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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 2022

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period decreased by approximately HK\$1,107.9 million or 26.0% to approximately HK\$3,152.0 million, as compared to approximately HK\$4,259.9 million for FY2021.
- Gross profit for the Reporting Period decreased by approximately HK\$94.2 million or 13.1% to approximately HK\$622.7 million, as compared to approximately HK\$717.0 million for FY2021.
- (Loss)/profit for the Reporting Period decreased by approximately HK\$68.6 million or 218.3% to a loss of approximately HK\$37.2 million, as compared to a profit of approximately HK\$31.4 million for FY2021.
- The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2022.

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 2022 (the “**Reporting Period**”), together with the audited comparative figures for the previous financial year ended 31 December 2021 (“**FY2021**”), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	3	3,151,960	4,259,882
Cost of sales	7	(2,529,216)	(3,542,929)
Gross profit		622,744	716,953
Other income	4	54,134	63,136
Net impairment losses of financial assets		(17,938)	(4,715)
Other gains/(losses)	5	25,542	(11,746)
Selling and distribution expenses	7	(424,547)	(420,245)
Administrative expenses	7	(188,695)	(199,207)
Research and development cost	7	(74,423)	(67,366)
Finance costs	6	(46,027)	(38,941)
(Loss)/profit before income tax		(49,210)	37,869
Income tax credit/(expense)	8	12,025	(6,434)
(Loss)/profit for the year		(37,185)	31,435

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

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Current translation differences			
for foreign operations		<u>(58,726)</u>	<u>24,559</u>
Other comprehensive (loss)/income for the year		<u>(58,726)</u>	<u>24,559</u>
Total comprehensive (loss)/income for the year		<u>(95,911)</u>	<u>55,994</u>
(Loss)/profit for the year attributable to:			
Owners of the Company		<u>(35,970)</u>	<u>15,305</u>
Non-controlling interests		<u>(1,215)</u>	<u>16,130</u>
		<u>(37,185)</u>	<u>31,435</u>
Total comprehensive (loss)/income for the year			
attributable to:			
Owners of the Company		<u>(90,618)</u>	<u>38,308</u>
Non-controlling interests		<u>(5,293)</u>	<u>17,686</u>
		<u>(95,911)</u>	<u>55,994</u>
(Losses)/earnings per share			
– Basic and diluted (<i>HK cents</i>)	<i>10</i>	<u>(2.06)</u>	<u>0.87</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		462,862	507,902
Right-of-use assets		247,917	314,997
Investment properties		28,073	32,508
Intangible assets		11,177	12,955
Deposits and other receivables	11	54,043	23,333
Deferred tax assets		62,599	29,616
		<u>866,671</u>	<u>921,311</u>
Current assets			
Inventories		555,271	703,278
Trade and other receivables	11	551,873	840,098
Bill receivables	12	72,210	94,644
Trade receivables at fair value through other comprehensive income	13	22,962	39,833
Pledged bank deposits		–	1,174
Cash and cash equivalents		168,955	228,532
		<u>1,371,271</u>	<u>1,907,559</u>
Total assets		<u>2,237,942</u>	<u>2,828,870</u>
Equity			
Equity attributable to the Company's equity holders			
Share capital		175,000	175,000
Reserves		720,201	817,819
Equity attributable to owners of the Company		895,201	992,819
Non-controlling interests		(8,261)	13,799
Total equity		<u>886,940</u>	<u>1,006,618</u>

**CONSOLIDATED STATEMENT OF FINANCIAL
POSITION (CONTINUED)**

AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Lease liabilities		236,228	272,457
Deferred government grant	<i>14</i>	1,325	1,863
Deferred tax liabilities		19,227	18,106
		<u>256,780</u>	<u>292,426</u>
Current liabilities			
Trade and other payables	<i>14</i>	479,458	789,288
Bill payables	<i>15</i>	5,233	35,729
Contract liabilities		11,993	14,837
Unsecured bank borrowings		522,259	588,273
Lease liabilities		63,513	84,139
Taxation payable		11,766	17,560
		<u>1,094,222</u>	<u>1,529,826</u>
Total liabilities		<u>1,351,002</u>	<u>1,822,252</u>
Total equity and liabilities		<u>2,237,942</u>	<u>2,828,870</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL

The Group manufactures and sells health and household products. The Company acts as an investment holding company and principal activities of the Group are conducted by its principal subsidiaries.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(i) Compliance with HKFRS and the disclosure requirements of HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and the applicable disclosure 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 Company has applied the following standards and amendments for the first time for their annual reporting period from 1 January 2022:

Amendments to Annual Improvements Project	Annual Improvements of HKFRSs 2018-2020
HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments

All amendments to standards and interpretation listed above do not have a significant effect on the Company's accounting policies.

(iv) New and amended standards issued but not yet effective

The following new standards and amendments to standards, annual improvements project and interpretation (collectively, the "Amendments") have been issued but are not effective for the Reporting Period and have not been early adopted by the Company:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17	Amendments to HKFRS 17	1 January 2023
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9-Comparative Information	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to Hong Kong Interpretation 5	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	Applied when an entity applies "Classification of liabilities as current or non-current – amendments to HKAS 1
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be confirmed by the HKICPA

The Company will apply these Amendments in the year of initial application. Given the current status of the Company, the Directors do not expect the adoption of the Amendments will have any significant impact on the Company's results of operations and financial position.

2.2 Going Concern

During the year ended 31 December 2022, the Group reported a loss before income tax of HK\$49,210,000. The Group had total bank borrowings, all classified as current liabilities, of HK\$522,259,000 while its cash and cash equivalents was HK\$168,955,000 as at 31 December 2022.

As at 31 December 2022, the Group has not complied with a restrictive financial covenant of certain of its borrowings amounting to HK\$35,864,000. Such non-compliance of covenant may cause the borrowings from these relevant banks to become immediately due and payable but corresponding waivers have been obtained from the relevant banks prior to 31 December 2022.

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

- (i) Before 31 December 2022, the Group successfully obtained waivers from the non-compliance of a restrictive financial covenants from the relevant banks of bank borrowings amounting to HK\$35,864,000. The Group will continue to monitor its compliance with the covenant requirements. Should the Group anticipate that it would not be able to comply with the covenant requirements, the management of the Company will discuss and negotiate with the respective banks and will seek to further revise the terms and covenant requirements or obtain a waiver of compliance with the covenant requirements from the banks, if needed;
- (ii) the Group maintains continuous communication with all the banks and management believes that the unutilised other existing unsecured banking facilities available to the Group, amounting to approximately HK\$464,958,000 as at 31 December 2022, will be continued available and successfully renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties. The Group will be able to draw down from these facilities to finance its operations, if needed;
- (iii) the directors of the Company are of the opinion that continuous operating cash flow of the Group will be generated in the next twelve months resulting from the continued easing of impact of COVID-19; and
- (iv) the Group will continue to seek for other alternative financing and bank borrowings to finance the settlement of the existing financial obligations and future operating and capital expenditure.

The directors of the Company have reviewed the Group's cash flow projections prepared by management and the cash flow projections cover a period of not less than twelve months from 31 December 2022. They are of the opinion that, taking into account the anticipated cash flows generated from the Group's operations as well as the possible changes in its operating performance, the Group's ability to comply with the covenant requirements and draw down from its existing banking facilities, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2022. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

3. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company (“**Executive Directors**”) have been identified as the chief operating decision-maker (“**CODM**”). The Executive Directors review the Group’s internal report in order to assess performance and allocate resources. Management has determined the operating segments of the Group 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 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 2022

	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	1,470,746	1,214,227	466,987	3,151,960
Cost of sales				(2,529,216)
Other income				54,134
Net impairment losses of financial assets				(17,938)
Other gains, net				25,542
Selling and distribution expenses				(424,547)
Administrative expenses				(188,695)
Finance cost				(46,027)
Research and development cost				(74,423)
Loss before income tax				<u>(49,210)</u>

For the year ended 31 December 2021

	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	2,222,881	1,573,442	463,559	4,259,882
Cost of sales				(3,542,929)
Other income				63,136
Net impairment losses of financial assets				(4,715)
Other losses, net				(11,746)
Selling and distribution expenses				(420,245)
Administrative expenses				(199,207)
Finance cost				(38,941)
Research and development cost				<u>(67,366)</u>
Profit before income tax				<u><u>37,869</u></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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sales of health and household products	1,980,255	2,370,009
Sales of polyurethane foam	<u>1,171,705</u>	<u>1,889,873</u>
Total	<u><u>3,151,960</u></u>	<u><u>4,259,882</u></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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
China market		
– The PRC	1,222,097	1,913,081
– Hong Kong, Macau and others	248,649	309,800
North American market		
– The U.S.	1,128,805	1,442,985
– Others	85,422	130,457
Europe and other overseas markets	<u>466,987</u>	<u>463,559</u>
Total	<u><u>3,151,960</u></u>	<u><u>4,259,882</u></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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
The U.S.	461,943	493,290
The PRC	268,660	324,616
Hong Kong	16,877	12,296
Vietnam	<u>27,667</u>	<u>45,623</u>
	<u><u>775,147</u></u>	<u><u>875,825</u></u>

(b) Information about major customer

Revenue from customer contributing over 10% of the total revenue to the Group during the years are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	<u>329,664</u>	<u>504,533</u>

(iv) Liabilities related to contracts with customers

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Receipt in advance from customers for the sales of health and household products	<u>11,993</u>	<u>14,837</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sales of health and household products	<u>14,837</u>	<u>12,559</u>

4. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest income from bank deposits	1,862	305
Interest income from cash consideration receivables	1,379	2,390
Imputed interest income from rental deposits	1,420	1,335
Interest income from investment in subleases	136	182
Government subsidies (<i>note</i>)	11,975	12,634
Rental income	10,948	16,144
Scrap sales	19,518	21,065
Others	<u>6,896</u>	<u>9,081</u>
	<u>54,134</u>	<u>63,136</u>

Note:

The amount mainly represents government grants provided by PRC government related to foreign capital injection, new material technology development projects which is in cooperation with the local PRC government and salaries and wages subsidies received from the government for the use of paying wages of employees due to COVID-19. (2021: The amount mainly represents government grant provided by PRC government related to foreign capital injection and new material technology development project which is in cooperation with the local PRC government.)

5. OTHER GAINS/(LOSSES)

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/gain on disposal of property, plant and equipment	(1,819)	166
Gain on early termination of right-of-use assets	31	463
Loss on early termination of sublease	–	(225)
Net exchange differences	27,330	(12,150)
	<u>25,542</u>	<u>(11,746)</u>

6. FINANCE COSTS

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings	23,736	21,074
Interest on lease liabilities	18,180	16,952
Interest and charges on factoring of trade receivables	4,111	915
	<u>46,027</u>	<u>38,941</u>

7. EXPENSES BY NATURE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Cost of inventories recognised as expenses	1,959,515	2,884,378
Employee benefits expenses	482,682	542,166
Amortisation of intangible assets	1,778	1,778
Auditor's remuneration		
– Audit service	3,000	2,920
– Non-audit service	876	880
Bank charges	10,030	10,688
Concessionaire commission for department store counters (<i>note</i>)	39,811	47,071
Expenses relating to short-term or low value leases	1,902	2,261
Depreciation of investment properties	2,039	2,211
Depreciation of property, plant and equipment	73,028	70,153
Depreciation of right-of-use assets	91,657	86,084
Provision for inventories	4,741	12,971
Legal and professional fees	18,680	18,176
Marketing expenses	115,604	91,430
Transportation expenses	98,405	99,734
Others	313,133	356,846
	<hr/>	<hr/>
Total cost of sales, administrative expenses, selling and distribution expenses and research and development expenses	3,216,881	4,229,747

Note:

Concessionaire commission for department store counters is generally calculated by applying pre-determined percentages to actual sales made through respective counters.

8. INCOME TAX (CREDIT)/EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax:		
Hong Kong profits tax (<i>note i</i>)	2,307	2,048
PRC enterprise income tax (“EIT”) (<i>note ii</i>)	13,556	23,986
PRC withholding tax on distributed profits from PRC subsidiaries	<u>3,364</u>	<u>729</u>
	<u>19,227</u>	<u>26,763</u>
Over provision in prior years:		
Hong Kong Profits Tax	–	–
PRC EIT	(40)	(98)
US income tax (<i>note iii</i>)	<u>–</u>	<u>–</u>
	<u>(40)</u>	<u>(98)</u>
Deferred taxation	<u>(31,212)</u>	<u>(20,231)</u>
	<u><u>(12,025)</u></u>	<u><u>6,434</u></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 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% for a 3-year period which expired in 2021 and 2022 (2021: which expired in 2021 and will expire in 2022, respectively).

- (iii) The US corporate tax rate is 21% for the years ended 31 December 2022 and 2021 in accordance with 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 years ended 31 December 2022 and 2021 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 the previous year.

- (iv) Under the laws 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 years ended 31 December 2022 and 2021.

The income tax (credit)/expense for the year can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022	2021
	HK\$'000	HK\$'000
(Loss)/profit before income tax	<u>(49,210)</u>	<u>37,869</u>
Tax at the Hong Kong profits tax rate	(8,120)	6,248
Effect on different tax rates of subsidiaries operating in other jurisdictions	(8,031)	3,385
Tax effect of expenses not deductible for tax purposes	12,200	14,084
Tax effect of income not taxable for tax purposes	(17,377)	(17,301)
Over provision in prior years	(40)	(98)
Tax effect of tax loss not recognised	7,814	1,992
Utilisation of tax loss previously not recognised	–	(4,250)
Withholding tax on undistributed earnings of PRC subsidiaries	1,694	2,539
Income tax on concessionary rate	<u>(165)</u>	<u>(165)</u>
Income tax (credit)/expense	<u>(12,025)</u>	<u>6,434</u>

9. DIVIDENDS

Subsequent to the end of the Reporting Period, no final dividend in respect of the year ended 31 December 2022 is proposed (2021: a final dividend of HK\$0.4 cents per share).

During 2022, a subsidiary of the Company declared dividend amounting to HK\$16,767,000 and paid dividend amounting to HK\$13,962,000 to non-controlling interests (2021: declared dividend amounting to HK\$5,835,000 and paid dividend amounting to HK\$4,861,000 to non-controlling interests).

10. (LOSSES)/EARNINGS PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Losses)/earnings for the purpose of basic and diluted (losses)/earnings per share:		
(Loss)/profit for the year attributable to owners of the Company	<u><u>(35,970)</u></u>	<u><u>15,305</u></u>
Number of shares for the purpose of basic and diluted loss per share: (<i>'000</i>)		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u><u>1,750,002</u></u>	<u><u>1,750,002</u></u>
Basic and diluted (losses)/earnings per share (<i>HK cents</i>)	<u><u>(2.06)</u></u>	<u><u>0.87</u></u>

The computation of diluted earnings per share for the years ended 31 December 2022 and 2021 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 they are antidilutive during the years ended 31 December 2022 and 2021.

11. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	468,257	685,510
<i>Less: allowance for credit losses</i>	<u>(32,529)</u>	<u>(26,801)</u>
Trade receivables, net	----- 435,728	----- 658,709
Deposits, prepayments and other receivables		
Cash consideration receivables (<i>note a</i>)	38,718	67,256
Prepayments for purchasing raw materials and operating expenses	57,793	65,330
Rental and other deposits	43,500	39,491
Other tax recoverable	18,926	16,446
Net investment in sublease	2,281	3,079
Advances to staff	1,078	2,169
Others	<u>7,892</u>	<u>10,951</u>
	----- 170,188	----- 204,722
Total trade and other receivables	<u><u>605,916</u></u>	<u><u>863,431</u></u>
Non-current portion	54,043	23,333
Current portion	<u>551,873</u>	<u>840,098</u>
	<u><u>605,916</u></u>	<u><u>863,431</u></u>

(a) The balance represents the consideration receivables 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 the disposal was agreed to be settled in four instalments. According to a supplemental agreement between 賽諾(浙江)聚氨酯新材料有限公司 (Sinomax (Zhejiang) Polyurethane Technology Limited*), a wholly-owned subsidiary of the Company, and the purchaser of 51% equity interest in Chengdu Xingang Sponge Co. Ltd. dated 11 March 2022, the payment arrangement of the fourth instalment (the “**Fourth Instalment**”) was revised as follows:

- (i) RMB22,000,000 of the Fourth Instalment shall be paid by 15 March 2022;
- (ii) RMB10,000,000 of the Fourth Instalment shall be paid by 15 March 2023; and

(iii) the remaining balance of RMB25,000,000 of the Fourth Instalment shall be paid by 15 March 2024,

together with the payable interest which shall accrue from and including the Second Payment Due Date (as defined in the sale and purchase agreement) until and including the respective dates of actual payments as set out in (i), (ii) and (iii) above respectively at the rate of 3% per annum.

During 2022, the Group received the payment as set out in (i) above amounting to RMB22,000,000.

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 products directly to overseas wholesalers and retailers, and the polyurethane foam to furniture manufacturers in the PRC. Sales at self-operated retail shops and sales through retailers in the PRC and internet sales are transacted either by cash or credit cards. For sales made at concession counters, the department stores collect cash from the end customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranges from 30 days to 120 days. For sales to wholesalers, retailers and furniture manufacturers, the Group generally allows a credit period ranging from 7 days to 90 days.

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	197,558	348,544
31 to 60 days	149,556	210,121
61 to 90 days	51,341	63,710
91 to 180 days	21,268	31,444
181 to 365 days	16,005	4,890
	<u>435,728</u>	<u>658,709</u>

(i) Fair value of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(ii) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate net carrying amount of HK\$118,943,000 (2021: HK\$124,940,000) which are past due as at the reporting date. Out of the past due balances, HK\$23,039,000 (2021: HK\$8,037,000) 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. The Group does not hold any collateral over the balances.

12. BILL RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bill receivables	77,444	94,644
<i>Less: allowance for credit losses</i>	<u>(5,234)</u>	<u>–</u>
	<u>72,210</u>	<u>94,644</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 30 days	9,136	19,717
31 to 60 days	13,254	18,633
61 to 90 days	15,951	12,825
91 to 180 days	33,496	42,807
181 to 365 days	<u>373</u>	<u>662</u>
	<u>72,210</u>	<u>94,644</u>

Included in the bill receivables above amounting to approximately HK\$46,607,000 (31 December 2021: HK\$82,717,000) had been endorsed for settling the trade payables for which the maturity dates of the bill receivables have not yet fallen due as at the end of the Reporting Period. All bill receivables of the Group are with a maturity period of less than one year.

13. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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 fair value through other comprehensive income ("FVOCI").

As at 31 December 2022, the effective interest rates of the factored trade receivables at FVOCI ranged from 5.07% to 6.57% per annum (2021: 1.07% to 2.57% per annum). As at 31 December 2022 and 2021, the fair value changes on trade receivables at FVOCI are insignificant and accordingly, no fair value changes are recognised in equity as FVOCI reserve.

14. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	<u>310,205</u>	<u>598,717</u>
Accrued operating expenses	61,780	66,433
Accrued salaries	35,868	43,927
Other taxes payable	30,304	33,374
Accrued royalties	19,581	14,281
Refundable deposits received	7,106	9,527
Amount due to non-controlling shareholders (note)	6,543	7,517
Deferred government grant	1,724	3,930
Dividend payable	3,779	974
Others	<u>3,893</u>	<u>12,471</u>
	<u>170,578</u>	<u>192,434</u>
Total trade and other payables	480,783	791,151
<i>Less:</i>		
Non-current portion of deferred government grant	<u>(1,325)</u>	<u>(1,863)</u>
Current portion	<u><u>479,458</u></u>	<u><u>789,288</u></u>

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

Included in trade and other payables above amounting to HK\$46,607,000 (2021: HK\$82,717,000) 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 ranged from 30 to 60 days. The following is the aging analysis of trade payables based on the invoice date.

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	181,775	335,104
31 to 60 days	63,255	150,515
61 to 90 days	24,331	43,499
91 to 180 days	26,355	51,281
Over 180 days	14,489	18,318
	<u>310,205</u>	<u>598,717</u>

15. BILL PAYABLES

The following is the aging analysis of bill payables at the end of the Reporting Periods presented based on bills issue dates:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	5,233	6,182
31 to 60 days	–	6,181
61 to 90 days	–	8,530
91 to 180 days	–	14,836
	<u>5,233</u>	<u>35,729</u>

Bill payables were secured by pledged bank deposits of HK\$1,174,000 as at 31 December 2021 and guaranteed by the Company and certain of its subsidiaries.

16. CAPITAL COMMITMENTS

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

	2022 <i>HK\$'000</i>	2021 <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>3,143</u>	<u>7,887</u>

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group decreased by approximately HK\$1,107.9 million or approximately 26.0% to approximately HK\$3,152.0 million (FY2021: approximately HK\$4,259.9 million).

	2022	2021	Changes
	HK\$'000	HK\$'000	
China market	1,470,746	2,222,881	(33.8%)
North American market	1,214,227	1,573,442	(22.8%)
Europe and other overseas markets	466,987	463,559	0.7%
Total	<u>3,151,960</u>	<u>4,259,882</u>	<u>(26.0%)</u>

Sales in the China market and the North American market decreased by approximately 33.8% and 22.8%, respectively, for the Reporting Period, as compared to FY2021. The decrease was mainly due to continual outbreak of the COVID-19 which had critically weakened both China and global consumption market.

In Europe and other overseas markets, we recorded an increase of sales of approximately 0.7% for the Reporting Period, as compared to FY2021. The increase was mainly due to the increase in demand in Europe.

Gross Profit

The Group's gross profit (the "GP") decreased by approximately HK\$94.2 million or approximately 13.1% to approximately HK\$622.7 million during the Reporting Period, as compared to approximately HK\$717.0 million for FY2021. Meanwhile, the GP margin increased by 3.0% from approximately 16.8% to approximately 19.8% as compared to FY2021.

The increase in GP margin was due to the decrease in the purchase price of raw materials of polyurethane foam and freight charges during the Reporting Period, as compared to FY2021.

Costs and expenses

Selling and distribution costs for the Reporting Period increased by approximately HK\$4.3 million or 1.0% to approximately HK\$424.5 million, as compared to approximately HK\$420.2 million for FY2021. The increase was mainly due to the increase in advertising and marketing expenses for E-commerce channel, in which the sales for direct-to-customers increased by 13% as compared to last year.

Administrative expenses for the Reporting Period decreased by approximately HK\$10.5 million or 5.3% to approximately HK\$188.7 million, as compared to approximately HK\$199.2 million for FY2021. The decrease was mainly due to decrease in employee benefits expenses.

(Loss)/profit for the Reporting Period

Loss for the Reporting Period amounted to approximately HK\$37.2 million as compared to profit for the year amounted to approximately HK\$31.4 million for FY2021.

This was primarily attributable to the continual outbreak of the COVID-19 which had critically weakened both local and global consumption market and also the sales of the Group.

Income tax credit/(expenses)

Included in income tax credit/(expenses), there were payments of PRC withholding tax on distributable profits from the Group's PRC subsidiaries of approximately HK\$3.4 million (FY2021: HK\$0.7 million). The increase was mainly due to increase in distributable profits from the Group's PRC subsidiaries.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2022, the Group had net current assets of approximately HK\$277.0 million, as compared to approximately HK\$377.7 million as at 31 December 2021. Net cash from operating activities amounted to approximately HK\$191.0 million for the Reporting Period as compared to approximately HK\$156.8 million for FY2021. Bank balance and cash as at 31 December 2022 decreased by approximately HK\$59.6 million or approximately 26.1% to approximately HK\$169.0 million as compared to approximately HK\$228.5 million as at 31 December 2021.

Borrowings and pledge of assets

As at 31 December 2022, the Group had banking facilities amounting to approximately HK\$1,106.9 million of which approximately HK\$527.5 million was utilised (FY2021: banking facilities amounting to approximately HK\$1,028.5 million of which approximately HK\$624.0 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\$51.0 million (FY2021: HK\$48.6 million) which was mainly for the purchase of the Group's plant and machinery.

Financial ratios

	As at 31 December 2022	As at 31 December 2021
Current ratio ⁽¹⁾	125.3%	124.7%
Quick ratio ⁽²⁾	74.6%	78.7%
Gearing ratio ⁽³⁾	58.9%	58.4%
Debt to equity ratio ⁽⁴⁾	39.8%	35.7%

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

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

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

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

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, the PRC, the U.S. 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 Hong Kong Dollar against Renminbi and Vietnamese Dong which could materially affect the Group's results of operations, and therefore no hedging instrument has been employed. The Group will closely monitor the trends of Renminbi and Vietnamese Dong and take appropriate measures to deal with the foreign exchange exposure if necessary.

TREASURY POLICY AND MARKET RISKS

The Group has a treasury policy that aims at better controlling its treasury operations and lowering borrowing cost. Such treasury policy requires the Group to maintain an adequate level of cash and cash equivalents and sufficient available banking facilities to finance the Group's daily operations and to address short term funding needs. The Group reviews and evaluates its treasury policy from time to time to ensure its adequacy and effectiveness.

PROSPECTS

The year 2022 has been another challenging year. Impact from COVID-19 and the continuance of the U.S.-China trade war both adversely affected the consumption market and sales of the Group. However, in early 2023, the following development was noted:

1. The relaxation of most COVID-19 measures is expected to bring new business opportunities to the Group;
2. Inflation in the U.S. was high but there are signs of slow down;
3. The overstock position of some of our customers in the U.S. has improved and the number of new orders from them is increasing;
4. Purchase price of our raw materials and the logistic costs have decreased, and our gross profit margin in the first two months of 2023 increased slightly comparing with the same period in 2022; and

5. We have successfully developed new online sales projects in the U.S. in 2023. We expect that the demand for Mattress-in-a-Box, one of the Group's major products sold through online channels, is strong. We are optimistic that the growth in sales of Mattress-in-a-Box will be encouraging and will generate more sales and profits for the Group.

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

We will closely monitor the customers' demand as well as the production costs and will increase our investment in relevant equipment and resources as appropriate to cope with the increasing demands in the U.S.. We will continue to explore more opportunities in the growing Mattress-in-a-Box market and to diversify our customer base in order to maintain our position as one of the leading experts in visco-elastic health and wellness products in the U.S. and the retail markets in Hong Kong and the PRC.

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

Reference is made to the announcement of the Company dated 7 February 2023.

In February 2023, the Group was informed by one of its customers in the U.S., Serta Simmons Bedding, LLC (“SSB”), that it has entered into a restructuring support agreement with key financial stakeholders that will significantly reduce its debt and enable it to continue making critical investments in its business and brands. To implement the restructuring contemplated by the agreement, SSB and most of its U.S. corporate entities have initiated a voluntary pre-arranged court-supervised process (“**Reorganisation Plan**”) under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas (the “**SSB Filing**”).

In light of the Reorganisation Plan, the Board is of the view that the SSB Filing is unlikely to have any significant impact on the Group’s business or financial condition. The Company will closely monitor the progress of the SSB Filing and take appropriate action to minimize the negative impact on the Group, if any. The Company will make further announcement to inform the shareholders and potential investors of any material developments of the matter as and when appropriate.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2022, the employee headcount of the Group was 2,477 (FY2021: 3,258) and the total staff costs, including Directors’ remuneration and share option expenses, amounted to approximately HK\$482.7 million for the Reporting Period (FY2021: approximately HK\$542.2 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 Part 2 of 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 2022.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 13 June 2023 to 16 June 2023, both days inclusive, during which period, no transfer of shares will be registered and the record date of the annual general meeting (the “AGM”) will be 16 June 2023. 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 12 June 2023.

PUBLICATION OF THE ANNUAL RESULTS AND 2022 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 2022 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 28 March 2023

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