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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 VIETNAM FACTORY LEASE AGREEMENTS

THE VIETNAM FACTORY LEASE AGREEMENTS

On 26 March 2024 (after trading hours), Sinomax Vietnam (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the Vietnam Factory Lease Agreements with Minh Duc (as landlord), pursuant to which Minh Duc has agreed to lease to Sinomax Vietnam the Premises for a Term of five years commencing on the Effective Date, being 1 March 2024, and ending on 28 February 2029. The aggregate monthly rent for the Premises (exclusive of VAT, the management fee and utilities charges) is approximately US\$40,307 (equivalent to approximately HK\$314,390.70) for the first year of the Term, US\$42,328 (equivalent to approximately HK\$330,154.81) for the second year of the Term, US\$44,477 (equivalent to approximately HK\$346,922.32) for the third year of the Term, US\$46,627 (equivalent to approximately HK\$363,689.82) for the fourth year of the Term and US\$49,045 (equivalent to approximately HK\$382,533.26) for the fifth year of the Term.

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 Vietnam Factory Lease Agreements by the Group (as tenant) shall be regarded as a one-off acquisition of assets. Given that the value of right-of-use assets recognised by the Group under the Vietnam Factory Lease Agreements shall be approximately US\$2,362,415 (equivalent to approximately HK\$18,426,834), one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Vietnam Factory Lease Agreements exceed 5% but are less than 25%. Accordingly, the Vietnam Factory Lease Agreements 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 26 March 2024 (after trading hours), Sinomax Vietnam (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the Vietnam Factory Lease Agreements with Minh Duc (as landlord), pursuant to which Minh Duc has agreed to lease to Sinomax Vietnam the Premises for a Term of five years commencing on the Effective Date, being 1 March 2024, and ending on 28 February 2029.

THE VIETNAM FACTORY LEASE AGREEMENTS

A summary of the principal terms of the Vietnam Factory Lease Agreements is set forth below:

- Date : 26 March 2024 (after trading hours)
- Parties : (i) Sinomax Vietnam, as tenant; and
(ii) Minh Duc, as landlord.
- Premises : The Premises, being the ready-built factory and ancillary facilities located on the Site, comprises:
- (i) the factory with an area of 12,864 sq.m. (the “**Factory**”);
 - (ii) the roof of parking place and cover roof between the factories with an aggregate area of 1,143 sq.m. (the “**Roof Area**”); and
 - (iii) the guard house and sanitary works (the “**Other Area**”)
- (collectively, the “**Premises**”).
- Term : Five years from the Effective Date to 28 February 2029 (the “**Term**”).
- Uses : Sinomax Vietnam shall use the Factories and Ancillary Facilities built on the Site in accordance with the purpose and scope registered and specified in the Investment Registration Certificate and other acceptance and approvals obtained from the relevant authorities.

Security Deposit : A deposit of VND6,950,654,393 (equivalent to approximately HK\$2,195,575) (the “**Security Deposit**”) shall be payable by Sinomax Vietnam to Minh Duc, representing approximately seven months’ rent in respect of the Factory for the first year of the Term.

The deposit for the Vietnam Factory Lease Agreements shall be partially set-off by the deposit from the factory lease contract between Sinomax Vietnam and Minh Duc dated 14 February 2019 of VND4,938,841,752 (equivalent to approximately HK\$1,560,083).

Sinomax Vietnam shall pay to Minh Duc the remaining Security Deposit amount under the Vietnam Factory Lease Agreements of VND2,011,812,641 (equivalent to approximately HK\$635,492) in March 2024.

After the termination of the Vietnam Factory Lease Agreements, Minh Duc shall return the deposit to Sinomax Vietnam after deducting (i) damages incurred (excluding damages arising from ordinary depreciation or caused by force majeure cases), and (ii) expenses incurred to be paid by Sinomax Vietnam arising from the use of the Site such as water and electricity supply, or any rent owed by Sinomax Vietnam to Minh Duc.

Minh Duc shall return to Sinomax Vietnam the Security Deposit without any interest and within ten days from the date of return of the Site by Sinomax Vietnam to Minh Duc.

In case Minh Duc fails to return the Security Deposit to Sinomax Vietnam within the specified period, Minh Duc agrees to pay a late payment interest of 1% per month to Sinomax Vietnam from the due date until the date of return of the Security Deposit to Sinomax Vietnam.

- Monthly rent : In respect of the Factory, Sinomax Vietnam shall pay to Minh Duc a monthly rent (excluding VAT, the management fee and utilities charges) as set forth below:
- (i) approximately US\$38,592.00 (equivalent to approximately HK\$301,017.60) for the first year of the Term;
 - (ii) approximately US\$40,521.60 (equivalent to approximately HK\$316,068.48) for the second year of the Term;
 - (iii) approximately US\$42,579.84 (equivalent to approximately HK\$332,122.75) for the third year of the Term;
 - (iv) approximately US\$44,638.08 (equivalent to approximately HK\$348,177.02) for the fourth year of the Term; and
 - (v) approximately US\$46,953.60 (equivalent to approximately HK\$366,238.08) for the fifth year of the Term.

In respect of the Roof Area, Sinomax Vietnam shall pay to Minh Duc a monthly rent (excluding VAT, the management fee and utilities charges) as set forth below:

- (i) approximately US\$1,714.50 (equivalent to approximately HK\$13,373.10) for the first year of the Term;
- (ii) approximately US\$1,805.94 (equivalent to approximately HK\$14,086.33) for the second year of the Term;
- (iii) approximately US\$1,897.38 (equivalent to approximately HK\$14,799.56) for the third year of the Term;
- (iv) approximately US\$1,988.82 (equivalent to approximately HK\$15,512.80) for the fourth year of the Term; and
- (v) approximately US\$2,091.69 (equivalent to approximately HK\$16,315.18) for the fifth year of the Term.

In respect of the Other Area, there is no monthly rent.

Sinomax Vietnam shall pay the rent and other charges in VND at the firstly published average exchange rate issued by the bank chosen by Minh Duc on the date of payment.

Payment term : The rent shall be paid on a monthly basis. Unless otherwise agreed by the parties, all payments or refunds from one party to the other under the Vietnam Factory Lease Agreements or any agreement between the parties shall be made within ten days from the date of receipt of the invoice.

In the event a party delays in making a payment, the relevant party shall pay a monthly interest of 1% on the total amount due at each time for the duration between the due date and the payment date, and all related expenses.

Other charges : An annual management fee (exclusive of VAT) of VND11,650 per sq.m. (equivalent to approximately HK\$3.68 per sq.m.) shall be payable by Sinomax Vietnam to Minh Duc.

The costs of utilities including but not limited to electricity, water, telecommunications, and treatment of domestic waste, domestic water, and industrial waste water for the purpose of using the Site shall be payable by Sinomax Vietnam to Minh Duc. Subject to agreement between Minh Duc and related utility suppliers, Sinomax Vietnam may pay these costs directly to the utility supplier. In the event that Minh Duc collects the utility costs on behalf of the utility suppliers, Minh Duc shall provide Sinomax Vietnam with the VAT invoice(s) for the relevant utility costs before payment.

Costs, taxes and expenses : Sinomax Vietnam shall pay the Rent, infrastructure charges and utilities charges along with VAT, taxes on goods and services or other costs, taxes and expenses that are levied thereon.

- Factories and Ancillary Facilities : Sinomax Vietnam shall build Factories and Ancillary Facilities for the purpose and scope approved in accordance with the Investment Registration Certificate, construction permits, environmental protection plans, and the relevant regulations, requirements and guidelines set out by the management board of Binh Duong Industrial Park and other relevant authorities of Vietnam.
- Priority to renewal : Before the expiration of the Term under the Vietnam Factory Lease Agreements, Sinomax Vietnam shall have priority in renewal of the Term, and Minh Duc shall ensure Sinomax Vietnam's right of renewal, unless Sinomax Vietnam provides a written notice of non-renewal at least 90 days prior to the expiration of the Term.

The terms of the Vietnam Factory Lease Agreements were determined after arm's length negotiations between the parties thereto. The Rent payable by Sinomax Vietnam under the Vietnam Factory Lease Agreements 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 of similar use and floor area; and (iii) the general market conditions, and is expected to be satisfied by the internal resources of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE VIETNAM FACTORY LEASE AGREEMENTS

The Group has been leasing the Premises from Minh Duc since 2019 for its production facilities in Vietnam, where the Group provides polyurethane foam to its customers in the Southeast Asia regions and produces end consumer health products. Since 2019, the Group has invested and devoted resources to build the Factories and Ancillary Facilities on the Site to meet its operational requirement, and the production facilities have been approved by various customers of the Group for producing their products in Vietnam. The relevant factory lease contract between Sinomax Vietnam and Minh Duc expired in March 2024. With a view to ensuring the Group's smooth business operations in Vietnam, the Board considers that the Group has the operational needs to continue leasing the Premises.

Taking into consideration that, among other things, (i) the entering into of the Vietnam Factory Lease Agreements would enable the Group to facilitate its business activities on the Site without incurring unnecessary relocation expenses or causing disruption to its operations; and (ii) the Rent payable by Sinomax Vietnam under the Vietnam Factory Lease Agreements 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 Vietnam Factory Lease Agreements 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 Vietnam Factory Lease Agreements and the transactions contemplated thereunder and none of them is required to abstain from voting on the resolutions of the Board to approve the Vietnam Factory Lease Agreements and the transactions contemplated thereunder.

INFORMATION ON MINH DUC

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, Minh Duc is a company established under Vietnamese law which is principally engaged in the business of real estate investments.

The Directors confirm that, to the best of their knowledge, information and belief, and having made all reasonable enquiries, Minh Duc 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 Vietnam

Sinomax Vietnam is a company established under Vietnamese law and is principally engaging in the manufacturing and sale of polyurethane foam. Sinomax Vietnam 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 Vietnam Factory Lease Agreements by the Group (as tenant) shall be regarded as a one-off acquisition of assets of the Group. Given that the value of right-of-use assets recognised by the Group under the Vietnam Factory Lease Agreements shall be approximately US\$2,362,415 (equivalent to approximately HK\$18,426,834), one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Vietnam Factory Lease Agreements exceed 5% but are less than 25%. Accordingly, the Vietnam Factory Lease Agreements 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
“Board”	the board of Directors
“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
“Effective Date”	1 March 2024
“Factories and Ancillary Facilities”	any complex or single factory and ancillary facilities including but not limited to warehouse, roof of parking place, cover roof among factories, sanitary works, guard house and other facilities, which were built on and around the Site, together with any fixtures, fittings and installations thereon
“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 People’s Republic of China

“Independent Third Party(ies)”	third parties independent of the Company and connected persons of the Company
“Investment Registration Certificate”	the investment registration certificate issued by the management board of Binh Duong Industrial Park on 4 January 2019 to “The Project of Sinomax Vietnam”, including any of its amendments and/or supplements from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minh Duc”	Minh Duc Manufacturing – Trading – Services Co., Ltd, a company established under the laws of Vietnam, being the landlord under the Vietnam Factory Lease Agreements
“MOU”	the memorandum of understanding entered into between Minh Duc as the landlord and Sinomax Vietnam as the tenant dated 26 March 2024 in relation to the leasing arrangements
“Other Area”	has the meaning given to it in the section headed “THE VIETNAM FACTORY LEASE AGREEMENTS” in this announcement
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“Premises”	has the meaning given to it in the section headed “THE VIETNAM FACTORY LEASE AGREEMENTS” in this announcement
“Rent”	the rent in respect of the Factory and the Roof Area as set out in the section headed “THE VIETNAM FACTORY LEASE AGREEMENTS” in this announcement
“Security Deposit”	has the meaning given to it in the section headed “THE VIETNAM FACTORY LEASE AGREEMENTS” 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
“Site”	the factory at Lot 2A2, CN5 and CN10 Street, Tan Binh Industrial Park, Tan Binh Commune, Bac Tan Uyen District, Binh Duong Province, Vietnam
“Sinomax Vietnam”	Sinomax (Vietnam) Polyurethane Technology Limited, a company established under the laws of Vietnam and an indirect wholly-owned subsidiary of the Company, being the tenant under the Vietnam Factory Lease Agreements
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Term”	has the meaning given to it in the section headed “THE VIETNAM FACTORY LEASE AGREEMENTS” in this announcement
“U.S.”	the United States of America
“US\$” or “USD”	U.S. dollar, the lawful currency of the U.S.
“VAT”	value added tax

“Vietnam Factory Contract”	the factory lease contract entered into between Minh Duc as the landlord and Sinomax Vietnam as the tenant dated 26 March 2024 in relation to the Premises
“Vietnam Factory Lease Agreements”	the Vietnam Factory Contract and the MOU
“VND”	Vietnamese Dong, the lawful currency of Vietnam
“%” or “per cent.”	percentage or per centum

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

Hong Kong, 26 March 2024

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, unless otherwise stated, the conversion of US\$ into HK\$ has been made at an exchange rate of US\$1: HK\$7.8 and the conversion of VND into HK\$ has been made at an exchange rate of HK\$1: VND3165.8. 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.