

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1418)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

PERFORMANCE HIGHLIGHTS

- Revenue for the six-month period ended 30 June 2020 decreased by approximately HK\$390.0 million or 26.3% to approximately HK\$1,090.0 million, as compared to approximately HK\$1,479.9 million for the corresponding period last year.
- Gross profit decreased by approximately HK\$168.1 million or 46.1% to approximately HK\$196.8 million for the six-month period ended 30 June 2020, as compared to approximately HK\$365.0 million for the corresponding period last year.
- (Loss)/profit for the six-month period ended 30 June 2020 decreased by approximately HK\$45.4 million or 430.5% to a loss of approximately HK\$34.9 million, as compared to a profit of approximately HK\$10.6 million for the corresponding period last year.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sinomax Group Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six-month period ended 30 June 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

		Unaudited	
		For the six-month period	
		ended 30 June	
		2020	2019
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,089,958	1,479,883
Cost of sales		(893,120)	(1,114,925)
Gross profit		196,838	364,958
Other income	4	45,396	27,310
Other losses, net		(1,526)	(1,073)
Impairment losses (provided)/reversed for financial assets		(9,011)	2,345
Selling and distribution costs		(135,159)	(197,184)
Administrative expenses		(71,435)	(97,177)
Other expenses		(28,112)	(46,435)
Operating (loss)/profit		(3,009)	52,744
Finance costs	5	(18,351)	(24,034)
(Loss)/profit before income tax		(21,360)	28,710
Income tax expense	6	(13,516)	(18,158)
(Loss)/profit for the period	7	<u>(34,876)</u>	<u>10,552</u>
(Loss)/profit for the period attributable to:			
Equity owners of the Company		(34,705)	11,436
Non-controlling interests		(171)	(884)
		<u>(34,876)</u>	<u>10,552</u>
		<i>Cents</i>	<i>Cents</i>
(Loss)/earnings per share attributable to the equity holders of the Company	8		
– Basic		<u>(1.98)</u>	<u>0.65</u>
– Diluted		<u>(1.98)</u>	<u>0.65</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD 30 JUNE 2020

	Unaudited	
	For the six-month period	
	ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
(Loss)/profit for the period	<u>(34,876)</u>	<u>10,552</u>
Other comprehensive loss		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(17,421)</u>	<u>(337)</u>
Total comprehensive (loss)/income for the period	<u>(52,297)</u>	<u>10,215</u>
Total comprehensive (loss)/income for the period attributable to:		
Equity owners of the Company	<u>(50,449)</u>	<u>10,883</u>
Non-controlling interests	<u>(1,848)</u>	<u>(668)</u>
	<u>(52,297)</u>	<u>10,215</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

		Unaudited As at 30 June 2020 <i>HK\$'000</i>	Audited As at 31 December 2019 <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment		528,175	569,836
Right-of-use assets		196,480	249,110
Investment properties		31,826	33,376
Intangible assets		15,053	15,374
Deferred tax assets		8,470	8,409
Deposits, prepayments and other receivables	10	<u>84,480</u>	<u>136,977</u>
		<u>864,484</u>	<u>1,013,082</u>
Current assets			
Inventories		522,567	491,845
Trade receivables	10	382,571	406,860
Deposits, prepayments and other receivables	10	174,089	152,616
Bill receivables	11	35,945	55,553
Trade receivables at fair value through other comprehensive income		43,669	44,696
Pledged deposit		775	1,791
Bank balances and cash		<u>195,120</u>	<u>240,320</u>
		<u>1,354,736</u>	<u>1,393,681</u>
Total assets		<u><u>2,219,220</u></u>	<u><u>2,406,763</u></u>

		Unaudited As at 30 June 2020 <i>HK\$'000</i>	Audited As at 31 December 2019 <i>HK\$'000</i>
	<i>NOTES</i>		
Capital and reserves			
Share capital		175,000	175,000
Reserves		<u>629,513</u>	<u>679,962</u>
		804,513	854,962
Non-controlling interests		<u>(5,086)</u>	<u>10,046</u>
Total equity		<u>799,427</u>	<u>865,008</u>
Non-current liabilities			
Lease liabilities		179,351	226,154
Other payables	12	1,467	–
Deferred tax liabilities		<u>28,740</u>	<u>29,874</u>
		<u>209,558</u>	<u>256,028</u>
Current liabilities			
Trade and other payables	12	498,722	532,519
Bill payables	13	24,162	47,649
Lease liabilities		63,153	59,429
Unsecured bank borrowings	14	616,832	622,863
Taxation payable		<u>7,366</u>	<u>23,267</u>
		<u>1,210,235</u>	<u>1,285,727</u>
Total liabilities		<u>1,419,793</u>	<u>1,541,755</u>
Total equity and liabilities		<u>2,219,220</u>	<u>2,406,763</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated interim financial information of Sinomax Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made during the interim reporting period.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax and the adoption of the new and amended standards as set out below.

Income tax expense is recognised based on management’s estimate of the weighted average effective annual income tax rate expected for the full financial year.

New and amended standards adopted by the Group

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated interim financial information:

Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of material
HKFRS 3 (Amendments)	Definition of a business
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting
HKFRS 16 (Amendments)	COVID-19 related rent concession

The amended standards and framework listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future period.

New and amended standards issued by not yet effective

Certain new and amended standards have been published that are not mandatory for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to HKAS 16	Proceeds before Intended Use ⁽¹⁾
Amendments to HKAS 37	Onerous Contract - Cost of Fulfilling a Contract ⁽¹⁾
Amendments to HKFRS 3	Update Reference to the Conceptual Framework ⁽¹⁾
Amendments to annual improvements project	Annual Improvements to HKFRS 2018-2020 cycle ⁽¹⁾
HKFRS 17	Insurance Contracts ⁽²⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

⁽¹⁾ *Effective for the Group for annual period beginning on 1 January 2022.*

⁽²⁾ *Effective for the Group for annual period beginning on 1 January 2023.*

⁽³⁾ *Effective date to be determined.*

3. REVENUE AND SEGMENT INFORMATION

The Group sells health and household products, including quality visco-elastic pillows, mattress toppers and mattresses, to wholesalers and retailers and also directly to customers both through its retail network comprising self-operated stand-alone retail shops and concession counters in department stores and through internet sales. The Group also sells polyurethane foam to furniture manufacturers.

The executive directors of the Company, being the chief operating decision maker (“CODM”), make decisions about resource allocation based on the revenue from different geographical markets and review reports on the financial performance of the Group as a whole. No other discrete financial information is reviewed by the CODM for the assessment of performance of the Group. Therefore, no other segment information is presented. The Group is currently organised into the following three geographical markets as follows:

- | | | |
|-----------------------------------|---|---|
| China market | – | manufacture and sale of health and household products and polyurethane foam for customers located in the PRC, Hong Kong and Macau |
| North American market | – | manufacture and sale of health and household products for customers located in the United States (the “US”), Canada and other North American countries |
| Europe and other overseas markets | – | manufacture and sale of health and household products for customers located in overseas countries except for those customers located in the North American market |

Disaggregation of revenue from contracts with customers

Revenue recognised at a point in time during the period is as follows:

Type of goods

	For the six-month period	
	ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of health and household products	752,280	915,627
Sales of polyurethane foam	337,678	564,256
Total	<u>1,089,958</u>	<u>1,479,883</u>

Geographical markets

	For the six-month period ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
China market		
– The PRC	400,180	702,321
– Hong Kong, Macau and others	153,465	205,444
	553,645	907,765
North American market		
– The US	440,935	499,967
– Others	43,695	48,091
	484,630	548,058
Europe and other overseas markets	51,683	24,060
Total	1,089,958	1,479,883

4. OTHER INCOME

	For the six-month period ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	2,364	2,433
Government subsidies	25,027	516
Scrap sales	6,905	14,855
Rental income	5,803	8,248
Others	5,297	1,258
	45,396	27,310

5. FINANCE COSTS

	For the six-month period	
	ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on bank borrowings	10,738	19,057
Interest expense on lease liabilities	7,613	4,977
	<u>18,351</u>	<u>24,034</u>

6. INCOME TAX EXPENSE

	For the six-month period	
	ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	1,794	303
PRC Enterprise Income Tax (“EIT”)	1,087	10,001
PRC withholding tax on distributed profits from PRC subsidiaries	9,496	–
US Income Tax	5	130
	<u>12,382</u>	<u>10,434</u>
Deferred taxation	<u>1,134</u>	<u>7,724</u>
	<u>13,516</u>	<u>18,158</u>

7. (LOSS)/PROFIT FOR THE PERIOD

For the six-month period ended 30 June

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/profit for the period has been arrived at after charging:		
Cost of inventories recognised as expenses including provision for inventories of HK\$2,387,000 (30 June 2019: reversal of HK\$2,576,0000)	893,120	1,114,925
Total staff costs, including share based payment expenses (included in selling and distribution costs and administrative expenses)	180,807	218,332
Amortisation of intangible assets	321	5,396
Depreciation of property, plant and equipment	34,528	32,282
Depreciation of right-of-use assets	38,846	31,807
Depreciation of investment properties	961	1,973
Marketing expense	10,028	13,914
Professional fee	9,012	13,236
Transportation expense	27,072	38,181

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	For the six-month period ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
<i>(Loss)/earnings for the purpose of basic and diluted earnings per share:</i>		
(Loss)/profit for the period attributable to owners of the Company	<u>(34,705)</u>	<u>11,436</u>

	For the six-month period ended 30 June	
	2020	2019
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	1,750,002,000	1,750,002,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	<u>1,750,002,000</u>	<u>1,750,002,000</u>

The computation of the diluted (loss)/earnings per share for the six-month period ended 30 June 2020 and 2019 does not assume the exercise of any share options as the exercise prices of these share options are higher than the average market price of shares during the six-month period ended 30 June 2020 and 2019.

9. DIVIDEND

No dividends were paid, declared or proposed during the period (30 June 2019: Nil).

10. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Trade receivables, at amortised cost	417,674	437,611
<i>Less:</i> allowance for credit losses	<u>(35,103)</u>	<u>(30,751)</u>
	<u>382,571</u>	<u>406,860</u>
Deposits, prepayments and other receivables	<u>258,569</u>	<u>289,593</u>
<i>Less:</i> Non-current rental deposits	(16,906)	(16,996)
Non-current other receivables (<i>Note (i)</i>)	(59,854)	(115,448)
Non-current deposits paid for property, plant and machinery	(4,098)	(4,533)
Non-current net investment in sublease	<u>(3,622)</u>	<u>–</u>
	<u>174,089</u>	<u>152,616</u>
	<u>556,660</u>	<u>559,476</u>

Note (i): The balance represents the consideration receivable in relation to the disposal of 51% equity interest in Chengdu Xingang Sponge Co. Ltd completed in 2019. According to the sale and purchase agreement, the total cash consideration of RMB157,000,000 (equivalent to approximately HK\$176,891,000) will be settled by four instalments. During the period, the Group received the second instalment amounted to RMB30,000,000 (equivalent to approximately HK\$33,007,000). The remaining instalments would be due in 2021 and 2022, respectively.

The Group's retail sales are made both through its retail network comprising stand-alone retail shops and concession counters in department stores and through internet sales. The Group also sells health and household products directly to overseas wholesalers and retailers and the polyurethane foam to furniture manufacturers in the PRC. Sales at self-operated retail shops and sales through retailers in the PRC and internet sales are transacted either by cash or credit cards. For sales made at concession counters, the department stores collect cash from the end customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranges from 30 days to 120 days. For sales to wholesalers, retailers and furniture manufacturers, the Group generally allows a credit period ranging from 7 days to 90 days.

The following is the aging analysis of trade receivables, net of allowance for credit losses, presented based on the dates of invoice.

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Within 30 days	222,874	217,711
31 to 60 days	69,948	124,367
61 to 90 days	52,952	38,876
91 to 180 days	23,071	23,394
181 to 365 days	13,726	2,512
	<u>382,571</u>	<u>406,860</u>

11. BILL RECEIVABLES

The amount represents bill receivables which are not yet due at the end of the reporting period. The following is the aging analysis of bill receivables based on their time to maturities as at end of reporting periods:

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Within 30 days	10,065	8,832
31 to 60 days	5,666	7,996
61 to 90 days	9,942	9,840
91 to 180 days	6,829	28,208
181 to 365 days	3,443	677
	<u>35,945</u>	<u>55,553</u>

Included in the bill receivables above amounting to approximately HK\$30,245,000 (31 December 2019: HK\$39,549,000) had been endorsed for settling the trade payables for which the maturity dates of the bill receivables have not yet fallen due as at the end of the reporting period. All bill receivables of the Group are with a maturity period of less than one year.

12. TRADE AND OTHER PAYABLES

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Trade payables	366,142	342,597
Other payables and accrued expenses	<u>134,047</u>	<u>189,922</u>
	<u>500,189</u>	<u>532,519</u>
Less: Non-current deferred government subsidies	<u>(1,467)</u>	<u>–</u>
	<u>498,722</u>	<u>532,519</u>

Included in the trade and other payables above amounting to HK\$30,245,000 (31 December 2019: HK\$39,549,000) had been settled by endorsed bills for which the maturity dates of the bill receivables are not yet fallen due as at the end of the reporting period.

The credit period of trade payables is ranging from 30 to 60 days. The following is the aging analysis of trade payables based on the invoice date at the end of each reporting period.

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Within 30 days	212,443	204,285
31 to 60 days	79,644	94,940
61 to 90 days	34,124	19,081
91 to 180 days	19,938	17,746
Over 180 days	<u>19,993</u>	<u>6,545</u>
	<u>366,142</u>	<u>342,597</u>

13. BILL PAYABLES

Bill payables were guaranteed by the Company and certain of its subsidiaries and the following is the aging analysis of bill payables at the end of the reporting period presented based on bills issue date:

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Within 30 days	1,855	6,107
31 to 60 days	8,464	11,639
61 to 90 days	800	6,481
91 to 180 days	13,043	15,712
Over 180 days	—	7,710
	<u>24,162</u>	<u>47,649</u>

14. UNSECURED BANK BORROWINGS

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Term borrowings	312,322	376,992
Revolving borrowings	119,900	119,900
Trade borrowings	184,610	119,332
Other borrowings	—	6,639
	<u>616,832</u>	<u>622,863</u>
Variable-rate borrowings	616,832	616,224
Fixed-rate borrowings	—	6,639
	<u>616,832</u>	<u>622,863</u>

Bank borrowings bear interest rates of 1.78% – 4.95% per annum (31 December 2019: 2.48% – 5.57% per annum). Variable-rate bank borrowings carry interest with reference to Hong Kong Interbank Offered Rate, London Interbank Offered Rates and Loan Prime Rate plus a specific margin of the relevant banks and mature within one year. As at 30 June 2020, the Group has undrawn banking facilities amounted to HK\$649,858,000 (31 December 2019: HK\$883,518,000).

15. COMMITMENT

	At 30 June 2020 <i>HK\$'000</i>	At 31 December 2019 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated interim financial information	<u>5,837</u>	<u>6,040</u>

BUSINESS REVIEW

Revenue by operating segments

Revenue for the six-month period ended 30 June 2020 (the “**Period**”) decreased by approximately HK\$390.0 million or approximately 26.3% to approximately HK\$1,090.0 million, as compared to approximately HK\$1,479.9 million for the corresponding period last year.

	For the six-month period		Changes
	ended 30 June		
	2020	2019	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
China market	553,645	907,765	-39.0%
North American market	484,630	548,058	-11.6%
Europe and other overseas markets	51,683	24,060	114.8%
Total	<u>1,089,958</u>	<u>1,479,883</u>	-26.4%

The sales in the China and North American markets decreased by approximately 39.0% and 11.6%, respectively, for the Period, as compared to the corresponding period last year due to the outbreak of the COVID-19.

In Europe and other overseas markets, we recorded an increase of sales in this region of approximately 114.8% for the Period, as compared to the corresponding period last year. The increase was due to our sales to customers in Vietnam.

Gross profit

With a decrease of approximately 26.3% in the Group's revenue, gross profit (the "GP") decreased by approximately HK\$168.1 million or approximately 46.1% to approximately HK\$196.8 million during the Period as compared to approximately HK\$365.0 million for the six-month period ended 30 June 2019. The GP margin decreased by approximately 6.6% from approximately 24.7% to approximately 18.1% as compared to the six-month period ended 30 June 2019. The decrease in the GP margin was due to the slowdown in the Group's business activities caused by the COVID-19 outbreak.

Costs and expenses

Selling and distribution costs for the Period decreased by approximately HK\$62.0 million or approximately 31.5% to approximately HK\$135.2 million, as compared to approximately HK\$197.2 million for the six-month period ended 30 June 2019. Decrease in selling and distribution costs was in line with the decrease in turnover for the Period. The decrease was mainly due to the decrease in staff costs and commission fees of approximately HK\$17.5 million, concession and rental expenses of approximately HK\$11.1 million and transportation costs of approximately HK\$11.1 million.

Administrative expenses for the Period decreased by approximately HK\$25.7 million or approximately 26.5% to approximately HK\$71.4 million, as compared to approximately HK\$97.2 million for the six-month period ended 30 June 2019. The decrease was mainly due to the reduction in staff costs as the number of headcount decreased.

Other expenses, mainly consisting of research and development expenses, decreased by approximately HK\$18.3 million or approximately 39.5% from approximately HK\$46.4 million for the six-month period ended 30 June 2019 to approximately HK\$28.1 million for the Period.

Finance costs for the Period decreased by approximately HK\$5.7 million or approximately 23.6% to approximately HK\$18.4 million, as compared to approximately HK\$24.0 million for the six-month period ended 30 June 2019. The decrease was in line with the decrease of bank borrowings and the drop in Libor/Hibor.

Income tax expenses

Included in income tax expenses were payments of PRC withholding tax on distributable profits from the Company's PRC subsidiaries of approximately HK\$9.0 million. Profits from PRC entities decreased due to COVID-19 outbreak which leads to decrease in PRC EIT from approximately HK\$10.4 million for the six-month period ended 30 June 2019 to approximately HK\$1.1 million for the Period.

(Loss)/profit for the Period

As a result of the decrease in the GP as mentioned above, (loss)/profit for the Period decreased by approximately HK\$45.4 million or approximately 430.5% to a loss of approximately HK\$34.9 million, as compared to approximately a profit of HK\$10.6 million for the six-month period ended 30 June 2019. Due to the slowdown in the Group's business activities, impairment losses provided for financial assets for the Period increased by approximately HK\$11.4 million or approximately 484.3% to approximately HK\$9.0 million, as compared to approximately HK\$2.3 million impairment losses reversed for the six-month period ended 30 June 2019.

LIQUIDITY, FINANCE AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2020. As at 30 June 2020, the Group had net current assets of approximately HK\$144.5 million, as compared to approximately HK\$108.0 million as at 31 December 2019.

Bank balances and cash as at 30 June 2020 decreased by approximately HK\$45.2 million or approximately 18.8% to approximately HK\$195.1 million as compared to approximately HK\$240.3 million as at 31 December 2019, meanwhile the inventory level increased by approximately HK\$30.8 million or approximately 6.3% to approximately HK\$522.6 million as compared to approximately HK\$491.8 million as at 31 December 2019 in order to cope with the increasing demand of several large customers in the coming months.

Borrowings and pledge of assets

As at 30 June 2020, the Group had banking facilities amounting to approximately HK\$1,290.9 million of which approximately HK\$641.0 million was utilized (31 December 2019: banking facilities amounting to approximately HK\$1,544.0 million of which approximately HK\$670.5 million was utilized) (which included unsecured bank borrowings and bills payables). Some bill payables of the Group were secured by pledged bank deposits of approximately HK\$0.8 million (31 December 2019: approximately HK\$1.8 million).

Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK\$13.7 million mainly for the purchasing of the Group's plant and machinery (31 December 2019: approximately HK\$70.2 million).

Financial ratios

	As at 30 June 2020	As at 31 December 2019
Current ratio ⁽¹⁾	111.9%	108.4%
Quick ratio ⁽²⁾	68.8%	70.1%
Gearing ratio ⁽³⁾	77.2%	72.0%
Debt to equity ratio ⁽⁴⁾	52.7%	44.2%

(1) Current ratio is equal to current assets divided by current liabilities.

(2) Quick ratio is equal to current assets less inventories and divided by current liabilities.

(3) Gearing ratio is derived by dividing interest-bearing debt incurred in the ordinary course of business by total equity.

(4) Debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include all borrowings net of cash and cash equivalents.

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, the PRC and the US. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by its revenue and expenditure in the PRC. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against Renminbi which could materially affect the Group's results of operations, and therefore no hedging instrument has been employed. The Group will closely monitor the trends of various foreign currencies and take appropriate measures to deal with the foreign exchange exposure if necessary.

TREASURY POLICY AND MARKET RISKS

The Group has a treasury policy that aims at better controlling its treasury operations and lowering borrowing cost. Such treasury policy requires the Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance the Group's daily operations and to address short term funding needs. The Group reviews and evaluates its treasury policy from time to time to ensure its adequacy and effectiveness.

PROSPECTS

2020 has been a challenging year. The COVID-19 outbreak has caused certain uncertainties and the Group's results for the Period has deteriorated. However, we identified the following factors:

- (1) Turnaround of our US factory;
- (2) Turnaround of our Group's monthly result;
- (3) Diversification of our customer base; and
- (4) Encouraging demand from customers.

Our US factory started its production in 2017. Since then, significant losses were incurred over the years. In May 2020, our US factory started to report an operating profit. The profit recorded in May 2020 mainly resulted from various savings including materials and labor efficiency that were brought in place by the new US factory management team. In June and July 2020, the reported operating profit is consistently improving and we hope that this trend will continue.

With the turnaround of our US factory, our Group also recorded operating profit starting from May 2020. Sales started to pick up in the China, North American and other overseas markets.

Since last year, we have put more resources to develop a more diversified customer base with on-line sales. Sales from these on-line sales customers started to increase starting from the second quarter of 2020. We expect that the sales growth from these customers will be significant in the future.

Following the outbreak of COVID-19 and the US – China trade war, US importers start to revisit the supply chain. They will pay more attention to those suppliers who have the ability to supply in the US. Having factories in China, the US and Vietnam, we are able to supply globally to our customers with various needs. The Group is able to arrange our production and logistics schedules with flexibility to minimize the overall costs including production, tariff and transportation. Starting from June 2020, the demand from our customers are encouraging.

Based on the recent monthly results and increasing demand of customers, we are optimistic about our future performance. We have also noticed that prices of various key materials are increasing recently. We will monitor it closely and discuss with our customers for the possibility to transfer the increased costs to our customers as and when necessary.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the section headed “Prospects” in this announcement above, the Group does not have other plans for material investments or capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six-month period ended 30 June 2020 (for the six-month period ended 30 June 2019: NIL).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, the employee headcount of the Group was 2,902 (30 June 2019: 3,297) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$180.8 million for the Period (for the six-month period ended 30 June 2019: approximately HK\$218.3 million). The decrease in staff costs was primarily due to the decrease in headcount.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including housing and travel allowances depending on their grade and ranking within the Group. The Group also maintains medical insurance for the benefit of its employees. The Group conducts induction training for all of its new employees and on-going training from time to time during their employment. The nature of training offered depends on their specific field of operation. The Group also operates an employee incentive scheme pursuant to which rewards take the form of promotions, salary raises and monetary bonuses, and a share option scheme.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance. During the Period, all the code provisions set out in the CG Code were met by the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors and all Directors confirmed that they have complied with the required standards of the Model Code regarding Directors' securities transactions during the Period.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed, together with the management of the Group, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements and interim results announcement of the Group for the Period and recommended its adoption by the Board.

PricewaterhouseCoopers, the auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information of the Group for the Period, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

PUBLICATION OF THE INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sinomax.com/group), and the interim report for the six-month period ended 30 June 2020 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the Board
Sinomax Group Limited
Lam Chi Fan
Chairman

Hong Kong, 28 August 2020

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.