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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 TRANSACTION IN RELATION TO THE US PROPERTY LEASE AGREEMENT

THE US PROPERTY LEASE AGREEMENT

On 1 February 2021 (after trading hours), Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the US Property Lease Agreement with Ashley Interchange (as landlord), pursuant to which Ashley Interchange has agreed to lease to Sinomax East the Premises (together with exclusive car parking spaces and trailer staging spaces in connection thereto) for a fixed term of eight years and nine months commencing on 1 February 2021 and ending on 31 October 2029 at an initial monthly rent (exclusive of utility charges and related expenses) of US\$100,241 (equivalent to approximately HK\$781,880), subject to an annual increase at the rate of approximately 2.75%.

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 US Property Lease Agreement by the Group shall be regarded as an one-off acquisition of assets under Rule 14.04(1)(a) of the Listing Rules. Given that the value of right-of-use assets recognised by the Group under the US Property Lease Agreement shall be approximately US\$9,097,536 (equivalent to approximately HK\$70,960,781), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the US Property Lease Agreement exceed 5% but are less than 25%. Accordingly, the US Property 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.

BACKGROUND

On 1 February 2021 (after trading hours), Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the US Property Lease Agreement with Ashley Interchange (as landlord), pursuant to which Ashley Interchange has agreed to lease to Sinomax East the Premises (together with exclusive car parking spaces and trailer staging spaces in connection thereto) for a fixed term of eight years and nine months commencing on 1 February 2021 and ending on 31 October 2029 at an initial monthly rent (exclusive of utility charges and related expenses) of US\$100,241 (equivalent to approximately HK\$781,880), subject to an annual increase at the rate of approximately 2.75%.

THE US PROPERTY LEASE AGREEMENT

A summary of the principal terms of the US Property Lease Agreement is set forth below:

Date	:	1 February 2021 (after trading hours)
Parties	:	(i) Sinomax East, as tenant; and (ii) Ashley Interchange, as landlord.
Premises	:	The Premises, being Suite 100 of the building situated at 1714 Heil Quaker Blvd, LaVergne, TN 37086, the U.S. (the “ Building ”) with an aggregate area of approximately 276,526 sq.ft., together with the exclusive car parking spaces and exclusive trailer staging spaces in connection thereto.
Term	:	From 1 February 2021 to 31 October 2029 (the “ Term ”)
Uses	:	For manufacturing, warehousing and related office uses

Security deposit : A deposit of US\$242,630 (equivalent to approximately HK\$1,892,514) (the “**Security Deposit**”) shall be payable by Sinomax East to Ashley Interchange for securing the performance of Sinomax East’s obligations under the US Property Lease Agreement. Provided that no event of default exists at the relevant time and no event of default occurred during the first twenty-eight (28) months of the Term, Ashley Interchange shall return US\$121,315 (equivalent to approximately HK\$946,257) of the Security Deposit to Sinomax East in month 29 of the Term. If Sinomax East complies in all material respects with the terms and conditions of the US Property Lease Agreement, the remaining balance of the Security Deposit shall be promptly returned by Ashley Interchange to Sinomax East within thirty (30) days after termination of the US Property Lease Agreement.

Monthly net rent : An initial monthly net rent (exclusive of utility charges and related expenses) of US\$100,241 (equivalent to approximately HK\$781,880), subject to an annual increase at the rate of approximately 2.75% (the “**Net Rent**”), shall be payable by Sinomax East commencing from the later of (i) 1 May 2021; or (ii) the date upon which Ashley Interchange substantially completes the improvements in the Premises in accordance with the terms of the US Property Lease Agreement (the “**Tenant Improvements**”) at its own costs and expenses or any earlier date upon which Ashley Interchange would have substantially completed the Tenant Improvements but for delays caused by Sinomax East or its employees, agents or contractors (the “**Rent Commencement Date**”).

The Net Rent shall be abated for the first one hundred and twenty (120) days following the Rent Commencement Date provided that Sinomax East has fully performed its obligations under the US Property Lease Agreement in a timely manner.

The Net Rent shall be payable by Sinomax East on a monthly basis, in each case on the first of each calendar month.

Utility charges : All utility charges for utilities provided to the Premises, including a fair proportion as equitably allocated by Ashley Interchange of shared services, shall be payable by Sinomax East within thirty (30) days after receipt of a written invoice (together with reasonable supporting documentation).

Expenses : Expenses shall include real estate taxes and fees, rents or assessments paid to any governmental authority and any personal property, sales, rental, gross receipts, use or occupancy tax with respect to the Property and the cost of operating, repairing, managing and maintaining the Property (including but not limited to, insurance, roofs, roads, parking areas, building exteriors, safety and signage, common fire protection systems, landscaping, common area utilities and lighting, snow removal and fees for management (not exceeding 3.5% of gross rents), tax appeal or insurance purposes) reasonably incurred by Ashley Interchange (collectively, the “**Expenses**”).

Ashley Interchange shall provide Sinomax East with a written statement setting out the estimated amount of Expenses payable by Sinomax East for the upcoming calendar year in proportion to its rentable area of the Property calculated in accordance with the terms of the US Property Lease Agreement (the “**Estimated Expenses**”). Sinomax East shall pay the Estimated Expenses in advance in monthly instalments and the first payment shall be made beginning on the Rent Commencement Date.

Within one hundred and twenty (120) days after the end of each calendar year, Ashley Interchange shall provide Sinomax East with a reasonably detailed, categorised reconciliation statement setting out the amount of Expenses actually incurred in respect of that calendar year and payable by Sinomax East in proportion to its rentable area of the Property, subject to adjustments (if any) (the “**Actual Expenses**”). Within thirty (30) days thereafter, Ashley Interchange or Sinomax East (as the case may be) shall pay to the other party such amount needed to adjust the Estimated Expenses to the Actual Expenses.

- Right to sublet or assign : Subject to the terms of the US Property Lease Agreement, Sinomax East may pledge or assign the US Property Lease Agreement or sublet the Premises with the written consent of Ashley Interchange. Provided that (i) Sinomax East reimburses Ashley Interchange's reasonable costs and is not in default of the US Property Lease Agreement; and (ii) the proposed tenant is financially sound, has a good reputation and is not an environmental risk or a tenant of Ashley Interchange or its affiliates, such consent of Ashley Interchange shall not be unreasonably withheld.
- Right of first offer : Provided that no event of default exists at the relevant time, Sinomax East shall have a one-time right of first offer on any spaces in the Building adjacent to the Premises if and as it becomes available.
- Options to extend : Sinomax East shall have two options to extend the Term for two (2) consecutive five (5) years provided that: (i) no event of default exists at the relevant time; and (ii) Sinomax East provides a written notice to Ashley Interchange no later than six (6) months prior to the then expiring lease term.

The terms of the US Property Lease Agreement were determined after arm's length negotiations between the parties thereto. The Net Rent payable by Sinomax East under the US Property Lease Agreement was determined with reference to, among other things, (i) the location of the Premises; (ii) the prevailing market rent of comparable properties in the proximity; and (iii) the general market conditions, 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 US PROPERTY LEASE AGREEMENT

Taking into consideration that, among other things, (i) as disclosed in the Group's interim report for the six months ended 30 June 2020, the Group's U.S. factory has recorded an operating profit since May 2020 and it is expected that the consumer demands for the Group's products in the U.S. will continue to be on the rise; (ii) as disclosed in the announcement of the Company dated 2 September 2019 and the circular of the Company dated 25 September 2019, the Group currently leases a property situated at 1740 JP Hennesy Drive, LaVergne, TN 37086, the U.S. (the "**Existing Premises**"), which is located in the proximity of the Premises, and the entering into of the US Property Lease Agreement would facilitate and expand the Group's operations in the Existing Premises and in the U.S. and in turn enable the Group to meet its customers' growing demands in the U.S.; and (iii) the Net Rent payable by Sinomax East under the US Property Lease Agreement is in line with the prevailing market rates of comparable properties in the proximity, the Directors (including the independent non-executive Directors) are of the view that the terms of the US Property 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 US Property 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 US Property Lease Agreement and the transactions contemplated thereunder.

INFORMATION ON ASHLEY INTERCHANGE

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Ashley Interchange is a limited liability company incorporated under the laws of Tennessee, the U.S. and is principally engaged in property investment.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, (i) Ashley Interchange is ultimately beneficially owned by Mr. Paul Rubacha who exercises 100% of the voting rights in Ashley Interchange; and (ii) Ashley Interchange and its ultimate beneficial owner are Independent Third Parties.

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 East

Sinomax East is a company incorporated under the laws of Delaware, the U.S. and is principally engaging in the manufacturing of health and household products. Sinomax East is an indirect wholly-owned subsidiary of the Company.

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 US Property Lease Agreement by the Group shall be regarded as an one-off acquisition of assets under Rule 14.04(1)(a) of the Listing Rules. Given that the value of right-of-use assets recognised by the Group under the US Property Lease Agreement shall be approximately US\$9,097,536 (equivalent to approximately HK\$70,960,781), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the US Property Lease Agreement exceed 5% but are less than 25%. Accordingly, the US Property 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.

DEFINITIONS

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

“Actual Expenses”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Building”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“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
“Estimated Expenses”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“Expenses”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement

“Existing Premises”	has the meaning given to it in the section headed “REASONS FOR AND BENEFITS OF ENTERING INTO THE US PROPERTY LEASE AGREEMENT” in this announcement
“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
“Ashley Interchange”	Ashley Interchange, LLC, a limited liability company incorporated under the laws of Tennessee, the U.S., being the landlord under the US Property Lease Agreement
“Independent Third Party(ies)”	third parties independent of the Company and connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Net Rent”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“Premises”	Suite 100, of the building situated at 1714 Heil Quaker Blvd, LaVergne, TN 37086, the U.S. with an aggregate area of approximately 276,526 sq.ft.

“Property”	the real properties situated at 1714 Heil Quaker Blvd, LaVergne, TN 37086, the U.S. (including the Premises and the Building) and owned or managed jointly by Ashley Interchange or its affiliates., with an aggregate area of approximately 791,174 sq.ft.
“Rent Commencement Date”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“Security Deposit”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“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 East”	Sinomax East, Inc., a company incorporated under the laws of Delaware, the U.S. and an indirect wholly-owned subsidiary of the Company, being the tenant under the US Property Lease Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenant Improvements”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement
“Term”	has the meaning given to it in the section headed “THE US PROPERTY LEASE AGREEMENT” in this announcement

“U.S.”	the United States of America
“US\$” or “USD”	U.S. dollar, the lawful currency of the U.S.
“US Property Lease Agreement”	the lease agreement dated 1 February 2021 and entered into between Sinomax East (as tenant) and Ashley Interchange (as landlord) in relation to the lease of the Premises for the term commencing on 1 February 2021 and ending on 31 October 2029
“%” or “per cent.”	percentage or per centum
“sq.ft.”	square feet

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

Hong Kong, 1 February 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.