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SINOMAX
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)

**MAJOR TRANSACTION –
(I) ACQUISITION OF PROPERTY; AND
(II) SALE AND LEASEBACK OF PROPERTY**

THE ACQUISITION

On 30 August 2019 (after trading hours), Sinomax East (as purchaser), an indirect wholly-owned subsidiary of the Company, entered into the Letter Agreement with 800 Broadway (as vendor), in the exercise of the Purchase Option under the Existing Lease Agreement between Sinomax East (as tenant) and 800 Broadway (as landlord), to acquire the Property at the Acquisition Consideration of US\$20,804,461 (equivalent to approximately HK\$163,315,019) subject to the terms and conditions therein.

THE SALE AND LEASEBACK

On 30 August 2019 (after trading hours), Sinomax East (as vendor), the Purchaser (as purchaser) and the Company (as guarantor) entered into the Purchase and Sale Agreement, pursuant to which Sinomax East agreed to sell and the Purchaser agreed to acquire the Property at the Sale Consideration of US\$33,000,000 (equivalent to approximately HK\$259,050,000), subject to the Acquisition Completion and the terms and conditions therein.

Pursuant to the Purchase and Sale Agreement, at the Sale Completion, Sinomax East (as tenant) and the Purchaser (as landlord) shall execute the New Lease, to lease the Property for a term of ten (10) years commencing on the Completion Date.

IMPLICATION UNDER THE LISTING RULES

Since the underlying subject of the Agreements is the Property, the Transaction is regarded as one transaction involving both the Acquisition and the Sale and Leaseback. Pursuant to Rule 14.24 of the Listing Rules, the Stock Exchange will apply the percentage ratios (as defined under the Listing Rules) to both the Acquisition and the Sale and Leaseback and the Transaction will be classified by reference to the larger of the Acquisition or the Sale and Leaseback. As (i) one or more of the applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%; and (ii) one or more of the applicable percentage ratios in respect of the Sale and Leaseback are more than 25% but less than 75%, the Transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Agreements and the Transaction. As such, no Shareholder would be required to abstain from voting on the resolution in respect of the Agreements and the Transaction if the Company were to convene a general meeting for the approval of the Agreements and the Transaction. As at the date of this announcement, Sinomax Enterprises is the controlling Shareholder of the Company and beneficially holds 1,275,906,000 Shares, representing approximately 72.91% of the entire issued share capital of the Company. Written approval of the Agreements and the Transaction has been obtained from Sinomax Enterprises. Pursuant to Rule 14.44 of the Listing Rules, such written approval may be accepted in lieu of holding a general meeting of the Company, and accordingly, no general meeting of the Company will be convened for the purpose of approving the Agreements and the Transaction.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details in relation to the Agreements and the Transaction, the valuation report of the Property and other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 23 September 2019.

THE ACQUISITION

On 30 August 2019 (after trading hours), Sinomax East (as purchaser), an indirect wholly-owned subsidiary of the Company, entered into the Letter Agreement with 800 Broadway (as vendor), in the exercise of the Purchase Option under the Existing Lease Agreement between Sinomax East (as tenant) and 800 Broadway (as landlord), to acquire the Property at the Acquisition Consideration of US\$20,804,461 (equivalent to approximately HK\$163,315,019) subject to the terms and conditions therein.

THE LETTER AGREEMENT

The principal terms of the Letter Agreement are summarised below:–

Date : 30 August 2019 (after trading hours)

Parties : (i) Sinomax East, as purchaser; and
(ii) 800 Broadway, as vendor

To the best of the knowledge, information and belief of the Directors, 800 Broadway and its ultimate beneficial owner are Independent Third Parties.

Property to be acquired

The Property to be acquired by Sinomax East from 800 Broadway is located at 1740 JP Hennessy Drive, LaVergne, TN 37086, the U.S. with approximately 505,000 sq. ft.. The Property is currently leased by 800 Broadway (as landlord) to Sinomax East (as tenant) under the Existing Lease Agreement.

The Company has appointed an independent qualified valuer to prepare a valuation report of the Property which will be contained in the circular to be despatched to the Shareholders.

Pursuant to the Letter Agreement and subject to the terms contained therein, 800 Broadway shall convey the Property to Sinomax East by way of a special warranty deed on the Completion Date.

Acquisition Consideration

The Acquisition Consideration is US\$20,804,461 (equivalent to approximately HK\$163,315,019), which shall be paid by Sinomax East in cash at the Acquisition Completion.

The Acquisition Consideration was calculated in accordance with the terms of the Purchase Option as set out under the Existing Lease Agreement, which was determined after arm's length negotiations between Sinomax East (as tenant) and 800 Broadway (as landlord) with reference to, among other things, (i) the then prevailing market conditions at the time when the Existing Lease Agreement was entered into; and (ii) the location of the Property and the market price of comparable properties in the proximity at the time when the Existing Lease Agreement was entered into.

It is expected that the Acquisition Consideration will be financed solely by the Closing Funds to be received by Sinomax East at the Sale Completion, or, in the event that the Sale Completion does not take place simultaneously or at all, by internal resources of the Group and/or bank borrowings to the extent where available.

Acquisition Completion

Subject to the terms of the Letter Agreement, the Acquisition Completion shall take place on the Completion Date.

THE SALE AND LEASEBACK

On 30 August 2019 (after trading hours), Sinomax East (as vendor), the Purchaser (as purchaser) and the Company (as guarantor) entered into the Purchase and Sale Agreement, pursuant to which (i) Sinomax East agreed to sell and the Purchaser agreed to acquire the Property at the Sale Consideration of US\$33,000,000 (equivalent to approximately HK\$259,050,000), subject to the Acquisition Completion and the terms and conditions therein; and (ii) at the Sale Completion, Sinomax East (as tenant) and the Purchaser (as landlord) shall execute the New Lease to lease the Property for a term of ten (10) years commencing on the Completion Date.

THE PURCHASE AND SALE AGREEMENT

The principal terms of the Purchase and Sale Agreement are summarised below:–

Date : 30 August 2019 (after trading hours)

Parties : (i) Sinomax East, as vendor;
(ii) the Purchaser, as purchaser; and
(iii) the Company, as guarantor

To the best of the knowledge, information and belief of the Directors, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

The Company agreed to guarantee the performance by Sinomax East of its obligations under the Purchase and Sale Agreement subject to the terms and conditions therein.

Property to be sold

The Property to be sold by Sinomax East to the Purchaser is located at 1740 JP Hennessy Drive, LaVergne, TN 37086, the U.S. with approximately 505,000 sq. ft..

Pursuant to the Purchase and Sale Agreement and subject to the terms contained therein and the Acquisition Completion, Sinomax East shall convey the Property to the Purchaser by way of a special warranty deed at the Sale Completion.

Sale Consideration

The Sale Consideration is US\$33,000,000 (equivalent to approximately HK\$259,050,000), which shall be payable by the Purchaser to Sinomax East in the following manner:

- (a) the deposit in the sum of US\$660,000 (equivalent to approximately HK\$5,181,000) (together with any interest thereon) shall be deposited in escrow by the Purchaser as earnest money with the Escrow Agent within two (2) business days after full execution and delivery of the Purchase and Sale Agreement by the Purchaser and Sinomax East; and

- (b) the Closing Funds, being the balance of the Sale Consideration in the sum of US\$32,340,000 (equivalent to approximately HK\$253,869,000) (subject to credit for application of the amount of the deposit paid to Sinomax East in (a) above and credit and adjustment pursuant to the terms of the Purchase and Sale Agreement), shall be paid by the Purchaser by wire transfer at the Sale Completion.

The Sale Consideration was determined after arm's length negotiations between the parties with reference to, among other things, (i) the New Lease to be entered into between Sinomax East (as tenant) and the Purchaser (as landlord) at the Sale Completion as described below; (ii) the prevailing market conditions; and (iii) the location of the Property and the market price of comparable properties in the proximity.

Conditions precedent

Completion of the Purchase and Sale Agreement is conditional upon, among other things, (i) the Purchaser's satisfaction of its due diligence in respect of the Property on or before the end of the Feasibility Period; (ii) the acquisition of the Property by Sinomax East and subject to the Acquisition Completion; and (iii) the obtaining of the necessary board and/or shareholders' approvals of the Company in respect of the Purchase and Sale Agreement and the transactions contemplated therein during the Feasibility Period.

Written approval of the Agreements and the Transaction has been obtained from Sinomax Enterprises, which is beneficially interested in approximately 72.91% of the entire issued share capital of the Company as at the date of this announcement.

Sale Completion

Subject to satisfaction of the conditions to the Purchase and Sale Agreement, the Sale Completion shall take place on the Completion Date and the Acquisition Completion and the Sale Completion shall take place simultaneously.

The New Lease

Pursuant to the Purchase and Sale Agreement, at the Sale Completion, Sinomax East (as tenant) and the Purchaser (as landlord) shall execute the New Lease to lease the Property for a term of ten (10) years commencing on the Completion Date.

As at the date of this announcement, the principal terms of the New Lease have been substantially finalised between the parties, which are summarised below:

- Parties : (i) Sinomax East, as tenant; and
(ii) the Purchaser, as landlord
- Term : The New Lease shall be for a term of ten (10) years commencing on the Completion Date.
- Base Rent : The Base Rent shall be US\$3.838 per square foot per year, which shall increase by 2.5% annually.
- Security : A cash security deposit in the sum of US\$225,000 (equivalent to approximately HK\$1,766,250) shall be payable by Sinomax East to the Purchaser at the Sale Completion.
- Guarantee : A guarantee shall be provided by the Company in favour of the Purchaser (as landlord) in respect of all of the obligations of Sinomax East (as tenant) under the New Lease upon execution of the New Lease at the Sale Completion.

The Base Rent was determined after arm's length negotiations between Sinomax East and the Purchaser with reference to, among other things, (i) the Sale and Leaseback arrangement as set out in the Purchase and Sale Agreement; (ii) the base rent under the Existing Lease Agreement of US\$3.54 per square foot per year; (iii) the prevailing market conditions; and (iv) the location of the Property and the market rental price of comparable properties in the proximity.

Pursuant to the Purchase and Sale Agreement, Sinomax East shall take occupancy on an as-is basis with the Property in its current condition upon execution of the New Lease.

REASONS FOR THE TRANSACTION

The Group has been exploring investment opportunities from time to time with an aim to enhance the interests of the Company and the Shareholders as a whole.

Taking into account that: (i) the Acquisition Consideration payable by Sinomax East in the exercise of the Purchase Option under the Letter Agreement is considerably below the prevailing market price of comparable properties in the proximity; (ii) the Group had received and compared competitive offers from three potential buyers, including the Purchaser, in respect of the sale of the Property, before entering into the Purchase and Sale Agreement; (iii) as a result of the Sale, the Group is expected to record an unaudited gain of approximately US\$6,064,000 (equivalent to approximately HK\$47,602,000) (as further illustrated below); and (iv) Sinomax East will enter into the New Lease with the Purchaser at the Sale Completion on terms not less favourable than the terms of the Existing Lease Agreement (taking into consideration, among other things, the prevailing market conditions and the market rental price of comparable properties in the proximity) and will remain as tenant of the Property to continue conducting its business activities at the Property, the Directors consider that the Transaction provides the Group with an opportunity to realise a capital gain of considerable size and enable the Group to better utilise its resources to maximise the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of the Agreements and the Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

As none of the Directors has any material interest in the Agreements and the Transaction, none of them has abstained from voting on the Board resolution(s) which approved the Agreements and the Transaction.

POSSIBLE FINANCIAL EFFECTS OF THE TRANSACTION

As a result of the Sale, the Group is expected to record an unaudited gain of approximately US\$6,064,000 (equivalent to approximately HK\$47,602,000), which is calculated on the basis of the Sale Consideration less (i) the Acquisition Consideration; and (ii) the adjusted carrying amount of the right-of-use asset arising from the sales and leaseback arrangement under the measurement requirements of HKFRS 16 Leases of approximately US\$10,789,000 (equivalent to approximately HK\$84,693,650) at the Sale Completion, before taking into account the estimated taxes, transaction fees and other incidental costs attributable to the Transaction.

USE OF PROCEEDS

The Company intends to apply the net proceeds from the Sale, after funding the Acquisition, as general working capital of the Group.

INFORMATION OF 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. The Group's health and household products are mainly represented by quality visco-elastic pillows, mattress toppers and mattresses.

INFORMATION OF SINOMAX EAST

Sinomax East is a company incorporated in the State of Delaware in the U.S. and is principally engaged in the business of manufacture of health and household products. Sinomax East is an indirect wholly-owned subsidiary of the Company.

INFORMATION OF 800 BROADWAY

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, 800 Broadway is a general partnership founded in the State of Ohio in the U.S. principally engaged in the business of real estate investment.

INFORMATION OF THE PURCHASER

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser is a Delaware limited liability company and principally engaged in the business of real estate investment.

IMPLICATION UNDER THE LISTING RULES

Since the underlying subject of the Agreements is the Property, the Transaction is regarded as one transaction involving both the Acquisition and the Sale and Leaseback. Pursuant to Rule 14.24 of the Listing Rules, the Stock Exchange will apply the percentage ratios (as defined under the Listing Rules) to both the Acquisition and the Sale and Leaseback and the Transaction will be classified by reference to the larger of the Acquisition or the Sale and Leaseback. As (i) one or more of the applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%; and (ii) one or more of the applicable percentage ratios in respect of the Sale and Leaseback are more than 25% but less than 75%, the Transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Agreements and the Transaction. As such, no Shareholder would be required to abstain from voting on the resolution in respect of the Agreements and the Transaction if the Company were to convene a general meeting for the approval of the Agreements and the Transaction. As at the date of this announcement, Sinomax Enterprises is the controlling Shareholder of the Company and beneficially holds 1,275,906,000 Shares, representing approximately 72.91% of the entire issued share capital of the Company. Written approval of the Agreements and the Transaction has been obtained from Sinomax Enterprises. Pursuant to Rule 14.44 of the Listing Rules, such written approval may be accepted in lieu of holding a general meeting of the Company, and accordingly, no general meeting of the Company will be convened for the purpose of approving the Agreements and the Transaction.

DESPATCH OF CIRCULAR

A circular containing, among other things, further details in relation to the Agreements and the Transaction, the valuation report of the Property and other information required under the Listing Rules is expected to be despatched to the Shareholders on or before 23 September 2019.

DEFINITIONS

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

“800 Broadway”	800 Broadway, a general partnership founded in the State of Ohio in the U.S.
“Acquisition”	the acquisition of the Property by Sinomax East (as purchaser) from 800 Broadway (as vendor) pursuant to the Letter Agreement in exercise of the Purchase Option
“Acquisition Completion”	the completion of the Acquisition pursuant to the Letter Agreement
“Acquisition Consideration”	the consideration in the sum of US\$20,804,461 (equivalent to approximately HK\$163,315,019), being the purchase price of the Property payable by Sinomax East (as purchaser) to 800 Broadway (as vendor) under the Letter Agreement
“Agreements”	the Letter Agreement and the Purchase and Sale Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Base Rent”	the base rent payable by Sinomax East (as tenant) to the Purchaser (as landlord) under the New Lease
“Board”	the board of Directors
“Closing Funds”	the balance of the Sale Consideration in the sum of US\$32,340,000 (equivalent to approximately HK\$253,869,000) (subject to credit for application of the amount of the deposit paid to Sinomax East and credit and adjustment pursuant to the terms of the Purchase and Sale Agreement), payable by the Purchaser (as purchaser) to Sinomax East (as vendor) under the Purchase and Sale Agreement

“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)
“Completion Date”	30 September 2019 (or such other date as may be agreed in writing between the relevant parties)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the director(s) of the Company
“Escrow Agent”	First American Title Insurance Company, National Commercial Services
“Existing Lease Agreement”	the lease agreement dated 1 October 2015 and entered into between 800 Broadway (as landlord) and Sinomax East (as tenant), pursuant to which Sinomax East leases from 800 Broadway the Property commencing from 1 October 2015 for a term of 128 months (as may be extended from time to time)
“Feasibility Period”	the period from the date of the Purchase and Sale Agreement (being 30 August 2019) to 20 September 2019
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of and not connected to the Company and any of its connected persons

“Leaseback”	the leaseback arrangement in respect of the Property between Sinomax East (as tenant) and the Purchaser (as landlord) upon Sale Completion contemplated under the New Lease pursuant to the Purchase and Sale Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Letter Agreement”	the letter agreement entered into between Sinomax East (as purchaser) and 800 Broadway (as vendor) on 30 August 2019 in relation to the Acquisition
“New Lease”	the lease to be executed between Sinomax East (as tenant) and the Purchaser (as landlord) at the Sale Completion, pursuant to which Sinomax East agrees to lease the Property from the Purchaser subject to the terms therein
“Property”	the property located at 1740 JP Hennessy Drive, LaVergne, TN 37086, the U.S., together with any and all buildings and other improvements thereon including a certain approximately 505,000 sq. ft. industrial facility, and all rights, easements and appurtenances thereto
“Purchase and Sale Agreement”	the purchase and sale agreement entered into between Sinomax East (as vendor) and the Purchaser (as purchaser) on 30 August 2019 in relation to the Sale and Leaseback
“Purchase Option”	the purchase option at no premium granted by 800 Broadway (as landlord) to Sinomax East (as tenant) under the Existing Lease Agreement to acquire the Property, which Sinomax East may at its election exercise subject to the terms of the Existing Lease Agreement
“Purchaser”	the purchaser under the Purchase and Sale Agreement, a Delaware limited liability company and an Independent Third Party

“Sale”	the sale of the Property by Sinomax East (as vendor) to the Purchaser (as purchaser) pursuant to the Purchase and Sale Agreement
“Sale Consideration”	the consideration in the sum of US\$33,000,000 (equivalent to approximately HK\$259,050,000), being the purchase price of the Property payable by the Purchaser (as purchaser) to Sinomax East (as vendor) under the Purchase and Sale Agreement
“Sale Completion”	the completion of the Sale pursuant to the Purchase and Sale Agreement
“Shareholder(s)”	holder(s) of 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 in the State of Delaware in the U.S. and an indirect wholly-owned subsidiary of the Company
“Sinomax Enterprises”	Sinomax Enterprises Limited, a company incorporated in the British Virgin Islands and the controlling Shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“sq. ft.”	square foot
“Transaction”	the transactions contemplated under the Agreements
“US\$”	US dollars, the lawful currency of the U.S.

“U.S.” the United States of America

“%” or “per cent.” percentage or per centum

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

Hong Kong, 2 September 2019

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. Fan Chun Wah Andrew, JP, Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.

In the event of any inconsistency between the English and Chinese versions of this announcement, the English version of this announcement shall prevail over the Chinese version of this announcement.

In this announcement, unless otherwise stated, the conversion of US\$ into HK\$ has been made at an exchange rate of US\$1: HK\$7.85. 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.