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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 SUPPLEMENTAL AGREEMENT IN RELATION TO THE 2021-2023 HAINING LEASE AGREEMENT

SUPPLEMENTAL AGREEMENT

References are made to the announcements of the Company dated 18 December 2020 and 24 December 2020 in relation to the 2021-2023 Haining Lease Agreement.

In view of business need of the Group, in addition to the Premises under the 2021-2023 Haining Lease Agreement, on 17 November 2021 (after trading hours), Sinomax Kuka (as lessee), an indirect non-wholly-owned subsidiary of the Company, entered into the Supplemental Agreement with Zhejiang Puruimei (as landlord), pursuant to which Zhejiang Puruimei has agreed to lease to Sinomax Kuka (i) Additional Premises A for a term of 25 months commencing on 1 December 2021 and ending on 31 December 2023 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB51,416 (equivalent to approximately HK\$62,702), and (ii) Additional Premises B for a term of seven months commencing on 1 December 2021 and ending on 30 June 2022 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB35,480 (equivalent to approximately HK\$43,268).

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 (as supplemented by the Supplemental Agreement) by the Group shall be regarded as an one-off acquisition of assets of the Group.

As at the date of the 2021-2023 Haining Lease Agreement, given that the value of right-of-use assets recognised under the 2021-2023 Haining Lease Agreement was approximately RMB22,854,785 (equivalent to approximately HK\$27,871,689) (which was an unaudited figure and subject to adjustment), 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 exceeded 5% but were less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the dates of the 2021-2023 Haining Lease Agreement and the Supplemental 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, each of the 2021-2023 Haining Lease Agreement and the Supplemental Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules, as the transactions contemplated under the 2021-2023 Haining Lease Agreement and the Supplemental Agreement are all entered into between Sinomax Kuka and Zhejiang Puruimei and are of similar nature, they will be aggregated and treated as if they were one transaction.

Given that the aggregate value of the right-of-use assets recognized under the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) shall be approximately RMB24,271,168 (equivalent to approximately HK\$29,598,985) (which is an unaudited figure and subject to adjustment), 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 and the Supplemental Agreement when aggregated exceed 5% but are less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder still 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.

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 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, treating as if they were one transaction, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

BACKGROUND

References are made to the announcements of the Company dated 18 December 2020 and 24 December 2020 in relation to the 2021-2023 Haining Lease Agreement.

In view of business need of the Group, in addition to the Premises under the 2021-2023 Haining Lease Agreement, on 17 November 2021 (after trading hours), Sinomax Kuka (as lessee), an indirect non-wholly-owned subsidiary of the Company, entered into the Supplemental Agreement with Zhejiang Puruimei (as landlord), pursuant to which Zhejiang Puruimei has agreed to lease to Sinomax Kuka (i) Additional Premises A for a term of 25 months commencing on 1 December 2021 and ending on 31 December 2023 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB51,416 (equivalent to approximately HK\$62,702), and (ii) Additional Premises B for a term of seven months commencing on 1 December 2021 and ending on 30 June 2022 at a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB35,480 (equivalent to approximately HK\$43,268).

SUPPLEMENTAL AGREEMENT

A summary of the principal terms of the Supplemental Agreement is set forth below:

Date	17 November 2021 (after trading hours)
Parties	(i) Sinomax Kuka, as lessee; and (ii) Zhejiang Puruimei, as landlord.
Premises	(i) Additional Premises A, being certain buildings and warehouses situated on the Land with an aggregate area of approximately 5,261 sq.m.; and (ii) Additional Premises B, being certain portion of the second floor of a certain building situated on the Land with an aggregate area of approximately 1,801 sq.m.

Term	<ul style="list-style-type: none"> (i) In respect of Additional Premises A, for a term commencing from 1 December 2021 to 31 December 2023; and (ii) In respect of Additional Premises B, for a term commencing from 1 December 2021 to 30 June 2022
Uses	For storage of sponge products
Monthly rent	<ul style="list-style-type: none"> (i) In respect of Additional Premises A, a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB51,416 (equivalent to approximately HK\$62,702); and (ii) In respect of Additional Premises B, a monthly rent (exclusive of management fees and other outgoing charges and expenses) of RMB35,480 (equivalent to approximately HK\$43,268).
Payment terms	The rent shall be paid on an annual basis, in each case two (2) months in advance.
Renewal	Sinomax Kuka shall have a right to renew the lease in respect of the Additional 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 lease the Additional Premises to a third party, Sinomax Kuka shall have a pre-emptive right to rent the Additional Premises on the same terms and conditions as offered by or to be offered to that third party.

The terms of the Supplemental Agreement were determined after arm's length negotiations between the parties thereto. The monthly rent payable by Sinomax Kuka under the Supplemental Agreement was determined with reference to, among other things, (i) the monthly rent payable by Sinomax Kuka under the 2018-2020 Haining Lease Agreement and the 2021-2023 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.

Historical transaction amounts

The annual rental paid by the Group to Zhejiang Puruimei for leasing of the Premises under the 2018-2020 Haining Lease Agreement and the 2021-2023 Haining Lease Agreement amounted to approximately RMB5,481,505 and RMB7,730,645 (equivalent to approximately HK\$6,684,762 and HK\$9,427,616) for each of the financial years ended 31 December 2019 and 2020, respectively, and approximately RMB5,920,974 (equivalent to approximately HK\$7,220,700) for the ten months ended 31 October 2021.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL 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 in view of expansion of business activities, in addition to the Premises under the 2021-2023 Haining Lease Agreement, the Group has the operational needs to leasing the Additional Premises for storage of sponge products.

Taking into account that, among other things, (i) the entering into of the Supplemental Agreement would enable the Group to facilitate its business activities on the Land (including the Premises and the Additional 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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 (as supplemented by the Supplemental 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.

In addition, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Zhejiang Puruimei is principally engaged in (i) the manufacture, wholesale and import and export of foam products, metal furniture and other furniture; (ii) the wholesale and import and export of chemical materials (excluding dangerous chemicals, precursor chemicals and chemical reagents), copper, nickel and zinc; and (iii) the leasing of owned properties.

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

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As at the date of the 2021-2023 Haining Lease Agreement, given that the value of right-of-use assets recognised under the 2021-2023 Haining Lease Agreement was approximately RMB22,854,785 (equivalent to approximately HK\$27,871,689) (which was an unaudited figure and subject to adjustment), 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 exceeded 5% but were less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement and the transactions contemplated thereunder constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules and were subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the dates of the 2021-2023 Haining Lease Agreement and the Supplemental 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, each of the 2021-2023 Haining Lease Agreement and the Supplemental Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules, as the transactions contemplated under the 2021-2023 Haining Lease Agreement and the Supplemental Agreement are all entered into between Sinomax Kuka and Zhejiang Puruimei and are of similar nature, they will be aggregated and treated as if they were one transaction.

Given that the aggregate value of the right-of-use assets recognized under the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) shall be approximately RMB24,271,168 (equivalent to approximately HK\$29,598,985) (which is an unaudited figure and subject to adjustment), 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 and the Supplemental Agreement when aggregated exceed 5% but are less than 25%. Accordingly, the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder still 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.

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 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder, treating as if they were one transaction, and the independent non-executive Directors have confirmed that the terms of the 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental 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 (as supplemented by the Supplemental Agreement) and the transactions contemplated thereunder are only subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules and are exempt from the circular (including independent financial advice) 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, as supplemented by the supplemental lease agreement dated 15 November 2019 and entered into between the same parties
“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
“Additional Premises”	collectively, Additional Premises A and Additional Premises B
“Additional Premises A”	being certain buildings and warehouses situated on the Land with an aggregate area of approximately 5,261 sq.m.
“Additional Premises B”	being certain portion of the second floor of a certain building situated on the Land with an aggregate area of approximately 1,801 sq.m.
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

“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 (as supplemented by the Supplemental Agreement)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental lease agreement to the 2021-2023 Haining Lease Agreement dated 17 November 2021 and entered into between Sinomax Kuka (as lessee) and Zhejiang Puruimei (as landlord) in relation to, among other things, the Additional Premises
“Term(s)”	has the meaning given to it in the section headed “THE SUPPLEMENTAL LEASE AGREEMENT” in this announcement
“Trade Sincere”	Trade Sincere Limited, a company incorporated in the British Virgin Islands 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 2021-2023 Haining Lease Agreement (as supplemented by the Supplemental 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, 17 November 2021

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 RMB0.82: 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.*