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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**

### **THE NEW PROCUREMENT AGREEMENT IN RELATION TO SALE OF POLYURETHANE FOAMS**

On 29 April 2016 (after trading hours), Sinomax Zhejiang, an indirect wholly-owned subsidiary of the Company, as supplier entered into the New Procurement Agreement with Gu Jia Bedding as purchaser to govern the sale and purchase of polyurethane foams by issuing purchase orders from time to time to Sinomax Zhejiang.

Gu Jia Bedding is a direct wholly-owned subsidiary of Gu Jia Household, a substantial shareholder of an indirect non-wholly subsidiary of the Company. As such, Gu Jia Household is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Gu Jia Bedding 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 New Procurement Agreement constitute continuing connected transactions of the Company. As the Haining Procurement Agreement and the New Procurement Agreement were entered into between the Group and companies majority or wholly owned by connected persons of the Company who are associated with one another; and the transactions thereunder are similar in nature, the New Procurement Agreement should be aggregated with the Haining Procurement Agreement under Rules 14A.81 and 14A.82(1) of the Listing Rules for the purpose of calculating the applicable percentage ratios.

While one or more of the applicable percentage ratios (other than the profits ratio) as defined under the Listing Rules in respect of the Annual Cap, when aggregated with the annual cap for the Haining Procurement Agreement, exceed 5%, the Directors, having made all reasonable enquiries, confirmed that Gu Jia Bedding is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, Gu Jia Bedding is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. Pursuant to 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 exempted from the circular and independent shareholders' approval requirements.

## BACKGROUND

On 29 April 2016 (after trading hours), Sinomax Zhejiang, an indirect wholly-owned subsidiary of the Company, as supplier entered into the New Procurement Agreement with Gu Jia Bedding as purchaser to govern the sale and purchase of polyurethane foams by issuing purchase orders from time to time to Sinomax Zhejiang.

## THE NEW PROCUREMENT AGREEMENT

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

Date:	29 April 2016 (after trading hours)
Parties:	(i) Sinomax Zhejiang, as supplier; and (ii) Gu Jia Bedding, as purchaser.
Term:	The New Procurement Agreement shall retrospectively take effect since 1 January 2016 and shall expire on 31 December 2016
Subject:	Pursuant to the New Procurement Agreement, Gu Jia Bedding has agreed to purchase from Sinomax Zhejiang polyurethane foams for its production of, inter alia, sofas, mattresses and dining chairs by issuing purchase orders (the “ <b>Purchase Orders</b> ”) from time to time to Sinomax Zhejiang
Pricing policy:	Parties to the New Procurement Agreement will agree from time to time a price list (the “ <b>Price List</b> ”) 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:	Gu Jia Bedding shall pay the purchase price of products supplied by Sinomax Zhejiang 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 Sinomax Zhejiang to independent third parties. For the purpose of obtaining market prices, Sinomax Zhejiang 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 Gu Jia Bedding will be no less favourable to Sinomax Zhejiang 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 Sinomax Zhejiang 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 New Procurement Agreement will be conducted on normal commercial terms.

### **Historical Transaction Amounts**

Since Sinomax Zhejiang and Gu Jia Bedding had not entered into similar transactions in the past, no historical transaction figure is available.

### **Annual Cap and Basis of Determination**

The Annual Cap for the amount of purchases (excluding all applicable tax) payable by Gu Jia Bedding to Sinomax Zhejiang under the New Procurement Agreement for the year ending 31 December 2016 is RMB10.0 million (equivalent to approximately HK\$11.9 million).

The Annual Cap is determined after taking into account:

- (i) the anticipated demand that may be derived from the possible future business growth of Gu Jia Bedding; and
- (ii) the Directors envisage that there will be a substantial demand for polyurethane foams from Gu Jia Bedding.

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

## **LISTING RULES IMPLICATION**

Gu Jia Bedding is a direct wholly-owned subsidiary of Gu Jia Household, a substantial shareholder of an indirect non-wholly subsidiary of the Company. As such, Gu Jia Household is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Gu Jia Bedding 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 New Procurement Agreement constitute continuing connected transactions of the Company. As the Haining Procurement Agreement and the New Procurement Agreement were entered into between the Group and companies majority or wholly owned by connected persons of the Company who are associated with one another; and the transactions thereunder are similar in nature, the New Procurement Agreement should be aggregated with the Haining Procurement Agreement under Rules 14A.81 and 14A.82(1) of the Listing Rules for the purpose of calculating the applicable percentage ratios.

While one or more of the applicable percentage ratios (other than the profits ratio) as defined under the Listing Rules in respect of the Annual Cap, when aggregated with the annual cap for the Haining Procurement Agreement, exceed 5%, the Directors, having made all reasonable enquiries, confirmed that Gu Jia Bedding is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, Gu Jia Bedding is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. Pursuant to 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 exempted from the circular and independent shareholders' approval requirements. In this connection, the Board has approved the transactions contemplated under the New Procurement Agreement and the independent non-executive Directors have confirmed that the terms of the transactions contemplated thereunder are fair and reasonable; the transaction is on normal commercial terms or better, in the ordinary and usual course of business of the Group, and in the interest of the Company and its Shareholders as a whole.

None of the Directors had a material interest in the transactions contemplated under the New Procurement Agreement and had abstained from voting on the Board 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.

## **Sinomax Zhejiang**

Sinomax Zhejiang is a company established in the PRC with limited liability, which is principally engaged in the business of manufacture and sale of polyurethane foams to furniture manufacturers.

## **Gu Jia Bedding**

Gu Jia Bedding is a company established in the PRC with limited liability, which is principally engaged in manufacturing sofa and furniture. Gu Jia Bedding is a direct wholly-owned subsidiary of Gu Jia Household, a substantial shareholder of an indirect non-wholly subsidiary of the Company.

## **DEFINITIONS**

“Annual Cap”	the annual maximum aggregate value for the transactions contemplated under the New Procurement Agreement
“Board”	the board of Directors
“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
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Gu Jia Bedding”	Hangzhou Gu Jia Bedding Co., Limited* (杭州顧家寢具有有限公司) (formerly known as 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
“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
“Haining Procurement Agreement”	the procurement agreement dated 18 December 2015 entered amongst Haining Sinomax Trading Co., Ltd.* (海寧聖諾盟貿易有限公司), an indirect non-wholly owned subsidiary of the Company, Gu Jia Household and Gu Jia Bedding in relation to the sale of polyurethane foams, as disclosed in the announcement of the Company dated 18 December 2015
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“New Procurement Agreement”	the procurement agreement dated 29 April 2016 entered into between Sinomax Zhejiang and Gu Jia Bedding in relation to the sale and purchase of polyurethane foams
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of share(s) of the Company
“Sinomax Zhejiang”	Sinomax (Zhejiang) Polyurethane Household Products Limited* (聖諾盟(浙江)聚氨酯家居用品有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“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, 29 April 2016

*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 conversions of RMB into HK\$ has been made at an exchange rate of RMB1:HK\$1.19. Such conversions should not be construed as a representation that any amount has been, could have been or may be, exchanged at these or any other rates.*

*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.*