

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 SERVICE LEVEL AGREEMENT WITH STUDIO MODERNA**

### **THE SERVICE LEVEL AGREEMENT**

Reference is made to the announcement of the Company dated 17 May 2019 in relation to the 2019-2020 Studio Moderna Procurement Agreement.

In view of the expiry of the 2019-2020 Studio Moderna Procurement Agreement on 31 December 2020 and with a view to continuing the business relationship between the parties, on 15 April 2021 (after trading hours), Sinomax Trading (as supplier) entered into the Service Level Agreement with Studio Moderna (as purchaser) for the sale and purchase of foam products for the three (3) years commencing on 1 January 2021 and ending on 31 December 2023.

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

As at the date of the Service Level Agreement and the date of this announcement, Studio Moderna is the holding company of SMSA which in turn holds approximately 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. As such, the Service Level Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors, having made all reasonable enquiries, confirmed that Studio Moderna is a connected person of the Company only because of its connection with Dormeo, being a subsidiary of the Company. Hence, Studio Moderna is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. The Board (including the independent non-executive Directors) has approved the transactions contemplated under the Service Level Agreement, and the independent non-executive Directors have confirmed that the terms of the Service Level Agreement (including the Annual Caps) 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 Service Level 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 17 May 2019 in relation to the 2019-2020 Studio Moderna Procurement Agreement.

In view of the expiry of the 2019-2020 Studio Moderna Procurement Agreement on 31 December 2020 and with a view to continuing the business relationship between the parties, on 15 April 2021 (after trading hours), Sinomax Trading (as supplier) entered into the Service Level Agreement with Studio Moderna (as purchaser) for the sale and purchase of foam products for the three (3) years commencing on 1 January 2021 and ending on 31 December 2023.

## THE SERVICE LEVEL AGREEMENT

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

- Date : 15 April 2021 (after trading hours)
- Parties : (i) Sinomax Trading, an indirect wholly-owned subsidiary of the Company, as supplier; and  
(ii) Studio Moderna, as purchaser.
- Term : From 1 January 2021 to 31 December 2023 (the “**Term**”)
- Subject : Pursuant to the Service Level Agreement, Studio Moderna has agreed to purchase from Sinomax Trading certain foam products by placing purchase orders (the “**Purchase Orders**”) with Sinomax Trading from time to time.
- Pricing policy : The purchase price for each type of products to be supplied by Sinomax Trading to Studio Moderna under the Service Level Agreement is specified in a product schedule as exhibited thereto (the “**Product Schedule**”). The purchase prices in the Product Schedule are subject to a maximum uplift of five per cent. (5%) based on the current prices specified therein for the period from February 2021 to June 2021. Sinomax Trading and Studio Moderna will review the prevailing purchase prices based on the currency exchange rates between US dollar and Hong Kong dollar and the material costs and adjust the purchase prices in the Product Schedule by the end of June 2021, subject to the following pricing policy:

- (a) The purchase price of each type of products specified in the Product Schedule 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. For the purpose of obtaining market prices, the business team of the Group will make reference to at least two actual transactions with independent third party customers for the supply of products of comparable quality, quantity and specifications. The actual purchase price of such transactions, together with other relevant terms thereof and the relevant supporting documents (including the reasons for referencing to such independent third party transactions) are subject to the final review and approval by the Group. In any event, the terms of each transaction with Studio Moderna under the Service Level Agreement will be no less favourable to Sinomax Trading than the terms which can be obtained from independent third party customers for selling products of comparable quality, quantity and specifications; and

- (b) 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 costs incurred by Sinomax Trading for the supply of such product (including all costs and expenses relating to raw material procurement, production, transportation, marketing, operations and management) and an indicative mark-up rate (the “**Indicative Mark-up Rate**”) to be determined based on, among other things, the then prevailing market conditions and the average mark-up rates of comparable products supplied to independent third party customers. The Indicative Mark-up Rate will be prepared by the business team of the Group and will be subject to a monthly review and approval by the sales manager of the Group. In any event, the Indicative Mark-up Rate shall not be lower than the average mark-up rate of comparable products sold by the Group to independent third party customers.

Payment terms : Sinomax Trading shall submit an invoice to Studio Moderna within eight (8) business days after the delivery of the products to the port of dispatch, and Studio Moderna shall pay the purchase price of the products supplied by Sinomax Trading within sixty (60) calendar days from the date of the relevant invoice.

The Indicative Mark-up Rate will be determined on a transaction-by-transaction basis and is expected to be in the range of approximately 5% to 25% subject to, among others, (i) the type and specifications of foam products to be supplied; (ii) the quantity of products to be supplied; (iii) credit risks; (iv) the level of technicality involved and/or services provided (for example, whether cutting or other processing services on a tailor-made basis are required); (v) whether on-site delivery of products is required; (vi) the actual costs incurred by the Group; and (vii) the historical transactions with Studio Moderna.

The Directors (including the independent non-executive Directors) are of the view that the aforementioned pricing policy and procedures can ensure that the terms offered to Studio Moderna under the Service Level Agreement are no less favourable than those to independent third party customers for the supply of comparable products and that the continuing connected transactions under the Service Level Agreement will be conducted on normal commercial terms.

### **Historical Transaction Amounts**

For the two years ended 31 December 2019 and 2020, the aggregate amounts in respect of the transactions under the 2019-2020 Studio Moderna Procurement Agreement were as follows:

|                                     | <b>Amount paid by<br/>Studio Moderna<br/>and/or its<br/>subsidiaries to<br/>the Group under<br/>the 2019-2020<br/>Studio Moderna<br/>Procurement<br/>Agreement<br/>(excluding all<br/>applicable tax)<br/><i>US\$ million</i><br/><i>(equivalent<br/>HK\$ million)</i></b> |
|-------------------------------------|--|
| For the year ended 31 December 2019 | 2.80<br><i>(21.84)</i>   |
| For the year ended 31 December 2020 | 3.00<br><i>(23.40)</i>   |

## Annual Caps and Basis

The Annual Caps in respect of the transactions under the Service Level Agreement for the three years ending 31 December 2021, 2022 and 2023 are as follows:

|                                      | <b>Amount payable<br/>by Studio Moderna<br/>to the Group<br/>under the Service<br/>Level Agreement<br/>(excluding all<br/>applicable tax)<br/><i>US\$ million</i><br/><i>(equivalent<br/>HK\$ million)</i></b> |
|--------------------------------------|--|
| For the year ending 31 December 2021 | 9.00<br><i>(70.20)</i>   |
| For the year ending 31 December 2022 | 9.00<br><i>(70.20)</i>   |
| For the year ending 31 December 2023 | 9.00<br><i>(70.20)</i>   |

As at the date of this announcement, the 2021 Annual Cap has not been exceeded. The Company expects that the aggregate amount in respect of the transactions under the Service Level Agreement for the year ending 31 December 2021 will not exceed the 2021 Annual Cap.

The Annual Caps are determined after taking into account:

- (i) the historical purchases made by Studio Moderna and/or its subsidiaries to Sinomax Trading for the two years ended 31 December 2019 and 2020 and the three months ended 31 March 2021;
- (ii) the 2020 Annual Cap;
- (iii) the anticipated demands that may be derived from the potential business growth of Studio Moderna; and
- (iv) the business development of the Group.

## **INFORMATION ON 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 the U.S., Europe and Asia.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Studio Moderna is indirectly beneficially owned as to approximately 46.25% by Sandi Česko and as to approximately 46.25% by Livija Dolanc as at the date of this announcement.

## **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 Trading is a company incorporated under the laws of Hong Kong with limited liability and is engaged in the business of selling health and household products. Sinomax Trading is an indirect wholly-owned subsidiary of the Company.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE SERVICE LEVEL AGREEMENT**

Since Sinomax Trading has supplied foam products to Studio Moderna and its subsidiaries for many years, Sinomax Trading and Studio Moderna have established a solid business relationship. The procurement relationship with Studio Moderna pursuant to the Service Level Agreement will continue to expand Sinomax Trading's sales and revenue which will be conducive to the overall business growth of the Group. Further, Sinomax Trading's sales to Studio Moderna 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 Service Level Agreement and taking into account, among other things, (i) the market price of the types of foam products to be supplied by Sinomax Trading under the Service Level Agreement; (ii) the substantial quantity of foam products previously purchased by Studio Moderna and expected to be ordered by Studio Moderna under the Service Level Agreement; and (iii) the notable 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 Service Level Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms and that the terms of the Service Level Agreement (including the Annual Caps) 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 Service Level 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 Service Level Agreement and the transactions contemplated thereunder.

## **IMPLICATIONS UNDER THE LISTING RULES**

As at the date of the Service Level Agreement and the date of this announcement, Studio Moderna is the holding company of SMSA which in turn holds approximately 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. As such, the Service Level Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors, having made all reasonable enquiries, confirmed that Studio Moderna is a connected person of the Company only because of its connection with Dormeo, being a subsidiary of the Company. Hence, Studio Moderna is a connected person at the subsidiary level of the Company under Rule 14A.06(9) of the Listing Rules. The Board (including the independent non-executive Directors) has approved the transactions contemplated under the Service Level Agreement, and the independent non-executive Directors have confirmed that the terms of the Service Level Agreement (including the Annual Caps) 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 Service Level 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:

|  |   |
|--|---|
| “2019-2020 Studio Moderna Procurement Agreement” | the procurement agreement dated 17 May 2019 and entered into between Studio Moderna and Sinomax Trading in relation to the sale and purchase of foam products for the two years commencing on 1 January 2019 and ending on 31 December 2020 |
|--|---|

|                       |  |
|-----------------------|--|
| “2020 Annual Cap”     | the annual maximum aggregate amount of US\$30.00 million (equivalent to approximately HK\$234.00 million) (excluding all applicable tax) in respect of the transactions under the 2019-2020 Studio Moderna Procurement Agreement for the year ended 31 December 2020 |
| “2021 Annual Cap”     | the annual maximum aggregate amount of US\$9.00 million (equivalent to approximately HK\$70.20 million) (excluding all applicable tax) in respect of the transactions under the Service Level Agreement for the year ending 31 December 2021                         |
| “Annual Caps”         | the annual maximum aggregate amounts (excluding all applicable tax) in respect of the transactions under the Service Level Agreement for the three years 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   |
| “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  |
| “Indicative Mark-up Rate” | has the meaning given to it in the section headed “THE SERVICE LEVEL AGREEMENT” in this announcement  |
| “Listing Rules”           | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “percentage ratios”       | has the meaning ascribed to it under the Listing Rules  |
| “Product Schedule”        | has the meaning given to it in the section headed “THE SERVICE LEVEL AGREEMENT” in this announcement  |
| “Purchase Orders”         | has the meaning given to it in the section headed “THE SERVICE LEVEL AGREEMENT” in this announcement  |
| “Service Level Agreement” | the service level agreement dated 15 April 2021 and entered into between Studio Moderna and Sinomax Trading in relation to the sale and purchase of foam products for the three years commencing on 1 January 2021 and ending on 31 December 2023 |
| “Shareholder(s)”          | holder(s) of Share(s)   |
| “Share(s)”                | ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company   |
| “Sinomax Trading”         | Sinomax International Trading Limited, a company incorporated in Hong Kong with limited liability 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 incorporated under the laws of Switzerland  |
| “Term”             | has the meaning given to it in the section headed “THE SERVICE LEVEL AGREEMENT” in this announcement                   |
| “U.S.”             | the United States of America   |
| “US\$”             | US dollar, the lawful currency of the U.S.   |
| “%” or “per cent.” | percentage or per centum   |

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

Hong Kong, 15 April 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 US\$ into HK\$ has been made at an exchange rate of US\$1: HK\$7.8. 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.*