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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period increased by approximately HK\$234.4 million or 7.8% to approximately HK\$3,231.7 million, as compared to approximately HK\$2,997.3 million for FY2019.
- Gross profit for the Reporting Period increased by approximately HK\$18.5 million or 3.1% to approximately HK\$623.8 million, as compared to approximately HK\$605.3 million for FY2019.
- Profit/(loss) for the Reporting Period increased by approximately HK\$273.1 million or 128.8% to a profit of approximately HK\$61.1 million, as compared to a loss of approximately HK\$212.0 million for FY2019.
- The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2020.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sinomax Group Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Period**”), together with the audited comparative figures for the previous financial year ended 31 December 2019 (“**FY2019**”), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	3,231,701	2,997,321
Cost of sales	4	(2,607,886)	(2,392,045)
Gross profit		623,815	605,276
Other income		82,031	58,479
Net impairment losses of financial assets		(1,932)	(6,107)
Other loss, net		(25,554)	(67,140)
Selling and distribution expenses	4	(319,528)	(393,686)
Administrative expenses	4	(202,400)	(236,065)
Finance costs		(39,050)	(48,522)
Research and development cost		(48,380)	(58,237)
Profit/(loss) before income tax		69,002	(146,002)
Income tax expense	5	(7,948)	(66,000)
Profit/(loss) for the year		61,054	(212,002)

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

FOR THE YEAR ENDED 31 DECEMBER 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss:</i>			
Current translation differences for foreign operations		46,321	(6,699)
Current translation differences for disposal of subsidiaries		<u>–</u>	<u>(9,623)</u>
Other comprehensive income/(loss) for the year		<u>46,321</u>	<u>(16,322)</u>
Total comprehensive income/(loss) for the year		<u>107,375</u>	<u>(228,324)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		58,523	(216,509)
Non-controlling interests		<u>2,531</u>	<u>4,507</u>
		<u>61,054</u>	<u>(212,002)</u>
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		99,549	(224,578)
Non-controlling interests		<u>7,826</u>	<u>(3,746)</u>
		<u>107,375</u>	<u>(228,324)</u>
Earnings/(loss) per share			
– Basic and diluted (<i>HK cents</i>)	7	<u>3.34</u>	<u>(12.37)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

		2020	2019
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		528,953	569,836
Right-of-use assets		198,078	249,110
Investment properties		33,479	33,376
Intangible assets		14,733	15,374
Other receivables	8	82,109	136,977
Deferred tax assets		8,003	8,409
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		865,355	1,013,082
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current assets			
Inventories		585,510	491,845
Trade and other receivables	8	813,930	559,476
Bill receivables	9	78,168	55,553
Trade receivables at fair value through other comprehensive income	10	24,072	44,696
Pledged bank deposits		10,260	1,791
Cash and cash equivalents		136,915	240,320
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		1,648,855	1,393,681
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total assets		2,514,210	2,406,763
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
Equity			
Equity attributable to the Company's equity holders			
Share capital		175,000	175,000
Reserves		779,511	679,962
		<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Equity attributable to owners of the Company		954,511	854,962
Non-controlling interests		1,948	10,046
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Total equity		956,459	865,008
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

AT 31 DECEMBER 2020

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Lease liabilities		162,756	226,154
Deferred government grant	<i>11</i>	2,229	–
Deferred tax liabilities		17,048	29,874
		<u>182,033</u>	<u>256,028</u>
Current liabilities			
Trade and other payables	<i>11</i>	678,034	532,053
Bill payables	<i>12</i>	44,902	47,649
Contract liabilities		12,559	466
Unsecured bank borrowings		547,224	622,863
Lease liabilities		75,468	59,429
Taxation payable		17,531	23,267
		<u>1,375,718</u>	<u>1,285,727</u>
Total liabilities		<u>1,557,751</u>	<u>1,541,755</u>
Total equity and liabilities		<u>2,514,210</u>	<u>2,406,763</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL

Sinomax Group Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) manufacture and sell health and household products. The Company acts as an investment holding company.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Units 2005-2007, Level 20, Tower 1, MegaBox Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Hong Kong.

The ordinary shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is a subsidiary of Sinomax Enterprises Limited (“**Sinomax Enterprises**”), a company incorporated in the British Virgin Islands.

Comparative amounts in certain notes have been reclassified to conform with the current year’s presentation.

These consolidated financial statements are presented in Hong Kong dollar (“**HK\$**”) unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) and requirements of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

(ii) *Historical cost convention*

The consolidated financial statements have been prepared on a historical cost basis, except for certain trade receivables at fair value through other comprehensive income which were stated at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2020:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform
HKFRS 16 (Amendments)	COVID-19 Related Rent Concession

The Group has elected to early adopt the amendments to HKFRS 16 Leases on COVID-19 Related Rent Concessions on 1 January 2020. The amendments to HKFRS 16 allow the Group as a lessee not to account for COVID-19 directly related rent concessions as lease modifications when certain criteria are met.

These amendments are effective for annual reporting periods beginning on or after 1 June 2020.

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

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker (“**CODM**”) has been identified as the executive directors of the Company (the “**Executive Directors**”). The Executive Directors review the Group’s internal report in order to assess its performance and allocate resources. Management has determined the operating segments based on these reports.

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 Mainland China (“ 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 U.S. ”), Canada and other North American countries.
Europe and other overseas markets	Manufacture and sale of health and household products and foam for customers located in overseas except for those customers located in the China market and North American market.

(i) **Segment revenue**

The following is an analysis of the Group's revenue by operating and reportable segments:

For the year ended 31 December 2020

	China market <i>HK\$'000</i>	North American market <i>HK\$'000</i>	Europe and other overseas markets <i>HK\$'000</i>	Total <i>HK\$'000</i>
External sales	1,649,701	1,372,313	209,687	3,231,701
Cost of sales				(2,607,886)
Other income				82,031
Net impairment losses of financial assets				(1,932)
Other loss, net				(25,554)
Selling and distribution expenses				(319,528)
Administrative expenses				(202,400)
Finance cost				(39,050)
Research and development cost				(48,380)
Profit before income tax				<u>69,002</u>

For the year ended 31 December 2019

	China market <i>HK\$'000</i>	North American market <i>HK\$'000</i>	Europe and other overseas markets <i>HK\$'000</i>	Total <i>HK\$'000</i>
External sales	1,849,128	1,064,520	83,673	2,997,321
Cost of sales				(2,392,045)
Other income				58,479
Net impairment losses of financial assets				(6,107)
Other loss, net				(67,140)
Selling and distribution expenses				(393,686)
Administrative expenses				(236,065)
Finance cost				(48,522)
Research and development cost				(58,237)
Loss before income tax				<u>(146,002)</u>

(ii) **Disaggregation of revenue from contracts with customers**

(a) ***Type of major products***

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales of health and household products	2,054,608	1,775,802
Sales of polyurethane foam	<u>1,177,093</u>	<u>1,221,519</u>
	<u>3,231,701</u>	<u>2,997,321</u>

(b) ***Geographical markets***

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
China market		
– The PRC	1,311,310	1,459,149
– Hong Kong, Macau and others	338,391	389,979
North American market		
– The U.S.	1,269,099	941,840
– Others	103,214	122,680
Europe and other overseas markets	<u>209,687</u>	<u>83,673</u>
	<u>3,231,701</u>	<u>2,997,321</u>

(iii) **Other segment information**

(a) **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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
The U.S.	370,411	446,127
The PRC	329,712	328,954
Hong Kong	19,130	22,034
Vietnam	59,400	74,493
Macau	4	621
	<u>778,657</u>	<u>872,229</u>

(b) **Information about major customer**

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	<u>323,451</u>	<u>361,790</u>

(iv) **Liabilities related to contracts with customers**

The Group has recognised the following liabilities related to contracts with customers:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Receipt in advance from customers for the sales of health and household products	<u>12,559</u>	<u>466</u>

(i) **Significant changes in contract related assets and liabilities**

Contract liabilities mainly represent advance payments received from customers related to retail sales in Hong Kong and the PRC. Contract liabilities increased due to increase in wholesales and retail activities.

(ii) **Revenue recognised in relation to contract liabilities**

The following table shows how much of the revenue recognised in the year was related to carried forward contract liabilities.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Sales of health and household products	<u>466</u>	<u>893</u>

4. EXPENSES BY NATURE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories recognised as expenses including provision for inventories of HK\$19,748,000 (2019: HK\$10,327,000)	2,098,601	1,900,950
Employee benefits expenses	417,731	450,621
Amortisation of intangible assets	641	6,772
Auditor's remuneration	3,680	5,038
Bank charges	8,602	8,819
Concessionaire commission for department store counters	43,575	50,281
Depreciation of investment properties	1,964	5,031
Depreciation of property, plant and equipment	67,936	71,848
Depreciation of right-of-use assets	75,168	73,934
Legal and professional fees	18,126	28,502
Marketing expenses	30,098	28,050
Transportation expenses	81,594	82,606
Others	<u>282,098</u>	<u>309,344</u>
Total cost of sales, administrative expenses and selling and distribution expenses	<u>3,129,814</u>	<u>3,021,796</u>

5. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax:		
Hong Kong profits tax (<i>note i</i>)	5,512	1,950
PRC enterprise income tax (<i>note ii</i>)	18,390	37,819
PRC withholding tax on distributed profits from PRC subsidiaries	11,409	24,102
US income tax (<i>note iii</i>)	–	385
	<u>35,311</u>	<u>64,256</u>
(Over)/under-provision in prior years:		
Hong Kong profits tax	335	(215)
PRC enterprise income tax	497	(2,738)
US income tax	<u>(15,356)</u>	<u>–</u>
	<u>(14,524)</u>	<u>(2,953)</u>
Deferred taxation	<u>(12,839)</u>	<u>4,697</u>
	<u>7,948</u>	<u>66,000</u>

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%, while only one entity nominated by a group of “connected entities” will be entitled to select the lower tax rate. 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 Enterprise Income Tax 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 2020 in accordance to the Tax Cuts and Jobs Act of 2017. The US income tax includes (a) federal income tax calculated at a fixed rate of 21% for the year ended 31 December 2020 (2019: 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.
- (iv) Under the law of Vietnam on Corporate Income Tax (the "**Vietnam CIT**"), Vietnam CIT is calculated based on the statutory rate of 20% of the assessable profit of those subsidiaries established in Vietnam and these companies had no assessable profit during the year ended 31 December 2020.

6. DIVIDENDS

No dividend was paid and declared by the Company during and for the year ended 31 December 2020 (2019: Nil). During the year, a subsidiary of the Company declared and paid dividend amounting to HK\$15,924,000 to non-controlling interests (2019: declared HK\$46,528,000).

7. EARNINGS/(LOSS) PER SHARE

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share:		
Profit/(loss) for the year attributable to owners of the Company	<u><u>58,523</u></u>	<u><u>(216,509)</u></u>
<i>Number of shares for the purpose of basic and diluted loss per share:</i>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share ('000)	<u><u>1,750,002</u></u>	<u><u>1,750,002</u></u>
Basic and diluted earnings/(loss) per share (HK cents)	<u><u>3.34</u></u>	<u><u>(12.37)</u></u>

The computation of diluted earnings/(loss) per share for the years ended 31 December 2020 and 2019 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 and to the extent that they are antidilutive during the years ended 31 December 2020 and 2019.

8. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	694,915	437,611
<i>Less: allowance for credit losses</i>	<u>(32,417)</u>	<u>(30,751)</u>
Trade receivables, net	----- 662,498	----- 406,860
Deposits, prepayments and other receivables		
Advances to staff	2,249	1,744
Cash consideration receivables (<i>note (a)</i>)	123,654	148,603
Net investment in sublease	4,132	-
Other tax recoverable	8,443	18,110
Prepayments for purchasing raw materials and operating expenses	49,049	64,652
Rental and deposits	30,603	41,426
Others	<u>15,411</u>	<u>15,058</u>
	----- 233,541	----- 289,593
Total trade and other receivables	<u><u>896,039</u></u>	<u><u>696,453</u></u>
Non-current portion	82,109	136,977
Current portion	<u>813,930</u>	<u>559,476</u>
	<u><u>896,039</u></u>	<u><u>696,453</u></u>

- (a) The balance represents the consideration receivable in relation to the disposal of 51% equity interest in Chengdu Xingang Sponge Co. Ltd completed in 2019. According to the sale and purchase agreement, the total cash consideration of RMB157,000,000 (equivalent to approximately HK\$176,891,000) will be settled by four installments. During the year, the Group received the second instalment amounting to RMB30,000,000 (equivalent to HK\$33,266,000). The remaining instalments amounting to RMB50,000,000 (equivalents to HK\$58,318,000) and RMB57,000,000 (equivalents to HK\$65,336,000) would be due in 2021 and 2022 respectively.

The Group's retail sales are made both through its retail network comprising stand-alone retail shops and concession counters in department stores and through internet sales. The Group also sells health and household product 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.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	397,758	217,711
31 to 60 days	157,527	124,367
61 to 90 days	86,883	38,876
91 to 180 days	20,007	23,394
181 to 365 days	323	2,512
	<u>662,498</u>	<u>406,860</u>

9. 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 reporting periods:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	10,523	8,832
31 to 60 days	62,961	7,996
61 to 90 days	1,213	9,840
91 to 180 days	1,609	28,208
181 to 365 days	1,862	677
	<u>78,168</u>	<u>55,553</u>

Included in the bill receivables above amounting to approximately HK\$73,124,000 (31 December 2019: HK\$39,549,000) had been endorsed for settling the trade payables for which the maturity dates of the bill receivables have not yet fallen due as at the end of the reporting period. All bill receivables of the Group are with a maturity period of less than one year.

For the years ended 31 December 2020 and 2019, 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 (“FVOCI”)

Trade receivables from certain customers of the Group, whose contractual cash flows represent solely payments of principal and interest, were factored to reputable financial institutions under non-recourse factoring arrangement. The Group’s business model is therefore achieved both by collecting contractual cash flows and selling of these assets. Such trade receivables was therefore classified as financial assets carried at FVOCI.

As at 31 December 2020, the effective interest rates of the factored trade receivables at FVOCI ranged from 1.23% to 2.73% per annum (2019: 3.13% to 4.35% per annum). As at 31 December 2020 and 2019, the fair value changes on trade receivables at FVOCI are insignificant and accordingly, no fair value changes are recognised in equity as FVOCI reserve.

11. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<u>509,854</u>	<u>342,597</u>
Accrued salaries	41,173	44,025
Accrued operating expenses	66,656	58,752
Accrued royalties	8,963	5,959
Amount due to a non-controlling shareholder (<i>note</i>)	6,543	6,543
Dividend payable to a non-controlling shareholder	–	26,849
Deferred government grant	4,284	–
Refundable deposits received	8,268	12,855
Other taxes payable	19,346	20,901
Interest payable	–	124
Others	<u>15,176</u>	<u>13,448</u>
	<u>170,409</u>	<u>189,456</u>
Total trade and other payables	680,263	532,053
<i>Less:</i>		
Non-current portion of deferred government grant	<u>(2,229)</u>	<u>–</u>
Current portion	<u><u>678,034</u></u>	<u><u>532,053</u></u>

Note: The amount was unsecured, non-trade nature, interest-free and repayable on demand.

Included in the trade and other payables above amounting to HK\$73,124,000 (2019: HK\$39,549,000) 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 each reporting period.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	352,822	204,285
31 to 60 days	93,842	94,940
61 to 90 days	35,503	19,081
91 to 180 days	19,041	17,746
Over 180 days	8,646	6,545
	<u>509,854</u>	<u>342,597</u>

12. BILL PAYABLES

The following is the aging analysis of bill payables at the end of the reporting period presented based on bills issue date:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	8,579	6,107
31 to 60 days	9,546	11,639
61 to 90 days	3,202	6,481
91 to 180 days	23,575	15,712
181 to 365 days	–	7,710
	<u>44,902</u>	<u>47,649</u>

Bill payables were secured by pledged bank deposits of HK\$10,260,000 (2019: HK\$1,791,000) as at 31 December 2020 and guaranteed by the Company and certain of its subsidiaries.

13. CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u><u>8,878</u></u>	<u><u>6,040</u></u>

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group increased by approximately HK\$234.4 million or approximately 7.8% to approximately HK\$3,231.7 million (FY2019: approximately HK\$2,997.3 million).

	For the year ended		Changes %
	31 December		
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	
China market	1,649,701	1,849,128	(10.8%)
North American market	1,372,313	1,064,520	28.9%
Europe and other overseas markets	209,687	83,673	150.6%
Total	<u>3,231,701</u>	<u>2,997,321</u>	7.8%

Sales in the China market decreased by approximately 10.8% for the Reporting Period, as compared to FY2019 due to the outbreak of the COVID-19 pandemic and its impact on the general economy of the People's Republic of China (“**the PRC**”).

In the North American market, we diversified our customer base by developing business relationship with more new customers, as a result of which sales in this region increased by approximately 28.9% for the Reporting Period, as compared to FY2019.

In Europe and other overseas markets, we recorded an increase of sales in this region of approximately 150.6% for the Reporting Period, as compared to FY2019. The increase was due to the increase in our sales to customers in Vietnam.

Gross profit

The Group's gross profit (the “**GP**”) increased by approximately HK\$18.5 million or 3.1% to approximately HK\$623.8 million during the Reporting Period as compared to approximately HK\$605.3 million for FY2019. The GP margin decreased by 0.9% from approximately 20.2% to approximately 19.3% as compared to FY2019.

The decrease in GP margin was due to slowdown in the Group's business activities in the first half year caused by the COVID-19 outbreak.

Costs and expenses

Selling and distribution costs for the Reporting Period decreased by approximately HK\$74.2 million or 18.8% to approximately HK\$319.5 million, as compared to approximately HK\$393.7 million for FY2019. The decrease was mainly due to the decrease in staff costs and commission fees of approximately HK\$26.0 million, depreciation and amortisation of approximately HK\$11.3 million and concessionaire commission for department store counters of approximately HK\$6.7 million.

Administrative expenses for the Reporting Period decreased by approximately HK\$33.7 million or 14.3% to approximately HK\$202.4 million, as compared to approximately HK\$236.1 million for FY2019. The decrease was mainly due to the reduction in staff costs of approximately HK\$11.7 million, legal and professional fee of approximately HK\$7.8 million and depreciation and amortisation of approximately HK\$5.7 million.

Profit before taxation

Profit before taxation for the Reporting Period amounted to approximately HK\$69.0 million while a loss before taxation of approximately HK\$146.0 million was reported for FY2019.

The major reasons for the turnaround were as follows:

- (i) the decrease in impairment losses of property, plant and equipment, right-of-use assets, goodwill and intangible assets that were recognised for the year ended 31 December 2019;
- (ii) turnaround of the performance of our factory in the United States of America (“**the US**”);
- (iii) cost savings in selling and administrative expenses; and
- (iv) the receipt of government subsidies.

Income tax expenses

Included in income tax expenses, there were tax refund from the Group's US subsidiary of approximately HK\$15.4 million (2019: nil) and payments of PRC withholding tax on distributable profits from the Group's PRC subsidiaries of approximately HK\$11.4 million, as compared to approximately HK\$24.1 million for FY2019.

Impact of COVID-19

The outbreak of COVID-19 represents an unprecedented disruption to the global economy. Our business was heavily affected by COVID-19 in the first four months of 2020. Demands from customers were weak and it was difficult to source materials from overseas suppliers and deliver goods to customers globally during said period of time due to, among other things, disruption to global logistics and extensive business suspension across the global supply chains. Sales dropped by approximately 32.5% in the first four months of 2020 comparing to the corresponding period in 2019. Accordingly, the Group has put in place various cost controls to reduce our operating costs in order to mitigate such impacts.

In the meantime, governments across the globe have imposed various degrees of national lockdowns and/or encouraged their citizens to stay at home as a result of the COVID-19 outbreak, which created stronger demands for household products. More products were purchased through online channels. Sales orders bounced back starting from the second quarter of 2020. Sales for the Reporting Period increased by approximately 7.8% comparing to FY2019, which was mainly contributed by the increase in sales to several online sales customers.

There has been no material impact on the Group's liquidity position and working capital sufficiency as a result of the COVID-19 outbreak. 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 from time to time.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2020, the Group had net current assets of approximately HK\$273.1 million, as compared to approximately HK\$108.0 million as at 31 December 2019.

Net cash from operating activities amounted to approximately HK\$114.7 million for the Reporting Period as compared to approximately HK\$353.1 million for FY2019.

Bank balance and cash as at 31 December 2020 decreased by approximately HK\$103.4 million or approximately 43.0% to approximately HK\$136.9 million as compared to approximately HK\$240.3 million as at 31 December 2019.

Borrowings and pledge of assets

As at 31 December 2020, the Group had banking facilities amounting to approximately HK\$1,120.5 million of which approximately HK\$592.1 million was utilised (FY2019: banking facilities amounting to approximately HK\$1,554.0 million of which approximately HK\$670.5 million was utilised) (which included unsecured bank borrowings and bills payables).

Capital expenditure

The Group's capital expenditure for the Reporting Period amounted to approximately HK\$29.4 million (FY2019: HK\$70.2 million) which was mainly for the purchase of the Group's plant and machinery.

Financial ratios

	As at 31 December 2020	As at 31 December 2019
Current ratio ⁽¹⁾	119.9%	108.4%
Quick ratio ⁽²⁾	77.3%	70.1%
Gearing ratio ⁽³⁾	57.2%	72.0%
Debt to equity ratio ⁽⁴⁾	42.9%	44.2%

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

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

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

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

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\$7.0 million and HK\$54.6 million as at 31 December 2020). 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 Limited ("**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.

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 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

Following the outbreak of COVID-19, the US – China trade war and the anti-dumping duty imposed on products importing from various countries, US importers have started to review their supply chains and will pay more attention to suppliers who have the ability to supply in the US. Having factories in China, the US and Vietnam, we are able to supply globally to our customers with various needs and arrange our production and logistics schedules with flexibility to minimise the overall costs including production, tariff and transportation.

Since last year, we have allocated more resources in developing a more diversified customer base with online sales. Sales from these customers started to increase since the second quarter of 2020. With the outbreak of COVID-19, more sales have been conducted through online channels where Mattress-in-a-Box (“MIB”) is one of the major products sold through these online channels. Demands for MIB have been encouraging.

Facing with the increasing demands in the US, we are going to increase our production capacity in the US. As disclosed in the announcement of the Company dated 1 February 2020, we entered into a new lease agreement to rent a factory which is located in the proximity of our existing US factory. The new lease would facilitate and expand the Group's operations in the existing US factory and in turn enable the Group to meet our customers' growing demands in the US. More equipment and resources would be invested to cope with the increasing demands in the US.

Recently, prices of various key materials are increasing, particularly in the US market. We will monitor our material costs closely and discuss with our customers for the possibility of transferring the increased costs to our customers as and when necessary. At the same time, we will rearrange our logistics and production schedules in various locations to minimise our overall costs.

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 "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. We will continue to deploy more resources to strengthen our sales through e-commerce.

Based on the increasing demands of our customers, we are optimistic about our future performance. The Group will continue to upgrade our machinery so as to improve our production efficiency and increase our competitiveness.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the paragraph 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

From 31 December 2020 to the date of this announcement, there was no significant event of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2020, the employee headcount of the Group was 2,799 (FY2019: 3,026) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$425.7 million for the Reporting Period (FY2019: approximately HK\$450.6 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 of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. The Company 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 audit committee of the Board has reviewed, with the management of the Company, the accounting principles and policies adopted by the Group and discussed and reviewed the audited consolidated financial statements of the Group for the Reporting Period and recommended the adoption of the same by the Board.

REVIEW OF ANNUAL RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the Reporting Period as set out in this announcement have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the Reporting Period. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 8 June 2021 to 11 June 2021, both days inclusive, during which period, no transfer of shares will be registered. In order to be qualified to attend and vote at the annual general meeting of the Company, 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 7 June 2021.

PUBLICATION OF THE ANNUAL RESULTS AND 2020 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 2020 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 22 March 2021

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