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JOLIMARK HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2028)

RENEWAL OF CONTINUING CONNECTED TRANSACTION

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Reference is made to circular of the Company dated 2 December 2016 in respect of the 2016 CCT Agreement entered into between Kongyue Information, a wholly-owned subsidiary of the Company, and Guangdong Precision, pursuant to which the Group agreed to purchase plastic parts, components and molds from Guangdong Precision for a period of from 1 January 2017 to 31 December 2019. As the 2016 CCT Agreement is due to expire on 31 December 2019, Kongyue Information entered into the Guangdong Precision Master Agreement on 22 November 2019 to enable the Group to continue to procure plastic parts, components and molds from Guangdong Precision for the operation needs of the Group. The Guangdong Precision Master Agreement has a term of three years from 1 January 2020 to 31 December 2022.

Guangdong Precision is a company held as to 100% by Mr. Au. As Mr. Au, through Kytronics Holdings, is the controlling shareholder of the Company holding approximately 72.61% of the issued share capital of the Company as at the date of this announcement, Guangdong Precision is an associate of a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the entering into of the Guangdong Precision Master Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios set out in the Listing Rules in respect of the annual caps under the Guangdong Precision Master Agreement are on an annual basis more than 5%, the Guangdong Precision Master Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee (comprising all independent non-executive Directors) has been formed to advise the Independent Shareholders on the Guangdong Precision Master Agreement. Gram Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Guangdong Precision Master Agreement and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A circular containing, among other things, (i) details of the Guangdong Precision Master Agreement; (ii) a letter from Gram Capital containing its advice on the Guangdong Precision Master Agreement; (iii) the recommendation of the Independent Board Committee; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 13 December 2019.

RENEWAL OF CONTINUING CONNECTED TRANSACTION

Background

Reference is made to circular of the Company dated 2 December 2016 in respect of the 2016 CCT Agreement entered into between Kongyue Information, a wholly-owned subsidiary of the Group, and Guangdong Precision, pursuant to which the Group agreed to purchase plastic parts, components and molds from Guangdong Precision for a period of from 1 January 2017 to 31 December 2019. As the 2016 CCT Agreement is due to expire on 31 December 2019, Kongyue Information and Guangdong Precision entered into the Guangdong Precision Master Agreement on 22 November 2019.

Details of the Guangdong Precision Master Agreement are set out below:

Guangdong Precision Master Agreement

Date: 22 November 2019

Parties: (i) Kongyue Information, which is a wholly-owned subsidiary of the Company; and
(ii) Guangdong Precision.

Guangdong Precision is a limited liability company established in the PRC and is principally engaged in the manufacture of precision plastic parts. It is held as to 100% by Mr. Au. As Mr. Au, through Kytronics Holdings, is the substantial shareholder controlling approximately 72.61% of the issued share capital of the Company as at the date of this announcement, Guangdong Precision is an associate of a connected person of the Company and the entering into of the Guangdong Precision Master Agreement constitutes continuing connected transaction for the Company.

Subject: Kongyue Information agreed to purchase and Guangdong Precision agreed to supply plastic parts, components and molds to Kongyue Information from time to time during the term of the Guangdong Precision Master Agreement.

Term: The Guangdong Precision Master Agreement has a fixed term of three financial years from 1 January 2020 to 31 December 2022.

Pricing policy: As a usual practice, the purchase prices for the plastic parts, components and molds supplied by Guangdong Precision will be determined after arm's length negotiations with reference to the prevailing market prices of similar or comparable products offered by Guangdong Precision to independent third parties and shall be on terms which are no less favourable to the Group than those provided by independent third party suppliers.

Subject to the usual practice noted above, Kongyue Information will also take into account the following factors when determining the purchase price payable by Kongyue Information under the Guangdong Precision Master Agreement: (i) the prevailing market prices of similar or comparable products offered by Guangdong Precision to other independent third parties obtained through internal checks and research conducted by the Group; (ii) the quality and prices of similar products offered by other independent third party suppliers; and (iii) the delivery lead time and payment terms offered by Guangdong Precision.

The Group has an established list of pre-approved suppliers for each type of direct materials procured by the Group from time to time. Whenever the Group is required to procure a new type of direct material, the Group will invite quotations from different suppliers and upon receipt of different quotations, the Group will insert the most favourable quotation to its internal system applications and products system and uses such price as the basis for future procurement on the same type of products.

The quotations will be reviewed on a bi-annual basis and for the purpose of the review, the Group will invite quotations from two to three pre-approved suppliers to get a reference on the prevailing market prices for the relevant products to be procured and the staff of the purchasing department will prepare a quotation summary (the “**Quotation Summary**”). Such Quotation Summary will be reviewed and evaluated from both the technical and commercial perspectives, taking into account of factors such as the quality and quantity of direct material supplied, pricing, payments terms and delivery lead time, firstly by managers of the purchasing department and further jointly by the Group’s production management and finance departments and subject to the final approval by the CEO of the Group. Upon receipt and review of the initial quotations from Guangdong Precision and the independent suppliers, the Group will then invite each of the suppliers to submit a revised offer based on the preliminary feedback provided by the Group, or seek a new fee quotation from another pre-approved supplier. The revised Quotation Summary will then be prepared and again be reviewed and evaluated from both the technical and commercial perspectives by the Group’s management and finance departments and upon the final approval of the CEO of the Group.

The purchase prices will be settled by the Group on a monthly account basis.

Cap Amount:

The transaction amount under the Guangdong Precision Master Agreement for each of the three financial years ending 31 December 2022 will not exceed the following annual caps:

	Financial year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed annual cap	18.072	19.879	21.867

The proposed annual caps for the three years ending 31 December 2022 were determined with reference to (i) the historical transaction amounts under the 2016 CCT Agreement for the two years ended 31 December 2018 and the ten months ended 31 October 2019; (ii) the expected demand for plastic parts, components and molds taking into consideration of the Group’s expected business demand in the coming few years; and (iii) the expected increases in the prices of such parts and components during the period due to inflation. Further, It is expected that there will be an increase of demand of plastic parts, components and molds required by the Group from the year ending 31 December 2020 to the year ending 31 December 2022 owing to the expected growth in the business of the Group and the expected increase of the orders of the Group’s products due to the expected growing demand for printers.

The historical transaction amount of purchases by the Group from Guangdong Precision for the three financial years ended 31 December 2018 and the ten months ended 31 October 2019 are as follows:

	For the year ended 31 December			For the ten months ended
	2016	2017	2018	31 October 2019
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million*</i>
Annual cap	58.182	24.728	34.620	50.199 [#]
Actual purchases	20.457	17.153	15.307	12.550

* un-audited figures

[#] for the entire year

Reasons for the Guangdong Precision Master Agreement

The Group is principally engaged in the manufacture and sale of printers and other electronic products in the PRC.

As part of the Group's ordinary course of business, the Group needs to source various materials including precision plastic parts and metal stamped parts for use in its production process. Guangdong Precision has established itself as a reliable supplier that can supply competitively priced products to the Group. Guangdong Precision has been supplying plastic parts, components and molds to the Group for a long time, and has been able to meet the Group's stringent quality requirements and delivery schedules. The stable and well-established cooperation history between the Group and Guangdong Precision could help the Group to save on management time and resources, as well as to better capture operation efficiency as a whole. In addition, the close proximity of Guangdong Precision to the Group's production base would enable the Group to streamline and centralise its direct materials procurement process, which helped reduce the overall production cost of the Group.

To ensure competitiveness of the quality and pricing of materials supplied by Guangdong Precision, the Company maintains a periodic checking process of comparable product offerings in the open market. As the Guangdong Precision Master Agreement was entered into in the usual and ordinary course of business of the Group and the terms have been negotiated on an arm's length basis and on normal commercial terms, the Board considers that the transactions contemplated under the Guangdong Precision Master Agreement and its annual cap is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rule Implications

Guangdong Precision is a company held as to 100% by Mr. Au. As Mr. Au, through Kytronics Holdings, is the controlling shareholder of the Company holding approximately 72.61% of the issued share capital of the Company as at the date of this announcement, Guangdong Precision is an associate of a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the entering into of the Guangdong Precision Master Agreement constitutes continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios set out in the Listing Rules in respect of the annual caps under the Guangdong Precision Master Agreement are on an annual basis more than 5%, the Guangdong Precision Master Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTERNAL CONTROL

Subject to the general principle disclosed above, the Company has formulated a purchase management system to monitor the pricing policy of the Group's continuing connected transaction, which involves, (i) a regular review and bi-annual periodic checking process of all purchased materials supervised and monitored by the relevant personnel and management from the finance department of the Group; and (ii) an annual internal audit review of the purchases made under the continuing connected transaction specifically conducted by the internal audit department of the Group to ensure that the Guangdong Precision Master Agreement is conducted on normal commercial terms and will not be prejudicial to the interests of the Group as a whole. The relevant personnel and management of the Group will also conduct bi-annual regular checks to review and assess whether the transaction contemplated under the Guangdong Precision Master Agreement are conducted in accordance with the terms of the Guangdong Precision Master Agreement and in accordance with the aforesaid pricing policy. The independent non-executive Directors would review the transaction contemplated under the Guangdong Precision Master Agreement and the auditors of the Company would also conduct an annual review on the annual caps thereof. Accordingly, the Directors consider that the internal control mechanism is effective to ensure that the transaction contemplated under the Guangdong Precision Master Agreement has been and will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

GENERAL

As at the date of this announcement, Kytronics Holdings, which is held as to 100% by KGL, which in turn is 100% held by FHL, a company wholly-owned by Mr. Au, is interested in approximately 72.61% of the issued share capital of the Company. Accordingly, Kytronics Holdings and its associates are considered to be interested in the transactions contemplated under the Guangdong Precision Master Agreement and will abstain from voting at the EGM to be convened to approve the Guangdong Precision Master Agreement.

Since Mr. Au Pak Yin, Mr. Au Kwok Lun and Mr. Ou Guo Liang, being the executive Directors of the Company, are the directors of Guangdong Precision, they are considered to have a material interest in the continuing connected transaction under the Guangdong Precision Master Agreement. Accordingly, they have abstained from voting on the Board resolutions proposed at the meeting of the Board held to approve these transactions.

The Independent Board Committee (comprising all independent non-executive Directors) has been formed to advise the Independent Shareholders on the Guangdong Precision Master Agreement. Gram Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Guangdong Precision Master Agreement and the annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A circular containing, among other things, (i) details of the Guangdong Precision Master Agreement; (ii) a letter from Gram Capital containing its advice on the Guangdong Precision Master Agreement; (iii) the recommendation of the Independent Board Committee; and (iv) a notice of the EGM, will be despatched to the Shareholders on or before 13 December 2019.

DEFINITIONS

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

“2016 CCT Agreement”	the agreement dated 27 October 2016 between Kongyue Information with Guangdong Precisions, the details of which are disclosed in the announcement of the Company dated 27 October 2016;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“business day(s)”	a day (other than a Saturday, Sunday or public holidays) on which banks are open for general banking business in Hong Kong;
“China” or “PRC”	the People’s Republic of China;

“Company”	Jolimark Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s) “	the director(s) of the Company;
“EGM”	the extraordinary general meeting to be convened by the Company to consider and, if thought fit, approve the Guangdong Precision Master Agreement and its annual caps;
“Group”	the Company and its subsidiaries, and “member of the Group” shall be construed accordingly;
“Guangdong Precision”	廣東江裕精密工業製造有限公司 (Guangdong Kong Yue Precision Industry Ltd.), a limited liability company established in the PRC and is beneficially owned by Mr. Au;
“Guangdong Precision Master Agreement”	the master supply agreement dated 22 November 2019 entered into between Guangdong Precision and Kongyue Information for the supply of plastic parts and components;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“FHL”	Au Pak Yin, Tai Noi Kit Family Holdings Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Au as at the date of this announcement;
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors, which has been established by the Board to advise the Independent Shareholders on the Guangdong Precision Master Agreement;

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), appointed as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Guangdong Precision Master Agreement and its annual caps;
“Independent Shareholder(s)”	Shareholders other than those who are not prohibited from voting at the general meeting in connection with the Guangdong Precision Master Agreement;
“KGL”	Kytronics Growth Limited, a company incorporated in the British Virgin Islands and wholly-owned by FHL as at the date of this announcement;
“Kongyue Information”	新會江裕信息產業有限公司 (Kong Yue Electronics & Information Industry (Xin Hui) Ltd.), a limited liability company established in the PRC and is a wholly-owned subsidiary of the Company;
“Kytronics Holdings”	Kytronics Holdings Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company;
“Mr. Au”	Mr. Au Pak Yin, an executive Director and the Chairman of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“percentage ratios”	refers to the percentage ratios under rule 14.07 of the Listing Rules;
“PRC”	The People’s Republic of China;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Share(s) “	means ordinary share(s) of HK\$0.01 each in the share capital of the Company;
“Shareholders”	means the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“substantial Shareholder” has the meaning ascribed to it under the Listing Rules;

“US\$” means United States dollars, the lawful currency of United States of America; and

“%” per cent.

By Order of the Board
Jolimark Holdings Limited
Au Pak Yin
Chairman

Hong Kong, 22 November 2019

As at the date of this announcement, the Executive Directors of the Company are Mr. Au Pak Yin, Mr. Au Kwok Lun and Mr. Ou Guo Liang; and the Independent Non-executive Directors of the Company are Ms. Kan Lai Kuen, Alice, Mr. Meng Yan and Mr. Yeung Kwok Keung.