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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 2024-2026 GU JIA PROCUREMENT AGREEMENT

THE 2024-2026 GU JIA PROCUREMENT AGREEMENT

References are made to the announcements of the Company dated 18 December 2020, 29 December 2020 and 17 November 2021 in relation to the Original 2021-2023 Gu Jia Procurement Agreement and the Revised 2021-2023 Gu Jia Procurement Agreement. The Revised 2021-2023 Gu Jia Procurement Agreement superseded the Original 2021-2023 Gu Jia Procurement Agreement upon execution.

In view of the prospective expiry of the Revised 2021-2023 Gu Jia Procurement Agreement on 31 December 2023, on 28 November 2023 (after trading hours), the Company (for itself and on behalf of its subsidiaries) (as supplier) entered into the 2024-2026 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 2024 and ending on 31 December 2026.

LISTING RULES IMPLICATIONS

As at the date of the 2024-2026 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. Hence, the 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Whilst one or more of the applicable percentage ratios (other than the profits ratio) in respect of the Annual Caps in relation to the 2024-2026 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 2024-2026 Gu Jia Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the 2024-2026 Gu Jia Procurement Agreement and transactions contemplated thereunder are fair and reasonable, 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 its Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder are only subject to reporting, annual review and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular, independent financial advice and independent shareholders' approval requirements.

BACKGROUND

References are made to the announcements of the Company dated 18 December 2020, 29 December 2020 and 17 November 2021 in relation to the Original 2021-2023 Gu Jia Procurement Agreement and the Revised 2021-2023 Gu Jia Procurement Agreement. The Revised 2021-2023 Gu Jia Procurement Agreement superseded the Original 2021-2023 Gu Jia Procurement Agreement upon execution.

In view of the prospective expiry of the Revised 2021-2023 Gu Jia Procurement Agreement on 31 December 2023, on 28 November 2023 (after trading hours), the Company (for itself and on behalf of its subsidiaries) (as supplier) entered into the 2024-2026 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 2024 and ending on 31 December 2026.

THE 2024-2026 GU JIA PROCUREMENT AGREEMENT

A summary of the principal terms of the 2024-2026 Gu Jia Procurement Agreement is set forth below:

Date	:	28 November 2023 (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 2024 to 31 December 2026
Subject	:	Pursuant to the 2024-2026 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 2024-2026 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 party customers. 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. The indicative mark-up rate will be determined on a transaction-by-transaction basis based on the prevailing market conditions as well as the average mark-up rates of other comparable products supplied by the Group to other independent third party customers, and is expected to be in the range of approximately 3% to 25% subject to, among others, (i) the type and specifications of polyurethane foam to be supplied; (ii) the quantity of products to be supplied; (iii) credit risks; (iv) the level of technicality involved and/or services provided (for example, whether cutting or other processing services on a tailor-made basis are required); (v) whether on-site delivery of products is required; (vi) the actual costs incurred by the Group; and (vii) the historical transactions with the Gu Jia Group. The indicative mark-up rate will be prepared by the business team of the Group and subject to a monthly review and approval by the sales manager of the Group to ensure that the terms offered to the Gu Jia Group is no less favourable than those to the other independent third party customers for the supply of comparable products. 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 2024-2026 Gu Jia Procurement Agreement will be conducted on normal commercial terms.

Historical Transaction Amounts

For the two years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023, the aggregate amounts in respect of the transactions under the Original 2021-2023 Gu Jia Procurement Agreement and the Revised 2021-2023 Gu Jia Procurement Agreement were as follows:

	Amount paid by the Gu Jia Group to the Group under the Original 2021-2023 Gu Jia Procurement Agreement and the Revised 2021-2023 Gu Jia Procurement Agreement <i>RMB million (equivalent HK\$ million)</i>
For the year ended 31 December 2021	418.34 (454.72)
For the year ended 31 December 2022	284.43 (309.16)
For the ten months ended 31 October 2023	233.26 (253.54)

As at the date of this announcement, the 2023 Annual Cap has not been exceeded. The Company expects that the aggregate amounts in respect of the transactions under the Revised 2021-2023 Gu Jia Procurement Agreement for the year ending 31 December 2023 will not exceed the 2023 Annual Cap.

Annual Caps and Basis

The Annual Caps in respect of the transactions under the 2024-2026 Gu Jia Procurement Agreement for the three years ending 31 December 2024, 2025 and 2026 are as follows:

For the year ending 31 December 2024	For the year ending 31 December 2025	For the year ending 31 December 2026
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
<i>(equivalent HK\$ million)</i>	<i>(equivalent HK\$ million)</i>	<i>(equivalent HK\$ million)</i>

Annual Caps of the amounts

(excluding all applicable tax)

payable by the Gu Jia Group to the
Group under the 2024-2026

Gu Jia Procurement Agreement

400.00	460.00	530.00
<i>(434.78)</i>	<i>(500.00)</i>	<i>(576.09)</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 2021 and 2022 and the ten months ended 31 October 2023;
- (iv) the 2023 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 and is principally engaged in the manufacture of sofa and furniture.

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 2024-2026 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 2024-2026 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 2024-2026 Gu Jia Procurement Agreement and taking into consideration (i) the market price of the types of polyurethane foams to be provided by the Group under the 2024-2026 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 substantial 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 2024-2026 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 2024-2026 Gu Jia Procurement Agreement and 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 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder and none of them had abstained from voting at the meeting of the Board on the resolutions of the Board to approve the 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder.

LISTING RULES IMPLICATIONS

As at the date of the 2024-2026 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. Hence, the 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

Whilst one or more of the applicable percentage ratios (other than the profits ratio) in respect of the Annual Caps in relation to the 2024-2026 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 2024-2026 Gu Jia Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the 2024-2026 Gu Jia Procurement Agreement and transactions contemplated thereunder are fair and reasonable, 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 its Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2024-2026 Gu Jia Procurement Agreement and the transactions contemplated thereunder are only subject to reporting, annual review and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular, independent financial advice and independent shareholders' approval requirements.

DEFINITIONS

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

“2023 Annual Cap”	the annual maximum aggregate amount of RMB630.00 million (equivalent to approximately HK\$684.78 million) (excluding all applicable tax) in respect of the transactions under the Revised 2021-2023 Gu Jia Procurement Agreement for the year ending 31 December 2023
“2024-2026 Gu Jia Procurement Agreement”	the procurement agreement dated 28 November 2023 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 2024 and ending on 31 December 2026
“Annual Caps”	the annual maximum aggregate amounts (excluding all applicable tax) in respect of the transactions under the 2024-2026 Gu Jia Procurement Agreement for the three years commencing from 1 January 2024 to 31 December 2026
“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 Group”	Gu Jia Household and its subsidiaries from time to time, including Gu Jia Intelligence, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Jiaying
“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)
“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
“Original 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
“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 2024-2026 GU JIA PROCUREMENT AGREEMENT” in this announcement

“Purchase Orders”	has the meaning given to it in the section headed “THE 2024-2026 GU JIA PROCUREMENT AGREEMENT” in this announcement
“Revised 2021-2023 Gu Jia Procurement Agreement”	a procurement agreement dated 17 November 2021 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, which superseded the Original 2021-2023 Gu Jia Procurement Agreement upon execution
“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, 28 November 2023

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, Mr. Zhang Hwo Jie and Dr. Cheung Wah Keung.

In this announcement, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB0.92: 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.*