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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 2023

PERFORMANCE HIGHLIGHTS

- Revenue for the six-month period ended 30 June 2023 (the “**Period**”) decreased by approximately HK\$35.4 million or approximately 2.18% to approximately HK\$1,588.8 million, as compared to approximately HK\$1,624.2 million for the corresponding period last year.
- Gross profit increased by approximately HK\$92.2 million or approximately 34.9% to approximately HK\$356.1 million during the Period, as compared to approximately HK\$263.9 million for the corresponding period last year.
- Profit for the Period amounted to approximately HK\$22.4 million while a loss of approximately HK\$44.9 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 2023, together with the comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

		Unaudited	
		For the six-month period	
		ended 30 June	
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	1,588,753	1,624,231
Cost of sales		<u>(1,232,670)</u>	<u>(1,360,340)</u>
Gross profit		356,083	263,891
Other income	4	20,143	29,605
Other gains, net		20,391	16,358
Impairment losses provided for financial assets		(12,565)	(10,010)
Selling and distribution expenses		(208,964)	(212,149)
Administrative expenses		(91,350)	(92,725)
Other expenses		<u>(34,278)</u>	<u>(33,326)</u>
Operating profit/(loss)		49,460	(38,356)
Finance costs	5	<u>(25,460)</u>	<u>(21,637)</u>
Profit/(loss) before income tax		24,000	(59,993)
Income tax (expense)/credit	6	<u>(1,637)</u>	<u>15,048</u>
Profit/(loss) for the period	7	<u>22,363</u>	<u>(44,945)</u>
Profit/(loss) for the period attributable to:			
Equity owners of the Company		18,637	(41,886)
Non-controlling interests		<u>3,726</u>	<u>(3,059)</u>
		<u>22,363</u>	<u>(44,945)</u>
		<i>Cents</i>	<i>Cents</i>
Earnings/(losses) per share attributable to the equity holders of the Company	8		
– Basic		<u>1.06</u>	<u>(2.39)</u>
– Diluted		<u>1.06</u>	<u>(2.39)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

	Unaudited	
	For the six-month period	
	ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Profit/(loss) for the period	<u>22,363</u>	<u>(44,945)</u>
Other comprehensive loss		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(32,373)</u>	<u>(30,061)</u>
Total comprehensive loss for the period	<u>(10,010)</u>	<u>(75,006)</u>
Total comprehensive (loss)/income for the period attributable to:		
Equity owners of the Company	<u>(11,250)</u>	<u>(69,440)</u>
Non-controlling interests	<u>1,240</u>	<u>(5,566)</u>
	<u>(10,010)</u>	<u>(75,006)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		437,057	462,862
Right-of-use assets		227,483	247,917
Investment properties		32,232	28,073
Intangible assets		15,545	11,177
Deposits, prepayments and other receivables	<i>10</i>	25,891	54,043
Deferred tax assets		82,856	62,599
		821,064	866,671
Current assets			
Inventories		512,128	555,271
Trade and other receivables	<i>10</i>	646,106	551,873
Bill receivables	<i>11</i>	59,576	72,210
Trade receivables at fair value through other comprehensive income		38,641	22,962
Cash and cash equivalents		240,455	168,955
		1,496,906	1,371,271
Total assets		2,317,970	2,237,942

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2023	2022
	<i>Notes</i>	HK\$'000	HK\$'000
Equity			
Equity attributable to the Company's equity holders			
Capital and reserves			
Share capital		175,000	175,000
Reserves		708,951	720,201
		<hr/>	<hr/>
Equity attributable to owners of the Company		883,951	895,201
Non-controlling interests		(7,993)	(8,261)
		<hr/>	<hr/>
Total equity		875,958	886,940
		<hr/>	<hr/>
Liabilities			
Non-current liabilities			
Lease liabilities		215,032	236,228
Deferred government grant	<i>12</i>	1,266	1,325
Deferred tax liabilities		21,638	19,227
		<hr/>	<hr/>
		237,936	256,780
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>12</i>	609,564	479,458
Bill payables	<i>13</i>	1,103	5,233
Contract liabilities		14,874	11,993
Unsecured bank borrowings	<i>14</i>	488,575	522,259
Lease liabilities		68,823	63,513
Taxation payable		21,137	11,766
		<hr/>	<hr/>
		1,204,076	1,094,222
		<hr/>	<hr/>
Total liabilities		1,442,012	1,351,002
		<hr/>	<hr/>
Total equity and liabilities		2,317,970	2,237,942
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2023

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 report is to be read in conjunction with the annual report for the year ended 31 December 2022 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 adoption of the new and amended standards as set out below.

Amended standards adopted by the Group

In the current interim period, the Group has applied, for the first time, the following amendments to the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2023 for the preparation of the Group’s condensed consolidated interim financial information:

HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (amendments)
HKAS 8	Definition of Accounting Estimates (amendments)
HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction (amendments)
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)
HKFRS 17	Insurance Contracts (new standard)
HKFRS 17	Amendments to HKFRS 17
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

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 2023 and have not been early adopted by the Group are as follow:

HKAS 1	Classification of Liabilities as Current or Non-current (amendments) ⁽¹⁾
HKAS 1	Non-current Liabilities with Covenants (amendments) ⁽¹⁾
HKFRS 16	Lease Liability in a Sale and Leaseback (amendments) ⁽¹⁾
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised)) ⁽¹⁾
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments) ⁽¹⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments) ⁽²⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2024

⁽²⁾ 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 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 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	
	2023	2022
	HK\$'000	HK\$'000
Sales of health and household products	1,061,249	983,535
Sales of polyurethane foam	<u>527,504</u>	<u>640,696</u>
Total	<u>1,588,753</u>	<u>1,624,231</u>

Geographical markets

	For the six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
China market		
– The PRC	590,945	643,163
– Hong Kong, Macau and others	<u>116,218</u>	<u>123,123</u>
	<u>707,163</u>	<u>766,286</u>
North American market		
– The US	549,893	574,405
– Others	<u>44,458</u>	<u>37,278</u>
	<u>594,351</u>	<u>611,683</u>
Europe and other overseas markets	<u>287,239</u>	<u>246,262</u>
Total	<u>1,588,753</u>	<u>1,624,231</u>

4. OTHER INCOME

	For the six-month period ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	2,914	2,332
Government subsidies	1,094	7,137
Scrap sales	10,833	8,669
Rental income	1,313	7,331
Others	3,989	4,136
	<u>20,143</u>	<u>29,605</u>

5. FINANCE COSTS

	For the six-month period ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	17,484	11,992
Interest on lease liabilities	7,976	9,645
	<u>25,460</u>	<u>21,637</u>

6. INCOME TAX (CREDIT)/EXPENSE

	For the six-month period ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	2,458	163
PRC Enterprise Income Tax (“EIT”)	10,325	8,545
PRC withholding tax on distributed profits from PRC subsidiaries	852	640
	13,635	9,348
Deferred taxation	(11,998)	(24,396)
	1,637	(15,048)

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. The estimated average annual tax rate used for the year to 30 June 2023 is 7%, compared to 25% for the six-month period ended 30 June 2022. The tax rate was lower in 2023 due to the recognition of previously unrecognised carried forward tax losses.

7. PROFIT/(LOSS) FOR THE PERIOD

	For the six-month period ended 30 June	
	2023	2022
	<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\$8,558,000 (30 June 2022: provision of HK\$1,072,000)	966,186	1,051,497
Total staff costs, including share based payment expenses (included in cost of sales, selling and distribution expenses and administrative expenses)	221,401	251,676
Amortisation of intangible assets	889	889
Depreciation of property, plant and equipment	35,598	35,866
Depreciation of right-of-use assets	37,350	48,113
Depreciation of investment properties	1,282	1,059
Marketing expense	57,137	55,255
Professional fee	9,616	10,460
Transportation expense	49,032	49,703

8. EARNINGS/(LOSSES) PER SHARE

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

	For the six-month period ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
<i>Earnings/(losses) for the purpose of basic and diluted earnings per share:</i>		
Profit/(loss) for the period attributable to owners of the Company	<u>18,637</u>	<u>(41,886)</u>
	For the six-month period ended 30 June	
	2023	2022
<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/(losses) per share equals basic earnings/(losses) per share for the six-month period ended 30 June 2023 and 2022 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 periods.

9. DIVIDEND

Subsequent to the end of the reporting period, the directors of the Company have determined that an interim dividend of HK\$0.4 cents (2022: Nil) per share in respect of the period ended 30 June 2023, amounting to approximately HK\$7,000,000 in total will be paid to the shareholders of the Company on 10 October 2023 whose names appear on the Company's register of members on 18 September 2023.

10. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Trade receivables, at amortised cost	549,845	468,257
<i>Less: allowance for credit losses</i>	<u>(44,647)</u>	<u>(32,529)</u>
Trade receivables, net	<u>505,198</u>	<u>435,728</u>
Deposits, prepayments and other receivables		
Cash consideration receivables (<i>Note</i>)	28,014	38,718
Prepayments for purchasing raw materials and operating expenses	65,636	57,793
Rental and other deposits	43,223	43,500
Other tax recoverable	18,557	18,926
Net investment in sublease	3,216	2,281
Advances to staff	1,047	1,078
Others	<u>7,106</u>	<u>7,892</u>
	<u>166,799</u>	<u>170,188</u>
Total trade and other receivables	<u><u>671,997</u></u>	<u><u>605,916</u></u>
<i>Less: Non-current rental deposits</i>	(15,784)	(15,052)
Non-current other receivables (<i>Note</i>)	–	(27,517)
Non-current deposits paid for property, plant and machinery	(8,468)	(10,066)
Non-current net investment in sublease	<u>(1,639)</u>	<u>(1,408)</u>
	<u>(25,891)</u>	<u>(54,043)</u>
Current portion	<u><u>646,106</u></u>	<u><u>551,873</u></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\$171,680,000) will be settled by four instalments.

On 11 March 2022, 賽諾(浙江)聚氨基酯新材料有限公司 (Sinomax (Zhejiang) Polyurethane Technology Limited*), 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\$24,057,000) of the fourth instalment shall be paid by 15 March 2022;
- (ii) RMB10,000,000 (equivalent to approximately HK\$10,935,000) of the fourth instalment shall be paid by 15 March 2023; and
- (iii) the remaining balance of RMB25,000,000 (equivalent to approximately HK\$27,338,000) of the fourth instalment 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 second installment of the fourth instalment as set out in (ii) above of RMB10,000,000 (equivalent to approximately HK\$10,935,000). The remaining instalment amounting to RMB25,000,000 (equivalent to approximately HK\$27,338,000) will be due in 2024.

In July 2023, Serta Simmons Bedding, LLC (“**SSB**”), which informed the Group in February 2023 that it had entered into a restructuring support agreement with key financial stakeholders and initiated a voluntary prearranged court-supervised process under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas, has repaid the outstanding amounts due to the Group as at 7 February 2023 amounting to US\$6.3 million, of which US\$3.4 million was the pre-petition outstanding amounts due to the Group.

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 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Within 30 days	314,555	197,558
31 to 60 days	110,915	149,556
61 to 90 days	47,469	51,341
91 to 180 days	18,380	21,268
181 to 365 days	13,879	16,005
	<u>505,198</u>	<u>435,728</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 period:

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Within 30 days	9,664	9,136
31 to 60 days	16,033	13,254
61 to 90 days	10,753	15,951
91 to 180 days	20,112	33,496
181 to 365 days	3,014	373
	<u>59,576</u>	<u>72,210</u>

Included in the bill receivables above amounting to approximately HK\$41,283,000 as at the end of the reporting period (31 December 2022: HK\$46,607,000) 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 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Trade payables	<u>420,430</u>	<u>310,205</u>
Accrued operating expenses	72,756	61,780
Accrued salaries	31,783	35,868
Other taxes payable	24,207	30,304
Accrued royalties	23,036	19,581
Cash consideration payable	4,374	–
Refundable deposits received	14,763	7,106
Dividend payable	4,751	3,779
Amount due to non-controlling shareholders	6,543	6,543
Deferred government grant	3,983	1,724
Other payables and accrued expenses	<u>4,204</u>	<u>3,893</u>
	<u>190,400</u>	<u>170,578</u>
Total trade and other payables	610,830	480,783
Less: Non-current deferred government grant	<u>(1,266)</u>	<u>(1,325)</u>
Current portion	<u><u>609,564</u></u>	<u><u>479,458</u></u>

Included in the trade and other payables above amounting to HK\$41,283,000 as at the end of the reporting period (31 December 2022: HK\$46,607,000) 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 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Within 30 days	256,364	181,775
31 to 60 days	109,496	63,255
61 to 90 days	21,753	24,331
91 to 180 days	23,730	26,355
Over 180 days	9,087	14,489
	<u>420,430</u>	<u>310,205</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 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Within 30 days	-	-
31 to 60 days	-	5,233
61 to 90 days	-	-
91 to 180 days	1,103	-
Over 180 days	-	-
	<u>1,103</u>	<u>5,233</u>

14. UNSECURED BANK BORROWINGS

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <i>HK\$'000</i>
Term borrowings	38,910	67,253
Revolving borrowings	139,900	119,900
Trade financing	<u>309,765</u>	<u>335,106</u>
	<u>488,575</u>	<u>522,259</u>
Variable-rate borrowings (per annum)	<u>3.20%-7.27%</u>	<u>1.23%-7.71%</u>

Bank borrowings bear interest rates of 3.20% to 7.27% per annum (31 December 2022: 1.23% to 7.71% 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 2023, the Group has undrawn banking facilities amounting to HK\$560,787,000 (31 December 2022: HK\$579,378,000).

15. COMMITMENT

	At 30 June 2023 <i>HK\$'000</i>	At 31 December 2022 <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>29,982</u>	<u>3,143</u>

16. BUSINESS COMBINATION

On 21 April 2023, the Group acquired 100% of the shares in Sinomax (Dongguan) Sleep Technology Limited, a distributor of household products, for a cash consideration of RMB5,000,000 (equivalent to approximately HK\$5,740,000 at an approximately spot rate of RMB1: HK\$1.15 as of 21 April 2023). The acquisition is expected to increase the Group's market share in Southern China.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration	<u>5,740</u>
The assets and liabilities recognised as a result of the acquisition are as follows:	
Property, plant and equipment	32
Inventories	848
Trade and other receivables	742
Cash and cash equivalents	3,148
Trade and other payables	<u>(4,548)</u>
Net identifiable assets acquired	<u>222</u>
Goodwill from acquisition	<u><u>5,518</u></u>

The goodwill is attributable to Sinomax (Dongguan) Sleep Technology Limited's strong position and profitability in trading in the household products market in Southern China and synergies expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

The acquired business contributed revenues of HK\$3,837,000 and net profit of HK\$496,000 to the Group for the period from 21 April 2023 to 30 June 2023. If the acquisition had occurred on 1 January 2023, consolidated revenue and consolidated profit after tax for the half-year ended 30 June 2023 would have been HK\$9,157,000 higher and HK\$1,028,000 higher, respectively.

BUSINESS REVIEW

Revenue by operating segments

Revenue for the six-month period ended 30 June 2023 (the “**Reporting Period**”) decreased by approximately HK\$35.4 million or approximately 2.18% to approximately HK\$1,588.8 million, as compared to approximately HK\$1,624.2 million for the corresponding period last year.

	For the six-month period ended 30 June		Changes %
	2023	2022	
	<i>HK\$'000</i>	<i>HK\$'000</i>	
China market	707,163	766,286	(7.7%)
North American market	594,351	611,683	(2.8%)
Europe and other overseas markets	287,239	246,262	16.6%
Total	<u>1,588,753</u>	<u>1,624,231</u>	(2.2%)

The sales in the China market decreased by approximately 7.7% for the Reporting Period, as compared to the corresponding period last year. The decrease was primarily attributable to the slow pace of economic growth in the PRC.

For North American market, sales decreased by approximately 2.8% for the Reporting Period, as compared to the corresponding period last year. The decrease was primarily attributable to the inflation in the economy of the United States (the “US”).

In Europe and other overseas markets, we recorded an increase of sales of approximately 16.6% for the Reporting Period, as compared to the corresponding period last year. The increase was mainly due to increase of orders from our European major customers.

Gross Profit

The Group's gross profit (the "GP") increased by approximately HK\$92.2 million or 34.9% to approximately HK\$356.1 million during the Reporting Period as compared to approximately HK\$263.9 million for the corresponding period last year. The GP margin during the Reporting Period increased by 6.2% from approximately 16.2% to approximately 22.4% as compared to the corresponding period last year.

The increase in GP margin was mainly due to cost cutting measures adopted by the Group, including improvement on production efficiency, more stringent control on cost of labour and reduction of cost of raw materials.

Costs and expenses

Selling and distribution costs for the Reporting Period decreased by approximately HK\$3.1 million or approximately 1.5% to approximately HK\$209.0 million, as compared to approximately HK\$212.1 million for the six-month period ended 30 June 2022. The decrease was mainly due to the reduction of staff costs of approximately HK\$3.0 million.

Administrative expenses for the Reporting Period decreased by approximately HK\$1.4 million or approximately 1.5% to approximately HK\$91.3 million, as compared to approximately HK\$92.7 million for the six-month period ended 30 June 2022. The decrease was mainly due to the reduction of staff costs of approximately HK\$1.3 million.

Profit/(loss) for the period

Profit for the Reporting Period amounted to approximately HK\$22.4 million while loss for the six-month period ended 30 June 2022 amounted to approximately HK\$44.9 million.

The turnaround was primarily attributable to various cost cutting measures adopted by the Group including:

- (1) improvement on production efficiency;
- (2) more stringent control on cost of labour; and
- (3) reduction of cost of raw materials.

LIQUIDITY, FINANCE AND CAPITAL RESOURCES

As at 30 June 2023, the Group had net current assets of approximately HK\$292.8 million, as compared to approximately HK\$277.0 million as at 31 December 2022.

Bank balances and cash as at 30 June 2023 increased by approximately HK\$71.5 million or approximately 42% to approximately HK\$240.5 million as compared to approximately HK\$169.0 million as at 31 December 2022.

Net cash generated from operating activities amounted to approximately HK\$187.7 million for the Reporting Period as compared to net cash used in operating activities amounting to approximately HK\$30.9 million for the six-month period ended 30 June 2022.

Borrowings and pledge of assets

As at 30 June 2023, the Group had banking facilities amounting to approximately HK\$1,050.5 million of which approximately HK\$489.7 million was utilized (31 December 2022: banking facilities amounting to approximately HK\$1,106.9 million of which approximately HK\$527.5 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\$25.1 million was mainly for the purchase of the Group's plant and machinery (31 December 2022: approximately HK\$51.0 million).

Financial ratios

	As at 30 June 2023	As at 31 December 2022
Current ratio ⁽¹⁾	124.3%	125.3%
Quick ratio ⁽²⁾	81.8%	74.6%
Gearing ratio ⁽³⁾	55.8%	58.9%
Debt to equity ratio ⁽⁴⁾	28.3%	39.8%

⁽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, 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 banking facilities available 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

Although the global economic environment in 2023 remains unstable, we recorded a profit for the Reporting Period of HK\$22.3 million (2022: loss HK\$44.9 million) which marked a remarkable turnaround in our performance. We expect the financial improvement will continue in 2023 and we will also continue to critically review our costs and implement various cost cutting measures on various area including production and logistics.

New online sales projects in the US were launched where the sales figures were better than expected. We expect that the demand for Mattress-in-a-box, one of the Group's major products sold through online channels, is strong. We are optimistic that the growth in sales of Mattress-in-a-box will be encouraging and will generate more sales and profits for the Group.

With factories in the PRC, the US and Vietnam, we are able to source raw materials from countries with lower costs (including production, tariff and shipping costs), resulting in more cost-efficient operations. It also provides the Group with the flexibility to supply our products globally to meet various customers' demand. 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 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.

EVENT AFTER THE REPORTING PERIOD

Serta Simmons Bedding, LLC (“SSB”), which informed the Group in February 2023 that it had entered into a restructuring support agreement with key financial stakeholders and initiated a voluntary pre-arranged court-supervised process under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas, announced on 29 June 2023 (U.S. time) that it had concluded its financial restructuring and emerged from the process under Chapter 11 of the U.S. Bankruptcy Code. For further details, please refer to the Group’s announcements dated 7 February 2023 and 30 June 2023. In July 2023, SSB has repaid the outstanding amounts due to the Group as at 7 February 2023 amounting to US\$6.3 million, of which US\$3.4 million was the pre-petition outstanding amounts due to the Group.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK\$0.4 cents per share for the Reporting Period (for the six-month period ended 30 June 2022: NIL), amounting to approximately HK\$7,000,000 in total, to be paid in cash on Tuesday, 10 October 2023, to shareholders whose names are listed on the register of members of the Company on Monday, 18 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 September 2023 to Monday, 18 September 2023 (both days inclusive), during which no transfer of shares of the Company will be registered and the record date is Monday, 18 September 2023. In order to qualify for the interim dividend, all transfer documents and the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar and Transfer Office of the Company, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Wednesday, 13 September 2023.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2023, the employee headcount of the Group was 2,742 (30 June 2022: 2,618) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$221.4 million for the Reporting Period (for the six-month period ended 30 June 2022: approximately HK\$251.7). The decrease in staff costs for the Reporting Period was mainly due to more stringent control on cost of labour.

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 our employees' 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 share options pursuant to 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 Part 2 of 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 Reporting Period, all the code provisions as 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 2023 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 Reporting Period 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, 29 August 2023

As at the date of this announcement, the executive Directors are Mr. Lam Chi Fan (Chairman of the Board), Mr. Cheung Tung (President), Mr. Chen Feng, Mr. Lam Kam Cheung (Chief Financial Officer and Company Secretary) and Ms. Lam Fei Man; and the independent non-executive Directors are Mr. Wong Chi Keung, Mr. Zhang Hwo Jie and Dr. Cheung Wah Keung.

In this announcement, unless otherwise stated, the conversion of RMB into HK\$ has been made at an exchange rate of RMB1: HK\$1.09. 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.