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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

PERFORMANCE HIGHLIGHTS

- Revenue for the six-month period ended 30 June 2021 (the “**Period**”) increased by approximately HK\$911.3 million or approximately 83.6% to approximately HK\$2,001.3 million, as compared to approximately HK\$1,090.0 million for the corresponding period last year.
- Gross profit increased by approximately HK\$123.5 million or approximately 62.8% to approximately HK\$320.3 million during the Period, as compared to approximately HK\$196.8 million for the corresponding period last year.
- Profit for the Period amounted to approximately HK\$14.5 million while a loss of approximately HK\$34.9 million was reported 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 2021, together with the comparative figures for the corresponding period in 2020, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

		Unaudited	
		For the six-month period ended 30 June	
		2021	2020
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	2,001,300	1,089,958
Cost of sales		<u>(1,680,962)</u>	<u>(893,120)</u>
Gross profit		320,338	196,838
Other income	4	29,246	45,396
Other losses, net		(3,745)	(1,526)
Impairment losses reversed/(provided) for financial assets		8,764	(9,011)
Selling and distribution expenses		(186,047)	(135,159)
Administrative expenses		(96,776)	(71,435)
Other expenses		<u>(30,876)</u>	<u>(28,112)</u>
Operating profit/(loss)		40,904	(3,009)
Finance costs	5	<u>(19,862)</u>	<u>(18,351)</u>
Profit/(loss) before income tax		21,042	(21,360)
Income tax expense	6	<u>(6,521)</u>	<u>(13,516)</u>
Profit/(loss) for the period	7	<u>14,521</u>	<u>(34,876)</u>
Profit/(loss) for the period attributable to:			
Equity owners of the Company		9,421	(34,705)
Non-controlling interests		<u>5,100</u>	<u>(171)</u>
		<u>14,521</u>	<u>(34,876)</u>
		<i>Cents</i>	<i>Cents</i>
Earnings/(loss) per share attributable to the equity holders of the Company	8		
– Basic		<u>0.54</u>	<u>(1.98)</u>
– Diluted		<u>0.54</u>	<u>(1.98)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

	Unaudited	
	For the six-month period	
	ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Profit/(loss) for the period	<u>14,521</u>	<u>(34,876)</u>
Other comprehensive income/(loss)		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>12,087</u>	<u>(17,421)</u>
Total comprehensive income/(loss) for the period	<u>26,608</u>	<u>(52,297)</u>
Total comprehensive income/(loss) for the period attributable to:		
Equity owners of the Company	<u>19,698</u>	<u>(50,449)</u>
Non-controlling interests	<u>6,910</u>	<u>(1,848)</u>
	<u>26,608</u>	<u>(52,297)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

		Unaudited As at 30 June 2021 <i>HK\$'000</i>	Audited As at 31 December 2020 <i>HK\$'000</i>
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment		511,406	528,953
Right-of-use assets		323,034	198,078
Investment properties		32,754	33,479
Intangible assets		14,465	14,733
Deposits, prepayments and other receivables	10	21,755	82,109
Deferred tax assets		19,146	8,003
		<u>922,560</u>	<u>865,355</u>
Current assets			
Inventories		688,133	585,510
Trade receivables	10	634,383	662,498
Deposits, prepayments and other receivables	10	165,362	151,432
Bill receivables	11	71,495	78,168
Trade receivables at fair value through other comprehensive income		72,594	24,072
Pledged bank deposit		1,080	10,260
Cash and cash equivalents		212,733	136,915
		<u>1,845,780</u>	<u>1,648,855</u>
Total assets		<u><u>2,768,340</u></u>	<u><u>2,514,210</u></u>

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2021	2020
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Share capital		175,000	175,000
Reserves		799,209	779,511
		<hr/>	<hr/>
Equity attributable to owners of the Company		974,209	954,511
Non-controlling interests		8,858	1,948
		<hr/>	<hr/>
Total equity		983,067	956,459
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		293,171	162,756
Deferred government grant	<i>12</i>	2,040	2,229
Deferred tax liabilities		16,712	17,048
		<hr/>	<hr/>
		311,923	182,033
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>12</i>	700,136	678,034
Bill payables	<i>13</i>	63,117	44,902
Contract liabilities		12,967	12,559
Unsecured bank borrowings	<i>14</i>	603,948	547,224
Lease liabilities		69,773	75,468
Taxation payable		23,409	17,531
		<hr/>	<hr/>
		1,473,350	1,375,718
		<hr/>	<hr/>
Total liabilities		1,785,273	1,557,751
		<hr/>	<hr/>
Total equity and liabilities		2,768,340	2,514,210
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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 announcement is to be read in conjunction with the annual report for the year ended 31 December 2020 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.

Amended standards adopted by the Group

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated interim financial information:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 Interest Rate Benchmark Reform – Phase 2
and HKFRS 16 (Amendments)

The amended standards 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 but not yet effective

Certain new and amended standards have been published that are not mandatory for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽²⁾
Amendments to HKAS 16	COVID-19-Related Rent Concession beyond 30 June 2021 ⁽¹⁾
Amendments to HKAS 16	Proceeds before Intended Use ⁽²⁾
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁽²⁾
Amendments to HKFRS 3	Update Reference to the Conceptual Framework ⁽²⁾
Amendments to annual improvements project	Annual Improvements to HKFRS 2018-2020 cycle ⁽²⁾
HKFRS 17	Insurance Contracts ⁽³⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 April 2021

⁽²⁾ Effective for the Group for annual period beginning on 1 January 2022

⁽³⁾ Effective for the Group for annual period beginning on 1 January 2023

⁽⁴⁾ 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 reviews 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 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	
	2021	2020
	HK\$'000	HK\$'000
Sales of health and household products	1,090,827	752,280
Sales of polyurethane foam	<u>910,473</u>	<u>337,678</u>
Total	<u>2,001,300</u>	<u>1,089,958</u>

Geographical markets

	For the six-month period ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
China market		
– The PRC	899,248	400,180
– Hong Kong, Macau and others	<u>141,960</u>	<u>153,465</u>
	<u>1,041,208</u>	<u>553,645</u>
North American market		
– The US	686,813	440,935
– Others	<u>38,904</u>	<u>43,695</u>
	<u>725,717</u>	<u>484,630</u>
Europe and other overseas markets	<u>234,375</u>	<u>51,683</u>
Total	<u>2,001,300</u>	<u>1,089,958</u>

4. OTHER INCOME

	For the six-month period ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	2,573	2,364
Government subsidies	2,217	25,027
Scrap sales	9,376	6,905
Rental income	8,904	5,803
Others	6,176	5,297
	<u>29,246</u>	<u>45,396</u>

5. FINANCE COSTS

	For the six-month period ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	10,899	10,738
Interest on lease liabilities	8,963	7,613
	<u>19,862</u>	<u>18,351</u>

6. INCOME TAX EXPENSE

	For the six-month period ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	1,591	1,794
PRC Enterprise Income Tax (“EIT”)	9,563	1,087
PRC withholding tax on distributed profits from PRC subsidiaries	2,190	9,496
US Income Tax	–	5
	<u>13,344</u>	<u>12,382</u>
Deferred taxation	<u>(6,823)</u>	<u>1,134</u>
	<u>6,521</u>	<u>13,516</u>

7. PROFIT/(LOSS) FOR THE PERIOD

	For the six-month period ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Profit/(loss) for the period has been arrived at after charging:		
Cost of inventories recognised as expenses including provision for inventories of HK\$370,000 (30 June 2020: provision of HK\$2,387,000)	1,680,962	893,120
Total staff costs, including share based payment expenses (included in selling and distribution costs and administrative expenses)	248,290	180,807
Amortisation of intangible assets	268	321
Depreciation of property, plant and equipment	36,353	34,528
Depreciation of right-of-use assets	37,805	38,846
Depreciation of investment properties	1,049	961
Marketing expense	29,781	10,028
Professional fee	10,935	9,012
Transportation expense	<u>42,825</u>	<u>27,072</u>

8. EARNINGS/(LOSS) PER SHARE

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

	For the six-month period ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
<i>Earnings/(loss) for the purpose of basic and diluted earnings per share:</i>		
Profit/(loss) for the period attributable to owners of the Company	<u>9,421</u>	<u>(34,705)</u>
	For the six-month period ended 30 June	
	2021	2020
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purpose of basic 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 earnings per share	<u>1,750,002,000</u>	<u>1,750,002,000</u>

The diluted earnings/(loss) per share equaled the basic earnings/(loss) per share for the six-month periods ended 30 June 2021 and 2020 as the outstanding share options did not have dilutive effect because the exercise prices per share options were higher than the average share price of the shares of the Company during the periods.

9. DIVIDEND

No dividends were paid, declared or proposed during the period (30 June 2020: Nil).

10. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2021 HK\$'000	At 31 December 2020 HK\$'000
Trade receivables, at amortised cost	658,153	694,915
<i>Less:</i> allowance for credit losses	<u>(23,770)</u>	<u>(32,417)</u>
	634,383	662,498
Deposits, prepayments and other receivables	<u>187,117</u>	<u>233,541</u>
	821,500	896,039
<i>Less:</i> Non-current rental deposits	(12,999)	(10,128)
Non-current other receivables (<i>Note (i)</i>)	–	(65,336)
Non-current deposits paid for property, plant and machinery	(6,005)	(3,414)
Non-current net investment in sublease	<u>(2,751)</u>	<u>(3,231)</u>
	<u>(21,755)</u>	<u>(82,109)</u>
Current portion	<u>799,745</u>	<u>813,930</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 2020. 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 third installment amounting to RMB50,000,000 (equivalents to HK\$60,043,000). The remaining instalment amounting to RMB57,000,000 (equivalents to HK\$69,141,000) would be due in 2022.

The Group's retail sales are made through its retail network comprising stand-alone retail shops, concession counters in department stores and 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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Within 30 days	368,325	397,758
31 to 60 days	141,764	157,527
61 to 90 days	80,337	86,883
91 to 180 days	39,191	20,007
181 to 365 days	4,766	323
	<u>634,383</u>	<u>662,498</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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Within 30 days	20,068	10,523
31 to 60 days	45,056	62,961
61 to 90 days	443	1,213
91 to 180 days	3,065	1,609
181 to 365 days	2,863	1,862
	<u>71,495</u>	<u>78,168</u>

Included in the bill receivables above amounting to approximately HK\$63,911,000 (31 December 2020: HK\$73,124,000) 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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Trade payables	528,416	509,854
Other payables and accrued expenses	<u>173,760</u>	<u>170,409</u>
	702,176	680,263
<i>Less: Non-current deferred government grant</i>	<u>(2,040)</u>	<u>(2,229)</u>
	<u><u>700,136</u></u>	<u><u>678,034</u></u>

Included in the trade and other payables above amounting to HK\$63,911,000 (31 December 2020: HK\$73,124,000) had been settled by endorsed bills for which the maturity dates of the bill receivables have not yet fallen due as at the end of the reporting period (note 11).

The credit period of trade payables ranges 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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Within 30 days	322,334	352,822
31 to 60 days	156,619	93,842
61 to 90 days	18,000	35,503
91 to 180 days	13,484	19,041
Over 180 days	<u>17,979</u>	<u>8,646</u>
	<u><u>528,416</u></u>	<u><u>509,854</u></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 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Within 30 days	22,905	8,579
31 to 60 days	365	9,546
61 to 90 days	13,906	3,202
91 to 180 days	23,782	23,575
Over 180 days	2,159	–
	<u>63,117</u>	<u>44,902</u>

14. UNSECURED BANK BORROWINGS

	At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <i>HK\$'000</i>
Term borrowings	108,124	189,217
Revolving borrowings	100,400	100,400
Trade borrowings	395,424	257,607
	<u>603,948</u>	<u>547,224</u>
Variable-rate borrowings	<u>603,948</u>	<u>547,224</u>

Bank borrowings bear interest rates of 1.23% – 4.90% per annum (31 December 2020: 1.23% – 4.65% 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 2021, the Group has undrawn banking facilities amounting to HK\$446,961,000 (31 December 2020: HK\$528,340,000).

15. COMMITMENT

	At 30 June 2021 <i>HK\$'000</i>	At 31 December 2020 <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>11,368</u>	<u>8,878</u>

BUSINESS REVIEW

Revenue by operating segments

Revenue for the Period increased by approximately HK\$911.3 million or approximately 83.6% to approximately HK\$2,001.3 million, as compared to approximately HK\$1,090.0 million for the corresponding period last year.

	For the six-month period		
	ended 30 June		
	2021	2020	Changes
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
China market	1,041,208	553,645	88.1%
North American market	725,717	484,630	49.7%
Europe and other overseas markets	234,375	51,683	353.5%
Total	<u>2,001,300</u>	<u>1,089,958</u>	83.6%

The sales in the China market increased by approximately 88.1% for the Period, as compared to the corresponding period last year. The increase was due to the fact that the China market has gradually recovered from the impacts of the COVID-19 epidemic in the first half of 2021.

In the North American market, as we diversified our customer base by developing business relationship with more new customers, sales in this region increased by approximately 49.7% for the Period, as compared to the corresponding period last year.

In Europe and other overseas markets, we recorded an increase of sales of approximately 353.5% for the Period, as compared to the corresponding period last year. The increase was due to the increase in our sales to customers in Vietnam.

Gross Profit

The Group's gross profit (the "GP") increased by approximately HK\$123.5 million or approximately 62.8% to approximately HK\$320.3 million during the Period, as compared to approximately HK\$196.8 million for the corresponding period last year. However, the GP margin decreased by 2.1% from approximately 18.1% to approximately 16.0% as compared to the corresponding period last year.

The decrease in GP margin was due to increase in the purchase price of key raw materials of polyurethane foam and freight charges during the Period, as compared to the corresponding period last year.

Cost and expenses

Selling and distribution costs for the Period increased by approximately HK\$50.8 million or approximately 37.6% to approximately HK\$186.0 million, as compared to approximately HK\$135.2 million for the six-month period ended 30 June 2020. The increase in selling and distribution costs was in line with the increase in turnover for the Period. The increase was mainly due to the increase in advertising and marketing expenses of approximately HK\$18.9 million, transportation costs of approximately HK\$15.8 million and staff costs and commission fees of approximately HK\$15.9 million.

Administrative expenses for the Period increased by approximately HK\$25.4 million or approximately 35.6% to approximately HK\$96.8 million, as compared to approximately HK\$71.4 million for the six-month period ended 30 June 2020. The increase was mainly due to the increase in staff costs.

Profit/(loss) for the Period

Profit for the Period amounted to approximately HK\$14.5 million while a loss of approximately HK\$34.9 million was reported for the six-month period ended 30 June 2020.

The reason for the turnaround was attributable to the recovery of the Group's business activities and the rebounding of sales during the Period to a level comparable to that before the COVID-19 outbreak.

LIQUIDITY, FINANCE AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2021. As at 30 June 2021, the Group had net current assets of approximately HK\$372.4 million, as compared to approximately HK\$273.1 million as at 31 December 2020.

Bank balances and cash as at 30 June 2021 increased by approximately HK\$75.8 million or approximately 55.4% to approximately HK\$212.7 million as compared to approximately HK\$136.9 million as at 31 December 2020.

Net cash from operating activities amounted to approximately HK\$14.1 million for the Period as compared to net cash used in operating activities amounting to approximately HK\$21.2 million for the six-month period ended 30 June 2020.

Borrowings and pledge of assets

As at 30 June 2021, the Group had banking facilities amounting to approximately HK\$1,114.0 million of which approximately HK\$667.1 million was utilised (31 December 2020: banking facilities amounting to approximately HK\$1,120.5 million of which approximately HK\$592.1 million was utilised) (which included unsecured bank borrowings and bills payables). Some bill payables of the Group were secured by pledged bank deposits of approximately HK\$1.1 million (31 December 2020: approximately HK\$10.3 million).

Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK\$22.8 million mainly for the purchasing of the Group's plant and machinery (31 December 2020: approximately HK\$29.4 million).

Financial ratios

	As at 30 June 2021	As at 31 December 2020
Current ratio ⁽¹⁾	125.3%	119.9%
Quick ratio ⁽²⁾	78.6%	77.3%
Gearing ratio ⁽³⁾	61.4%	57.2%
Debt to equity ratio ⁽⁴⁾	39.8%	42.9%

⁽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 People's Republic of China (the "PRC"), the United States (the "US") and Vietnam. The Group is exposed to foreign exchange risk principally in Renminbi and Vietnamese Dong which can be largely offset by its revenue and expenditure in the PRC and Vietnam. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against Renminbi and Vietnamese Dong 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 the Renminbi and Vietnamese Dong 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

2021 has been another challenging year. Following the COVID-19 outbreak, the US – China trade war and the imposition of anti-dumping duty on products imported from various countries, costs including materials, logistics and labour continued to rise. We will continue to monitor closely the costs and discuss with our customers for the need to transfer the increased costs to them from time to time.

Demands from customers, particularly in the US, for Mattress-in-a-Box, one of the Group's major products sold through online channels, have been encouraging. We are increasing our production capacity in the US. As disclosed in the announcements of the Company dated 1 February 2021 and 21 April 2021, we entered into two separate lease agreements in relation to the leasing of two premises in the US to expand the Group's operations and to meet our customers' growing demand. More equipment and resources would be invested to cope with the increasing demands in the US.

Based on the increasing demands of customers, we are cautiously optimistic about our future performance. We will continue to explore opportunities in the growing Mattress-in-a-Box market and to diversify our customer base in order to maintain our position as one of the leading experts in visco-elastic health and wellness products in the US and the retail markets in Hong Kong and the PRC.

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 2021 (for the six-month period ended 30 June 2020: NIL).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2021, the employee headcount of the Group was 2,705 (30 June 2020: 2,902) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$248.3 million for the Period (for the six-month period ended 30 June 2020: approximately HK\$180.8 million). The decrease in staff costs for the six-month period ended 30 June 2020 was due to temporary salary reduction in the first half of 2020, which had resumed normal during the Period.

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 INTERIM RESULTS AND 2021 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 (the “**Stock Exchange**”) (www.hkexnews.hk) and the Company (www.sinomax.com/group), and the interim report for the six-month period ended 30 June 2021 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, 27 August 2021

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.