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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 2022**

### **PERFORMANCE HIGHLIGHTS**

- Revenue for the six-month period ended 30 June 2022 (the “**Period**”) decreased by approximately HK\$377.1 million or approximately 18.8% to approximately HK\$1,624.2 million, as compared to approximately HK\$2,001.3 million for the corresponding period last year.
- Gross profit decreased by approximately HK\$56.4 million or approximately 17.6% to approximately HK\$263.9 million during the Period, as compared to approximately HK\$320.3 million for the corresponding period last year.
- Loss for the Period amounted to approximately HK\$44.9 million while a profit of approximately HK\$14.5 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 2022, together with the comparative figures for the corresponding period in 2021, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022**

		<b>Unaudited</b>	
		<b>For the six-month period</b>	
		<b>ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,624,231	2,001,300
Cost of sales		<u>(1,360,340)</u>	<u>(1,680,962)</u>
<b>Gross profit</b>		<b>263,891</b>	320,338
Other income	4	29,605	29,246
Other gains/(losses), net		16,358	(3,745)
Impairment losses (provided)/reversed for financial assets		(10,010)	8,764
Selling and distribution expenses		(212,149)	(186,047)
Administrative expenses		(92,725)	(96,776)
Other expenses		<u>(33,326)</u>	<u>(30,876)</u>
<b>Operating (loss)/profit</b>		<b>(38,356)</b>	40,904
Finance costs	5	<u>(21,637)</u>	<u>(19,862)</u>
<b>(Loss)/profit before income tax</b>		<b>(59,993)</b>	21,042
Income tax credit/(expense)	6	<u>15,048</u>	<u>(6,521)</u>
<b>(Loss)/profit for the period</b>	7	<b><u>(44,945)</u></b>	<b><u>14,521</u></b>
(Loss)/profit for the period attributable to:			
Equity owners of the Company		(41,886)	9,421
Non-controlling interests		<u>(3,059)</u>	<u>5,100</u>
		<b><u>(44,945)</u></b>	<b><u>14,521</u></b>
		<i>Cents</i>	<i>Cents</i>
(Losses)/earnings per share attributable to the equity holders of the Company	8		
– Basic		<u>(2.39)</u>	<u>0.54</u>
– Diluted		<u>(2.39)</u>	<u>0.54</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

	<b>Unaudited</b>	
	<b>For the six-month period</b>	
	<b>ended 30 June</b>	
	<b>2022</b>	2021
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
(Loss)/profit for the period	<u>(44,945)</u>	<u>14,521</u>
<b>Other comprehensive (loss)/income</b>		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(30,061)</u>	<u>12,087</u>
<b>Total comprehensive (loss)/income for the period</b>	<b><u><u>(75,006)</u></u></b>	<b><u><u>26,608</u></u></b>
Total comprehensive (loss)/income for the period attributable to:		
Equity owners of the Company	<u>(69,440)</u>	19,698
Non-controlling interests	<u>(5,566)</u>	<u>6,910</u>
	<b><u><u>(75,006)</u></u></b>	<b><u><u>26,608</u></u></b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2022

		Unaudited As at 30 June 2022 <i>HK\$'000</i>	Audited As at 31 December 2021 <i>HK\$'000</i>
	<i>Notes</i>		
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		491,743	507,902
Right-of-use assets		282,824	314,997
Investment properties		30,068	32,508
Intangible assets		12,066	12,955
Deposits, prepayments and other receivables	10	55,598	23,333
Deferred tax assets		54,782	29,616
		<u>927,081</u>	<u>921,311</u>
<b>Current assets</b>			
Inventories		697,511	703,278
Trade and other receivables	10	576,860	840,098
Bill receivables	11	92,101	94,644
Trade receivables at fair value through other comprehensive income		38,692	39,833
Pledged bank deposit		–	1,174
Cash and cash equivalents		213,042	228,532
		<u>1,618,206</u>	<u>1,907,559</u>
<b>Total assets</b>		<u><u>2,545,287</u></u>	<u><u>2,828,870</u></u>

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2022</b>	2021
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Equity</b>			
<b>Equity attributable to the Company's equity holders</b>			
<b>Capital and reserves</b>			
Share capital		<b>175,000</b>	175,000
Reserves		<b>741,379</b>	817,819
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>916,379</b>	992,819
Non-controlling interests		<b>8,233</b>	13,799
		<hr/>	<hr/>
<b>Total equity</b>		<b>924,612</b>	1,006,618
		<hr/>	<hr/>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities		<b>253,659</b>	272,457
Deferred government grant	<i>12</i>	<b>1,575</b>	1,863
Deferred tax liabilities		<b>17,835</b>	18,106
		<hr/>	<hr/>
		<b>273,069</b>	292,426
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>561,997</b>	789,288
Bill payables	<i>13</i>	<b>10,648</b>	35,729
Contract liabilities		<b>14,928</b>	14,837
Unsecured bank borrowings	<i>14</i>	<b>669,132</b>	588,273
Lease liabilities		<b>79,562</b>	84,139
Taxation payable		<b>11,339</b>	17,560
		<hr/>	<hr/>
		<b>1,347,606</b>	1,529,826
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,620,675</b>	1,822,252
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>2,545,287</b>	2,828,870
		<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022

## 1. BASIS OF PREPARATION

The condensed consolidated interim financial information of Sinomax Group Limited (the “**Company**”) and its subsidiaries (collectively, 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 2021 and any public announcements made during the interim reporting period.

### 1.1 Going concern

During the six months ended 30 June 2022, the Group reported a loss before income tax of HK\$59,993,000 and had a net cash used in operating activities of HK\$28,614,000. The Group had total bank borrowings, all classified as current liabilities, of HK\$669,132,000 while its cash and cash equivalents were HK\$213,042,000 as at 30 June 2022.

During the six months ended 30 June 2022, the Group’s operation of manufacturing and selling of health and household products were adversely affected by the Coronavirus Disease 2019 (“**COVID-19**”) pandemic, the COVID-19 restrictions and control measures. A new wave of COVID-19 pandemic has started to affect the People’s Republic of China (the “**PRC**”) in early 2022 and a series of precautionary and control measures have been and continued to be implemented in the PRC. The PRC Government has introduced precautionary and control measures, namely lockdown in certain cities in the PRC. Although the PRC Government is gradually relaxing the precautionary and control measures, the measures together with poor consumer sentiment caused by the pandemic are still causing short-term disruption to the Group’s operations in the PRC. Also, the Directors are not certain whether the COVID-19 pandemic will continue and whether the restrictions and control measures will have a prolonged impact to the Group’s operating performance and cash flows.

As at 30 June 2022, the Group has not complied with a restrictive financial covenant of certain of its borrowings amounting to HK\$216,648,000. Such non-compliance of covenant may cause the borrowings from these relevant banks to become immediately due and payable.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

- (i) subsequent to 30 June 2022, the Group successfully obtained waiver from the relevant banks of all HK\$216,648,000 from the non-compliance of financial covenant. The Group will continue to monitor its compliance with the covenant requirements. Should the Group anticipate that it would not be able to comply with the covenant requirements, the management of the Company will discuss and negotiate with the respective banks and will seek to further revise the terms and covenant requirements or obtain a waiver of compliance with the covenant requirements from the banks, if needed;
- (ii) the Group maintains continuous communication with all the banks and management believes that the unutilised other existing banking facilities available to the Group, amounting to approximately HK\$394,977,000 as at 30 June 2022, will be continued available and successfully renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties. The Group will be able to draw down from these facilities to finance its operations, if needed;
- (iii) the directors of the Company are of the opinion that continuous operating cash flow of the Group will be generated in the next twelve months resulting from the continued easing of impact of COVID-19; and
- (iv) the Group will continue to seek for other alternative financing and bank borrowings to finance the settlement of the existing financial obligations and future operating and capital expenditure.

The directors of the Company have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of twelve months from 30 June 2022. They are of the opinion that, taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, the continued availability of the Group's bank borrowings as well as the Group's ability to comply with the covenant requirements and draw down from its existing banking facilities, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

## 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 2022 for the preparation of the Group's condensed consolidated interim financial information:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendments)	Interest Rate Benchmark Reform – Phase 2
Amendments to AG 5 (revised)	Merger Accounting for Common Control Combinations <sup>(1)</sup>
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>(1)</sup>
Amendments to HKAS 37	Onerous contracts – Costs of Fulfilling a Contract <sup>(1)</sup>
Amendments to HKFRSs	Annual improvements to HKFRS 2018 to 2020 <sup>(1)</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>(1)</sup>

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 which have been published that are not mandatory for the financial year beginning on 1 January 2022 and have not been early adopted by the Group are as follows:

Amendments to HKAS 1 HK Int 5 (2020)	Classification of Liabilities as Current or Non-current <sup>(1)</sup> Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>(1)</sup>
Amendments to HKFRS 17	Insurance Contracts <sup>(1)</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>(1)</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>(1)</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>(1)</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>(2)</sup>

<sup>(1)</sup> *Effective for the Group for annual period beginning on 1 January 2023*

<sup>(2)</sup> *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:

China market	–	manufacture and sale of health and household products and polyurethane foam for customers located in the People’s Republic of China (the “ <b>PRC</b> ”), Hong Kong and Macau
North American market	–	manufacture and sale of health and household products for customers located in the United States (the “ <b>US</b> ”), 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	
	2022	2021
	HK\$'000	HK\$'000
Sales of health and household products	983,535	1,090,827
Sales of polyurethane foam	640,696	910,473
<b>Total</b>	<b>1,624,231</b>	<b>2,001,300</b>

### *Geographical markets*

	For the six-month period ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
China market		
– The PRC	643,163	899,248
– Hong Kong, Macau and others	123,123	141,960
	766,286	1,041,208
North American market		
– The US	574,405	686,813
– Others	37,278	38,904
	611,683	725,717
Europe and other overseas markets	246,262	234,375
<b>Total</b>	<b>1,624,231</b>	<b>2,001,300</b>

#### 4. OTHER INCOME

	For the six-month period ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	2,332	2,573
Government subsidies	7,137	2,217
Scrap sales	8,669	9,376
Rental income	7,331	8,904
Others	4,136	6,176
	<u>29,605</u>	<u>29,246</u>

#### 5. FINANCE COSTS

	For the six-month period ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	11,992	10,899
Interest on lease liabilities	9,645	8,963
	<u>21,637</u>	<u>19,862</u>

## 6. INCOME TAX (CREDIT)/EXPENSE

	For the six-month period	
	ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong profits tax	163	1,591
PRC Enterprise Income Tax (“EIT”)	8,545	9,563
PRC withholding tax on distributed profits from PRC subsidiaries	640	2,190
	<u>9,348</u>	<u>13,344</u>
Deferred taxation	<u>(24,396)</u>	<u>(6,823)</u>
	<u><u>(15,048)</u></u>	<u><u>6,521</u></u>

## 7. (LOSS)/PROFIT FOR THE PERIOD

	For the six-month period	
	ended 30 June	
	2022	2021
	<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\$1,072,000 (30 June 2021: provision of HK\$370,000)	1,051,497	1,398,420
Total staff costs, including share based payment expenses (included in cost of sales, selling and distribution costs and administrative expenses)	251,676	248,290
Amortisation of intangible assets	889	268
Depreciation of property, plant and equipment	35,866	36,353
Depreciation of right-of-use assets	48,113	37,805
Depreciation of investment properties	1,059	1,049
Marketing expense	55,255	29,781
Professional fee	10,460	10,935
Transportation expense	49,703	42,825
	<u><u>1,051,497</u></u>	<u><u>1,398,420</u></u>

## 8. (LOSSES)/EARNINGS PER SHARE

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

	For the six-month period ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
<i>(Losses)/earnings for the purpose of basic and diluted earnings per share:</i>		
(Loss)/profit for the period attributable to owners of the Company	<u>(41,886)</u>	<u>9,421</u>

	For the six-month period ended 30 June	
	2022	2021
<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 (losses)/earnings per share equals basic (losses)/earnings per share for the six-month period ended 30 June 2022 and 2021 as the outstanding share options did not have dilutive effect because the exercise price per share option was higher than the average share price of the Company during the period.

## 9. DIVIDEND

No interim dividends were paid, declared or proposed during the period (30 June 2021: Nil).

A final dividend of HK\$0.4 cents per share for the year ended 31 December 2021 was approved by the shareholders in the annual general meeting of the Company held on 22 June 2022 and an amount of approximately HK\$7,000,000 had been recognised in shareholders' equity during the six months ended 30 June 2022.

## 10. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Trade receivables, at amortised cost	496,162	685,510
<i>Less:</i> allowance for credit losses	<u>(36,169)</u>	<u>(26,801)</u>
Trade receivables, net	<u>459,993</u>	<u>658,709</u>
Deposits, prepayments and other receivables		
Cash consideration receivables ( <i>Note</i> )	40,671	67,256
Prepayments for purchasing raw materials and operating expenses	57,781	65,330
Rental and other deposits	39,324	39,491
Other tax recoverable	16,114	16,446
Net investment in sublease	2,689	3,079
Advances to staff	966	2,169
Others	<u>14,920</u>	<u>10,951</u>
	<u>172,465</u>	<u>204,722</u>
Total trade and other receivables	<u><b>632,458</b></u>	<u><b>863,431</b></u>
<i>Less:</i> Non-current rental deposits	14,316	13,589
Non-current other receivables ( <i>Note</i> )	30,309	–
Non-current deposits paid for property, plant and machinery	9,119	7,463
Non-current net investment in sublease	<u>1,854</u>	<u>2,281</u>
	<u>55,598</u>	<u>23,333</u>
Current portion	<u><b>576,860</b></u>	<u><b>840,098</b></u>

*Note:* The balance represents the consideration receivable in relation to the disposal of 51% equity interest in Chengdu Xingang Sponge Co. Ltd. (“**Chengdu**”) completed in 2019. According to the sale and purchase agreement, the total cash consideration of RMB157,000,000 (equivalent to approximately HK\$185,746,000) will be settled in four instalments.

On 11 March 2022, Sinomax (Zhejiang) Polyurethane Technology Limited\* (賽諾(浙江)聚氨酯新材料有限公司), a wholly-owned subsidiary of the Company, entered into a supplemental agreement with the purchaser of 51% equity interest in Chengdu to revise the payment arrangement of the fourth instalment as follows:

- (i) RMB22,000,000 (equivalent to approximately HK\$26,028,000) of the fourth installment shall be paid by 15 March 2022;
- (ii) RMB10,000,000 (equivalent to approximately HK\$11,831,000) of the fourth installment shall be paid by 15 March 2023; and
- (iii) the remaining balance of RMB25,000,000 (equivalent to approximately HK\$29,577,000) of the fourth installment shall be paid by 15 March 2024, together with the payable interest which shall accrue from and including the Second Payment Due Date (as defined in the sale and purchase agreement) until and including the respective dates of actual payments as set out in (i), (ii) and (iii) above respectively at the rate of 3% per annum.

During the period, the Group received the first installment of the fourth payment as set out in (i) above amounting to RMB22,000,000 (equivalents to HK\$26,028,000). The remaining instalments amounting to RMB10,000,000 (equivalents to HK\$11,831,000) and RMB25,000,000 (equivalent to approximately HK\$29,577,000) will be due in 2023 and 2024 respectively.

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.

\* *For identification purpose only*

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

	At <b>30 June</b> 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 30 days	262,113	348,544
31 to 60 days	110,846	210,121
61 to 90 days	51,290	63,710
91 to 180 days	35,744	31,444
181 to 365 days	–	4,890
	<u>459,993</u>	<u>658,709</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 the end of each reporting periods:

	At <b>30 June</b> 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 30 days	22,971	19,717
31 to 60 days	11,910	18,633
61 to 90 days	17,350	12,825
91 to 180 days	37,844	42,807
181 to 365 days	2,026	662
	<u>92,101</u>	<u>94,644</u>

Included in the bill receivables above amounting to approximately HK\$66,186,000 as at the end of the reporting period (31 December 2021: HK\$82,717,000) 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 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Trade payables	<u>393,801</u>	<u>598,717</u>
Accrued operating expenses	57,522	66,433
Accrued salaries	29,099	43,927
Other taxes payable	31,218	33,374
Accrued royalties	17,215	14,281
Refundable deposits received	8,798	9,527
Dividend payable	7,000	–
Amount due to non-controlling shareholders	7,517	7,517
Deferred government grant	1,988	3,930
Other payables and accrued expenses	<u>9,414</u>	<u>13,445</u>
	<u>169,771</u>	<u>192,434</u>
Total trade and other payables	563,572	791,151
<i>Less: Non-current deferred government grant</i>	<u>(1,575)</u>	<u>(1,863)</u>
Current portion	<u><u>561,997</u></u>	<u><u>789,288</u></u>

Included in the trade and other payables above amounting to HK\$66,186,000 as at the end of the reporting period (31 December 2021: HK\$82,717,000) 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 (note 11).

The credit period of trade payables ranged 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 <b>30 June</b> 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 30 days	<b>192,051</b>	335,104
31 to 60 days	<b>88,428</b>	150,515
61 to 90 days	<b>35,293</b>	43,499
91 to 180 days	<b>58,051</b>	51,281
Over 180 days	<b>19,978</b>	18,318
	<u><b>393,801</b></u>	<u>598,717</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 bill issue dates:

	At <b>30 June</b> 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Within 30 days	<b>10,648</b>	6,182
31 to 60 days	–	6,181
61 to 90 days	–	8,530
91 to 180 days	–	14,836
Over 180 days	–	–
	<u><b>10,648</b></u>	<u>35,729</u>

#### 14. UNSECURED BANK BORROWINGS

	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <i>HK\$'000</i>
Term borrowings	81,202	86,316
Revolving borrowings	144,900	100,400
Trade financing	<u>443,030</u>	<u>401,557</u>
	<u>669,132</u>	<u>588,273</u>
Variable-rate borrowings	<u><u>669,132</u></u>	<u><u>588,273</u></u>

Bank borrowings bear interest rates of 1.23%-4.90% per annum (31 December 2021: 1.23%-4.90% 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 2022, the Group has undrawn banking facilities amounted to HK\$520,782,000 (31 December 2021: HK\$404,523,000).

#### 15. COMMITMENT

	At 30 June 2022 <i>HK\$'000</i>	At 31 December 2021 <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><u>9,517</u></u>	<u><u>7,887</u></u>

## BUSINESS REVIEW

### Revenue by operating segments

Revenue for the six-month period ended 30 June 2022 (the “**Reporting Period**”) decreased by approximately HK\$377.1 million or approximately 18.8% to approximately HK\$1,624.2 million, as compared to approximately HK\$2,001.3 million for the corresponding period last year.

	For the six-month period		
	ended 30 June		
	2022	2021	Changes
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
China market	<b>766,286</b>	1,041,208	-26.4%
North American market	<b>611,683</b>	725,717	-15.7%
Europe and other overseas markets	<b>246,262</b>	234,375	5.1%
Total	<b><u>1,624,231</u></b>	<b><u>2,001,300</u></b>	-18.8%

The sales in the China market decreased by approximately 26.4% for the Reporting Period, as compared to the corresponding period last year. For North American market, sales decreased by approximately 15.7% for the Reporting Period, as compared to the corresponding period last year. The decrease was due to the continual outbreak of the COVID-19, particularly the wave during March and April 2022 in the People’s Republic of China (“**PRC**”), which had critically weakened both local and global consumption market and also the sales of the Group.

In Europe and other overseas markets, we recorded an increase of sales in this region of approximately 5.1% for the Reporting Period, as compared to the corresponding period last year. The increase was due to our increased sales to customers in Europe.

## **Gross Profit**

The Group's gross profit (the "GP") decreased by approximately HK\$56.4 million or 17.6% to approximately HK\$263.9 million during the Reporting Period as compared to approximately HK\$320.3 million for the corresponding period last year. The GP margin during the Reporting Period increased by 0.2% from approximately 16.0% to approximately 16.2% as compared to the corresponding period last year.

The mild increase in GP margin was mainly due to decrease in the purchase price of key raw materials of polyurethane foam, meanwhile, it was offset by the high supply chain and logistic costs incurred during the Reporting Period, as compared to the corresponding period last year.

## **Costs and expenses**

Selling and distribution expenses for the Reporting Period increased by approximately HK\$26.1 million or approximately 14.0% to approximately HK\$212.1 million, as compared to approximately HK\$186.0 million for the six-month period ended 30 June 2021. The increase was mainly due to the increase in advertising and marketing expenses of approximately HK\$25.5 million.

Administrative expenses for the Reporting Period decreased by approximately HK\$4.1 million or approximately 4.2% to approximately HK\$92.7 million, as compared to approximately HK\$96.8 million for the six-month period ended 30 June 2021. The decrease was mainly because there was refund of withholding tax on dividends.

## **(Loss)/profit for the period**

Loss for the Reporting Period amounted to approximately HK\$44.9 million while profit for the six-month period ended 30 June 2021 amounted to approximately HK\$14.5 million.

The reason for the loss was attributable to the continual outbreak of the COVID-19 in the PRC, which had critically weakened both local and global consumption market and also the sales of the Group; and the impact also resulted in higher supply chain and logistic costs of the Group.

## **LIQUIDITY, FINANCE AND CAPITAL RESOURCES**

As at 30 June 2022, the Group had net current assets of approximately HK\$270.6 million, as compared to approximately HK\$377.7 million as at 31 December 2021.

Bank balances and cash as at 30 June 2022 decreased by approximately HK\$15.5 million or approximately 6.8% to approximately HK\$213.0 million as compared to approximately HK\$228.5 million as at 31 December 2021.

Net cash used in operating activities amounted to approximately HK\$28.6 million for the Reporting Period as compared to net cash generated from operating activities amounting to approximately HK\$25.0 million for the six-month period ended 30 June 2021.

### **Borrowings and pledge of assets**

As at 30 June 2022, the Group had banking facilities amounting to approximately HK\$1,200.6 million of which approximately HK\$679.8 million was utilized (31 December 2021: banking facilities amounting to approximately HK\$1,028.5 million of which approximately HK\$624.0 million was utilized) (which included unsecured bank borrowings and bill payables).

### **Capital expenditure**

The Group's capital expenditure for the Reporting Period amounting to approximately HK\$30.0 million was mainly for the purchase of the Group's plant and machinery (31 December 2021: approximately HK\$48.6 million).

## Financial ratios

	As at 30 June 2022	As at 31 December 2021
Current ratio <sup>(1)</sup>	120.1%	125.3%
Quick ratio <sup>(2)</sup>	68.3%	78.6%
Gearing ratio <sup>(3)</sup>	72.4%	61.4%
Debt to equity ratio <sup>(4)</sup>	49.3%	39.8%

<sup>(1)</sup> Current ratio is equal to current assets divided by current liabilities.

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

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

<sup>(4)</sup> 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.

## POTENTIAL BREACH OF FINANCIAL COVENANTS OF LOAN FACILITIES AND WAIVERS

Pursuant to various banking facilities (the “**Loan Facilities**”) with its lending banks (the “**Lenders**”), the Group is required to satisfy certain financial covenants including but not limited to the ratio of consolidated EBITDA to the consolidated interest expenses. Based on a preliminary review of the unaudited consolidated management accounts of the Group for the six months ended 30 June 2022, subject to finalisation and possible adjustments upon review and audit by the Company’s auditors, the Group has failed to satisfy such financial covenants under the Loan Facilities with the Lenders (the “**Potential Breach**”). The Potential Breach constitutes an event of default under the Loan Facilities, in which case the Lenders shall be entitled to declare that the loans under the Loan Facilities, together with accrued interest, be immediately due and payable. As at 30 June 2022, the aggregate outstanding principal amount of the Loan Facilities is approximately HK\$216.6 million.

The Company had requested for waiver of the Potential Breach for the Reporting Period from each of the Lenders and each of the Lenders acknowledged the Potential Breach in the results of the Group for the Reporting Period. As at the date of this announcement, the Lenders have not made any demand for immediate repayment of the loans under the Loan Facilities and have granted waivers of the Potential Breach for the Reporting Period.

Notwithstanding the Potential Breach, the Group has not experienced any difficulties in obtaining financing with its banks for its working capital. Based on the Group's current cash position, the Company considers that the Group has sufficient financial resources to repay its indebtedness and there is no material adverse impact on the operation of the Group as a result of the Potential Breach.

## **FOREIGN CURRENCY EXPOSURE**

The Group carries on business mainly in Hong Kong, 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**

The year 2022 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, production costs including materials, logistics and labour costs continued to rise. Though some of these costs started to drop recently, we will continue to monitor the production costs closely and discuss with our customers for the possibility of transferring the increased costs to them from time to time.

Some of our customers in the US had overstocked our products and their demand for our products dropped in the first quarter. We expect that the demand will be picked up as the overstocking situation gradually diminished while the demands for Mattress-in-a-Box, one of the Group's major products sold through online channels, is strong. We will closely monitor the customers' demand as well as the production costs and will increase our investment in relevant equipment and resources as appropriate to cope with the increasing demands in the US. We will continue to explore more 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, 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 Reporting Period.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six-month period ended 30 June 2022 (for the six-month period ended 30 June 2021: NIL).

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2022, the employee headcount of the Group was 2,618 (30 June 2021: 2,705) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$251.7 million for the Reporting Period (for the six-month period ended 30 June 2021: approximately HK\$248.3). The increase in staff costs for the six-month period ended 30 June 2021 was due to salary increment.

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, as well as 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 Reporting Period.

## **REVIEW OF INTERIM RESULTS**

The audit committee of the Board has reviewed, together with the management of the Group, the accounting principles and policies adopted by the Group, and discussed and reviewed the unaudited condensed consolidated financial information of the Group for the Reporting Period and recommended the adoption of the same by the Board.

PricewaterhouseCoopers, the auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information of the Group for the Reporting 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 2022 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](http://www.hkexnews.hk)) and the Company ([www.sinomax.com/group](http://www.sinomax.com/group)), and the interim report for the six-month period ended 30 June 2022 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, 30 August 2022

*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.*

*In this announcement, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB1: HK\$1.18. 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.*