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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)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE 2021-2023 HAINING LEASE AGREEMENT

THE 2021-2023 HAINING LEASE AGREEMENT

Reference is made to the announcement of the Company dated 18 November 2019 in relation to the 2018-2020 Haining Lease Agreement and the Supplemental Haining Lease Agreement.

In view of the prospective expiry of the 2018-2020 Haining Lease Agreement (as supplemented by the Supplemental Haining Lease Agreement) on 31 December 2020, on 18 December 2020 (after trading hours), Sinomax Kuka (as lessee), an indirect non-wholly-owned subsidiary of the Company, entered into the 2021-2023 Haining Lease Agreement with Zhejiang Puruimei (as landlord), pursuant to which Zhejiang Puruimei has agreed to lease to Sinomax Kuka the Premises for a fixed term of three years commencing on 1 January 2021 and ending on 31 December 2023 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB592,097.41 (equivalent to approximately HK\$696,585.19), subject to an annual increase at the rate of 5%.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16 Leases, leases shall be recognised as right-of-use assets in the Group's consolidated statement of financial position for the accounting period on or after 1 January 2019. Accordingly, the entering into of the 2021-2023 Haining Lease Agreement by the Group shall be regarded as an one-off acquisition of assets of the Group. Given that the value of right-of-use assets recognised under the 2021-2023 Haining Lease Agreement shall be approximately RMB22,854,785 (equivalent to approximately HK\$26,887,982), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the 2021-2023 Haining Lease Agreement exceed 5% but are less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of the 2021-2023 Haining Lease Agreement and the date of this announcement, Zhejiang Puruimei is indirectly wholly-owned by Mr. Qian, who is (i) a director and a substantial shareholder of Trade Sincere, an indirect non-wholly owned subsidiary of the Company; and (ii) a director of Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company. As such, Mr. Qian is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Zhejiang Puruimei is an associate of Mr. Qian pursuant to Rule 14A.12(1)(c) of the Listing Rules and therefore a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Directors, having made all reasonable enquiries, confirmed that Zhejiang Puruimei is a connected person of the Company only because of its connections with Trade Sincere and Sinomax Kuka, being subsidiaries of the Company. Hence, Zhejiang Puruimei is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. The Board has approved the transactions contemplated under the 2021-2023 Haining Lease Agreement, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Haining Lease Agreement are fair and reasonable and that the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder are only subject to the 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 18 November 2019 in relation to the 2018-2020 Haining Lease Agreement and the Supplemental Haining Lease Agreement.

In view of the prospective expiry of the 2018-2020 Haining Lease Agreement (as supplemented by the Supplemental Haining Lease Agreement) on 31 December 2020, on 18 December 2020 (after trading hours), Sinomax Kuka (as lessee), an indirect non-wholly-owned subsidiary of the Company, entered into the 2021-2023 Haining Lease Agreement with Zhejiang Puruimei (as landlord), pursuant to which Zhejiang Puruimei has agreed to lease to Sinomax Kuka the Premises for a fixed term of three years commencing on 1 January 2021 and ending on 31 December 2023 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB592,097.41 (equivalent to approximately HK\$696,585.19), subject to an annual increase at the rate of 5%.

THE 2021-2023 HAINING LEASE AGREEMENT

A summary of the principal terms of the 2021-2023 Haining Lease Agreement is set forth below:

Date	:	18 December 2020 (after trading hours)
Parties	:	(i) Sinomax Kuka, as lessee; and (ii) Zhejiang Puruimei, as landlord.
Premises	:	The Premises, being certain buildings and warehouses situated on the Land with an aggregate area of approximately 23,946.9 sq.m.
Term	:	From 1 January 2021 to 31 December 2023 (the “ Term ”)
Uses	:	For warehouses, dormitory and office uses

- Security deposit : RMB4,500,000 (equivalent to approximately HK\$5,294,118) for securing the performance of the lessee's obligations under the 2021-2023 Haining Lease Agreement, shall be repaid by Zhejiang Puruimei to Sinomax Kuka within seven (7) days after expiry of the Term (subject to deductions, if any).
- Monthly rent : A monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB592,097.41 (equivalent to approximately HK\$696,585.19), subject to an annual increase at the rate of 5%.
- Payment terms : The rent shall be paid on an annual basis, in each case two (2) months in advance.
- Management fee : A monthly management fee of RMB1.5 (equivalent to approximately HK\$1.76) per square metre shall be payable.
- Other fees : An additional monthly fee of RMB56,000 (equivalent to approximately HK\$65,882) for car parking as well as stacking and loading of raw materials, products and wastes shall be payable.
- Renewal : Sinomax Kuka shall have a right to renew the lease in respect of the Premises for a new term of not exceeding three (3) years upon the expiry of the Term by giving Zhejiang Puruimei six (6) months' prior notice in writing.

If Zhejiang Puruimei proposes to sell the Premises to a third party, Sinomax Kuka shall have a pre-emptive right to rent the Premises on the same terms and conditions as offered by Zhejiang Puruimei under the 2021-2023 Haining Lease Agreement.

The terms of the 2021-2023 Haining Lease Agreement were determined after arm's length negotiations between the parties thereto. The monthly rent payable by Sinomax Kuka under the 2021-2023 Haining Lease Agreement was determined with reference to, among other things, (i) the monthly rent payable by Sinomax Kuka under the 2018-2020 Haining Lease Agreement (as supplemented by the Supplemental Haining Lease Agreement); and (ii) the prevailing market rent for comparable properties in the proximity, and is expected to be satisfied by the internal resources of the Group in its ordinary and usual course of business.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021-2023 HAINING LEASE AGREEMENT

The Group has leased certain buildings situated on the Land from Zhejiang Puruimei for the purposes of carrying out the manufacturing, warehousing and distribution of foam products of the Group since 2006. With a view to ensuring the Group's smooth business operations in Haining City, Zhejiang Province, the PRC, the Board considers that the Group has the operational needs to continuing leasing the Premises.

Taking into account that, among other things, (i) the entering into of the 2021-2023 Haining Lease Agreement would enable the Group to facilitate its business activities on the Land (including the Premises) without incurring unnecessary relocation expenses or causing disruption to its operations; (ii) the monthly rent payable by Sinomax Kuka under the 2021-2023 Haining Lease Agreement is in line with the prevailing market rates of comparable properties in the proximity; and (iii) the Group has maintained an amicable business relationship with Zhejiang Puruimei in respect of the lease of properties on the Land for a reasonably long period of time, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2021-2023 Haining Lease Agreement have been negotiated on an arm's length basis, are on normal commercial terms which are fair and reasonable and in the ordinary and usual course of business of the Group, and therefore in the interests of the Company and the Shareholders as a whole.

None of the Directors has a material interest in the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder and none of them is required to abstain from voting on the resolutions of the Board to approve the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder.

INFORMATION ON ZHEJIANG PURUIMEI

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the date of this announcement, Zhejiang Puruimei is beneficially owned as to 100% by Mr. Qian, who is (i) a director and a substantial shareholder of Trade Sincere, an indirect non-wholly owned subsidiary of the Company; and (ii) a director of Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company.

INFORMATION ON 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 manufacture and sale of health and household products and polyurethane foam. The Group's health and household products are mainly represented by quality visco-elastic pillows, mattress toppers and mattresses.

Sinomax Kuka

Sinomax Kuka is a company established in the PRC with limited liability and is principally engaged in the manufacture and sale of foam. Sinomax Kuka is an indirect non-wholly owned subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16, leases shall be recognised as right-of-use assets in the Group's consolidated statement of financial position for the accounting period on or after 1 January 2019. Accordingly, the entering into of the 2021-2023 Haining Lease Agreement by the Group shall be regarded as an one-off acquisition of assets of the Group. Given that the value of right-of-use assets recognised under the 2021-2023 Haining Lease Agreement shall be approximately RMB22,854,785 (equivalent to approximately HK\$26,887,982), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the 2021-2023 Haining Lease Agreement exceed 5% but are less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of the 2021-2023 Haining Lease Agreement and the date of this announcement, Zhejiang Puruimei is indirectly wholly-owned by Mr. Qian, who is (i) a director and a substantial shareholder of Trade Sincere, an indirect non-wholly owned subsidiary of the Company; and (ii) a director of Sinomax Kuka, an indirect non-wholly-owned subsidiary of the Company. As such, Mr. Qian is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Zhejiang Puruimei is an associate of Mr. Qian pursuant to Rule 14A.12(1)(c) of the Listing Rules and therefore a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Directors, having made all reasonable enquiries, confirmed that Zhejiang Puruimei is a connected person of the Company only because of its connections with Trade Sincere and Sinomax Kuka, being subsidiaries of the Company. Hence, Zhejiang Puruimei is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. The Board has approved the transactions contemplated under the 2021-2023 Haining Lease Agreement, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Haining Lease Agreement are fair and reasonable and that the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole. As the conditions required under Rule 14A.101 of the Listing Rules have been fulfilled, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder are only subject to the 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

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

“2018-2020 Haining Lease Agreement”	the lease agreement dated 1 January 2018 and entered into between Sinomax Kuka (as lessee) and Zhejiang Puruimei (as landlord) in relation to, among other things, the lease of certain buildings situated on the Land for the term commencing on 1 January 2018 and ending on 31 December 2020
“2021-2023 Haining Lease Agreement”	the lease agreement dated 18 December 2020 and entered into between Sinomax Kuka (as lessee) and Zhejiang Puruimei (as landlord) in relation to, among other things, the Premises for the term commencing on 1 January 2021 and ending on 31 December 2023
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“BVI”	the British Virgin Islands
“Company”	Sinomax Group Limited, a company 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 (stock code: 1418)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Land”	the parcel of land situated at No. 99, Qi Chao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, the PRC* (中國浙江省海寧農業對外綜合開發區啟潮路99號)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Qian”	Mr. Qian Hong Xiang, who is, as at the date of this announcement, (i) a director and a substantial shareholder of Trade Sincere, an indirect non-wholly owned subsidiary of the Company; and (ii) a director of Sinomax Kuka, an indirect non-wholly-owned subsidiary of the Company
“percentage ratios”	has the meaning ascribed to it under the Listing Rules

“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
“Premises”	certain buildings and warehouses situated on the Land with an aggregate area of approximately 23,946.9 sq.m.
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital 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 and an indirect non-wholly owned subsidiary of the Company, being the lessee under the 2021-2023 Haining Lease Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Haining Lease Agreement”	the supplemental lease agreement dated 15 November 2019 and entered into between Sinomax Kuka (as lessee) and Zhejiang Puruimei (as landlord) in relation to, among other things, the lease of certain additional buildings situated on the Land
“Term(s)”	has the meaning given to it in the section headed “THE 2021-2023 HAINING LEASE AGREEMENT” in this announcement
“Trade Sincere”	Trade Sincere Limited, a company incorporated in the BVI and is owned as to 85% by Treasure Range and 15% by Mr. Qian

“Treasure Range”	Treasure Range Holdings Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of the Company
“Zhejiang Puruimei”	Zhejiang Puruimei Industry Co., Ltd.* (浙江普瑞美實業有限公司), a company established in the PRC and is owned as to 100% by Mr. Qian, being the landlord under the 2021-2023 Haining Lease Agreement
“%” or “per cent.”	percentage or per centum
“sq.m.”	square metre(s)

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

Hong Kong, 18 December 2020

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. Zhang Hwo Jie and Mr. Wu Tak Lung.

In this announcement, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB0.85: HK\$1. Such conversion should not be construed as a representation that any amount has been, could have been or may be, exchanged at this 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.*