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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)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
THE RENEWAL PROCUREMENT AGREEMENTS WITH GU JIA GROUP**

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcements of the Company dated 18 December 2015 and 29 April 2016. Since the 2016 Haining Procurement Agreement and the 2016 Zhejiang Procurement Agreement will be expired on 31 December 2016, and the Company expects such transactions will continue thereafter, the Board announces that on 30 December 2016, (i) Haining Sinomax and Sinomax Kuka as suppliers entered into the Renewal Haining Procurement Agreement with Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence as purchasers for the financial year commencing from 1 January 2017 to 31 December 2017; and (ii) Sinomax Zhejiang as supplier entered into the Renewal Zhejiang Procurement Agreement with Gu Jia Bedding as purchaser for the financial year commencing from 1 January 2017 to 31 December 2017.

LISTING RULES IMPLICATIONS

Sinomax Kuka is an indirect non-wholly owned subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Gu Jia Household. Gu Jia Household is the holding company of each of Gu Jia Bedding, Gu Jia Meilin and Gu Jia Intelligence. 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. As such, each of Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence, 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 respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement constitute continuing connected transactions of the Company.

While one or more of the applicable percentage ratios (other than the profit ratio) as defined under the Listing Rules in respect of the Annual Caps, on an aggregate basis, 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 a subsidiary of the Company. Hence, each member of the Gu Jia Group is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. The Board has approved the respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the respective 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 interest 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 respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement 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 announcements of the Company dated 18 December 2015 and 29 April 2016. Since the 2016 Haining Procurement Agreement and the 2016 Zhejiang Procurement Agreement will be expired on 31 December 2016, and the Company expects such transactions will continue thereafter, the Board announces that on 30 December 2016, (i) Haining Sinomax and Sinomax Kuka as suppliers entered into the Renewal Haining Procurement Agreement with Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence as purchasers for the financial year commencing from 1 January 2017 to 31 December 2017; and (ii) Sinomax Zhejiang as supplier entered into the Renewal Zhejiang Procurement Agreement with Gu Jia Bedding as purchaser for the financial year commencing from 1 January 2017 to 31 December 2017.

THE RENEWAL HAINING PROCUREMENT AGREEMENT

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

Date: 30 December 2016

Parties: (i) Haining Sinomax and Sinomax Kuka, as suppliers; and
(ii) Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence, as purchasers.

Term: From 1 January 2017 to 31 December 2017

- Subject:** Pursuant to the Renewal Haining Procurement Agreement, each of Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence has agreed to purchase from Haining Sinomax and Sinomax Kuka 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 and Sinomax Kuka.
- Pricing policy:** Parties to the Renewal Haining 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, which the Purchase Orders must adhere to.
- Payment terms:** Each of Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence shall pay the purchase price of products supplied by Haining Sinomax and Sinomax Kuka 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 and Sinomax Kuka to independent third parties. For the purpose of obtaining market prices, Haining Sinomax and Sinomax Kuka will make reference to the price quotations to other independent customers for products of comparable quality, quantity and specifications. In any event, the terms of each sale to the Gu Jia Group 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 and Sinomax Kuka 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 Haining Procurement Agreement will be conducted on normal commercial terms.

Historical Transaction Amounts

For the two years ended 31 December 2014 and 2015 and for the eleven months ended 30 November 2016, the aggregate consideration paid to Haining Sinomax for the provision of polyurethane foams under the 2016 Haining Procurement Agreement are as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the eleven months ended 30 November 2016
	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>
Consideration paid (excluding all applicable tax) to Haining Sinomax by Gu Jia Household and Gu Jia Meilin under the 2016 Haining Procurement Agreement	108.94 (124.19)	94.74 (108.00)	109.34 (124.65)

The Company expects that the consideration for the financial year ending 31 December 2016 under the 2016 Haining Procurement Agreement will not exceed the proposed cap of RMB154 million (equivalent to approximately HK\$175.56 million) for the year 2016 as disclosed in the announcement of the Company dated 18 December 2015.

Haining Annual Cap and Basis

The Haining Annual Cap for the amount of purchases (excluding all applicable tax) payable by the Gu Jia Group to Haining Sinomax and Sinomax Kuka under the Renewal Haining Procurement Agreement for the year ending 31 December 2017 is RMB170 million (equivalent to approximately HK\$193.80 million).

The Haining Annual Cap is determined after taking into account:

- (i) the historical purchases made by Gu Jia Household and Gu Jia Meilin to Haining Sinomax for the two years ended 31 December 2014 and 2015 and for the eleven months ended 30 November 2016;
- (ii) the annual cap of RMB154 million in respect of the 2016 Haining Procurement Agreement for the year ending 31 December 2016; and
- (iii) the anticipated demand that may be derived from the possible future business growth among Haining Sinomax, Sinomax Kuka and members of the Gu Jia Group.

THE RENEWAL ZHEJIANG PROCUREMENT AGREEMENT

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

- Date: 30 December 2016
- Parties: (i) Sinomax Zhejiang, as supplier; and
(ii) Gu Jia Bedding, as purchaser.
- Term: From 1 January 2017 to 31 December 2017
- Subject: Pursuant to the Renewal Zhejiang Procurement Agreement, Gu Jia Bedding has agreed to purchase from Sinomax Zhejiang polyurethane foams for its production of, inter alia, sofas, mattresses and dining tables by issuing the Purchase Orders from time to time to Sinomax Zhejiang.
- Pricing policy: Parties to the Renewal Zhejiang Procurement Agreement will agree from time to time the Price List setting out the price, specifications and delivery schedule in respect of each type of polyurethane foams, 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, the terms of each sale to the Gu Jia Bedding 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 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 Renewal Zhejiang Procurement Agreement will be conducted on normal commercial terms.

Historical Transaction Amounts

For the two years ended 31 December 2014 and 2015 and for the eleven months ended 30 November 2016, the consideration paid to the Sinomax Zhejiang for the provision of polyurethane foams under the 2016 Zhejiang Procurement Agreement are as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the eleven months ended 30 November 2016
	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>	<i>RMB million (equivalent HK\$ million)</i>
Consideration paid (excluding all applicable tax) to Sinomax Zhejiang by Gu Jia Bedding under the 2016 Zhejiang Procurement Agreement	—	—	5.84 (6.66)

The Company expects that the consideration for the financial year ending 31 December 2016 under the 2016 Zhejiang Procurement Agreement will not exceed the proposed cap of RMB10.0 million (equivalent to approximately HK\$11.4 million) for the year 2016 as disclosed in the announcement of the Company dated 29 April 2016.

Zhejiang Annual Cap and Basis

The Zhejiang Annual Cap for the amount of purchases (excluding all applicable tax) payable by Gu Jia Bedding to Sinomax Zhejiang under the Renewal Zhejiang Procurement Agreement for the year ending 31 December 2017 is RMB12 million (equivalent to approximately HK\$13.68 million).

The Zhejiang Annual Cap is determined after taking into account:

- (i) the historical purchases made by Gu Jia Bedding to Sinomax Zhejiang for the eleven months ended 30 November 2016;
- (ii) the annual cap of RMB10 million in respect of the 2016 Zhejiang Procurement Agreement for the year ending 31 December 2016; and
- (iii) the anticipated demand that may be derived from the possible future business growth of Gu Jia Bedding.

INFORMATION OF GU JIA GROUP

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

INFORMATION OF THE GROUP

The Group

The Company is incorporated under the laws of the Cayman Islands with limited liability, whose shares 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. The Group's health and household products mainly represent quality visco-elastic pillows, mattress toppers and mattresses.

Haining Sinomax

Haining Sinomax is a company established in the PRC with limited liability, which is principally engaged in the business of trading foams. Haining Sinomax is an indirect wholly-owned subsidiary of the Company.

Sinomax Kuka

Sinomax Kuka 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. Sinomax Kuka is an indirect non-wholly owned subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Gu Jia Household.

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. Sinomax Zhejiang is an indirect wholly-owned subsidiary of the Company.

REASONS FOR AND BENEFITS OF THE RENEWAL PROCUREMENT AGREEMENTS

The Group has been supplying polyurethane foams to the members of the Gu Jia Group for many years. As a result, the Company and the Gu Jia Group have a solid business relationship. The procurement relationship with the Gu Jia Group pursuant to the Renewal Procurement Agreements will continue to the expansion of the Group's sales and revenue which will in turn continue to stabilising the business 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 Renewal Procurement Agreements and taking into consideration (i) the market price of the types of polyurethane foams to be provided by the Group under the Renewal Procurement Agreements; (ii) the substantial quantity of polyurethane foams previously purchased by Gu Jia Household, Gu Jia Meilin and Gu Jia Bedding 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 the Gu Jia Group, consider that the respective transactions under the Renewal Procurement Agreements will be entered into in the ordinary and usual course of business, on normal commercial terms and that the respective terms of the Renewal Procurement Agreements 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 respective transactions contemplated under the Renewal Procurement Agreements and had abstained from voting at the meeting of the Board on the resolutions to approve the Renewal Procurement Agreements and the respective transactions contemplated thereunder.

LISTING RULES IMPLICATION

Sinomax Kuka is an indirect non-wholly owned subsidiary of the Company, which is owned as to 60% by the Group and as to 40% by Gu Jia Household. Gu Jia Household is the holding company of each of Gu Jia Bedding, Gu Jia Meilin and Gu Jia Intelligence. 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. As such, each of Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence, 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 respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement constitute continuing connected transactions of the Company.

While one or more of the applicable percentage ratios (other than the profit ratio) as defined under the Listing Rules in respect of the Annual Caps, on aggregate basis, 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 a subsidiary of the Company. Hence, each member of the Gu Jia Group is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. The Board has approved the respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement, and the independent non-executive Directors have confirmed that the terms of the respective 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 interest 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 respective transactions contemplated under the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement 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.

DEFINITIONS

“2016 Haining Procurement Agreement”	the procurement agreement dated 18 December 2015 entered into among Haining Sinomax, Gu Jia Household and Gu Jia Meilin in relation to the sale of polyurethane foams, which will be expired on 31 December 2016
“2016 Zhejiang Procurement Agreement”	the procurement agreement dated 29 April 2016 entered into between Sinomax Zhejiang and Gu Jia Bedding in relation to the sale of polyurethane foams, which will be expired on 31 December 2016
“Annual Caps”	the Haining Annual Cap and the Zhejiang Annual Cap
“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
“controlling shareholder(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), a company established in the PRC with limited liability and a direct non wholly-owned subsidiary of Gu Jia Household
“Gu Jia Group”	Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence
“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 with limited liability
“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 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

“Haining Annual Cap”	the annual maximum aggregate value for the transactions contemplated under the Renewal Haining Procurement Agreement
“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
“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
“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
“Renewal Haining Procurement Agreement”	the procurement agreement dated 30 December 2016 entered into among Haining Sinomax and Sinomax Kuka as suppliers, and Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence as purchasers in relation to the sale of polyurethane foams for the financial year commencing on 1 January 2017 and ending on 31 December 2017
“Renewal Procurement Agreements”	the Renewal Haining Procurement Agreement and the Renewal Zhejiang Procurement Agreement
“Renewal Zhejiang Procurement Agreement”	the procurement agreement dated 30 December 2016 entered into between Sinomax Zhejiang as supplier and Gu Jia Bedding as purchaser in relation to the sale of polyurethane foams for the financial year commencing on 1 January 2017 and ending on 31 December 2017
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of share(s) 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

“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
“Zhejiang Annual Cap”	the annual maximum aggregate value for the transactions contemplated under the Renewal Zhejiang Procurement Agreement
“%” or “per cent.”	percentage or per centum

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

Hong Kong, 30 December 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\$1.14. 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.*