

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



Sinomax Group Limited

盛諾集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1418)

CONTINUING CONNECTED TRANSACTIONS 2021-2023 PROCUREMENT AGREEMENT WITH GU JIA GROUP

THE 2021-2023 GU JIA PROCUREMENT AGREEMENT

Reference is made to the announcement of the Company dated 19 December 2017 in relation to the 2018-2020 Gu Jia Procurement Agreement.

In view of the prospective expiry of the 2018-2020 Gu Jia Procurement Agreement on 31 December 2020, on 18 December 2020 (after trading hours), the Company (for itself and on behalf of its subsidiaries) (as supplier) entered into the 2021-2023 Gu Jia Procurement Agreement with Gu Jia Household (for itself and on behalf of its subsidiaries) (as purchaser) for the sale and purchase of polyurethane foams for the three years commencing from 1 January 2021 and ending on 31 December 2023.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of the 2021-2023 Gu Jia Procurement Agreement and the date of this announcement, Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company, is owned as to 60% by the Group and 40% by Gu Jia Household. As a substantial shareholder of a subsidiary of the Company, Gu Jia Household is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Each subsidiary of Gu Jia Household is an associate of Gu Jia Household pursuant to Rule 14A.13(1) of the Listing Rules and hence a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. As such, the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Whilst one or more of the applicable percentage ratios (other than the profits ratio) in respect of the Annual Caps in relation to the 2021-2023 Gu Jia Procurement Agreement exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each member of the Gu Jia Group is a connected person of the Company only because of its connection with Sinomax Kuka, being a subsidiary of the Company. Hence, each member of the Gu Jia Group is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. The Board has approved the transactions contemplated under the 2021-2023 Gu Jia Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Gu Jia Procurement Agreement are fair and reasonable and that the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder are only subject to the reporting, annual review and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular and independent shareholders' approval requirements.

BACKGROUND

Reference is made to the announcement of the Company dated 19 December 2017 in relation to the 2018-2020 Gu Jia Procurement Agreement.

In view of the prospective expiry of the 2018-2020 Gu Jia Procurement Agreement on 31 December 2020, on 18 December 2020 (after trading hours), the Company (for itself and on behalf of its subsidiaries) (as supplier) entered into the 2021-2023 Gu Jia Procurement Agreement with Gu Jia Household (for itself and on behalf of its subsidiaries) (as purchaser) for the sale and purchase of polyurethane foams for the three years commencing from 1 January 2021 and ending on 31 December 2023.

THE 2021-2023 GU JIA PROCUREMENT AGREEMENT

A summary of the principal terms of the 2021-2023 Gu Jia Procurement Agreement is set forth below:

- Date : 18 December 2020 (after trading hours)
- Parties : (i) the Company (for itself and on behalf of its subsidiaries), as supplier; and
(ii) Gu Jia Household (for itself and on behalf of its subsidiaries), as purchaser.
- Term : From 1 January 2021 to 31 December 2023
- Subject : Pursuant to the 2021-2023 Gu Jia Procurement Agreement, Gu Jia Household (for itself and on behalf of its subsidiaries) has agreed to purchase from the Group polyurethane foams for its production of, inter alia, sofas, mattresses and dining chairs by issuing purchase orders (the “**Purchase Orders**”) to the Group from time to time.
- Pricing policy : Parties to the 2021-2023 Gu Jia Procurement Agreement will agree from time to time a price list (the “**Price List**”) setting out, among other things, the purchase price, specifications, delivery schedule and payment terms in respect of each type of polyurethane foams, to which the Purchase Orders must adhere.
- Payment terms : The Gu Jia Group shall pay the purchase price of the products supplied by the Group by the end of the month subsequent to the delivery of such products.

The price of each type of polyurethane foams specified in the Price List will be determined with reference to: (i) the prevailing market price of such product; and (ii) the price of such product supplied by the Group to independent third parties. For the purpose of obtaining market prices, the business team of the Group will make reference to at least two actual transactions with other independent third party customers for the supply of products of comparable quality, quantity and specifications. The actual purchase price of such transactions, together with other relevant terms thereof and the relevant supporting documents (including the reasons for referencing to such transactions) are subject to the final review and approval by the sales manager of the Group. In any event, the terms of each transaction with the Gu Jia Group will be no less favourable to the Group than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

If no market price is available for a particular product, the price of such product will be determined on a cost-plus basis with reference to the costs incurred by the Group for the supply of such product (including all costs and expenses relating to raw material procurement, production, transportation, marketing, operation and management) and an indicative mark-up rate to be determined based on the then prevailing market conditions. The indicative mark-up rate will be prepared by the business team of the Group which will reflect the then prevailing market conditions with reference to the mark-up rates of other comparable products sold by the Group and will be subject to a monthly review and approval by the sales manager of the Group. In any event, the mark-up rate shall not be lower than the average mark-up rate of other comparable products sold by the Group.

The Directors (including the independent non-executive Directors) are of the view that the aforementioned pricing mechanism and procedures can ensure that the transactions contemplated under the 2021-2023 Gu Jia Procurement Agreement will be conducted on normal commercial terms.

Historical Transaction Amounts

For the two years ended 31 December 2018 and 2019 and the ten months ended 31 October 2020, the aggregate amounts in respect of the transactions under the 2018-2020 Gu Jia Procurement Agreement were as follows:

	Amount paid by the Gu Jia Group to the Group under the 2018-2020 Gu Jia Procurement Agreement <i>RMB million</i> <i>(equivalent HK\$ million)</i>
For the year ended 31 December 2018	283.26 335.25
For the year ended 31 December 2019	201.97 237.61
For the ten months ended 31 October 2020	172.11 202.48

As at the date of this announcement, the 2020 Annual Cap has not been exceeded. The Company expects that the aggregate amounts in respect of the transactions under the 2018-2020 Gu Jia Procurement Agreement for the year ending 31 December 2020 will not exceed the 2020 Annual Cap.

Annual Caps and Basis

The Annual Caps in respect of the transactions under the 2021-2023 Gu Jia Procurement Agreement for the three years ending 31 December 2021, 2022 and 2023 are as follows:

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>
Annual Caps of the amounts (excluding all applicable tax) payable by the Gu Jia Group to the Group under the 2021-2023 Gu Jia Procurement Agreement	390.00 <i>(458.82)</i>	460.00 <i>(541.18)</i>	560.00 <i>(658.82)</i>

The Annual Caps are determined after taking into account:

- (i) the expected growth of the sofa and furniture industry in the PRC;
- (ii) the business development of the Group;
- (iii) the historical purchases made by the Gu Jia Group to the Group for the two years ended 31 December 2018 and 2019 and the ten months ended 31 October 2020;
- (iv) the 2020 Annual Cap; and
- (v) the anticipated demands that may be derived from the potential business growth of the Gu Jia Group.

INFORMATION ON THE GU JIA GROUP

The Gu Jia Group comprises Gu Jia Household and its subsidiaries, namely Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaxing. Each of Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaxing is a company established in the PRC with limited liability and is principally engaged in the manufacture of sofa and furniture. Each of Gu Jia Meilin, Gu Jia Bedding and Gu Jia Jiaxing is a wholly-owned subsidiary of Gu Jia Household. Gu Jia Intelligence is a non-wholly owned subsidiary of Gu Jia Household.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the shares of Gu Jia Household are listed on the Shanghai Stock Exchange (stock code: 603816).

INFORMATION ON THE GROUP

The Company is incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of health and household products and polyurethane foam. The Group's health and household products are mainly represented by quality visco-elastic pillows, mattress toppers and mattresses.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021-2023 GU JIA PROCUREMENT AGREEMENT

Since the Group has supplied polyurethane foams to the Gu Jia Group for many years, the Group and the Gu Jia Group have established a solid business relationship. The procurement relationship with the Gu Jia Group pursuant to the 2021-2023 Gu Jia Procurement Agreement will continue to expand the Group's sales and revenue which will be conducive to the business growth of the Group. Further, the Group's sales to the Gu Jia Group are on terms which are not less favourable than those obtainable by the Group from independent third party customers.

The Directors (including the independent non-executive Directors), having reviewed the 2021-2023 Gu Jia Procurement Agreement and taking into consideration, among other things, (i) the market price of the types of polyurethane foams to be supplied by the Group under the 2021-2023 Gu Jia Procurement Agreement; (ii) the substantial quantity of polyurethane foams previously purchased by the Gu Jia Group and expected to be ordered by the Gu Jia Group; and (iii) the notable reduction in the Group's marketing costs and sales expenses in relation to foam sales when dealing with the Gu Jia Group, consider that the transactions under the 2021-2023 Gu Jia Procurement Agreement will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms and that the terms of the 2021-2023 Gu Jia Procurement Agreement (including the Annual Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder and none of them is required to abstain from voting on the resolutions of the Board to approve the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of the 2021-2023 Gu Jia Procurement Agreement and the date of this announcement, Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company, is owned as to 60% by the Group and 40% by Gu Jia Household. As a substantial shareholder of a subsidiary of the Company, Gu Jia Household is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Each subsidiary of Gu Jia Household is an associate of Gu Jia Household pursuant to Rule 14A.13(1) of the Listing Rules and hence a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. As such, the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Whilst one or more of the applicable percentage ratios (other than the profits ratio) in respect of the Annual Caps in relation to the 2021-2023 Gu Jia Procurement Agreement exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each member of the Gu Jia Group is a connected person of the Company only because of its connection with Sinomax Kuka, being a subsidiary of the Company. Hence, each member of the Gu Jia Group is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. The Board has approved the transactions contemplated under the 2021-2023 Gu Jia Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Gu Jia Procurement Agreement are fair and reasonable and that the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2021-2023 Gu Jia Procurement Agreement and the transactions contemplated thereunder are only subject to the reporting, annual review and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular and independent shareholders' approval requirements.

DEFINITIONS

Unless the context otherwise requires, the following terms shall have the following meanings in this announcement:

“2018-2020 Gu Jia Procurement Agreement”	the procurement agreement dated 19 December 2017 and entered into between the Company (for itself and on behalf of its subsidiaries) (as supplier) and Gu Jia Household (for itself and on behalf of its subsidiaries) (as purchaser) in relation to the sale and purchase of polyurethane foams for the three years commencing on 1 January 2018 and ending on 31 December 2020
“2020 Annual Cap”	the annual maximum aggregate amount of RMB437.80 million (equivalent to approximately HK\$515.06 million) (excluding all applicable tax) in respect of the transactions under the 2018-2020 Gu Jia Procurement Agreement for the year ending 31 December 2020

“2021-2023 Gu Jia Procurement Agreement”	the procurement agreement dated 18 December 2020 and entered into between the Company (for itself and on behalf of its subsidiaries) (as supplier) and Gu Jia Household (for itself and on behalf of its subsidiaries) (as purchaser) in relation to the sale and purchase of polyurethane foams for the three years commencing on 1 January 2021 and ending on 31 December 2023
“Annual Caps”	the annual maximum aggregate amounts (excluding all applicable tax) in respect of the transactions under the 2021-2023 Gu Jia Procurement Agreement for the three years commencing from 1 January 2021 to 31 December 2023
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Sinomax Group Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Gu Jia Bedding”	Hangzhou Gu Jia Bedding Co., Limited* (杭州顧家寢具有限公司), a company established in the PRC with limited liability and a direct wholly owned subsidiary of Gu Jia Household

“Gu Jia Group”	Gu Jia Household and its subsidiaries from time to time, including Gu Jia Intelligence, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Jiaxing
“Gu Jia Household”	Gu Jia Household Co., Limited* (顧家家居股份有限公司), a company established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 603816)
“Gu Jia Intelligence”	Hangzhou Gu Jia Intelligence Household Co., Limited* (杭州顧家智能家居有限公司), a company established in the PRC with limited liability and a direct non-wholly-owned subsidiary of Gu Jia Household
“Gu Jia Jiaxing”	Gu Jia Intelligence Household Jiaxing Co., Limited* (顧家智能家居嘉興有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Gu Jia Household
“Gu Jia Meilin”	Zhejiang Gu Jia Meilin Household Co., Limited* (浙江顧家梅林家居有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Gu Jia Household
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Price List”	has the meaning given to it in the section headed “THE 2021-2023 GU JIA PROCUREMENT AGREEMENT” in this announcement
“Purchase Orders”	has the meaning given to it in the section headed “THE 2021-2023 GU JIA PROCUREMENT AGREEMENT” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of Share(s)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Sinomax Kuka”	Sinomax Kuka (Zhejiang) Foam Co. Limited* (浙江聖諾盟顧家海綿有限公司), a company established in the PRC and an indirect non-wholly-owned subsidiary of the Company, which is owned as to 40% by Gu Jia Household
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“%” or “per cent.”	percentage or per centum

By order of the Board
Sinomax Group Limited
Lam Chi Fan
Chairman

Hong Kong, 18 December 2020

As at the date of this announcement, the executive Directors are Mr. Lam Chi Fan (Chairman of the Board), Mr. Cheung Tung (President), Mr. Chen Feng, Mr. Lam Kam Cheung (Chief Financial Officer and Company Secretary) and Ms. Lam Fei Man; and the independent non-executive Directors are Mr. Wong Chi Keung, Professor Lam Sing Kwong Simon, Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.

In this announcement, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB0.85: HK\$1. Such conversion should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese which are marked with “” is for identification purposes only.*