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SINOMAX
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)

ANNOUNCEMENT

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Prospectus and the announcement of the Company dated 6 February 2015. Since the 2013 Dongguan Lease Agreement and the Previous Procurement Agreement will be expired on 31 December 2015, and the Company expects such transactions will continue thereafter, the Board announces that on 18 December 2015, (i) Dongguang Sinohome and Dongguan Donglian entered into the Renewal Dongguan Lease Agreement for the three financial years commencing from 1 January 2016 to 31 December 2018; and (ii) Haining Sinomax, Gu Jia Household and Gu Jia Meilin entered into the Renewal Procurement Agreement for the financial year commencing from 1 January 2016 to 31 December 2016.

LISTING RULES IMPLICATIONS

Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of the Company's controlling shareholders. Dongguang Donglian is therefore an associate of Sinomax Enterprises pursuant to Rule 14A.13(1) of the Listing Rules and a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the transactions contemplated under the Renewal Dongguan Lease Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios in respect of the Lease Annual Cap are more than 1% but less than 5%, by virtue of Rule 14A.76(2)(a) of the Listing Rules, the Renewal Dongguan Lease Agreement is exempt from independent shareholders' approval requirement but is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules.

Gu Jia Household holds 40% equity interest in Sinomax Kuka, which is an indirect non-wholly owned subsidiary of the Company. 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. Gu Jia Meilin, being the direct wholly-owned 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 under Rule 14A.07(4) of the Listing Rules. Hence, the transactions contemplated under the Renewal Procurement Agreement constitute continuing connected transactions of the Company.

While one or more of the applicable percentage ratios (other than the profits ratio) in respect of the Procurement Annual Cap exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each of Gu Jia Household and Gu Jia Meilin is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, each of Gu Jia Household and Gu Jia Meilin is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, such transactions 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 and independent shareholders' approval requirements.

BACKGROUND

Reference is made to the Prospectus and the announcement of the Company dated 6 February 2015. Since the 2013 Dongguan Lease Agreement and the Previous Procurement Agreement will be expired on 31 December 2015, and the Company expects such transactions will continue thereafter, the Board announces that on 18 December 2015, (i) Dongguang Sinohome and Dongguan Donglian entered into the Renewal Dongguan Lease Agreement for the three financial years commencing from 1 January 2016 to 31 December 2018; and (ii) Haining Sinomax, Gu Jia Household and Gu Jia Meilin entered into the Renewal Procurement Agreement for the financial year commencing from 1 January 2016 to 31 December 2016.

THE RENEWAL DONGGUAN LEASE AGREEMENT

A summary of the principal terms of the Renewal Dongguan Lease Agreement is set out as below:

Date: 18 December 2015

Parties: (i) Dongguan Sinohome, as tenant; and
(ii) Dongguan Donglian, as landlord.

Term: From 1 January 2016 to 31 December 2018

Subject:	Pursuant to the Renewal Dongguan Lease Agreement, Dongguan Donglian has agreed to lease certain premises situated at 中國廣東省東莞市塘廈鎮沙湖村大結嶺路1號 (No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, the PRC), with an aggregate area of 100,646.98 square meters to Dongguan Sinohome
Use:	Factories, employee's dormitories and warehouse
Monthly rent:	RMB1,310,000 (equivalent to approximately HK\$1,585,100)
Payment terms:	Settled on a monthly basis
Right of first refusal:	If Dongguan Donglian proposes to sell the leased premises to a third party, it shall give Dongguan Sinohome six (6) months' advance notice in writing and grant Dongguan Sinohome the right of first refusal to purchase the leased premises on the same terms and conditions as those offered by the third party.

In determining the rental for the Renewal Dongguan Lease Agreement, the Group engaged an independent property valuer and consultant, Asset Appraisal Limited, to review the Renewal Dongguan Lease Agreement, conduct market research on the leasing markets in Dongguan and collect rental evidence of comparable properties in the locality as well as similar locations in Dongguan, and it has confirmed that the amounts payable under the Renewal Dongguan Lease Agreement reflect the then prevailing market rates for properties of a similar status in similar locations.

The Directors (except Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man who abstained from participating in the approval of the Renewal Dongguan Lease Agreement due to their material interests therein), including the independent non-executive Directors, having reviewed the Renewal Dongguan Lease Agreement and considered the opinion from the independent property valuer and consultant, have confirmed that (i) the terms and conditions of the Renewal Dongguan Lease Agreement are fair and reasonable to the parties thereto and are entered into on normal commercial terms; and (ii) the amounts payable thereunder reflect the then prevailing market rates for properties of a similar status in similar locations.

Historical transaction amounts

The annual rental paid by the Group to Dongguan Donglian for leasing of the Dongguan Premises under the Previous Lease Agreements amounted to approximately RMB5.81 million and RMB8.35 million (equivalent to approximately HK\$7.03 million and HK\$10.10 million) for the financial years ended 31 December 2013 and 2014 respectively.

The rental amount paid by the Group to Dongguan Donglian for the ten months ended 31 October 2015 was approximately RMB6.95 million (equivalent to approximately HK\$8.41 million) and the Company expects that the annual rental amount for the financial year ending 31 December 2015 will not exceed the proposed cap of RMB8.50 million (equivalent to approximately HK\$10.29 million) for the year 2015 as disclosed in the Prospectus.

Annual cap and basis

It is expected that the maximum annual amount of rental payable by the Group under the Renewal Dongguan Lease Agreement for each of the financial years ending 31 December 2016, 2017 and 2018 shall not exceed the Lease Annual Cap of RMB15.72 million (equivalent to approximately HK\$19.02 million). The Lease Annual Cap is determined after taking into account the following factors: (i) the historical transaction amounts; (ii) the prevailing market prices of the comparable properties in the place where Dongguan Premises are located; (iii) the increased leasing area due to the needs of the Company's business expansion; and (iv) the monthly rent as set out in the Renewal Dongguan Lease Agreement.

The Directors (except Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man who abstained from participating in the approval of the Renewal Dongguan Lease Agreement due to their material interests therein), including the independent non-executive Directors, having reviewed the Renewal Dongguan Lease Agreement and taking into consideration (i) market prices of leases of comparable premises in Dongguan; and (ii) the estimated time and costs which will be incurred for relocation and renovation to new premises, consider that the transactions under the Renewal Dongguan Lease Agreement are entered into in the ordinary and usual course of business of the Group, on normal commercial terms and that the terms of the Renewal Dongguan Lease Agreement and the Lease Annual Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE RENEWAL PROCUREMENT AGREEMENT

A summary of the principal terms of the Renewal Procurement Agreement is set out as below:

Date:	18 December 2015
Parties:	(i) Haining Sinomax, as supplier; and (ii) Gu Jia Household and Gu Jia Meilin, as Purchasers.
Term:	From 1 January 2016 to 31 December 2016
Subject:	Pursuant to the Renewal Procurement Agreement, each of Gu Jia Household and Gu Jia Meilin has agreed to purchase from Haining Sinomax polyurethane foams for its production of, inter alia, sofas, mattresses and dining tables by issuing purchase orders (the "Purchase Orders") from time to time to Haining Sinomax
Pricing policy:	Parties to the Renewal Procurement Agreement will agree from time to time a price list (the "Price List") setting out the price, specifications and delivery schedule in respect of each type of polyurethane foams, upon which the Purchase Orders must adhere to.
Payment terms:	Each of Gu Jia Household and Gu Jia Meilin shall pay the purchase price of products supplied by Haining Sinomax 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 Haining Sinomax to independent third parties. For the purpose of obtaining market prices, the Group will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications. In any event, terms of each sale to the Purchasers will be no less favourable to the Group than terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications.

If there is no market price available for a particular product, the price of such product will be determined on a cost-plus basis with reference to the cost incurred by Haining Sinomax for the supply of such product (including all costs and expenses relating to raw material procurement, production, transportation, marketing, operation and management). The Directors, including the independent non-executive Directors, are of the view that the aforesaid method and procedures can ensure that the continuing connected transactions under the Renewal Procurement Agreement will be conducted on normal commercial terms.

Historical transaction amounts

For the years ended 31 December 2013 and 2014 and for the eleven months ended 30 November 2015, the aggregate consideration paid (excluding all applicable tax) by Gu Jia Household and Gu Jia Meilin to the Group under the Previous Procurement Agreement for the purchase of polyurethane foams and the aggregate quantity of such purchase are as follows:

	Consideration paid (excluding all applicable tax) RMB million (equivalent HK\$ million)	Quantity million kg
Year ended 31 December 2013	107.76 (130.39)	6.36
Year ended 31 December 2014	108.94 (131.82)	6.40
Eleven months ended 30 November 2015	84.64 (102.41)	6.07

The Company expects that the consideration for the financial year ending 31 December 2015 will not exceed the proposed cap of RMB154 million (equivalent to approximately HK\$186.34 million) (excluding all applicable tax) for the year 2015 as disclosed in the announcement of the Company dated 6 February 2015.

Annual cap and basis

The Procurement Annual Cap for the amount of purchases (excluding all applicable tax) payable by the Gu Jia Household and Gu Jia Meilin to Haining Sinomax under the Renewal Procurement Agreement for the year ending 31 December 2016 is RMB154 million (equivalent to approximately HK\$186.34 million).

The Procurement Annual Cap is determined after taking into account:

- (i) the historical purchases made by the Purchasers for the years ended 31 December 2013 and 2014, and the eleven months ended 30 November 2015; and
- (ii) the anticipated demand that may be derived from the possible future business growth of the Purchasers.

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

LISTING RULES IMPLICATION

Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of the Company's controlling shareholders. Dongguan Donglian is therefore an associate of Sinomax Enterprises pursuant to Rule 14A.13(1) of the Listing Rules and a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the transactions contemplated under the Renewal Dongguan Lease Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios in respect the Lease Annual Cap are more than 1% but less than 5%, by virtue of Rule 14A.76(2)(a) of the Listing Rules, the Renewal Dongguan Lease Agreement is exempt from independent shareholders' approval requirement but is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules.

Gu Jia Household holds 40% equity interest in Sinomax Kuka, which is an indirect non-wholly owned subsidiary of the Company. 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. Gu Jia Meilin, being the direct wholly-owned 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 under Rule 14A.07(4) of the Listing Rules. Hence, the transactions contemplated under the Renewal Procurement Agreement constitute continuing connected transactions of the Company.

While one or more of the applicable percentage ratios (other than the profits ratio) as defined under the Listing Rules in respect of the Procurement Annual Cap exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each of Gu Jia Household and Gu Jia Meilin is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, each of Gu Jia Household and Gu Jia Meilin is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. Subject to the fulfillment of the conditions required under Rule 14A.101 of the Listing Rules, such transactions 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 and independent shareholders' approval requirements. In this connection, the Board has approved the transactions contemplated under the Renewal Procurement Agreement and the independent non-executive Directors have confirmed that the terms of the transactions contemplated thereunder are fair and reasonable; the transactions 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 its Shareholders as a whole.

Save for Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man, all being executive Directors, having abstained from voting in respect of the Renewal Dongguan Lease Agreement, none of the Directors had a material interest in the respective transactions contemplated under the Renewal Dongguan Lease Agreement and the Renewal Procurement Agreement, and had abstained from voting at the meeting of the Board on the respective resolutions approving the transactions.

GENERAL INFORMATION

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 business of manufacture and sale of health and household products and polyurethane foam. Health and household products mainly represent quality visco-elastic pillows, mattress toppers and mattresses.

Dongguan Donglian

Dongguan Donglian is a company established in the PRC with limited liability, which is principally engaged in properties leasing business in the PRC.

Gu Jia Household and Gu Jia Meilin

Each of Gu Jia Household and Gu Jia Meilin is a company established in the PRC with limited liability, which is principally engaged in manufacturing sofa and furniture. Gu Jia Meilin is a direct wholly-owned subsidiary of Gu Jia Household.

DEFINITIONS

“2012 Dongguan Lease Agreement”	the lease agreement dated 28 December 2012 entered into between Dongguan Sinohome and Dogguan Donglian in relation to the Dongguan Premises, which was replaced by the 2013 Dongguan Lease Agreement
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“2013 Dongguan Lease Agreement”	the lease agreement dated 2 December 2013 entered into between Dongguan Sinohome and Dogguan Donglian in relation to the Dongguan Premises, which will be expired on 31 December 2015
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Company”	Sinomax Group Limited, a company incorporated under the laws of the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Dongguan Donglian”	Dongguan Donglian Furniture Co., Ltd.* (東莞東聯傢俱有限公司), a company established in the PRC as a wholly foreign-owned enterprise and indirectly wholly-owned by Sinomax Enterprises
“Dongguan Premises”	certain premises located in 中國廣東省東莞市塘廈鎮沙湖村大結嶺路1號 (No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, the PRC)
“Dongguan Sinohome”	Dongguan Sinohome Limited* (東莞賽諾家居用品有限公司), a company established in the PRC as a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Gu Jia Household”	Gu Jia Household Co., Limited* (顧家家居股份有限公司), formerly known as Hangzhou Zhuangsheng Furniture Manufacturing Co., Limited* (杭州莊盛家具製造有限公司), a company established in the PRC
“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
“Haining Sinomax”	Haining Sinomax Trading Co., Ltd.* (海寧聖諾盟貿易有限公司), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Lease Annual Cap”	the annual maximum aggregate value for the transactions contemplated under the Renewal Dongguan Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Previous Lease Agreements”	the 2012 Dongguan Lease Agreement and the 2013 Dongguan Lease Agreement
“Previous Procurement Agreement”	the procurement agreement dated 6 February 2015 entered into between Haining Sinomax, Gu Jia Household and Gu Jia Meilin in relation to the sale of polyurethane foams, which will be expired on 31 December 2015
“Procurement Annual Cap”	the annual maximum aggregate value for the transactions contemplated under the Renewal Procurement Agreement
“Prospectus”	the prospectus of the Company dated 30 June 2014
“Purchasers”	Gu Jia Household and Gu Jia Meilin
“Renewal Dongguan Lease Agreement”	the lease agreement dated 18 December 2015 entered into between Dongguan Sinohome and Dogguan Donglian in relation to the lease of the Dongguan Premises
“Renewal Procurement Agreement”	the procurement agreement dated 18 December 2015 entered into between Haining Sinomax, Gu Jia Household and Gu Jia Meilin in relation to the sale of polyurethane foams
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of share(s) of the Company
“Sinomax Enterprises”	Sinomax Enterprises Limited (聖諾盟企業有限公司), a company incorporated in the BVI, and one of the controlling shareholders 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 as a wholly foreign-owned enterprise and subsequently transformed into a Sino-foreign joint venture, which is owned as to 60% by the Group and 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
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%” or “per cent.”	percentage or per centum

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

Hong Kong, 18 December 2015

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. Fan Chun Wah Andrew, Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.

In the event of any inconsistency between the English and Chinese versions of this announcement, the English version of this announcement shall prevail over the Chinese version of this announcement.

In this announcement, the conversion of RMB into HK\$ has been made at exchange rate of RMB1:HK\$1.21. Such conversion should not be construed as a representation that any amount has been, could have been or may be, exchanged at these 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.*