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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period increased by approximately HK$79.5 million or 1.9% to approximately HK$4,263.3 million, as compared to approximately HK$4,183.8 million for FY2017.

- Gross profit for the Reporting Period decreased by approximately HK$57.2 million or 6.9% to approximately HK$772.0 million, as compared to approximately HK$829.2 million for FY2017.

- Profit for the Reporting Period decreased by approximately HK$46.0 million or 90.6% to approximately HK$4.8 million, as compared to approximately HK$50.8 million for FY2017.

- The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018.

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 2018 (the "**Reporting Period**"), together with the comparative figures for the previous financial year ended 31 December 2017 ("**FY2017**"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Revenue	*3*	**4,263,322**	4,183,786
Cost of sales		**(3,491,279)**	(3,354,589)
Gross profit		**772,043**	829,197
Other income		**66,931**	51,739
Impairment losses, net of reversal		**(5,923)**	–
Other gains and losses		**356**	(6,548)
Selling and distribution costs		**(453,362)**	(472,796)
Administrative expenses		**(217,491)**	(216,950)
Finance costs		**(40,096)**	(26,158)
Other expenses		**(94,872)**	(100,242)
Profit before taxation	*4*	**27,586**	58,242
Income tax expense	*5*	**(22,744)**	(7,457)
Profit for the year		**4,842**	50,785

	NOTES	**2018**	2017
		HK$'000	*HK$'000*
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(59,937)**	73,483
Reclassification of translation reserve to profit or loss upon disposal/dissolution of a subsidiary		**(67)**	(1,364)
Other comprehensive (expense) income for the year		**(60,004)**	72,119
Total comprehensive (expense) income for the year		**(55,162)**	122,904
(Loss) profit for the year attributable to:			
Owners of the Company		**(5,801)**	39,674
Non-controlling interests		**10,643**	11,111
		4,842	50,785
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(58,777)**	107,652
Non-controlling interests		**3,615**	15,252
		(55,162)	122,904
(Loss) earning per share			
– Basic and diluted *(HK cents)*	*7*	**(0.33)**	2.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**682,084**	713,031
Investment properties		**90,224**	99,389
Prepaid lease payments		**62,479**	67,631
Deposits paid for acquisition of property, plant and equipment		**13,182**	20,806
Goodwill		**61,409**	62,764
Intangible assets		**122,399**	137,268
Rental deposits		**23,365**	24,470
Deferred tax assets		**25,451**	19,710
		1,080,593	1,145,069
CURRENT ASSETS			
Prepaid lease payments		**1,638**	1,727
Inventories		**531,071**	679,473
Trade and other receivables	*8*	**843,359**	847,121
Bills receivables	*9*	**91,960**	16,814
Trade receivables at fair value through other comprehensive income	*10*	**87,769**	–
Tax recoverable		**–**	1,719
Pledged bank deposits		**–**	2,912
Fixed bank deposits		**32,394**	32,852
Bank balances and cash		**234,435**	155,485
		1,822,626	1,738,103
CURRENT LIABILITIES			
Trade and other payables	*11*	**600,258**	623,192
Bills payables	*12*	**86,181**	91,474
Contract liabilities		**893**	–
Unsecured bank borrowings		**584,369**	614,990
Taxation payable		**19,825**	20,022
		1,291,526	1,349,678

	NOTES	2018 HK$'000	2017 HK$'000
NET CURRENT ASSETS		**531,100**	388,425
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,611,693**	1,533,494
NON-CURRENT LIABILITIES			
Unsecured bank borrowings		**289,388**	121,064
Deferred tax liabilities		**96,462**	102,964
		385,850	224,028
NET ASSETS		**1,225,843**	1,309,466
CAPITAL AND RESERVES			
Share capital		**175,000**	175,000
Reserves		**904,429**	980,030
Equity attributable to owners of the Company		**1,079,429**	1,155,030
Non-controlling interests		**146,414**	154,436
TOTAL EQUITY		**1,225,843**	1,309,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL

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

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

The Company acts as an investment holding company.

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

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacturing and sales of health and household products

- Manufacturing and sales of polyurethane foam

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Current Liabilities			
Trade and other payables	623,192	(1,255)	621,937
Contract liabilities *(Note)*	–	1,255	1,255

Note: At the date of initial application, non-refundable deposits received from customers in relation to sales of health and household products of approximately HK$1,255,000 previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	HK$'000	*HK$'000*	*HK$'000*
Current Liabilities			
Trade and other payables	600,258	893	601,151
Contract liabilities	893	(893)	–

2.2 HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial recognition) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Trade receivables at fair value through other comprehensive income ("FVTOCI")	**Trade and other receivables at amortised cost (previously classified as loans and receivables)**	**Retained profits**
	HK$'000	*HK$'000*	*HK$'000*
Closing balance at 31 December 2017 – HKAS 39	–	847,121	(910,403)
Effect arising from initial application of HKFRS 9:			
Reclassification			
From loans and receivables *(Note)*	87,122	(87,122)	–
Remeasurement			
From amortised cost to fair value *(Note)*	(464)	–	464
Opening balance at 1 January 2018	86,658	759,999	(909,939)

Note: As part of the Group's cash flow management, the Group has the practice of factoring some of the trade receivables to financial institutions before the trade receivables are due for repayment and derecognises factored trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's trade receivables of approximately HK$87,122,000 were considered as within the hold to collect contractual cash flows and to sell business model, and therefore reclassified to trade receivables at FVTOCI. The related fair value losses of approximately HK$464,000 was adjusted to trade receivables at FVTOCI and retained profits as at 1 January 2018.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017	**HKFRS 15**	**HKFRS 9**	**1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)			(Restated)
Current Assets				
Trade and other receivables	847,121	–	(87,122)	759,999
Trade receivables at FVTOCI	–	–	86,658	86,658
Current Liabilities				
Trade and other payables	(623,192)	1,255	–	(621,937)
Contract liabilities	–	(1,255)	–	(1,255)
Equity				
Retained Profits	(910,403)	–	464	(909,939)

3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the business of manufacture and sales of health and household products and polyurethane foam. Health and household products mainly represent quality visco-elastic pillows, mattress toppers and mattresses.

Information reported to the executive directors of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focused on the location of customers and the Group is currently organised into the following three operating and reportable segments under HKFRS 8 as follows:

China market	–	manufacture and sale of health and household products and polyurethane foam for customers located in the People's Republic of 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 of America (the "**US**"), Canada and other North American countries
Europe and other overseas markets	–	manufacture and sale of health and household products for customers located in overseas except for those customers located in North American market

The CODM makes decisions based on the revenue of each segment and reviews reports on the financial performance of the Group as a whole. No information of segment results, segment assets and liabilities are reviewed by the CODM for the assessment of performance of operating segments. Therefore, only the segment revenue is presented and this is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies.

Segment revenue

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

For the year ended 31 December 2018

	China market	**North American market**	**Europe and other overseas markets**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
SEGMENT REVENUE				
External sales	**2,554,284**	**1,658,133**	**50,905**	**4,263,322**
Cost of sales				**(3,491,279)**
Other income				**66,931**
Impairment losses, net of reversal				**(5,923)**
Other gains and losses				**356**
Selling and distribution costs				**(453,362)**
Administrative expenses				**(217,491)**
Finance costs				**(40,096)**
Other expenses				**(94,872)**
Profit before taxation				**27,586**

For the year ended 31 December 2017

	China market	North American market	Europe and other overseas markets	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE				
External sales	2,336,373	1,754,104	93,309	4,183,786
Cost of sales				(3,354,589)
Other income				51,739
Other gains and losses				(6,548)
Selling and distribution costs				(472,796)
Administrative expenses				(216,950)
Finance costs				(26,158)
Other expenses				(100,242)
Profit before taxation				58,242

There were no inter-segment sales during both years.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2018	2017
	HK$'000	*HK$'000*
Health and household products	**2,509,206**	2,478,265
Polyurethane foam	**1,754,116**	1,705,521
	4,263,322	4,183,786

Geographical information

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

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

	2018	2017
	HK$'000	*HK$'000*
The US	**1,533,580**	1,626,152
The PRC	**2,077,427**	2,006,126
Hong Kong	**467,826**	324,275
Europe	**32,457**	72,605
Other Asian countries	**21,085**	20,784
Other American countries	**124,553**	127,952
Others	**6,394**	5,892
	4,263,322	4,183,786

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

	2018	2017
	HK$'000	*HK$'000*
The US	**496,977**	528,152
The PRC	**542,477**	578,538
Hong Kong	**15,673**	18,643
Macau	**15**	26
	1,055,142	1,125,359

Information about major customers

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

	2018	2017
	HK$'000	*HK$'000*
Customer A	**589,939**	637,600

4. PROFIT BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**11,710**	13,297
Other staff costs	**419,785**	387,825
Retirement benefit scheme contributions for other staff	**38,220**	39,119
Share based payment expenses, excluding those of directors	**480**	3,784
Total staff costs	**470,195**	444,025
Amortisation of prepaid lease payments	**1,647**	1,659
Amortisation of intangible assets	**6,772**	6,277
Depreciation of investment properties	**4,002**	2,420
Depreciation of property, plant and equipment	**73,572**	57,986
Total depreciation and amortisation	**85,993**	68,342
Cost of inventories recognised as expenses including reversal of provision for inventories of HK$5,670,000 (2017: provision for inventories of HK$6,338,000)	**3,491,279**	3,354,589

5. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax *(Note i)*	**2,613**	3,426
PRC EIT *(Note ii)*	**30,568**	20,643
PRC withholding tax on distributed profits from PRC subsidiaries	**1,418**	1,734
US income tax *(Note iii)*	**419**	535
	35,018	26,338
(Over) under provision in prior years:		
Hong Kong Profits Tax	**(184)**	565
PRC EIT	**(2,500)**	(2,631)
US income tax	**–**	111
	(2,684)	(1,955)
Deferred taxation	**(9,590)**	(16,926)
	22,744	7,457

Notes:

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

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

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

(iii) The US corporate tax rate is 21% for the year ended 31 December 2018 in accordance to the Tax Cuts and Jobs Act. The US income tax includes (a) federal income tax calculated at a fixed rate of 21% for the year ended 31 December 2018 (2017: a progressive rate of 15% to 35%) on the estimated US federal taxable income and (b) state income tax calculated at various state income tax rates for both period 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 Decree-Law No. 58/99/M, the Group's Macau subsidiary incorporated under the Decree-Law, is exempted from Macau Complementary tax as it satisfies the relevant conditions as specified in the Decree-Law, one of which being that it does not sell its products to any Macau resident company during the reporting periods.

6. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Final – HK1.0 cent per share (2017: 2016 Final – HK1.0 cent per share)	**17,500**	17,500

No dividend has been proposed for ordinary shareholders of the Company subsequent to the year ended 31 December 2018.

7. (LOSS) EARNING PER SHARE

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

	2018	2017
	HK$'000	*HK$'000*
(Loss) earning for the purpose of basic and diluted (loss) earning per share:		
(Loss) profit for the year attributable to owners of the Company	**(5,801)**	39,674

	2018	2017
	'000	*'000*
Number of shares for the purpose of basic and diluted (loss) earning per share:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earning per share	**1,750,002**	1,750,002

The computation of diluted (loss) earning per share for the years ended 31 December 2018 and 2017 does not assume the exercise of the share options as the exercise prices of those share options are higher than the average market price of shares during the years ended 31 December 2018 and 2017.

8. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**717,660**	727,698
Less: allowance for credit losses/doubtful debts	**(24,913)**	(19,209)
	692,747	708,489
Deposits, prepayments and other receivables	**150,612**	138,632
Total trade and other receivables	**843,359**	847,121

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$692,747,000 and HK$621,367,000 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 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/doubtful debts, presented based on the dates of delivery of goods.

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**448,714**	406,961
31 to 60 days	**149,877**	179,487
61 to 90 days	**56,832**	82,170
91 to 180 days	**34,030**	36,474
181 to 365 days	**3,294**	3,388
Over 365 days	**–**	9
	692,747	708,489

9. BILLS RECEIVABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**13,166**	3,440
31 to 60 days	**18,877**	2,703
61 to 90 days	**17,878**	1,700
91 to 180 days	**41,578**	8,850
181 to 365 days	**461**	121
	91,960	16,814

As at 31 December 2018, bills receivables amounting to HK$24,221,000 (2017: HK$16,814,000) are held by the Group for future settlement of trade payables by endorsement of bills or held to maturities for collecting cash. All bills receivables of the Group are with a maturity period of less than one year.

10. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As part of the Group's cash flow management, the Group has the practice of factoring some of the trade receivables to financial institutions before the trade receivables are due for repayment and derecognises factored trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, such trade receivables were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to trade receivables at FVTOCI upon application of HKFRS 9 on 1 January 2018.

As at 31 December 2018, the effective interest rates of the factored trade receivables at FVTOCI ranged from 3.38% to 4.38% per annum (1 January 2018: 2.59% to 5.50% per annum).

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**363,303**	374,216
Other payables and accrued expenses	**236,955**	248,976
Total trade and other payables	**600,258**	623,192

Included in the trade and other payables above amounting to HKD67,740,000 (2017: Nil) 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.

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**227,429**	213,458
31 to 60 days	**62,015**	103,317
61 to 90 days	**19,766**	31,824
91 to 180 days	**45,399**	14,712
Over 180 days	**8,694**	10,905
	363,303	374,216

12 BILLS PAYABLES

Bills payables were secured by pledged bank deposits of HK$2,912,000 (2018: Nil) as at 31 December 2017 and guaranteed by the Company and certain of its subsidiaries. The following is the aging analysis of bills payables at the end of the reporting period presented based on bills issue date:

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**15,319**	10,546
31 to 60 days	**1,333**	1,335
61 to 90 days	**15,735**	25,442
91 to 180 days	**53,794**	54,151
	86,181	91,474

13. COMMITMENTS

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**11,485**	35,438

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group increased by approximately HK$79.5 million or approximately 1.9% to approximately HK$4,263.3 million (FY2017: HK$4,183.8 million).

	For the year ended 31 December		
	2018	2017	**Changes**
	HK$'000	*HK$'000*	*%*
China market	**2,554,284**	2,336,373	9.3
North American market	**1,658,133**	1,754,104	–5.5
Europe and other overseas markets	**50,905**	93,309	–45.4
Total	**4,263,322**	4,183,786	1.9

The sales in China market increased by approximately 9.3% as a result of the increase in the market share of foam sales.

As there was a delay in a sales project with a customer in US, sales to North American market recorded an approximate decrease of 5.5% for the Reporting Period.

The general economy in Europe and other overseas markets were weak and we recorded a decrease of sales of this region by approximately 45.4% for the Reporting Period.

Gross profit

Despite an increase of approximately 1.9% in the Group's revenue, gross profit (the "**GP**") decreased by approximately HK$57.2 million or 6.9% to approximately HK$772.0 million during the Reporting Period as compared to approximately HK$829.2 million for FY2017. The GP margin decreased by 1.7% from approximately 19.8% to approximately 18.1% as compared with FY2017. The major reasons for the decrease in the GP margin were:

(1) the significant increase in cost incurred in the trial run of production in the Group's factory located in US; and

(2) the significant increase in the purchase price of a key raw material of polyurethane foam, namely toluene diisocyanate ("**TDI**") during the Reporting Period, as compared with the same period last year.

Costs and expenses

Selling and distribution costs for the Reporting Period decreased by approximately HK$19.5 million or 4.1% to approximately HK$453.3 million, as compared to approximately HK$472.8 million for FY2017. The decrease was mainly due to the reclassification of royalty fee amounting to HK$19.7 million previously recorded as selling expenses but now recorded as cost of goods sold of HK$9.4 million and net of sales of HK$10.3 million for the Reporting Period.

Administrative expenses for the Reporting Period increased by approximately HK$0.5 million or 0.2% to approximately HK$217.5 million, as compared to approximately HK$217.0 million for FY2017.

Other expenses for the Reporting Period consisted mainly of research and development expenses amounting to approximately HK$70.4 million, as compared to approximately HK$77.4 million for FY2017.

Profit for the year

Profit for the Reporting Period decreased by approximately HK$46.0 million or 90.6% to approximately HK$4.8 million, as compared to approximately HK$50.8 million for FY2017.

The major reasons for the decrease in profit were:

(1) Net loss incurred on the trial run for the US production facility of HK$69.1 million;

(2) The significant increase in the cost of our key raw material as mentioned above; and

(3) Additional import duties imposed on shipments for goods due to the outbreak of the U.S.-China and the U.S.-Canada trade wars.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2018, the Group had net current assets of approximately HK$531.1 million, as compared to approximately HK$388.4 million as at 31 December 2017.

Borrowings and pledge of assets

As at 31 December 2018, the Group had banking facilities amounted to approximately HK$2,156.5 million of which approximately HK$959.9 million was utilized (FY2017: banking facilities amounting to approximately HK$1,598.4 million of which approximately HK$827.5 million was utilized) (which included unsecured bank borrowings and bills payables).

Bills payables were secured by pledged bank deposits of HK$2.9 million (FY2018: Nil) as at 31 December 2017 and guaranteed by the Company and certain of its subsidiaries.

Capital expenditure

The Group's capital expenditure for the Reporting Period amounted to approximately HK$46.0 million mainly for the purchase of the Group's plant and machinery (FY2017: HK135.4 million).

Financial ratios

	As at 31 December 2018	As at 31 December 2017
Current ratio [(1)]	**141.1%**	128.8%
Quick ratio [(2)]	**100.0%**	78.4%
Gearing ratio [(3)]	**71.3%**	56.2%
Debt to equity ratio [(4)]	**52.2%**	44.3%

(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 "**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 "**Loan Facilities**") with a final maturity date falling thirty-six months after the date of the Facility Agreement (the outstanding loan balances were US$16.7 million and HK$273 million as at 31 December 2018). It is provided in the Facility Agreement, among other things, that an event of default will occur if, without the prior consent of the majority of the lenders: (i) Sinomax Enterprises, a controlling shareholder of the Company, ceases to maintain (directly or indirectly) at least 51% of the entire beneficial ownership interest in the Company; (ii) the following persons cease to collectively maintain/retain (directly or indirectly) at least 51% beneficial ownership interest over the entire issued share capital of Sinomax Enterprises: (a) Mr. Lam Chi Fan; (b) Mr. Cheung Tung; (c) any parent, spouse, child, brother or sister of the persons referred to in (a) and (b) above; and (d) any trust whose principal beneficiary(ies) is any one or more of the persons referred to under (a) to (c) above; (iii) Mr. Lam Chi Fan ceases to be the chairman of the Board; or (iv) Mr. Lam Chi Fan ceases to maintain control over the management and business of the Company.

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

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, PRC and US. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by its revenue and expenditure in PRC. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against Renminbi 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 take appropriate measures to deal with the foreign exchange exposure if necessary.

TREASURY POLICY AND MARKET RISKS

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

PROSPECTS

The US-China and the US-Canada trade wars have created uncertainties over our US business in 2018. In addition, an antidumping investigation has been initiated in the mattress industry in US for mattresses imported from China. At this stage, we may not be able to foresee the final outcome of the trade war and antidumping investigation. To cope with the above, the Group has decided to set up production facilities in Vietnam. We expect the Vietnam production facilities would provide polyurethane foam to our customers in the Southeast Asia regions in the third quarter of 2019. The Vietnam production facilities would also produce the end consumer health products. Having factories in China, US and Vietnam, we would be supplying globally to our customers with various needs while the Group is flexible in arranging our production and logistics schedules to minimize the overall costs including production, tariff and transportation.

Instead of relying on several key customers, we are diversifying our customer base by developing more new customers in US. Sales to these customers are gradually increasing over the past months. We are expecting a continuing growth in the year of 2019.

As mentioned in the Gross Profit paragraph under the Business Review section, the TDI price increased significantly during the Reporting Period. Strategically, we did not wholly transfer cost increase to our customers. As a result, our GP dropped but we are able to obtain a larger market share of foam sales. This was evidenced by the increase in sales of approximately 9.3% in China market for the Reporting Period, as compared with the same period last year. We believe a larger market share will generate more sales and profit for the Group in the long run. We expect the price of TDI will become stable with a greater supply of TDI in the market from the fourth quarter of 2018.

In China market, the Group offers a wide range of health and household products, under its flagship brand "SINOMAX". The Group will further enhance brand management through various marketing activities to reinforce brand recognition and enhance the image of health, relaxation and comfort of the "SINOMAX" brand. Sales under the brands "Octaspring", "SPA Supreme" and "Zeopedic" increased steadily. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. Though the e-commerce sales of the Group recorded a drop in 2018, we will continue to deploy more resources to strengthen our sales through e-commence.

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

MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group had no material acquisitions or disposal of subsidiaries or associates.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the paragraph headed "Prospects" in this announcement above, the Group does not have other plans for material investments or capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

EVENT AFTER THE REPORTING PERIOD

From 31 December 2018 to the date of this results announcement, there was no significant event of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the employee headcount of the Group was 3,099 (FY2017: 3,422) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$470.2 million for the Reporting Period (FY2017: approximately HK$444.0 million). The significant increase in staff costs was primarily due to salary increment.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including housing and travel allowances depending on their grade and ranking within the Group. The Group also maintains medical insurance for the benefit of its employees. The Group conducts induction training for all of its new employees and on-going training from time to time during their employment. The nature of training offered depends on their specific field of operation. The Group also operates an employee incentive scheme pursuant to which rewards take the form of promotions, salary raises and monetary bonuses, 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 Listing Rules as its own code of corporate governance. The Company had met the applicable code provisions set out in the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors and all Directors confirmed that they had complied with the required standards set out in the Model Code during the Reporting Period.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the audited consolidated financial statements and annual results announcement of the Group for the Reporting Report and recommended its adoption by the Board.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 11 June 2019 to 14 June 2019, both days inclusive, during which period, no transfer of shares will be registered. In order to be qualified to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 10 June 2019.

PUBLICATION OF THE ANNUAL RESULTS AND 2018 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results 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 2018 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, 27 March 2019

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

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