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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 EXPANSION AGREEMENT

THE US PROPERTY LEASE EXPANSION AGREEMENT

Reference is made to the announcement of the Company dated 1 February 2021 in relation to the US Property Lease Agreement. On 12 June 2024 (after trading hours), to expand from the existing leased premises under the US Property Lease Agreement, Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the US Property Lease Expansion Agreement with Ashley Interchange (as landlord), pursuant to which Ashley Interchange has agreed to lease to Sinomax East the Expansion Premises for a fixed term of five years and three months commencing on 1 August 2024 and ending on 31 October 2029 at an initial monthly rent (exclusive of utility charges and related expenses) of US\$111,327 (equivalent to approximately HK\$868,351), subject to an annual increase at the rate of approximately 4%.

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 Expansion 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 Expansion Agreement shall be approximately US\$5,712,373 (equivalent to approximately HK\$44,556,509), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the US Property Lease Expansion Agreement exceed 5% but are less than 25%. Accordingly, the US Property Lease Expansion 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

Reference is made to the announcement of the Company dated 1 February 2021 in relation to the US Property Lease Agreement. On 12 June 2024 (after trading hours), to expand from the existing leased premises under the US Property Lease Agreement, Sinomax East (as tenant), an indirect wholly-owned subsidiary of the Company, entered into the US Property Lease Expansion Agreement with Ashley Interchange (as landlord), pursuant to which Ashley Interchange has agreed to lease to Sinomax East the Expansion Premises for a fixed term of five years and three months commencing on 1 August 2024 and ending on 31 October 2029 at an initial monthly rent (exclusive of utility charges and related expenses) of US\$111,327 (equivalent to approximately HK\$868,351), subject to an annual increase at the rate of approximately 4%.

THE US PROPERTY LEASE EXPANSION AGREEMENT

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

Date	:	12 June 2024 (after trading hours)
Parties	:	(i) Sinomax East, as tenant; and (ii) Ashley Interchange, as landlord.
Expansion Premises	:	The Expansion Premises, being Suite 130 of the building situated at 1714 Heil Quaker Blvd, LaVergne, TN 37086, the U.S. (the “ Building ”) with an aggregate area of approximately 167,774 sq.ft.
Term	:	From 1 August 2024 to 31 October 2029 (the “ Term ”)
Uses	:	For manufacturing, warehousing and related office uses

Monthly net rent : An initial monthly net rent (exclusive of utility charges and related expenses) of US\$111,327 (equivalent to approximately HK\$868,351), subject to an annual increase at the rate of approximately 4% (the “**Net Rent**”), shall be payable by Sinomax East commencing from 1 August 2024 (the “**Rent Commencement Date**”), with a rent abatement period from 1 August 2024 to 31 October 2024.

The Net Rent shall be conditionally abated from 1 August 2024 through 31 October 2024. Such abatement of Net Rent is conditioned upon Sinomax East’s full and timely performance of its obligations under the US Property Lease Expansion Agreement.

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 Expansion 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 Expansion 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.

Ashley Interchange shall not recover as Expenses more than one hundred percent (100%) of those Expenses actually paid by Ashley Interchange for any given calendar year, and for purposes of determining Sinomax East’s proportionate share of Expenses, Controllable Expenses for 2025 shall not exceed 2024 Controllable Expenses by more than ten percent (10%), and Controllable Expenses for each calendar year thereafter shall not increase by more than ten percent (10%) annually.

- Right to sublet or assign : Subject to the terms of the US Property Lease Expansion Agreement, Sinomax East may pledge or assign the US Property Lease Expansion Agreement, or sublet the Expansion 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 Expansion 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 Expansion Premises if and as it becomes available.
- Option to terminate : Sinomax East shall have one option to terminate the US Property Lease Expansion Agreement for the Expansion Premises effective 31 July 2027 provided, among others, that: (i) Sinomax East is not in default; (ii) Sinomax East provides written notice to Ashley Interchange on or before 31 January 2027; (iii) Sinomax East represents that the business unit is being closed and not simply relocated; and (iv) Sinomax East's written notice is accompanied by a payment to Ashley Interchange of two months of the then gross rent.
- 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; (ii) Sinomax East provides a written notice to Ashley Interchange no later than six (6) months prior to the then expiring lease term; and (iii) the net rent for the Expansion Premises shall increase by 4% annually for the duration of the applicable extension term.

The terms of the US Property Lease Expansion Agreement were determined after arm's length negotiations between the parties thereto. The Net Rent payable by Sinomax East under the US Property Lease Expansion Agreement was determined with reference to, among other things, (i) the location of the Expansion 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 EXPANSION AGREEMENT

Taking into consideration that, among other things, (i) it is expected that the consumer demands for the Group's products in the U.S. will continue to be on the rise; (ii) the Group currently leases the Premises in the Building, and the entering into of the US Property Lease Expansion Agreement would facilitate and expand the Group's operations in the 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 Expansion 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 Expansion 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 Expansion 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 Expansion 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 wholesale 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 Expansion 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 Expansion Agreement shall be approximately US\$5,712,373 (equivalent to approximately HK\$44,556,509), one or more of the applicable percentage ratios (other than the revenue ratio and the profits ratio) in respect of the US Property Lease Expansion Agreement exceed 5% but are less than 25%. Accordingly, the US Property Lease Expansion 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 EXPANSION AGREEMENT” in this announcement

“Board”	the board of Directors
“Building”	has the meaning given to it in the section headed “THE US PROPERTY LEASE EXPANSION 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
“Controllable Expenses”	mean all Expenses other than those expenses the increase in which is beyond the reasonable control of Ashley Interchange, such as, for example, real estate taxes, utilities, insurance costs (including any commercially reasonable deductibles), costs of security, costs of snow removal, costs subject to government regulation, such as minimum wages, and all costs incurred to comply with new or revised federal or state laws, municipal or county ordinances or codes or regulations promulgated under any of the same, capital expenditures (to the extent allowed to be passed through under the US Property Lease Expansion Agreement), increases in management fees based on increases in revenue at the Building (as opposed to increases in the negotiated percentage of such revenues paid to the property management company), and charges assessed against or attributed to the Property pursuant to any applicable declaration of protective covenants or other encumbrances
“Director(s)”	the director(s) of the Company
“Estimated Expenses”	has the meaning given to it in the section headed “THE US PROPERTY LEASE EXPANSION AGREEMENT” in this announcement

“Expansion Premises”	Suite 130, of the building situated at 1714 Heil Quaker Blvd, LaVergne, TN 37086, the U.S. with an aggregate area of approximately 167,774 sq.ft.
“Expenses”	has the meaning given to it in the section headed “THE US PROPERTY LEASE EXPANSION 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 and the US Property Lease Expansion 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 EXPANSION 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 Expansion 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 EXPANSION 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
“Term”	has the meaning given to it in the section headed “THE US PROPERTY LEASE EXPANSION 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 Expansion Agreement”	the lease agreement dated 12 June 2024 and entered into between Sinomax East (as tenant) and Ashley Interchange (as landlord) in relation to the lease of the Expansion Premises for the term commencing on 1 August 2024 and ending on 31 October 2029
“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, 12 June 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. 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.