SINOMAX

Sinomax Group Limited
盛諾集團有限公司

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

(Stock Code: 1418)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period decreased by approximately HK$1,266.0 million or 29.7% to approximately HK$2,997.3 million, as compared to approximately HK$4,263.3 million for FY2018.
- Gross profit for the Reporting Period decreased by approximately HK$166.7 million or 21.6% to approximately HK$605.3 million, as compared to approximately HK$772.0 million for FY2018.
- Loss before taxation for the Reporting Period amounted to approximately HK$146.0 million while a profit before taxation of approximately HK$27.6 million was reported for FY2018.
- The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2019.

UNAUDITED ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinomax Group Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with the audited comparative figures for the previous financial year ended 31 December 2018 ("**FY2018**"), as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019** ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
Revenue	*3*	**2,997,321**	4,263,322
Cost of sales		**(2,392,045)**	(3,491,279)
Gross profit		**605,276**	772,043
Other income		**58,479**	66,931
Impairment losses under expected credit loss model, net of reversal		**(6,107)**	(5,923)
Other gains and losses		**(67,140)**	356
Selling and distribution costs		**(393,686)**	(453,362)
Administrative expenses		**(209,588)**	(217,491)
Finance costs		**(48,522)**	(40,096)
Other expenses		**(84,714)**	(94,872)
(Loss) profit before taxation	*4*	**(146,002)**	27,586
Income tax expense	*5*	**(66,000)**	(22,744)
(Loss) profit for the year		**(212,002)**	4,842

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 HK$'000 (unaudited)	2018 HK$'000 (audited)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(6,699)**	(59,937)
Reclassification of cumulative exchange differences to profit or loss upon disposal of subsidiaries		**(9,623)**	(67)
Other comprehensive expense for the year		**(16,322)**	(60,004)
Total comprehensive expense for the year		**(228,324)**	(55,162)
(Loss) profit for the year attributable to:			
Owners of the Company		**(216,509)**	(5,801)
Non-controlling interests		**4,507**	10,643
		(212,002)	4,842
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(224,578)**	(58,777)
Non-controlling interests		**(3,746)**	3,615
		(228,324)	(55,162)
Loss per share	*7*		
– Basic and diluted *(HK cents)*		**(12.37)**	(0.33)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019	2018
		HK$'000	HK$'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**569,836**	682,084
Right-of-use assets		**249,110**	–
Investment properties		**33,376**	90,224
Prepaid lease payments		**–**	62,479
Deposits paid for acquisition of property, plant and equipment		**4,533**	13,182
Goodwill		**–**	61,409
Intangible assets		**15,374**	122,399
Other receivables	*8*	**132,444**	23,365
Deferred tax assets		**8,409**	25,451
		1,013,082	1,080,593
CURRENT ASSETS			
Prepaid lease payments		**–**	1,638
Inventories		**491,845**	531,071
Trade and other receivables	*8*	**559,476**	843,359
Bills receivables	*9*	**55,553**	91,960
Trade receivables at fair value through other comprehensive income	*10*	**44,696**	87,769
Pledged bank deposits		**1,791**	–
Fixed bank deposits		**–**	32,394
Bank balances and cash		**240,320**	234,435
		1,393,681	1,822,626
CURRENT LIABILITIES			
Trade and other payables	*11*	**532,053**	600,258
Bills payables	*12*	**47,649**	86,181
Contract liabilities		**466**	893
Unsecured bank borrowings		**622,863**	584,369
Lease liabilities		**59,429**	–
Taxation payable		**23,267**	19,825
		1,285,727	1,291,526

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2019

	NOTES	**2019** ***HK$'000*** **(unaudited)**	2018 *HK$'000* (audited)
NET CURRENT ASSETS		**107,954**	531,100
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,121,036**	1,611,693
NON-CURRENT LIABILITIES			
Lease liabilities		**226,154**	–
Unsecured bank borrowings		**–**	289,388
Deferred tax liabilities		**29,874**	96,462
		256,028	385,850
NET ASSETS		**865,008**	1,225,843
CAPITAL AND RESERVES			
Share capital		**175,000**	175,000
Reserves		**679,962**	904,429
Equity attributable to owners of the Company		**854,962**	1,079,429
Non-controlling interests		**10,046**	146,414
TOTAL EQUITY		**865,008**	1,225,843

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

Sinomax Group Limited (the "**Company**") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate and ultimate holding company is Sinomax Enterprises Limited ("**Sinomax Enterprises**"), a company incorporated in the British Virgin Islands (the "**BVI**").

The addresses of the registered office and the principal place of business of the Company are P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands and Units 2005-2007, Level 20, Tower 1, MegaBox Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Hong Kong, respectively.

The Company acts as an investment holding company.

The unaudited consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (the "**Group**") has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these unaudited consolidated financial statements.

2.1 HKFRS *16 Leases*

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on a lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. used hindsight based on facts and circumstances as at date of initial application, in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities ranged from 5% to 10%.

	At 1 January 2019 *HK$'000* (unaudited)
Operating lease commitments disclosed as at 31 December 2018	**295,537**
Lease liabilities discounted at relevant incremental borrowing rates	**262,644**
Add: Purchase option reasonably certain to be exercised *(Note)*	**79,104**
Less: Recognition exemption – short-term leases	**(14,630)**
Recognition exemption – low value assets	**(95)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	**327,023**
Analysed as	
Current	**219,849**
Non-current	**107,174**
	327,023

Note: According to the operating lease agreement entered into by the Group in 2015, a purchase option exercisable within 3 years from the date of lease agreement was granted to the Group to acquire a factory in the United States (the "**US**") leased by the Group at a pre-determined purchase consideration. As of the date of initial application of HKFRS 16, the directors of the Company (the "**Directors**") considered that, continuing negotiation with the lessor since 2018 and the recent property market in the US, and concluded that purchase option is reasonably certain to be exercised during the year ended 31 December 2019. As a result, the lease liabilities have been adjusted and such adjustment represented the difference between the present value of the relevant lease commitment amounting to HK$112,901,000 and the expected lease payments for such operating lease up to the date of exercising the purchase option with the pre-determined purchase consideration.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets *HK$'000* (unaudited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		327,023
Reclassified from prepaid lease payments	*(a)*	64,117
Adjustments on rental deposits at 1 January 2019	*(b)*	2,923
Less: Accrued lease liabilities relating to rent free period at 1 January 2019	*(c)*	(17,359)
Provision for onerous leases	*(d)*	(2,935)
		373,769

(a) Upfront payments for leasehold lands in the People's Republic of China (the "**PRC**") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$1,638,000 and HK$62,479,000 respectively were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$2,923,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(c) *Rent free period*

These relate to accrued lease liabilities for leases of properties in which the lessors provided rent-free period. The carrying amount of the lease incentive liabilities under trade and other payables as at 1 January 2019 was adjusted to right-of-use assets at transition.

(d) *Provision for onerous leases*

These relate to provision for onerous leases for several retail shops. The carrying amount of the provision as at 1 January 2019 was adjusted to right-of-use assets at transition.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(e) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(f) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

(g) Effective on 1 January 2019, the Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("**HKFRS 15**") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the unaudited consolidated financial statements of the Group for the current year.

The following adjustments were made to the amounts recognised in the unaudited consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2018** *HK$'000* (audited)	**Adjustments** *HK$'000* (unaudited)	**Carrying amounts under HKFRS 16 at 1 January 2019** *HK$'000* (unaudited)
Non-current Assets				
Right-of-use assets		–	373,769	373,769
Prepaid lease payments	*(a)*	62,479	(62,479)	–
Trade and other receivables	*(b)*	23,365	(2,923)	20,442
Current Assets				
Prepaid lease payments	*(a)*	1,638	(1,638)	–
Current Liabilities				
Trade and other payables				
– Accrued lease liabilities	*(c)*	17,359	(17,359)	–
– Provision for onerous leases	*(c)*	2,935	(2,935)	–
Lease liabilities		–	219,849	219,849
Non-current liabilities				
Lease liabilities		–	107,174	107,174

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021.

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

[3] Effective for annual periods beginning on or after a date to be determined.

[4] Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the unaudited consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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 Group recognised product sales at the sales value of goods less estimated discounts, rebates and sales related taxes.

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

China market	–	manufacture and sale of health and household products and polyurethane foam for customers located in the PRC, Hong Kong and Macau
North American market	–	manufacture and sale of health and household products for customers located in the 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 except for those customers located in the China Market and North American market

Disaggregation of revenue from contracts with customers

Type of major products

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Sales of health and household products	**1,775,802**	2,509,206
Sales of polyurethane foam	**1,221,519**	1,754,116
Total	**2,997,321**	4,263,322

Geographical markets

The Group's operations are mainly located in the US, the PRC, Hong Kong and Europe.

Information about the Group's revenue from external customers is presented based on the location of the retail shops and concession counters for retail sales and location of customers for wholesales and internet sales.

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
China market		
– The PRC	**1,459,149**	2,077,427
– Hong Kong, Macau and others	**389,979**	476,857
North American market		
– The US	**941,840**	1,533,580
– Others	**122,680**	124,553
Europe and other overseas markets	**83,673**	50,905
Total	**2,997,321**	4,263,322

Geographical information

Information about the Group's non-current assets (excluding other receivables and deferred tax assets) is presented based on the geographic location of the assets:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
The US	**451,914**	496,977
The PRC	**334,563**	542,477
Hong Kong	**24,372**	15,673
Vietnam	**77,700**	–
Macau	**676**	15
	889,225	1,055,142

Information about major customers

Revenue from a customer in the North American market contributing over 10% of the total revenue to the Group during the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Customer A	**361,790**	589,939

4. (LOSS) PROFIT BEFORE TAXATION

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	**10,279**	11,710
Other staff costs	**388,591**	419,785
Retirement benefit scheme contributions for other staff	**30,887**	38,220
Share based payment expenses, excluding those of directors	**84**	480
Total staff costs	**429,841**	470,195
Amortisation of intangible assets	**6,772**	6,772
Depreciation of investment properties	**5,031**	4,002
Depreciation of property, plant and equipment	**71,848**	73,572
Depreciation of right-of-use assets	**73,934**	–
Total depreciation and amortisation	**157,585**	84,346
Cost of inventories recognised as expenses including provision for inventories of HK$12,189,000 (2018: reversal of provision for inventories of HK$5,670,000)	**2,392,045**	3,491,279
Release of prepaid lease payments	**–**	1,647

5. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Current tax:		
Hong Kong Profits Tax *(Note i)*	**1,950**	2,613
PRC EIT *(Note ii)*	**37,819**	30,568
PRC withholding tax on distributed profits from PRC subsidiaries	**24,102**	1,418
US income tax *(Note iii)*	**385**	419
	64,256	35,018
Overprovision in prior years:		
Hong Kong Profits Tax	**(215)**	(184)
PRC EIT	**(2,738)**	(2,500)
	(2,953)	(2,684)
Deferred taxation	**4,697**	(9,590)
	66,000	22,744

Notes:

(i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

(ii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, PRC EIT is calculated based on the statutory rate of 25% of the assessable profit of those subsidiaries established in the PRC for both years, except for certain PRC subsidiaries being approved as High and New Technology Enterprise by the relevant government authorities which are subject to a preferential tax rate of 15%.

(iii) The US corporate tax rate is 21% for the year ended 31 December 2019 in accordance to the Tax Cuts and Jobs Act. The US income tax includes (a) federal income tax calculated at a fixed rate of 21% for the year ended 31 December 2019 (2018: a fixed rate of 21%) on the estimated US federal taxable income and (b) state income tax calculated at various state income tax rates for both periods on the estimated state taxable income for the respective states. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

6. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Final – no dividend declared (2018: 2017 Final – HK1.0 cent per share)	**–**	17,500

No dividend has been proposed for ordinary shareholders of the Company subsequent to the year ended 31 December 2019.

7. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Loss for the purpose of basic and diluted loss per share:		
Loss for the year attributable to owners of the Company	**(216,509)**	(5,801)

	2019	2018
	'000	*'000*
	(unaudited)	(audited)
Number of shares for the purpose of basic and diluted loss per share:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,750,002**	1,750,002

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 does not assume the exercise of the share options as the exercise prices of those share options are higher than the average market price of shares during the years ended 31 December 2019 and 2018.

8. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**437,611**	717,660
Less: allowance for credit losses	**(30,751)**	(24,913)
	406,860	692,747
Deposits, prepayments and other receivables	**285,060**	173,977
Total trade and other receivables	**691,920**	866,724
Analysed of reporting purposes as:		
Non-current assets	**132,444**	23,365
Current assets	**559,476**	843,359
	691,920	866,724

Rental deposits were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate net carrying amount of HK$126,779,000 (2018: HK$269,620,000) which are past due as at the reporting date. Out of the past due balances, HK$20,849,000 (2018: HK$19,705,000) has been past due 90 days or more and is not considered as in default by considering the background of the trade receivables and historical payment arrangement of these trade receivables. Other than bills received, the Group does not hold any collateral over these balances.

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

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**217,711**	448,714
31 to 60 days	**124,367**	149,877
61 to 90 days	**38,876**	56,832
91 to 180 days	**23,394**	34,030
181 to 365 days	**2,512**	3,294
	406,860	692,747

9. BILLS RECEIVABLES

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

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**8,832**	13,166
31 to 60 days	**7,996**	18,877
61 to 90 days	**9,840**	17,878
91 to 180 days	**28,208**	41,578
181 to 365 days	**677**	461
	55,553	91,960

As at 31 December 2019, bills receivables amounting to HK$9,365,000 (2018: HK$24,221,000) are held by the Group for future settlement of trade payables by endorsement of bills or held to maturities for collecting cash. All bills receivables of the Group are with a maturity period of less than one year.

For the year ended 31 December 2019 and 2018, the Group performed impairment assessment on bill receivables and concluded that the probability of defaults of the counterparties is insignificant and accordingly, no allowance for credit losses is provided.

10. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

As part of the Group's cash flow management, the Group has the practice of factoring some of the trade receivables to financial institutions before the trade receivables are due for repayment and derecognises factored trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties.

As at 31 December 2019, the effective interest rates of the factored trade receivables at FVTOCI ranged from 3.13% to 4.35% per annum (2018: 3.38% to 4.38% per annum). As at 31 December 2019 and 2018, the fair value changes on trade receivables at FVTOCI are insignificant and accordingly, no fair value changes are recognised in equity as FVTOCI reserve.

11. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade payables	**342,597**	363,303
Other payables and accrued expenses	**189,456**	236,955
Total trade and other payables	**532,053**	600,258

Included in the trade and other payables above amounting to HK$39,549,000 (2018: HK$67,740,000) had been settled by endorsed bills for which the maturity dates of the bills receivables are not yet fallen due as at the end of the reporting period.

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

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**204,285**	227,429
31 to 60 days	**94,940**	62,015
61 to 90 days	**19,081**	19,766
91 to 180 days	**17,746**	45,399
Over 180 days	**6,545**	8,694
	342,597	363,303

12. BILLS PAYABLES

Bills payables were secured by pledged bank deposits of HK$1,791,000 (2018: Nil) as at 31 December 2019 and guaranteed by the Company and certain of its subsidiaries. The following is the aging analysis of bills payables at the end of the reporting period presented based on bills issue date:

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**6,107**	15,319
31 to 60 days	**11,639**	1,333
61 to 90 days	**6,481**	15,735
91 to 180 days	**15,712**	53,794
181 to 365 days	**7,710**	–
	47,649	86,181

13. CAPITAL COMMITMENTS

	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the unaudited consolidated financial statements	**6,040**	11,485

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group decreased by approximately HK$1,266.0 million or approximately 29.7% to approximately HK$2,997.3 million (FY2018: approximately HK$4,263.3 million).

	For the year ended 31 December		
	2019	2018	**Changes**
	HK$'000	*HK$'000*	*%*
	(unaudited)	(audited)	
China market	**1,849,128**	2,554,284	(27.6%)
North American market	**1,064,520**	1,658,133	(35.8%)
Europe and other overseas markets	**83,673**	50,905	64.4%
Total	**2,997,321**	4,263,322	(29.7%)

Due to the US-China trade war, our sales in the North American market were adversely affected. Some of our PRC customers who were buying our foam to produce products for their customers in the US, might also have been affected by the US-China trade war. Accordingly, our sales in the China market decreased as well.

Gross profit

The Group's gross profit (the "**GP**") decreased by approximately HK$166.7 million or 21.6% to approximately HK605.3 million during the Reporting Period as compared to approximately HK$772.0 million for FY2018. The GP margin increased by 2.1% from approximately 18.1% to approximately 20.2% as compared with FY2018.

The increase in GP margin was due to the significant decrease in the purchase price of a key raw material of polyurethane foam, namely toluene diisocyanate ("**TDI**") during the Reporting Period, as compared with the same period last year. However, the effect was partially offset by the cost incurred in the trial run of production in the Group's factory located in Vietnam.

Costs and expenses

Selling and distribution costs for the Reporting Period decreased by approximately HK$59.7 million or 13.2% to approximately HK$393.7 million, as compared to approximately HK$453.4 million for FY2018. The decrease was in line with the decrease in turnover for the Reporting Period. The decrease was mainly due to the decrease in staff costs and commission fees of approximately HK$18.1 million and transportation costs of approximately HK$15.7 million.

Administrative expenses for the Reporting Period decreased by approximately HK$7.9 million or 3.6% to approximately HK$209.6 million, as compared to approximately HK$217.5 million for FY2018. The decrease was mainly due to the reduction in staff costs as the number of headcount decreased.

Other expenses for the Reporting Period consisted mainly of research and development expenses amounting to approximately HK$58.2 million, as compared to approximately HK$70.4 million for FY2018.

Loss before taxation

Loss before taxation for the Reporting Period amounted to approximately HK$146.0 million while a profit before taxation of approximately HK$27.6 million was reported for FY2018.

The major reasons for the loss were: impairment losses on goodwill and intangible assets including brand name and customer relationship of approximately HK$136.7 million and the impairment losses on property, plant and equipment and right-of-use assets of approximately HK$27.8 million. We had recorded a gain on disposal of 51% equity interest in a PRC subsidiary of approximately HK$44.1 million and a gain arising from a sale and leaseback transaction of approximately HK$49.7 million.

Impairment loss on intangible assets and goodwill

The intangible assets and goodwill related to our acquisition of Dormeo North America LLC ("**Dormeo**") in 2016.

Sales of Dormeo was highly concentrated with several key customers to whom the sales in 2019 dropped significantly.

Having considered that the financial performance of Dormeo would not turn around in the coming few years, we made impairment provision of goodwill, brand name and customer relationship directly related to Domero of approximately HK$36,463,000, HK$85,483,000 and HK$14,770,000, respectively. The impairment loss has been included in profit or loss in the "other gains and losses" line item.

Income tax expenses

Included in income tax expenses, there were payments of PRC withholding tax on distributable profits from PRC subsidiaries of approximately HK$24.1 million (2018: HK$1.4 million).

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2019, the Group had net current assets of approximately HK$107.9 million, as compared to approximately HK$531.1 million as at 31 December 2018.

Net cash from operating activities amounted to approximately HK$335.6 million for the Reporting Period as compared to approximately HK$57.7 million for FY2018.

Bank balance and cash as at 31 December 2019 increased by approximately HK$5.9 million or approximately 2.5% to approximately HK$240.3 million as compared to approximately HK$234.4 million as at 31 December 2018.

Borrowings and pledge of assets

As at 31 December 2019, the Group had banking facilities amounted to approximately HK$1,552.4 million of which approximately HK$668.9 million was utilized (FY2018: banking facilities amounting to approximately HK$2,156.5 million of which approximately HK$959.9 million was utilized) (which included unsecured bank borrowings and bills payables).

Capital expenditure

The Group's capital expenditure for the Reporting Period amounted to approximately HK$69.5 million mainly for the purchase of the Group's plant and machinery (FY2018: HK46.0 million).

Financial ratios

	As at 31 December 2019 (unaudited)	As at 31 December 2018 (audited)
Current ratio [(1)]	**108.4%**	141.1%
Quick ratio [(2)]	**70.1%**	100.0%
Gearing ratio [(3)]	**72.0%**	71.3%
Debt to equity ratio [(4)]	**44.2%**	52.2%

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

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

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

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

SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDER

The Company's wholly-owned subsidiary, Sinomax International Trading Limited (the "**Subsidiary**"), as borrower and the Company as guarantor had entered into a facility agreement (the "**2018 Facility Agreement**") with Hang Seng Bank Limited, OCBC Wing Hang Bank Limited and United Overseas Bank Limited as lenders and mandated lead arrangers, and Hang Seng Bank Limited as agent and security trustee, in respect of term loan facilities of up to the aggregate principal amount of US$35 million and HK$273 million (the "**2018 Loan Facilities**") with a final maturity date falling thirty-six months after the date of the 2018 Facility Agreement (the outstanding loan balances were US$21.0 million and HK$163.8 million as at 31 December 2019). It is provided in the 2018 Facility Agreement, among other things, that an event of default will occur if, without the prior consent of the majority of the lenders: (i) Sinomax Enterprises, a controlling shareholder of the Company, ceases to maintain (directly or indirectly) at least 51% of the entire beneficial ownership interest in the Company; (ii) the following persons cease to collectively maintain/retain (directly or indirectly) at least 51% beneficial ownership interest over the entire issued share capital of Sinomax Enterprises: (a) Mr. Lam Chi Fan; (b) Mr. Cheung Tung; (c) any parent, spouse, child, brother or sister of the persons referred to in (a) and (b) above; and (d) any trust whose principal beneficiary(ies) is any one or more of the persons referred to under (a) to (c) above; (iii) Mr. Lam Chi Fan ceases to be the chairman of the Board; or (iv) Mr. Lam Chi Fan ceases to maintain control over the management and business of the Company.

Failure to comply with any of the said obligations regarding control of the Company will trigger an event of default under the 2018 Facility Agreement which may result in, inter alia, the cancellation of all or any part of the commitments under the 2018 Facility Agreement and all or part of the loans under the 2018 Loan Facilities becoming immediately due and payable or becoming payable on demand.

As disclosed in the announcement of the Company dated 21 January 2020, the Group has failed to satisfy certain financial covenants under several facility agreements, including the 2018 Facility Agreement (collectively, the "**Facility Agreements**", and the loan facilities under the Facility Agreements, the "**Loan Facilities**"; and the lending banks granting the Loan Facilities, the "**Lenders**") (the "**Breach**").

The Breach constitutes an event of default under the Facility Agreements, 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 the date of this announcement, the aggregate outstanding principal amount of the Loan Facilities is approximately HK$334.6 million. The Group has obtained waivers from the Lenders in respect of the Breach.

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, PRC, 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 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 on operations, and therefore no hedging instrument has been employed. The Group will closely monitor the trend 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 to better control its treasury operations and lower 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 US-China and the US-Canada trade wars continued to create uncertainties over our US business in 2019. The Group has set up production facilities in Vietnam in 2019. The Vietnam production facilities began to provide polyurethane foam to our customers in the Southeast Asia regions in the third quarter of 2019. The Vietnam production facilities also produced the end consumer health products. Having factories in China, US and Vietnam, we expect that our ability to supply globally to our customers with various needs would be strengthened while the Group would be able to arrange our production and logistics schedules with flexibility to minimize the overall costs including production, tariff and transportation.

Instead of relying on several key customers, we are diversifying our customer base by developing more new customers in the US. Sales to these customers are gradually increasing over the past months. We are expecting a continuing growth in the year of 2020. We will also develop Direct to Consumer sales and place more focus on customers with online sales.

In the China market, the Group offers a wide range of health and household products, under its flagship brand "SINOMAX". The Group will further enhance brand management through various marketing activities to reinforce brand recognition and enhance the image of health, relaxation and comfort of the "SINOMAX" brand. Sales under the brands "Octaspring", "SPA Supreme" and "Zeosleep" increased steadily. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. Though the e-commerce sales of the Group recorded a drop in 2019, we will continue to deploy more resources to strengthen our sales through e-commence.

The Group will continue to upgrade the machinery so as to improve the production efficiency and increase the competitiveness.

MATERIAL ACQUISITIONS AND DISPOSALS

(a) Acquisition and Sale and Leaseback of a US property

On 30 August 2019, an indirect wholly-owned subsidiary of the Company, Sinomax East, Inc ("**Sinomax East**"), entered into the letter agreement in relation the acquisition of the property located at 1740 JP Hennessy Drive, LaVergne, TN 37086, the U.S., together with any and all buildings and other improvements thereon including a certain approximately 505,000 sq. ft. industrial facility, and all rights, easements and appurtenances thereto (the "**Property**") with 800 Boardway, in exercise of the purchase option under the lease agreement dated 1 October 2015 and entered into between 800 Broadway (as landlord) and Sinomax East (as tenant), at the acquisition consideration of approximately US$20,804,000 (equivalent to approximately HK$162,275,000).

On 30 August 2019, Sinomax East, and WPT Acquisitions, LLC (the "**Purchaser**") entered into the purchase and sale agreement in relation to the sale and leaseback of the Property (the "**Sale and Purchase Agreement**"), pursuant to which Sinomox East agreed to sell and the Purchaser agreed to acquire the Property at the sale consideration of US$33,000,000 (equivalent to approximately HK$257,400,000).

Pursuant to the Purchase and Sale Agreement, at the sale completion, Sinomax East and the Purchaser shall execute the new lease, to lease the Property for a term of ten (10) years commencing on the completion date, being 30 September 2019 (or such other date as may be agreed in writing between the relevant parties), subject to the terms therein.

(b) Disposal of 51% equity interest in Chengdu Xingang Sponge Co., Ltd* （成都新港海綿有限公司）("Chengdu Xingang")

On 15 November 2019, an indirect wholly-owned subsidiary of the Company, Chengdu Xingang, entered into a share purchase agreement with Mr. Liu Jiaming ("**Mr. Liu**"), a director and a non-controlling shareholder of Chengdu Xingang. Pursuant to the share purchase agreement, the Group conditionally agreed to sell, and Mr. Liu conditionally agreed to acquire, 51% equity interest in Chengdu Xingang at the consideration of RMB157,000,000 (equivalent to approximately HK$172,700,000) (the "**Consideration**") subject to the terms and conditions therein. Pursuant to the share purchase agreement, upon completion, Mr. Liu (as pledgor) and Sinomax (Zhejiang) Polyurethane Technology Limited*（賽諾（浙江）聚氨酯新材料有限公司）("**Sinomax Zhejiang**") (as pledgee) shall enter into a share pledge agreement, pursuant to which 51% equity interest in Chengdu Xingang shall be pledged by Mr. Liu to Sinomax Zhejiang to secure the payment of the Consideration in full by Mr. Liu. The Group recorded a gain on disposal of approximately HK$44.1 million, being the difference between the Consideration and the net asset value of Chengdu Xingang.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the paragraph 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 Reporting Period.

EVENT AFTER THE REPORTING PERIOD

The Impact of novel coronavirus ("COVID-19")

Since the outbreak of COVID-19 in late December 2019 and its continuous expansion across the PRC and globally, various draconian measures including travel restrictions and public health controls have been in place in the PRC, the US and Vietnam in an effort to contain the COVID-19 outbreak. COVID-19 has brought about impacts on business operations in general and the overall economy. This may affect the operations and results of the Group. The degree of impact depends on the escalation and the duration of the pandemic, the effectiveness of the preventive measures and the implementation of regulatory policies. However, the Group will closely monitor the situation and the Group's exposure to the risks and uncertainties in connection with COVID-19, and assess and react proactively to its impacts on the financial position and results of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the employee headcount of the Group was 3,026 (FY2018: 3,099) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$429.8 million for the Reporting Period (FY2018: approximately HK$470.2 million). The decrease in staff costs was primarily due to decrease in headcount.

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code of corporate governance. The Company had met the applicable code provisions set out in the CG Code during the Reporting Period.

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 had complied with the required standards set out in the Model Code during the Reporting Period.

REVIEW OF ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the COVID-19 outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Listing Rules. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process. The Company expects the auditing process will be completed on or before 20 April 2020 and in any event not later than 30 April 2020.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 9 June 2020 to 12 June 2020, both days inclusive, during which period, no transfer of shares will be registered. In order to be qualified to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 8 June 2020.

PUBLICATION OF THE ANNUAL RESULTS AND 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinomax.com/group). The annual report for the year ended 31 December 2019 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.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the Company's auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 27 March 2020

As at the date of this announcement, the executive Directors are Mr. Lam Chi Fan (Chairman of the Board), Mr. Cheung Tung (President), Mr. Chen Feng, Mr. Lam Kam Cheung (Chief Financial Officer and Company Secretary) and Ms. Lam Fei Man; and the independent non-executive Directors are Mr. Wong Chi Keung, Professor Lam Sing Kwong Simon, Mr. Fan Chun Wah Andrew, J.P., Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese which are marked with "" is for identification purposes only.*