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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
REVISED PROCUREMENT AGREEMENT WITH GU JIA GROUP
AND
REVISION OF ANNUAL CAP**

REVISED PROCUREMENT AGREEMENT WITH GU JIA GROUP

Reference is made to the announcement of the Company dated 30 December 2016 which contains, among others, particulars of (i) the Original Haining Procurement Agreement; and (ii) the Zhejiang Procurement Agreement.

Based on internal estimates and the anticipated growth in business, the Directors consider that the annual value of transactions under the Original Haining Procurement Agreement for the financial year commencing from 1 January 2017 to 31 December 2017 is expected to exceed the Original Haining Annual Cap.

In order to meet the Company's business needs, on 1 November 2017, Haining Sinomax and Sinomax Kuka as suppliers entered into the Revised Haining Procurement Agreement with Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaxing as purchasers to, among others, set out the Revised Haining Annual Cap for the financial year commencing from 1 January 2017 to 31 December 2017 and to add Gu Jia Jiaxing as one of the purchasers under the Revised Haining Procurement Agreement.

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, Gu Jia Intelligence and Gu Jia Jiaxing. 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, Gu Jia Intelligence and Gu Jia Jiaying, 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 Revised Haining 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 Revised Haining Annual Cap when considered separately, or aggregated with the Zhejiang Annual Cap, 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 transactions contemplated under the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis), and the independent non-executive Directors have confirmed that the terms of the 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 transactions contemplated under the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) 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 announcement of the Company dated 30 December 2016 which contains, among others, particulars of (i) the Original Haining Procurement Agreement entered into by Haining Sinomax and Sinomax Kuka as suppliers 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) the Zhejiang Procurement Agreement entered into by Sinomax Zhejiang as supplier with Gu Jia Bedding as purchaser, for the financial year commencing from 1 January 2017 to 31 December 2017.

Based on internal estimates and the anticipated growth in business, the Directors consider that the annual value of transactions under the Original Haining Procurement Agreement for the financial year commencing from 1 January 2017 to 31 December 2017 is expected to exceed the Original Haining Annual Cap.

In order to meet the Company's business needs, on 1 November 2017, Haining Sinomax and Sinomax Kuka as suppliers entered into the Revised Haining Procurement Agreement with Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaying as purchasers to, among others, set out the Revised Haining Annual Cap for the financial year commencing from 1 January 2017 to 31 December 2017 and to add Gu Jia Jiaying as one of the purchasers under the Revised Haining Procurement Agreement.

THE REVISED HAINING PROCUREMENT AGREEMENT

The Revised Haining Procurement Agreement superseded the Original Haining Procurement Agreement upon execution. Save for the Revised Haining Annual Cap and the addition of Gu Jia Jiaying as one of the purchasers, the principal terms of the Original Haining Procurement Agreement (as superseded by the Revised Haining Procurement Agreement) (including the pricing and payment terms) which have been set out in the announcement of the Company dated 30 December 2016 remained unchanged under the Revised Haining Procurement Agreement and are summarised as follows:

Date:	1 November 2017
Parties:	(i)Haining Sinomax and Sinomax Kuka, as suppliers; and (ii)Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaying, as purchasers.
Term:	From 1 January 2017 to 31 December 2017
Subject:	Pursuant to the Revised Haining Procurement Agreement, each of Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaying has agreed to purchase from Haining Sinomax and Sinomax Kuka polyurethane foams for its production of, inter alia, sofas, mattresses and dining chairs by issuing purchase orders (the "Purchase Orders") from time to time to Haining Sinomax and Sinomax Kuka.

Pricing Policy: Parties to the Revised 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, Gu Jia Intelligence and Gu Jia Jiaying 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 Revised Haining Procurement Agreement will be conducted on normal commercial terms.

HISTORICAL TRANSACTION AMOUNTS

For the two years ended 31 December 2015 and 2016 and the nine months ended 30 September 2017, (i) the consideration paid to the Group for the provision of polyurethane foams under the Previous Procurement Agreement; (ii) the consideration paid to the Group for the provision of polyurethane foams under the 2016 Haining Procurement Agreement, and (iii) the consideration paid to the Group for the provision of polyurethane foams under the Original Haining Procurement Agreement are as follows:

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the nine months ended 30 September 2017
	<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) by Gu Jia Household and Gu Jia Meilin to the Group under the Previous Procurement Agreement	94.74 (108.60)	—	—
Consideration paid (excluding all applicable tax) by Gu Jia Household and Gu Jia Meilin to the Group under the 2016 Haining Procurement Agreement	—	128.66 (147.48)	—
Consideration paid (excluding all applicable tax) by Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence to the Group under the Original Haining Procurement Agreement	—	—	149.39 (171.24)

REVISED HAINING ANNUAL CAP

The Directors and senior management of the Company have been closely monitoring, among other things, the continuing connected transactions contemplated under the Original Haining Procurement Agreement on a regular basis. Based on internal estimates and the anticipated growth in business, the Directors consider that the annual value of transactions under the Original Haining Procurement Agreement for the financial year commencing from 1 January 2017 to 31 December 2017 is expected to exceed the Original Haining Annual Cap.

In order to meet the Company's business needs, the parties propose to revise the cap for the year ending 31 December 2017 as follows:

	Original Haining Annual Cap <i>RMB million</i> <i>(equivalent HK\$ million)</i>	Revised Haining Annual Cap <i>RMB million</i> <i>(equivalent HK\$ million)</i>
Consideration paid or to be paid (excluding all applicable tax) by the Gu Jia Group to the Group under the Original Haining Procurement Agreement and the Revised Haining Procurement Agreement	170 (194.86)	250 (286.57)

In determining the Revised Haining Annual Cap, the Company has taken into account the following factors:

- (i) the expected growth of sofa and furniture industry in the PRC;
- (ii) the business development of the Group;
- (iii) the historical purchases made by Gu Jia Household and Gu Jia Meilin to the Group for the years ended 31 December 2015 and 2016, and the historical purchases made by Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence to the Group for the nine months ended 30 September 2017;
- (iv) the Original Haining Annual Cap in respect of the Original Haining Procurement Agreement for the year ending 31 December 2017; and

(v) the anticipated demand that may be derived from the possible future business growth of the Gu Jia Group.

As at the date of this announcement, the Original Haining Annual Cap has not been exceeded.

INFORMATION OF GU JIA GROUP

Each of Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaying is a company established in the PRC with limited liability, which is principally engaged in manufacturing sofa and furniture. Each of Gu Jia Meilin, Gu Jia Intelligence and Gu Jia Jiaying 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 REVISED HAINING PROCUREMENT AGREEMENT

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. In light of the anticipated growth in business, the Group intends to capture the growing potential of its procurement relationship with the Gu Jia Group. The Company believes that by entering into the Revised Haining Procurement Agreement, the addition of Gu Jia Jiaxing as one of its purchasers would continue to the expansion of the Group's sales and revenue and further stabilise 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 Revised Haining Procurement Agreement and taking into consideration (i) the market price of the types of polyurethane foams to be provided by the Group under the Revised Haining Procurement Agreement; (ii) the substantial quantity of polyurethane foams previously purchased by Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding and Gu Jia Intelligence 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 Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) have been entered into in the ordinary and usual course of business, on normal commercial terms and that the terms of the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) and the Revised Haining Annual Cap (and the Zhejiang Annual Cap, when considered on an aggregate basis) 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 transactions contemplated under the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) and had abstained from voting at the meeting of the Board on the resolutions to approve the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) and the transactions contemplated thereunder.

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, Gu Jia Intelligence and Gu Jia Jiaying. 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, Gu Jia Intelligence and Gu Jia Jiaying, 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 Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) 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 Revised Haining Annual Cap when considered separately, or aggregated with the Zhejiang Annual Cap, 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 transactions contemplated under the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis), and the independent non-executive Directors have confirmed that the terms of the 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 transactions contemplated under the Revised Haining Procurement Agreement (and the Zhejiang Procurement Agreement, when considered on an aggregate basis) 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 April 2015 entered into between Haining Sinomax, Gu Jia Household and Gu Jia Meilin in relation to the sale of polyurethane foams, which expired on 31 December 2016
“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”	collectively, Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaxing
“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 Jiaxing”	Gu Jia Intelligence Household Jiaxing Co., Limited* (顧家智能家居嘉興有限公司), 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 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
“Original Haining Annual Cap”	the annual maximum aggregate value for the transaction contemplated under the Original Haining Procurement Agreement, being RMB170 million for the year ending 31 December 2017
“Original 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, which has been superseded by the Revised Haining Procurement Agreement upon execution
“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 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 expired on 31 December 2015

“Revised Haining Annual Cap”	the aggregate annual maximum aggregate value for the transactions contemplated under the Original Haining Procurement Agreement and the Revised Haining Procurement Agreement, being RMB250 million for the year ending 31 December 2017
“Revised Haining Procurement Agreement”	a procurement agreement dated 1 November 2017 entered into among Haining Sinomax and Sinomax Kuka as suppliers, and Gu Jia Household, Gu Jia Meilin, Gu Jia Bedding, Gu Jia Intelligence and Gu Jia Jiaying in relation to the sale of polyurethane foams for the financial year commencing on 1 January 2017 and ending on 31 December 2017, which superseded the Original Haining Procurement Agreement upon execution
“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 Technology Limited* (賽諾(浙江)聚氨酯新材料有限公司), formerly known as 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 Zhejiang Procurement Agreement, being RMB12 million for the year ending 31 December 2017

“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

“%” or “per cent.” percentage or per centum

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

Hong Kong, 1 November 2017

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, JP, 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\$1.15. 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.*