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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 LEASE AGREEMENT

THE LEASE AGREEMENT

On 21 April 2021 (after trading hours), Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the Lease Agreement with LIT (as landlord), pursuant to which LIT has agreed to lease to Sinomax East the Premises for a fixed term of eighty-seven (87) full calendar months commencing on the Commencement Date at an initial monthly Base Rent (exclusive of Operating Expenses) of approximately US\$63,550 (equivalent to approximately HK\$495,690), subject to, among other things, adjustments to the Premises Rentable Area and an annual increase of the monthly Base Rent at the rate of approximately three per cent. (3%) commencing on the first day of the twenty-third (23rd) full calendar month of the Term in accordance with the terms of the Lease Agreement.

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 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 Lease Agreement shall be approximately US\$9,351,156 (equivalent to approximately HK\$72,939,017), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the Lease Agreement exceed 5% but are less than 25%. Accordingly, the 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 21 April 2021 (after trading hours), Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the Lease Agreement with LIT (as landlord), pursuant to which LIT has agreed to lease to Sinomax East the Premises for a fixed term of eighty-seven (87) full calendar months commencing on the Commencement Date at an initial monthly Base Rent (exclusive of Operating Expenses) of approximately US\$63,550 (equivalent to approximately HK\$495,690), subject to, among other things, adjustments to the Premises Rentable Area and an annual increase of the monthly Base Rent at the rate of approximately three per cent. (3%) commencing on the first day of the twenty-third (23rd) full calendar month of the Term in accordance with the terms of the Lease Agreement.

THE LEASE AGREEMENT

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

Date : 21 April 2021 (after trading hours)

Parties : (i) Sinomax East, as tenant; and
(ii) LIT, as landlord.

- Premises : The Premises, being the entire interior of the building located at 605 North 75th Avenue, Phoenix, Arizona, the U.S. (the “**Building**”) with an aggregate rentable area of approximately 323,345 sq.ft., shall be leased by LIT to Sinomax East under and in accordance with the terms of the Lease Agreement. The rentable area of the Premises (the “**Premises Rentable Area**”) shall be adjusted as follows during the Term:
- (i) the Premises Rentable Area for the period commencing on the Commencement Date and ending on the last day of the eighteenth (18th) full calendar month of the Term shall be approximately 155,000 sq.ft.; and
 - (ii) the Premises Rentable Area for the period commencing on the first day of the nineteenth (19th) full calendar month of the Term shall be approximately 323,345 sq.ft., being the entire rentable area of the Premises.
- Term : For a fixed term of eighty-seven (87) full calendar months commencing on the Commencement Date.
- Uses : For general industrial/warehouse use for the purpose of receiving, storing, shipping and selling (but limited to wholesale sales) products, materials and merchandise made and/or distributed by Sinomax East, and incidental office use related thereto (the “**Permitted Use**”).
- Prepaid rent : A prepaid rent of approximately US\$83,754.72 (equivalent to approximately HK\$653,286.82) shall be due and payable by Sinomax East to LIT on the date of the Lease Agreement and shall be applied against the Base Rent and the Estimated Operating Expenses payable by Sinomax East thereunder.
- Security deposit : A security deposit of approximately US\$408,614.30 (equivalent to approximately HK\$3,187,191.54) (the “**Security Deposit**”) shall be payable by Sinomax East to LIT for securing the performance of Sinomax East’s obligations under the Lease Agreement.

Subject to the terms of the Lease Agreement, if, as of the third (3rd) anniversary of the Commencement Date, Sinomax East is not then, and has not previously been, in monetary or material non-monetary default under the Lease Agreement beyond any applicable notice and cure periods expressly set forth therein, and neither the Lease Agreement nor Sinomax East's right to possession of the Premises has been terminated, the Security Deposit shall be reduced by an amount equal to approximately US\$204,307.15 (equivalent to approximately HK\$1,593,595.77) (the "**Reduction Amount**"). LIT shall, at its sole discretion, either (i) apply the Reduction Amount as credit against the Base Rent next coming due under the Lease Agreement until the same has been fully exhausted; or (ii) refund the Reduction Amount to Sinomax East within thirty (30) days after the third (3rd) anniversary of the Commencement Date.

Monthly base rent : An initial monthly base rent (exclusive of Operating Expenses) of approximately US\$63,550 (equivalent to approximately HK\$495,690) shall be payable by Sinomax East to LIT subject to, among other things, adjustments to the Premises Rentable Area and in accordance with the terms of the Lease Agreement, the particulars of which are set forth below (the "**Base Rent**"): (i) the amount of monthly Base Rent payable for the period commencing on the Commencement Date and ending on the last day of the twelfth (12th) full calendar month of the Term shall be approximately US\$63,550 (equivalent to approximately HK\$495,690);

- (ii) the amount of monthly Base Rent payable for the period commencing on the first day of the thirteenth (13th) full calendar month of the Term and ending on the last day of the eighteenth (18th) full calendar month of the Term shall be approximately US\$65,100 (equivalent to approximately HK\$507,780); and
- (iii) the amount of monthly Base Rent payable for the period commencing on the first day of the nineteenth (19th) full calendar month of the Term onwards shall be approximately US\$135,804.90 (equivalent to approximately HK\$1,059,278.22) and subject to an annual increase at the rate of approximately three per cent. (3%) commencing on the first day of the twenty-third (23rd) full calendar month of the Term.

The Base Rent shall be payable by Sinomax East on a monthly basis on or before the first day of each calendar month succeeding the Commencement Date (the “**Payment Due Date**”).

Operating expenses : Operating expenses means all costs and expenses incurred by LIT in connection with the ownership, maintenance and/or operation of the Project as set forth in the Lease Agreement (the “**Operating Expenses**”).

On each Payment Due Date, Sinomax East shall pay to LIT an amount equivalent to one-twelfth (1/12th) of the annual Operating Expenses as reasonably estimated by LIT with respect to Sinomax East’s proportionate share of the rentable area of the Project (“**Sinomax East’s Proportionate Share**”) in accordance with the terms of the Lease Agreement (the “**Estimated Operating Expenses**”).

If Sinomax East's total payments of the Estimated Operating Expenses for a calendar year are less than Sinomax East's Proportionate Share of the Operating Expenses actually incurred by LIT for the calendar year, Sinomax East shall pay the difference to LIT within thirty (30) days after receipt of LIT's written demand; whereas if Sinomax East's total payments of the Estimated Operating Expenses for a calendar year are more than Sinomax East's Proportionate Share of the Operating Expenses actually incurred by LIT for the calendar year, then LIT shall retain such excess and fully credit the same against Sinomax East's next payment(s) under the Lease Agreement.

Right to assign or sublet : Subject to the terms of the Lease Agreement, Sinomax East may assign the Lease Agreement or sublease the Premises to its affiliates or with the prior written consent of LIT (which shall not be unreasonably withheld, conditioned or delayed). LIT may withhold its consent for any proposed assignment or sublease on a reasonable basis including but not limited to the following: (i) Sinomax East is in monetary or material non-monetary default under the Lease Agreement; (ii) the proposed assignee or subtenant is unwilling to assume in writing all of Sinomax East's obligations under the Lease Agreement; (iii) the proposed assignee or subtenant has a financial condition which is reasonably unsatisfactory to LIT or its mortgagee; (iv) the Premises will be used for different purposes than the Permitted Use or for a use requiring or generating hazardous materials; or (v) the proposed assignee or subtenant or an affiliate thereof is an existing tenant in the Project or is or has been in on-going discussions with LIT regarding space within the Project.

Options to extend : Sinomax East shall have one (1) option to extend the Term for a period of five (5) years (the “**Option**”) provided that Sinomax East shall give to LIT a written notice of its exercise of the Option on a date which is at least one hundred eighty (180) days and not more than two hundred seventy (270) days prior to the expiration date of the Term and subject to the terms of the Lease Agreement.

The terms of the Lease Agreement were determined after arm’s length negotiations between the parties thereto. The Base Rent payable by Sinomax East under the Lease Agreement was determined with reference to, among other things, (i) the location of the Premises and the Building; (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 LEASE AGREEMENT

Taking into consideration that, among other things, (i) as disclosed in the annual report of the Company for the year ended 31 December 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 announcements of the Company dated 2 September 2019 and 1 February 2021 and the circular of the Company dated 25 September 2019, the Group currently leases two properties in the southeastern region of the U.S., and the entering into of the Lease Agreement with respect to the Premises which is located in the southwestern region of the U.S. would facilitate and expand the Group’s operations in the U.S. generally and in turn enable the Group to meet its customers’ growing demands in the U.S.; and (iii) the Base Rent payable by Sinomax East under the 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 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 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 Lease Agreement and the transactions contemplated thereunder.

INFORMATION ON LIT

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, LIT is a Delaware limited partnership principally engaged in the business of real estate investments and is beneficially owned by Lion Industrial Trust, which is a real estate investment trust established in the State of Maryland, the U.S. and of which David T. Confer, Stephen J. Furnary and Hugh Macdonnell are the trustees.

The Directors confirm that, to the best of their knowledge, information and belief, and having made all reasonable enquiries, LIT and its ultimate beneficial owners 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 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 Lease Agreement shall be approximately US\$9,351,156 (equivalent to approximately HK\$72,939,017), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the Lease Agreement exceed 5% but are less than 25%. Accordingly, the 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:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Base Rent”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Board”	the board of Directors
“Building”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Commencement Date”	the date of full execution and delivery of the Lease Agreement by LIT and Sinomax East and LIT’s delivery of the premises to Sinomax East broom clean and free of all prior tenancies

“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 Operating Expenses”	has the meaning given to it in the section headed “THE 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
“Independent Third Party(ies)”	third parties independent of the Company and connected persons of the Company
“Lease Agreement”	the lease agreement dated 21 April 2021 and entered into between Sinomax East (as tenant) and LIT (as landlord) in relation to the lease of the Premises for the Term
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LIT”	LIT Industrial Limited Partnership, a Delaware limited partnership, being the landlord under the Lease Agreement
“Operating Expenses”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement

“Option”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Payment Due Date”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“Permitted Use”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Premises”	the entire interior of the Building with an aggregate rentable area of approximately 323,345 sq.ft.
“Premises Rentable Area”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Project”	collectively, (i) the Building, together with the legal parcel on which the Building is situated and the other improvements located thereon; and (ii) the building located at 601 North 75th Avenue, Phoenix, Arizona, the U.S., together with the legal parcel on which such building is situated and the other improvements located thereon
“Reduction Amount”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Security Deposit”	has the meaning given to it in the section headed “THE 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 Lease Agreement
“Sinomax East’s Proportionate Share”	has the meaning given to it in the section headed “THE LEASE AGREEMENT” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term”	has the meaning given to it in the section headed “THE 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.
“%” 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, 21 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.