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(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1418)

**MAJOR AND CONNECTED TRANSACTION
IN RELATION TO
THE DISPOSAL OF 51% EQUITY INTEREST IN
CHENGDU XINGANG SPONGE CO., LTD.**

Reference is made to the announcement of the Company dated 19 February 2016 in relation to the acquisition of 51% equity interest in Chengdu Xingang.

THE DISPOSAL

On 15 November 2019 (after trading hours), Sinomax Zhejiang (as vendor), an indirect wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with Mr. Liu (as purchaser), pursuant to which Sinomax Zhejiang has conditionally agreed to sell, and Mr. Liu has conditionally agreed to acquire, 51% equity interest in Chengdu Xingang at the Consideration of RMB157,000,000 (equivalent to approximately HK\$172,700,000) subject to the terms and conditions therein.

Pursuant to the Share Purchase Agreement, upon Completion, Mr. Liu (as pledgor) and Sinomax Zhejiang (as pledgee) shall enter into the Share Pledge Agreement, pursuant to which 51% equity interest in Chengdu Xingang shall be pledged by Mr. Liu to Sinomax Zhejiang to secure the payment of the Consideration in full by Mr. Liu.

Upon Completion, the Company will cease to own any equity interest in Chengdu Xingang and Chengdu Xingang will cease to be a subsidiary of the Company. Accordingly, the results, assets and liabilities of Chengdu Xingang will no longer be consolidated into the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction are more than 25% but less than 75%, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Mr. Liu, being a director of Chengdu Xingang, who legally and beneficially owns 49% equity interest in Chengdu Xingang, is a substantial shareholder of Chengdu Xingang and therefore a connected person of the Company. Accordingly, the Transaction also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Share Purchase Agreement and the Transaction. As such, no Shareholder would be required to abstain from voting on the resolution in respect of the Share Purchase Agreement and the Transaction if the Company were to convene a general meeting for the purpose of approving the same. As at the date of this announcement, Sinomax Enterprises is the controlling Shareholder of the Company and beneficially holds 1,275,906,000 Shares, representing approximately 72.91% of the entire issued share capital of the Company. A written shareholder's approval in respect of the Share Purchase Agreement and the Transaction has been obtained from Sinomax Enterprises. Pursuant to Rule 14.44 of the Listing Rules, such written shareholder's approval may be accepted in lieu of holding a general meeting of the Company. In addition, the Company will apply to the Stock Exchange for a waiver from the requirement to convene a general meeting of the Company for the purpose of approving the Share Purchase Agreement and the Transaction under Rule 14A.37 of the Listing Rules, such that the written shareholder's approval obtained from Sinomax Enterprises would also be accepted in lieu of convening a general meeting of the Company under Chapter 14A of the Listing Rules. Subject to the granting of the waiver by the Stock Exchange, no general meeting of the Company will be convened for the purpose of approving the Share Purchase Agreement and the Transaction.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the independent Shareholders in respect of the Share Purchase Agreement and the Transaction. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the independent Shareholders in respect of the same.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details in relation to the Share Purchase Agreement and the Transaction, the recommendation of the Independent Board Committee, the advice of the Independent Financial Adviser and other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 9 December 2019.

INTRODUCTION

Reference is made to the announcement of the Company dated 19 February 2016 in relation to the acquisition of 51% equity interest in Chengdu Xingang.

On 15 November 2019 (after trading hours), Sinomax Zhejiang (as vendor), an indirect wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with Mr. Liu (as purchaser), pursuant to which Sinomax Zhejiang has conditionally agreed to sell, and Mr. Liu has conditionally agreed to acquire, 51% equity interest in Chengdu Xingang at the Consideration of RMB157,000,000 (equivalent to approximately HK\$172,700,000) subject to the terms and conditions therein.

THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are summarised below:–

Date : 15 November 2019 (after trading hours)

Parties : (i) Sinomax Zhejiang, as vendor; and

(ii) Mr. Liu, as purchaser

As at the date of this announcement, Mr. Liu, being a director of Chengdu Xingang, who legally and beneficially owns 49% equity interest in Chengdu Xingang, is a substantial shareholder of Chengdu Xingang and therefore a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be disposed

Pursuant to the Share Purchase Agreement, Sinomax Zhejiang has conditionally agreed to sell, and Mr. Liu has conditionally agreed to acquire, 51% equity interest in Chengdu Xingang.

Consideration

The Consideration of RMB157,000,000 (equivalent to approximately HK\$172,700,000) shall be paid by Mr. Liu to Sinomax Zhejiang by way of bank transfer in the following manner:

- (a) an amount of RMB20,000,000 (equivalent to approximately HK\$22,000,000) shall be paid within thirty (30) days from the date of the Share Purchase Agreement as the first payment;
- (b) an amount of RMB30,000,000 (equivalent to approximately HK\$33,000,000) (the “**Second Payment**”) shall be paid within ninety (90) days from the date of the Share Purchase Agreement;
- (c) an amount of RMB50,000,000 (equivalent to approximately HK\$55,000,000) (the “**Third Payment**”) shall be paid within one (1) year from the due date of the Second Payment (being the ninetieth (90th) day from the date of the Share Purchase Agreement) (the “**Second Payment Due Date**”), together with the payable interest which shall accrue from and including the Second Payment Due Date until and including the date of actual payment of the Third Payment at the rate of 3% per annum on the Third Payment; and
- (d) the remaining balance of RMB57,000,000 (equivalent to approximately HK\$62,700,000) (the “**Fourth Payment**”) shall be paid within two (2) years from the Second Payment Due Date, together with the payable interest which shall accrue from and including the Second Payment Due Date until and including the date of actual payment of the Fourth Payment at the rate of 3% per annum on the Fourth Payment.

The Consideration, after considering the net present value effect arising from the above settlement arrangement, shall be approximately RMB152.5 million (equivalent to approximately HK\$167.8 million).

The Consideration was determined after arm's length negotiations between Sinomax Zhejiang and Mr. Liu with reference to, among other things, (i) the historical financial performance, financial position, results of operations and business prospects of Chengdu Xingang; (ii) the unaudited carrying amount of net asset value of Chengdu Xingang as at 30 June 2019 of approximately RMB122.2 million (equivalent to approximately HK\$134.5 million); (iii) the preliminary valuation of the properties owned by Chengdu Xingang as assessed by an independent qualified valuer; and (iv) the prevailing market conditions and economic landscape.

Condition precedent

Completion is conditional upon the Company having complied with all relevant requirements of the Listing Rules and having obtained the necessary board and/or shareholders' approvals in respect of the Share Purchase Agreement and the Transaction.

If the above condition is not fulfilled on or before the Long Stop Date, the Share Purchase Agreement shall cease to have effect except for any liabilities arising from antecedent breaches of the terms thereof.

A written shareholder's approval in respect of the Share Purchase Agreement and the Transaction has been obtained from Sinomax Enterprises, which is beneficially interested in approximately 72.91% of the entire issued share capital of the Company as at the date of this announcement.

Completion

Completion shall take place on the third (3rd) Business Day after the fulfillment of the above condition or such other date as the parties to the Share Purchase Agreement may agree in writing.

Pursuant to the Share Purchase Agreement, upon Completion, Mr. Liu (as pledgor) and Sinomax Zhejiang (as pledgee) shall enter into the Share Pledge Agreement, pursuant to which 51% equity interest in Chengdu Xingang shall be pledged by Mr. Liu to Sinomax Zhejiang to secure the payment of the Consideration in full by Mr. Liu.

INFORMATION ON MR. LIU

As at the date of this announcement, Mr. Liu, being a director of Chengdu Xingang, legally and beneficially owns 49% equity interest in Chengdu Xingang and is therefore a substantial shareholder of Chengdu Xingang.

INFORMATION ON THE GROUP AND SINOMAX ZHEJIANG

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 manufacturing 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 Zhejiang is a company established in the PRC with limited liability and is principally engaged in the manufacturing and sale of polyurethane foam to furniture manufacturers. Sinomax Zhejiang is an indirect wholly-owned subsidiary of the Company.

INFORMATION ON CHENGDU XINGANG

Chengdu Xingang is a company established in the PRC with limited liability and owned as to 51% and 49% by Sinomax Zhejiang and Mr. Liu, respectively, as at the date of the Share Purchase Agreement. Chengdu Xingang is principally engaged in the manufacturing and sale of polyurethane foam, sales of decorative materials, sofa materials, cloth materials and mattress materials.

Set forth below is the audited financial information of Chengdu Xingang for the two financial years ended 31 December 2017 and 2018 as extracted from its financial statements prepared in accordance with the accounting standards generally accepted in the PRC:

	For the year ended 31 December 2017 <i>(approximately)</i> RMB ('000) audited	For the year ended 31 December 2018 <i>(approximately)</i> RMB ('000) audited
Net profit before taxation and extraordinary items	5,075	1,923
Net profit after taxation and extraordinary items	3,976	1,194
	As at 31 December 2017 <i>(approximately)</i> RMB ('000) audited	As at 31 December 2018 <i>(approximately)</i> RMB ('000) audited
Total assets	163,368	157,313
Total liabilities	37,033	29,755
Net assets	126,335	127,558

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, the Company will cease to own any equity interest in Chengdu Xingang and Chengdu Xingang will cease to be a subsidiary of the Company. Accordingly, the results, assets and liabilities of Chengdu Xingang will no longer be consolidated into the financial statements of the Group.

As a result of the Disposal, it is estimated that the Group will record an unaudited gain of approximately HK\$33.3 million, being the difference between the Consideration and the unaudited net asset value of Chengdu Xingang as at 30 June 2019 and before taking into account the taxes, transaction fees and other incidental costs attributable to the Disposal. The actual amount of the gain (or loss, as the case may be) from the Disposal to be recognised in the consolidated financial statements of the Group depends on the audited net asset value of Chengdu Xingang as at the date of Completion and is subject to review by the auditors of the Company.

USE OF PROCEEDS

The Company intends to apply the net proceeds from the Disposal as general working capital of the Group.

REASONS FOR AND BENEFITS OF THE TRANSACTION

For the two financial years ended 31 December 2017 and 2018, the net profits of Chengdu Xingang decreased by approximately RMB2.78 million (equivalent to approximately HK\$3.06 million) (or approximately 70.03%) from approximately RMB3.97 million (equivalent to approximately HK\$4.37 million) to approximately RMB1.19 million (equivalent to approximately HK\$1.31 million). The decrease in the net profits of Chengdu Xingang was mainly attributable to: (i) increase in material costs; (ii) intense industry competition; and (iii) fluctuations in the prevailing market conditions.

In light of the historical financial performance and results of operations of Chengdu Xingang and having taken into account that (i) as a result of the Transaction, it is estimated that the Group will record an unaudited gain of approximately HK\$33.3 million (as illustrated above), and (ii) upon Completion, the pledge of 51% equity interest in Chengdu Xingang by Mr. Liu to Sinomax Zhejiang pursuant to the Share Pledge Agreement will serve as security to secure the payment of the Consideration in full by Mr. Liu, the Directors consider that the Transaction offers an opportunity for the Group to better utilise its resources for the further development of the Group's business and to enhance the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (excluding the independent non-executive Directors who will express their opinion after taking into consideration the advice of the Independent Financial Adviser) are of the view that the terms of the Share Purchase Agreement and the Transaction have been negotiated on an arm's length basis, are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As none of the Directors has any material interest in the Share Purchase Agreement and the Transaction, no Director was required to abstain from voting on the Board resolutions of the Company approving the Share Purchase Agreement and the Transaction.

IMPLICATION UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Transaction are more than 25% but less than 75%, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Mr. Liu, being a director of Chengdu Xingang, who legally and beneficially owns 49% equity interest in Chengdu Xingang, is a substantial shareholder of Chengdu Xingang and therefore a connected person of the Company. Accordingly, the Transaction also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Share Purchase Agreement and the Transaction. As such, no Shareholder would be required to abstain from voting on the resolution in respect of the Share Purchase Agreement and the Transaction if the Company were to convene a general meeting for the purpose of approving the same. As at the date of this announcement, Sinomax Enterprises is the controlling Shareholder of the Company and beneficially holds 1,275,906,000 Shares, representing approximately 72.91% of the entire issued share capital of the Company. A written shareholder's approval in respect of the Share Purchase Agreement and the Transaction has been obtained from Sinomax Enterprises. Pursuant to Rule 14.44 of the Listing Rules, such written shareholder's approval may be accepted in lieu of holding a general meeting of the Company. In addition, the Company will apply to the Stock Exchange for a waiver from the requirement to convene a general meeting of the Company for the purpose of approving the Share Purchase Agreement and the Transaction under Rule 14A.37 of the Listing Rules, such that the written shareholder's approval obtained from Sinomax Enterprises would also be accepted in lieu of convening a general meeting of the Company under Chapter 14A of the Listing Rules. Subject to the granting of the waiver by the Stock Exchange, no general meeting of the Company will be convened for the purpose of approving the Share Purchase Agreement and the Transaction.

The Independent Board Committee, comprising all independent non-executive Directors, has been established to advise the independent Shareholders in respect of the Share Purchase Agreement and the Transaction. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the independent Shareholders in respect of the same.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details in relation to the Share Purchase Agreement and the Transaction, the recommendation of the Independent Board Committee, the advice of the Independent Financial Adviser and other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 9 December 2019.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which banks are open for business in Hong Kong and the PRC (excluding Saturdays and Sundays)
“Chengdu Xingang”	Chengdu Xingang Sponge Co., Ltd.* (成都新港海綿有限公司), a company established in the PRC with limited liability
“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)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Share Purchase Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration in the sum of RMB157,000,000 (equivalent to approximately HK\$172,700,000 payable by Mr. Liu to Sinomax Zhejiang pursuant to the Share Purchase Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of 51% equity interest in Chengdu Xingang by Sinomax Zhejiang to Mr. Liu pursuant to the Share Purchase Agreement

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company, comprising all independent non-executive Directors, which has been formed for the purpose of advising the independent Shareholders in respect of the Share Purchase Agreement and the Transaction
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the Share Purchase Agreement and the Transaction
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	23 December 2019 (or such other date as may be agreed in writing by Sinomax Zhejiang and Mr. Liu)
“Mr. Liu”	Mr. Liu Jiaming, being the purchaser under the Share Purchase Agreement
“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

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share Purchase Agreement”	the share purchase agreement dated 15 November 2019 entered into between Sinomax Zhejiang (as vendor) and Mr. Liu (as purchaser) in relation to, among others, the Disposal
“Share Pledge Agreement”	the share pledge agreement to be entered into between Mr. Liu (as pledgor) and Sinomax Zhejiang (as pledgee) upon Completion in relation to the pledge of 51% equity interest in Chengdu Xingang by Mr. Liu to Sinomax Zhejiang to secure the payment of the Consideration in full by Mr. Liu under the Share Purchase Agreement
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company
“Sinomax Enterprises”	Sinomax Enterprises Limited, a company incorporated in the British Virgin Islands and the controlling Shareholder of the Company
“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, being the vendor under the Share Purchase Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Transaction” the Disposal and any other transaction as contemplated under the Share Purchase Agreement

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

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

Hong Kong, 18 November 2019

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, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB1: HK\$1.1. 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.*