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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 AGREEMENT WITH STUDIO MODERNA**

#### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 12 April 2016. Since the 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, Sinomax Trading as supplier and Studio Moderna as purchaser entered into the Renewal Procurement Agreement for the financial year commencing from 1 January 2017 to 31 December 2017.

#### **IMPLICATIONS UNDER LISTING RULES**

Studio Moderna is the holding company of SMSA which holds 48.69% equity interest in Dormeo, an indirect non wholly-owned subsidiary of the Company. As a substantial shareholder of a subsidiary of the Company, Studio Moderna is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Each subsidiary of Studio Moderna is an associate of Studio Moderna 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 Renewal 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 cap in relation to the Renewal Procurement Agreement exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each of Studio Moderna and its subsidiaries is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, each of Studio Moderna and its subsidiaries 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 Renewal Procurement Agreement and the independent non-executive Directors have confirmed that the terms of the transactions contemplated thereunder are fair and reasonable; the transaction is 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 Renewal 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 announcement of the Company dated 12 April 2016. Since the 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, Sinomax Trading as supplier and Studio Moderna as purchaser entered into the Renewal Procurement Agreement for the financial year commencing from 1 January 2017 to 31 December 2017.

## **THE RENEWAL PROCUREMENT AGREEMENT**

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

Date: 30 December 2016

Parties: (i) Sinomax Trading, as supplier; and  
(ii) Studio Moderna, as purchaser.

Term: From 1 January 2017 to 31 December 2017

Subject: Pursuant to the Renewal Procurement Agreement, Studio Moderna has agreed to purchase (by itself or through any of its subsidiaries) from Sinomax Trading foam products for production of, inter alia, pillows and mattresses and trading business by issuing purchase orders (the "Purchase Orders") (by itself or through any of its subsidiaries) from time to time to Sinomax Trading.

**Pricing policy:** Parties to the Renewal 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 foam products, which the Purchase Orders must adhere to.

**Payment terms:** Studio Moderna and/or its relevant subsidiaries shall pay the purchase price of products supplied by Sinomax Trading within 90 days from the date of issue of a monthly statement by Sinomax Trading.

The price of each type of foam products 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 Trading to independent third parties. In any event, terms of each sale to Studio Moderna and/or its subsidiaries 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 Trading 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 Procurement Agreement will be conducted on normal commercial terms.

### **Historical Transaction Amounts**

For the years ended 31 December 2014 and 2015 and for the eleven months ended 30 November 2016, the aggregate consideration paid by Studio Moderna and its relevant subsidiaries to the Group for the purchase of foam products are as follows:

	<b>Consideration paid</b> <i>HK\$ million</i>
Year ended 31 December 2014	5.89
Year ended 31 December 2015	15.13
Eleven months ended 30 November 2016	69.50

The Company expects that the consideration for the financial year ending 31 December 2016 under the Procurement Agreement will not exceed the proposed cap of US\$30 million (equivalent to approximately HK\$232.8 million) for the year 2016 as disclosed in the announcement of the Company dated 12 April 2016.

### **Annual Cap and Basis**

The annual cap for the amount of purchases (excluding all applicable tax) payable by Studio Moderna and its relevant subsidiaries to Sinomax Trading under the Renewal Procurement Agreement for the year ending 31 December 2017 is US\$30 million (equivalent to approximately HK\$232.8 million).

The annual cap is determined after taking into account:

- (i) the historical purchases made by Studio Moderna and its relevant subsidiaries to Sinomax Trading for the years ended 31 December 2014 and 2015, and for the eleven months ended 30 November 2016;
- (ii) the annual cap of US\$30 million in respect of the 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 Studio Moderna and its relevant subsidiaries.

## **INFORMATION OF STUDIO MODERNA**

Studio Moderna is a company incorporated under the laws of Switzerland. Studio Moderna is principally engaged in manufacturing foam products using octaspring technology, distributing and selling mattresses, pillows and related bedding accessories and other consumer products in U.S.A., Europe and Asia.

## **INFORMATION ON 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.

## **REASONS FOR AND BENEFITS OF THE RENEWAL PROCUREMENT AGREEMENT**

Sinomax Trading has been supplying foam products to Studio Moderna and its subsidiaries for many years. As a result, Sinomax Trading and Studio Moderna have a solid business relationship. The procurement relationship with Studio Moderna pursuant to the Renewal Procurement Agreement will continue to expand of Sinomax Trading's sales and revenue which will in turn continue to stabilise the business of the Group. Further, Sinomax Trading's sales to Studio Moderna and its subsidiaries are on terms which are no less favourable than those obtainable by Sinomax Trading from independent third party customers.

The Directors (including the independent non-executive Directors), having reviewed the Renewal Procurement Agreement and taking into consideration (i) the market price of the types of foam products to be provided by Sinomax Trading under the Renewal Procurement Agreement; (ii) the substantial quantity of foam products previously purchased by Studio Moderna and its relevant subsidiaries and expected to be ordered by Studio Moderna and its relevant subsidiaries; and (iii) the substantial reduction in the Group's marketing costs and sales expenses in relation to foam sales when dealing with Studio Moderna, consider that the transactions under the Renewal Procurement Agreement will be entered into in the ordinary and usual course of business, on normal commercial terms and that the terms of the Renewal Procurement Agreement and the annual cap 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 Renewal Procurement Agreement and had abstained from voting at the meeting of the Board on the resolutions to approve the Renewal Procurement Agreement and the transaction contemplated thereunder.

## **LISTING RULES IMPLICATIONS**

Studio Moderna is the holding company of SMSA which holds 48.69% equity interest in Dormeo, an indirect non wholly-owned subsidiary of the Company. As a substantial shareholder of a subsidiary of the Company, Studio Moderna is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Each subsidiary of Studio Moderna is an associate of Studio Moderna 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 Renewal 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 cap in relation to the Renewal Procurement Agreement exceed 5%, the Directors, having made all reasonable enquiries, confirmed that each of Studio Moderna and its subsidiaries is a connected person of the Company only because of its connection with a subsidiary of the Company. Hence, each of Studio Moderna and its subsidiaries 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 Renewal Procurement Agreement and the independent non-executive Directors have confirmed that the terms of the transactions contemplated thereunder are fair and reasonable; the transaction is 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 Renewal 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**

“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 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
“Director(s)”	director(s) of the Company
“Dormeo”	Dormeo North America, LLC, a Delaware limited liability company and an indirect non-wholly owned subsidiary of the Company

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of People’s Republic of China
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Procurement Agreement”	the procurement agreement dated 12 April 2016 entered into between Studio Moderna and Sinomax Trading in relation to the sale of foam products, which will be expired on 31 December 2016
“Renewal Procurement Agreement”	the procurement agreement dated 30 December 2016 entered into between Studio Moderna and Sinomax Trading in relation to the sale of foam products for the financial year commencing on 1 January 2017 and ending on 31 December 2017
“Shareholder(s)”	holder(s) of share(s) of the Company
“Sinomax Trading”	Sinomax International Trading Limited, a company incorporated in Hong Kong on 15 September 2011 and an indirect wholly-owned subsidiary of the Company
“SMSA”	SMSA North America Holdings, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Studio Moderna
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Studio Moderna”	Studio Moderna S.A., a company formed in Switzerland
“US\$”	US dollars, the lawful currency of the U.S.A.
“U.S.A.”	the United States of America
“%” 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.*

*For the purpose of this announcement, unless otherwise stated, the conversion of US\$ into HK\$ has been made at an exchange rate of US\$1:HK\$7.76. 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.*