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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)

CONNECTED TRANSACTION IN RELATION TO THE 2024 DONGGUAN LEASE AGREEMENT

THE 2024 DONGGUAN LEASE AGREEMENT

Reference is made to the announcement of the Company dated 21 December 2022 regarding, among other things, the 2023 Dongguan Lease Agreement.

Since the 2023 Dongguan Lease Agreement will expire on 31 December 2023, and the Company expects such transactions will continue thereafter, the Board announces that on 28 November 2023, Dongguan Sinohome (an indirect wholly-owned subsidiary of the Company) (as tenant) and Dongguan Donglian (as landlord) entered into the 2024 Dongguan Lease Agreement for a term of one year commencing from 1 January 2024 to 31 December 2024.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of the Company's controlling shareholders. Dongguan Donglian is therefore an associate of Sinomax Enterprises pursuant to Rule 14A.13(1) of the Listing Rules and a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the transactions contemplated under the 2024 Dongguan Lease Agreement constitute a connected transaction of the Company.

Pursuant to HKFRS 16, 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. As the 2024 Dongguan Lease Agreement has a lease term of one year, which is 12 months or less, and it does not contain any purchase option to be exercised by Dongguan Sinohome at the end of the lease term, the Group applies the recognition exemption under HKFRS 16 to the 2024 Dongguan Lease Agreement for such short-term lease. Accordingly, the Group will recognise the rental payments under the 2024 Dongguan Lease Agreement as expenses on a straight-line basis over the lease term, instead of recognising a right-of-use asset and a lease liability at the commencement date of the 2024 Dongguan Lease Agreement. Given that all applicable percentage ratios in respect of the 2024 Dongguan Lease Agreement are less than 25% and the total annual rental payment (i.e. RMB9,000,000 (equivalent to approximately HK\$9,782,609)) is less than HK\$10,000,000. Accordingly, the 2024 Dongguan Lease Agreement is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements but is subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 21 December 2022 regarding, among other things, the 2023 Dongguan Lease Agreement.

Since the 2023 Dongguan Lease Agreement will expire on 31 December 2023, and the Company expects such transactions will continue thereafter, the Board announces that on 28 November 2023, Dongguan Sinohome (an indirect wholly-owned subsidiary of the Company) (as tenant) and Dongguan Donglian (as landlord) entered into the 2024 Dongguan Lease Agreement for a term of one year commencing from 1 January 2024 to 31 December 2024.

THE 2024 DONGGUAN LEASE AGREEMENT

A summary of the principal terms of the 2024 Dongguan Lease Agreement is set out as below:

Date: 28 November 2023

Parties: (i) Dongguan Sinohome, an indirect wholly-owned subsidiary of the Company (as tenant); and
(ii) Dongguan Donglian (as landlord).

Term: From 1 January 2024 to 31 December 2024.

Subject: Pursuant to the 2024 Dongguan Lease Agreement, Dongguan Donglian has agreed to lease certain premises situated at 中國廣東省東莞市塘廈鎮沙湖村大結嶺路1號 (No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, PRC), with an aggregate area of 38,278.09 square meters to Dongguan Sinohome.

Use: Factories and employees' dormitories.

Monthly rent: RMB750,000 (equivalent to approximately HK\$815,217)

Payment terms: Settled on a monthly basis in arrears.

Right of first refusal: If Dongguan Donglian proposes to sell the leased premises to a third party, it shall give Dongguan Sinohome six (6) months' advance notice in writing and grant Dongguan Sinohome the right of first refusal to purchase the leased premises on the same terms and conditions as those offered by the third party.

The monthly unit rent of RMB19.59 per square meter under the 2024 Dongguan Lease Agreement was determined after arm's length negotiations between the parties, with reference to the historical monthly unit rent of the RMB20 per square meter and the prevailing available market monthly unit rent of comparable properties in the similar location.

The Directors (except Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man who abstained from participating in the approval of the 2024 Dongguan Lease Agreement due to their material interests therein), including the independent non-executive Directors, having reviewed the 2024 Dongguan Lease Agreement, have confirmed that (i) the terms and conditions of the 2024 Dongguan Lease Agreement are fair and reasonable to the parties thereto and are entered into on normal commercial terms; and (ii) the amounts payable thereunder reflect the prevailing market rent for comparable properties in similar locations.

Historical transaction amounts

The rental amount paid by the Group to Dongguan Donglian for leasing of the Dongguan Premises under the 2023 Dongguan Lease Agreement amounted to approximately RMB7,200,000 (equivalent to approximately HK\$7,826,087) for the ten months ended 31 October 2023 and the Company expects that the annual rental amount for the financial year ending 31 December 2023 will not exceed the annual rental amount of RMB9,000,000 (equivalent to approximately HK\$9,782,609) for the year 2023.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2024 DONGGUAN LEASE AGREEMENT

The Group has leased the Dongguan Premises from Dongguan Donglian for the purposes of factory and employees' dormitories since June 2007. With a view to ensuring the Group's smooth business operations in Dongguan, Guangdong Province, PRC, the Board considers that the Group has the operational needs to continue the leasing of the Dongguan Premises.

The Directors (except Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man who abstained from participating in the approval of the 2024 Dongguan Lease Agreement due to their material interests therein, but including the independent non-executive Directors), having reviewed the 2024 Dongguan Lease Agreement and taking into consideration, among other things, (i) the entering into of the 2024 Dongguan Lease Agreement would enable the Group to facilitate its business activities on the Dongguan Premises without incurring unnecessary relocation expenses or causing disruption to its operations; (ii) market prices of leases of comparable premises in Dongguan; and (iii) the estimated time and costs which will be incurred for relocation and renovation of new premises, consider that the terms of the 2024 Dongguan 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.

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 business of manufacture and sale of health and household products and polyurethane foam. Health and household products mainly include quality visco-elastic pillows, mattress toppers and mattresses.

DONGGUAN SINOHOME

Dongguan Sinohome is a company established in the PRC as a wholly foreign-owned enterprise and is principally engaged in the manufacture and sale of health and household products. Dongguan Sinohome is an indirect wholly-owned subsidiary of the Company.

INFORMATION ON DONGGUAN DONGLIAN

Dongguan Donglian is a company established in the PRC with limited liability, which is principally engaged in properties leasing business in the PRC.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, which is legally owned as to 37.5%, 37.5%, 12.5%, and 12.5% by Chi Fan Holding Limited, The James' Family Holding Limited, Wing Yiu Investments Limited and Venture Win Holdings Limited, respectively, and beneficially owned in the same proportion by The Frankie Trust, The James' Family Trust, The Cheung's Family Trust and The Feng Chen's Family Trust, respectively. The Frankie Trust is a discretionary family trust established by Mr. Lam Chi Fan as settlor and Vistra as the trustee. The beneficiaries of The Frankie Trust are Mr. Lam Chi Fan and his family members. The James' Family Trust is a discretionary trust established by Ms. Cheung Shui Ying (the mother of Mr. Cheung Tung) as settlor and Vistra acting as the trustee. The beneficiaries of The James' Family Trust are Ms. Cheung Shui Ying and her family members.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of the Company's controlling shareholders. Dongguan Donglian is therefore an associate of Sinomax Enterprises pursuant to Rule 14A.13(1) of the Listing Rules and a connected person of the Company pursuant to Rule 14A.07(4) of the Listing Rules. Accordingly, the transactions contemplated under the 2024 Dongguan Lease Agreement constitute a connected transaction of the Company.

Pursuant to HKFRS 16, 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. As the 2024 Dongguang Lease Agreement has a lease term of one year, which is 12 months or less, and it does not contain any purchase option to be exercised by Dongguan Sinohome at the end of the lease term, the Group applies the recognition exemption under HKFRS 16 to the 2024 Dongguang Lease Agreement for such short-term lease. Accordingly, the Group will recognise the rental payments under the 2024 Dongguang Lease Agreement as expenses on a straight-line basis over the lease term, instead of recognising a right-of-use asset and a lease liability at the commencement date of the 2024 Dongguang Lease Agreement. Given that all applicable percentage ratios in respect of the 2024 Dongguan Lease Agreement are less than 25% and the total annual rental payment (i.e. RMB9,000,000 (equivalent to approximately HK\$9,782,609)) is less than HK\$10,000,000. Accordingly, the 2024 Dongguan Lease Agreement is exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements but is subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

Save for Mr. Lam Chi Fan, Mr. Cheung Tung, Mr. Chen Feng and Ms. Lam Fei Man, all being executive Directors, who abstained from voting in respect of the 2024 Dongguan Lease Agreement, none of the Directors has a material interest in the transactions contemplated under the 2024 Dongguan Lease Agreement.

DEFINITIONS

“2023 Dongguan Lease Agreement”	the lease agreement dated 21 December 2022 entered into between Dongguan Sinohome (as tenant) and Dogguan Donglian (as landlord) in relation to the lease of the Dongguan Premises with an aggregate area of 38,278.09 square meters for a term of one year commencing from 1 January 2023 to 31 December 2023
“2024 Dongguan Lease Agreement”	the lease agreement dated 28 November 2023 entered into between Dongguan Sinohome (as tenant) and Dogguan Donglian (as landlord) in relation to the lease of the Dongguan Premises with an aggregate area of 38,278.09 square meters for a term of one year commencing from 1 January 2024 to 31 December 2024
“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)”	the director(s) of the Company
“Dongguan Donglian”	Dongguan Donglian Furniture Co., Ltd.* (東莞東聯傢俱有限公司), a company established in the PRC as a wholly foreign-owned enterprise and indirectly wholly-owned by Sinomax Enterprises
“Dongguan Premises”	certain premises located in 中國廣東省東莞市塘廈鎮沙湖村大結嶺路1號 (No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, PRC)
“Dongguan Sinohome”	Dongguan Sinohome Limited* (東莞賽諾家居用品有限公司), a company established in the PRC as a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of the Company
“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 PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of PRC and Taiwan
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	holder(s) of share(s) of the Company
“Sinomax Enterprises”	Sinomax Enterprises Limited (聖諾盟企業有限公司), a company incorporated in the British Virgin Islands, and one of the controlling shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Visra”	Visra Trustees (BVI) Limited
“%” or “per cent.”	percentage or per centum

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

Hong Kong, 28 November 2023

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, Mr. Zhang Hwo Jie and Dr. Cheung Wah Keung.

In this announcement, the conversion of RMB into HK\$ has been made at exchange rate of RMB0.92:HK\$1. Such conversion should not be construed as a representation that any amount has been, could have been or may be, exchanged at these or any other rate.

If there is any inconsistency between the Chinese names of entities or enterprises established in 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.*