AGREEMENT

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 sales of adjustable beds and medical beds to overseas markets.

The sale and issue of the Series Angel Preferred Stock will provide financial supports to the business development and promote the growth of the Target Company. The Company understand that the net proceeds raised through the issue of the Series Angel Preferred Stock will be utilized by the Target Company towards the operation and development of the principal business of the Target Company and other business approved by the board of directors of the Target Company.

By way of holding the shares of Series Angel Preferred Stock, the Group will be able to benefit from the development of the Target Company, indirectly participate in the possible new opportunity and new business model in the adjustable beds and medical beds industry, and thereby may in the long-run enhance the overall shareholder value of the Company.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Stock Purchase Agreement were agreed after arm's length negotiations and are on normal commercial terms, and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As (i) Mr. Tse holds the entirety of the issued share capital in Fortune Future, which is one of the Investors; (ii) Mr. Tse Hok Kan is a son of Mr. Tse; (iii) Mr. Chong Tsz Ngai is a son-in-law of Mr. Tse; (iv) Mr. Zou indirectly held (through Morris International) 70% of the issued share capital of the Target Company; and (v) Ms. Wu Xiangfei is the spouse of Mr. Zou, each of the above-mentioned Directors is considered to be materially interested in and has therefore abstained from voting on the resolutions of the Board approving the Stock Purchase Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Zou is (through Morris Capital) indirectly interested in 666,500,000 Shares, representing approximately 24.24% of the issued Shares and is therefore a substantial shareholder of the Company (who is also an executive Director). As Mr. Zou is (through Morris International) interested in 70% of the issued share capital of the Target Company, the Target Company is an associate of Mr. Zou and hence a connected person of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, Mr. Tse (the chairman of the Company and an executive Director) is indirectly interested in 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares, and is therefore a controlling shareholder of the Company. As Fortune Future (being one of the Investors) is wholly owned by Mr. Tse, Fortune Future is deemed to be a connected person of the Company under Chapter 14A of the Listing Rules. In view of the above, the Stock Purchase Agreement and the transactions contemplated thereunder constitute a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Stock Purchase Agreement exceeds 0.1% but all are less than 5%, the transactions contemplated under the Stock Purchase Agreement are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the respective meanings set opposite thereto:

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Closing”	closing of the purchase and sale of shares of Series Angel Preferred Stock pursuant to the terms and conditions of the Stock Purchase Agreement
“Company”	Morris Home Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose Shares are listed on the Main Board of the Stock Exchange (stock code: 1575)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Fortune Future”	Fortune Future Group Limited, a company incorporated under the laws of The British Virgin Islands with limited liability, the shares of which are directly/indirectly wholly owned by Mr. Tse
“Founders”	Mr. Zou, Mr. Xie Ying (謝穎) and Mr. Ma Qiang (馬強)
“Founders Holdcos”	Morris International, JohnM International and LX International
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Investors”	collectively, Uphonest Capital, the Company and Fortune Future, and “Investor” shall refer to each of such Investors
“JohnM International”	JohnM International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LX International”	LX International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“Morris Capital”	Morris Capital Limited, a company incorporated in the British Virgin Islands with limited liability and the shares of which are held as to 85% by Mr. Zou and 15% by Ms. Wu Xiangfei (who is a non-executive Director and Mr. Zou’s spouse)
“Morris International”	Morris International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, the shares of which are directly wholly owned by Mr. Zou
“Mr. Tse”	Mr. Tse Kam Pang, being the chairman of the Company and an executive Director, and a controlling shareholder of the Company who is indirectly interested in 1,300,038,000 Shares, representing approximately 47.27% of the issued Shares as at the date of this announcement
“Mr. Zou”	Mr. Zou Gebing, an executive Director and a substantial shareholder of the Company who is indirectly interested in 666,500,000 Shares, representing approximately 24.24% of the issued Shares as at the date of this announcement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Series Angel Preferred Stock”	the series angel preferred stock of US\$1.00 par value per share of the Target Company
“Share(s)”	ordinary shares with a par value of US\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Stock Purchase Agreement”	the series angel preferred stock purchase agreement entered into between the Target Company, the Company, Uphonest Capital, Fortune Future, the Founders and the Founders Holdcos on 16 May 2023, pursuant to which, the Target Company as issuer agreed to issue an aggregate of 847 shares of Series Angel Preferred Stock and the Company, Uphonest Capital and Fortune Future as subscribers agreed to subscribe for 423, 265 and 159 shares of Series Angel Preferred Stock, respectively
“Stockholders Rights Agreement”	the stockholders rights agreement to be entered into between the Investors and the Target Company upon Closing governing the rights of the stockholders of the Target Company
“Target Company”	Charme Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware, U.S.
“Uphonest Capital”	Uphonest Capital III, L.P., a limited partnership established under the laws of Delaware, U.S.
“U.S.”	United States of America
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

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

Hong Kong, 16 May 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 Lee Chack Fan, Professor Kwan Pun Fong Vincent and Ms. Chen Jianhua.