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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 2023

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period increased by approximately HK\$437.4 million or 13.8% to approximately HK\$3,608.9 million, as compared to approximately HK\$3,171.5 million for FY2022.
- Gross profit for the Reporting Period increased by approximately HK\$277.5 million or 43.2% to approximately HK\$919.7 million, as compared to approximately HK\$642.3 million for FY2022.
- Profit for the Reporting Period increased by approximately HK\$117.7 million or 316.5% to a profit of approximately HK\$80.5 million, as compared to a loss of approximately HK\$37.2 million for FY2022.
- The Board resolved to propose a final dividend of HK\$1.3 cents (2022 final dividend: Nil) per share.

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 2023 (the “**Reporting Period**”), together with the audited comparative figures for the previous financial year ended 31 December 2022 (“**FY2022**”), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	3	3,608,894	3,171,478
Cost of sales	7	(2,689,171)	(2,529,216)
Gross profit		919,723	642,262
Other income	4	27,866	34,616
Net impairment losses of financial assets		(1,321)	(17,938)
Other gains, net	5	14,868	25,542
Selling and distribution expenses	7	(458,364)	(424,547)
Administrative expenses	7	(250,197)	(188,695)
Research and development costs	7	(80,178)	(74,423)
Finance costs	6	(49,785)	(46,027)
Profit/(loss) before income tax		122,612	(49,210)
Income tax (expense)/credit	8	(42,110)	12,025
Profit/(loss) for the year		80,502	(37,185)

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

FOR THE YEAR ENDED 31 DECEMBER 2023

	<i>Notes</i>	2023 HK\$'000	2022 <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>(26,761)</u>	<u>(58,726)</u>
Other comprehensive loss for the year		<u>(26,761)</u>	<u>(58,726)</u>
Total comprehensive income/(loss) for the year		<u>53,741</u>	<u>(95,911)</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		62,593	(35,970)
Non-controlling interests		<u>17,909</u>	<u>(1,215)</u>
		<u>80,502</u>	<u>(37,185)</u>
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		37,557	(90,618)
Non-controlling interests		<u>16,184</u>	<u>(5,293)</u>
		<u>53,741</u>	<u>(95,911)</u>
Earnings/(losses) per share			
– Basic and diluted (<i>HK cents</i>)	<i>10</i>	<u>3.58</u>	<u>(2.06)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Assets			
Non-current assets			
Property, plant and equipment		441,688	462,862
Right-of-use assets		235,303	247,917
Investment properties		31,525	28,073
Goodwill		5,348	–
Intangible assets		9,399	11,177
Deposits and other receivables	<i>11</i>	19,272	54,043
Deferred tax assets		57,086	62,599
		<u>799,621</u>	<u>866,671</u>
Current assets			
Inventories		508,747	555,271
Trade and other receivables	<i>11</i>	686,747	551,873
Bill receivables	<i>12</i>	66,977	72,210
Trade receivables at fair value through other comprehensive income	<i>13</i>	34,129	22,962
Cash and cash equivalents		309,923	168,955
		<u>1,606,523</u>	<u>1,371,271</u>
Total assets		<u>2,406,144</u>	<u>2,237,942</u>
Equity			
Equity attributable to the Company's equity holders			
Share capital		175,000	175,000
Reserves		750,758	720,201
Equity attributable to owners of the Company		925,758	895,201
Non-controlling interests		(7,268)	(8,261)
Total equity		<u>918,490</u>	<u>886,940</u>

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

AT 31 DECEMBER 2023

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Liabilities			
Non-current liabilities			
Lease liabilities		208,107	236,228
Deferred government grant	<i>14</i>	900	1,325
Deferred tax liabilities		11,541	19,227
		<u>220,548</u>	<u>256,780</u>
Current liabilities			
Trade and other payables	<i>14</i>	675,364	479,458
Bill payables	<i>15</i>	31,183	5,233
Contract liabilities	<i>3(iv)</i>	15,629	11,993
Unsecured bank borrowings		441,878	522,259
Lease liabilities		72,633	63,513
Taxation payable		30,419	11,766
		<u>1,267,106</u>	<u>1,094,222</u>
Total liabilities		<u>1,487,654</u>	<u>1,351,002</u>
Total equity and liabilities		<u>2,406,144</u>	<u>2,237,942</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

1. GENERAL

The Group manufactures and sells health and household products. The Company acts as an investment holding company and the 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 P.O. Box 309, Ugland House, KY1-1104, Cayman Islands.

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**”) as issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

(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 new and amended standards for its annual reporting period commencing 1 January 2023:

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

The amended standards listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future period except amendments to HKAS 12.

The amendments to HKAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations, and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- i. right-of-use assets and lease liabilities, and
- ii. decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments as of 31 December 2022 was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial position and performance for the current and prior years and on the disclosures set out in these consolidated financial statements.

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

Certain new and amended standards which have been published that are not mandatory 31 December 2023 reporting periods and have not been early adopted by the Group. These amendments are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions:

		Effective for annual periods beginning on or after
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 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	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
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 directors of the Company are of the opinion that the adoption of the above new standard and amendments to existing standards would not have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standard and amendments to existing standards when they become effective.

3. REVENUE AND SEGMENT INFORMATION

Executive Directors have been identified as the chief operating decision-maker (“CODM”). The Executive Directors review the Group’s internal reports in order to assess 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 2023

	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	1,589,634	1,384,678	634,582	3,608,894
Cost of sales				(2,689,171)
Other income				27,866
Net impairment losses of financial assets				(1,321)
Other gains, net				14,868
Selling and distribution expenses				(458,364)
Administrative expenses				(250,197)
Finance costs				(49,785)
Research and development costs				(80,178)
Profit before income tax				<u>122,612</u>

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	1,490,264	1,214,227	466,987	3,171,478
Cost of sales				(2,529,216)
Other income				34,616
Net impairment losses of financial assets				(17,938)
Other gains, net				25,542
Selling and distribution expenses				(424,547)
Administrative expenses				(188,695)
Finance costs				(46,027)
Research and development costs				<u>(74,423)</u>
Loss before income tax				<u><u>(49,210)</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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Sales of health and household products	2,365,437	1,980,255
Sales of polyurethane foam	<u>1,243,457</u>	<u>1,191,223</u>
Total	<u><u>3,608,894</u></u>	<u><u>3,171,478</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.

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
China market		
– The PRC	1,295,173	1,241,615
– Hong Kong, Macau and others	294,461	248,649
North American market		
– The U.S.	1,280,804	1,128,805
– Others	103,874	85,422
Europe and other overseas markets	<u>634,582</u>	<u>466,987</u>
Total	<u><u>3,608,894</u></u>	<u><u>3,171,478</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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
The U.S.	405,703	461,943
The PRC	283,880	268,660
Hong Kong	24,655	16,877
Vietnam	<u>27,483</u>	<u>27,667</u>
	<u><u>741,721</u></u>	<u><u>775,147</u></u>

(b) Information about major customer

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Customer A	<u>313,393</u>	<u>329,664</u>

(iv) Liabilities related to contracts with customers

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Receipt in advance from customers for the sales of health and household products	<u>15,629</u>	<u>11,993</u>

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Sales of health and household products	<u>11,993</u>	<u>14,837</u>

4. OTHER INCOME

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest income from bank deposits	2,133	1,862
Interest income from cash consideration receivables	897	1,379
Imputed interest income from rental deposits	1,329	1,420
Interest income from investment in subleases	156	136
Government subsidies (<i>note a</i>)	8,347	11,975
Rental income	6,752	10,948
Others	<u>8,252</u>	<u>6,896</u>
	<u>27,866</u>	<u>34,616</u>

Note:

- a) The amount mainly represents government grants provided by PRC government related to foreign capital injection, and new material technology development projects which is in cooperation with the local PRC government (2022: The amount mainly represents government grants provided by PRC government related to foreign capital injection, and 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).
- b) In March 2024, the Group received a compensation of RMB7,000,000 from a former employee in relation to his breach of the confidentiality and non-compete agreement. The remaining compensation will be recognised upon the satisfaction of certain conditions set out in the settlement agreement.

5. OTHER GAINS, NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Gain/(loss) on disposal of property, plant and equipment	1,211	(1,819)
Gain on early termination of right-of-use assets	–	31
Loss on initial recognition of investment in subleases	(761)	–
Net exchange differences	<u>14,418</u>	<u>27,330</u>
	<u>14,868</u>	<u>25,542</u>

6. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank borrowings	29,829	23,736
Interest on lease liabilities	15,233	18,180
Interest and charges on factoring of trade receivables	<u>4,723</u>	<u>4,111</u>
	<u>49,785</u>	<u>46,027</u>

7. EXPENSES BY NATURE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost of inventories recognised as expenses	2,078,371	1,959,515
Employee benefits expenses	523,584	482,682
Amortisation of intangible assets	1,778	1,778
Auditor's remuneration		
– Audit service	3,110	3,000
– Non-audit service	880	876
Bank charges	12,595	10,030
Concessionaire commission for department store counters (<i>note</i>)	37,281	39,811
Expenses relating to short-term or low value leases	10,370	1,902
Depreciation of investment properties	2,516	2,039
Depreciation of property, plant and equipment	70,506	73,028
Depreciation of right-of-use assets	75,391	91,657
Provision for inventories	34,189	4,741
Legal and professional fees	20,822	18,680
Marketing expenses	127,154	115,604
Transportation expenses	112,693	98,405
Others	366,670	313,133
	<hr/>	<hr/>
Total cost of sales, administrative expenses, selling and distribution expenses and research and development cost	3,477,910	3,216,881
	<hr/> <hr/>	<hr/> <hr/>

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 EXPENSE/(CREDIT)

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax:		
Hong Kong profits tax (<i>note i</i>)	7,521	2,307
PRC enterprise income tax (“EIT”) (<i>note ii</i>)	25,231	13,556
PRC withholding tax on distributed profits from PRC subsidiaries	<u>11,158</u>	<u>3,364</u>
	<u>43,910</u>	<u>19,227</u>
Over provision in prior years:		
Hong Kong Profits Tax	(44)	–
PRC EIT	<u>10</u>	<u>(40)</u>
	<u>(34)</u>	<u>(40)</u>
Deferred taxation	<u>(1,766)</u>	<u>(31,212)</u>
	<u>42,110</u>	<u>(12,025)</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 will expire in 2026 (2022: which are subject to a preferential tax rate of 15% for 3-year periods which expired in 2021 and 2022, respectively).

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

	2023	2022
	HK\$’000	HK\$’000
Profit/(loss) before income tax	<u>122,612</u>	<u>(49,210)</u>
Tax at the Hong Kong profits tax rate	20,231	(8,120)
Effect on different tax rates of subsidiaries operating in other jurisdictions	14,139	(8,031)
Tax effect of expenses not deductible for tax purposes	6,147	12,200
Tax effect of income not taxable for tax purposes	(19,781)	(17,377)
Over provision in prior years	(34)	(40)
Tax effect of tax loss not recognised	19,472	7,814
Utilisation of tax loss previously not recognised	(17)	–
Withholding tax on undistributed earnings of PRC subsidiaries	2,118	1,694
Income tax on concessionary rate	<u>(165)</u>	<u>(165)</u>
Income tax expense/(credit)	<u>42,110</u>	<u>(12,025)</u>

9. DIVIDENDS

An interim dividend of HK\$0.4 cent per share, amounting to approximately HK\$7,000,000 in total is paid on 10 October 2023. Subsequent to the end of the Reporting Period, a final dividend of HK\$1.3 cents (2022: nil) per share in respect of the year ended 31 December 2023, amounting to approximately HK\$22,750,000 has been proposed by the board of directors and is subject to approval of shareholders in the forthcoming annual general meeting. The proposed final dividend is not recognized as a liability as at 31 December 2023.

During the Reporting Period, a subsidiary of the Company paid dividend amounting to HK\$15,191,000 to non-controlling interests (2022: declared dividend amounting to HK\$16,767,000 and paid dividend amounting to HK\$13,962,000 to non-controlling interests).

10. EARNINGS/(LOSSES) PER SHARE

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

	2023 HK\$'000	2022 <i>HK\$'000</i>
Earnings/(losses) for the purpose of basic and diluted earnings/ (losses) per share:		
Profit/(loss) for the year attributable to owners of the Company	<u>62,593</u>	<u>(35,970)</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>1,750,002</u>	<u>1,750,002</u>
Basic and diluted earnings/(losses) per share (<i>HK cents</i>)	<u>3.58</u>	<u>(2.06)</u>

The computation of diluted earnings/(losses) per share for the years ended 31 December 2023 and 2022 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 2023 and 2022.

11. TRADE AND OTHER RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	573,533	468,257
<i>Less:</i> allowance for credit losses	<u>(30,679)</u>	<u>(32,529)</u>
Trade receivables, net	----- 542,854	----- 435,728
Deposits, prepayments and other receivables		
Cash consideration receivables (<i>note a</i>)	28,918	38,718
Prepayments for purchasing raw materials and operating expenses	58,689	57,793
Rental and other deposits	38,642	43,500
Other tax recoverable	26,300	18,926
Net investment in sublease	2,448	2,281
Others	<u>8,168</u>	<u>8,970</u>
	----- 163,165	----- 170,188
Total trade and other receivables	<u><u>706,019</u></u>	<u><u>605,916</u></u>
<i>Less:</i>		
Non-current portion of other receivables	<u>(19,272)</u>	<u>(54,043)</u>
Current portion	<u><u>686,747</u></u>	<u><u>551,873</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 the Reporting Period, the Group received the payment as set out in (ii) above amounting to RMB10,000,000.

The Group's retail sales are made through both its retail network comprising stand-alone retail shops and concession counters in department stores, and internet sales. The Group also sells health and household products directly to overseas wholesalers and retailers, and the polyurethane foam to furniture manufacturers in the PRC. Sales at self-operated retail shops and sales through retailers in the PRC and internet sales are transacted either by cash or credit cards. For sales made at concession counters, the department stores collect cash from the end customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to the 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.

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	291,527	197,558
31 to 60 days	166,643	149,556
61 to 90 days	80,161	51,341
91 to 180 days	3,188	21,268
181 to 365 days	1,335	16,005
	542,854	435,728

(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 2023, included in the Group's trade receivables balance are debtors with aggregate net carrying amount of HK\$183,846,000 (2022: HK\$118,943,000) which are past due as at 31 December 2023. Out of the past due balances, HK\$8,290,000 (2022: HK\$23,039,000) 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

	2023	2022
	HK\$'000	HK\$'000
Bill receivables	72,211	77,444
<i>Less: allowance for credit losses</i>	(5,234)	(5,234)
	66,977	72,210

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:

	2023	2022
	HK\$'000	HK\$'000
Within 30 days	11,949	9,136
31 to 60 days	11,614	13,254
61 to 90 days	11,691	15,951
91 to 180 days	31,723	33,496
181 to 365 days	–	373
	66,977	72,210

Included in the bill receivables above amounting to approximately HK\$40,649,000 (31 December 2022: HK\$46,607,000) had been endorsed for settling the trade payables for which the maturity dates of the bill receivables have not yet fallen due as at the end of the Reporting Period. All bill receivables of the Group are with a maturity period of less than one year.

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 2023, the effective interest rates of the factored trade receivables at FVOCI ranged from 6.01% to 7.51% per annum (2022: 5.07% to 6.57% per annum). As at 31 December 2023 and 2022, 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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables	<u>452,711</u>	<u>310,205</u>
Accrued operating expenses	85,355	61,780
Accrued salaries	58,615	35,868
Other taxes payable	32,228	30,304
Accrued royalties	26,238	19,581
Refundable deposits received	15,044	7,106
Amount due to non-controlling shareholders (<i>note</i>)	–	6,543
Deferred government grant	1,288	1,724
Dividend payable	–	3,779
Others	<u>4,785</u>	<u>3,893</u>
	<u>223,553</u>	<u>170,578</u>
Total trade and other payables	676,264	480,783
<i>Less:</i>		
Non-current portion of deferred government grant	<u>(900)</u>	<u>(1,325)</u>
Current portion	<u><u>675,364</u></u>	<u><u>479,458</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\$40,649,000 (2022: HK\$46,607,000) 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 invoice date.

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	304,211	181,775
31 to 60 days	95,418	63,255
61 to 90 days	22,820	24,331
91 to 180 days	23,251	26,355
Over 180 days	7,011	14,489
	452,711	310,205

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	7,340	5,233
31 to 60 days	10,002	–
61 to 90 days	5,010	–
91 to 180 days	8,831	–
	31,183	5,233

16. CAPITAL COMMITMENTS

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

	2023 <i>HK\$'000</i>	2022 <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>17,494</u>	<u>3,143</u>

17. BUSINESS COMBINATION

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

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

	<i>HK\$'000</i>
Purchase consideration	<u>5,740</u>
The assets and liabilities recognised as a result of the acquisition are as follows:	
Property, plant and equipment	31
Inventories	848
Trade and other receivables	742
Cash and cash equivalents	3,148
Trade and other payables	<u>(4,547)</u>
Net identifiable assets acquired	<u>222</u>
Goodwill from acquisition	<u>5,518</u>
Net cash outflows from acquisition of a subsidiary:	
Consideration paid	5,740
<i>Less:</i> cash and cash equivalents acquired	<u>(3,148)</u>
Net cash outflows	<u><u>2,592</u></u>

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

The acquired business contributed revenue of HK\$16,920,000 and net profit of HK\$2,446,000 to the Group for the period from 21 April 2023 to 31 December 2023. If the acquisition had occurred on 1 January 2023, consolidated revenue and consolidated profit after tax for the year ended 31 December 2023 would have been HK\$9,157,000 higher and HK\$1,028,000 higher, respectively.

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group increased by approximately HK\$437.4 million or approximately 13.8% to approximately HK\$3,608.9 million (FY2022: approximately HK\$3,171.5 million).

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	Changes
China market	1,589,634	1,490,264	6.7%
North American market	1,384,678	1,214,227	14.0%
Europe and other overseas markets	634,582	466,987	35.9%
Total	<u>3,608,894</u>	<u>3,171,478</u>	<u>13.8%</u>

The sales in China market increased by approximately 6.7% as a result of the increase in the market share of foam sales.

In the North American market, we diversified our customer base by developing business relationship with more new customers, as a result of which sales for the Reporting Period in this region increased by approximately 14.0%, as compared to sales in FY2022.

In Europe and other overseas markets, we recorded an increase of sales for the Reporting Period in this region of approximately 35.9%, as compared to sales in FY2022. The increase was mainly due to the increase in our sales to customers in Europe.

Gross profit

With an increase of approximately 13.8% in the Group's revenue, gross profit (the "GP") increased by approximately HK\$277.5 million or 43.2% to approximately HK\$919.7 million during the Reporting Period as compared to approximately HK\$642.3 million for FY2022. The GP margin increased by 5.2% from approximately 20.3% to approximately 25.5% as compared with FY2022.

The increase in GP margin was due to the improvement on production efficiency and more stringent control on cost of labour.

Costs and expenses

Selling and distribution costs for the Reporting Period increased by approximately HK\$33.8 million or 8.0% to approximately HK\$458.4 million, as compared to approximately HK\$424.5 million for FY2022. The increase in selling and distribution costs was in line with the increase in revenue for the Reporting Period. The increase was mainly due to the increase in transportation costs of approximately HK\$14.3 million, marketing expenses of approximately HK\$11.6 million, and staff costs and commission fees of approximately HK\$6.0 million.

Administrative expenses for the Reporting Period increased by approximately HK\$61.5 million or 32.6% to approximately HK\$250.2 million, as compared to approximately HK\$188.7 million for FY2022. The increase was mainly due to increase in payments of PRC withholding tax on distributable profits from the Group's PRC subsidiaries of approximately HK\$22.4 million, staff cost and directors emolument of approximately HK\$17.2 million.

Profit for the Reporting Period

Profit for the Reporting Period amounted to approximately HK\$80.5 million while a loss of approximately HK\$37.2 million was reported for FY2022.

The turnaround was primarily attributable to the increase in sales as well as savings derived from various cost cutting measures adopted by the Group including:

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2023, the Group had net current assets of approximately HK\$339.4 million, as compared to approximately HK\$277.0 million as at 31 December 2022. Net cash from operating activities amounted to approximately HK\$420.3 million for the Reporting Period as compared to approximately HK\$190.8 million for FY2022. Bank balance and cash as at 31 December 2023 increased by approximately HK\$140.9 million or approximately 83.4% to approximately HK\$309.9 million as compared to approximately HK\$169.0 million as at 31 December 2022.

Borrowings and pledge of assets

As at 31 December 2023, the Group had banking facilities amounting to approximately HK\$1,040.0 million of which approximately HK\$473.1 million was utilised (FY2022: banking facilities amounting to approximately HK\$1,106.9 million of which approximately HK\$527.5 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\$62.2 million (FY2022: HK\$51.0 million) which was mainly for the purchase of the Group's plant and machinery.

Financial ratios

	As at 31 December 2023	As at 31 December 2022
Current ratio ⁽¹⁾	126.8%	125.3%
Quick ratio ⁽²⁾	86.6%	74.6%
Gearing ratio ⁽³⁾	48.1%	58.9%
Debt to equity ratio ⁽⁴⁾	14.4%	39.8%

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

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

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

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

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, the People's Republic of China (the "PRC"), the United States (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 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

Although the global economic environment in 2023 remains unstable, we recorded a profit after tax for the Reporting Period of HK\$80.5 million (2022: loss of HK\$37.2 million) which marked a remarkable turnaround in our performance. We expect the financial improvement will continue in 2024 and we will also continue to critically review our costs and implement various cost cutting measures on various areas including production and logistics.

New online sales projects in the US were launched. We expect that the demand for Mattress-in-a-box, one of the Group's major products sold through online channels, is strong. Our sales for Mattress-in-a-box in Europe also increased significantly in 2023. 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.

More and more countries were included and subject to additional anti-dumping duty on products imported into the US market. Some global customers are looking for suppliers who can provide goods in various countries. With factories in the PRC, the US and Vietnam, we are able to source raw materials from countries with lower costs (including production, tariff and shipping costs), resulting in more cost-efficient operations. It also provides the Group with the flexibility to supply our products globally to meet various customers' demand. We will closely monitor the customers' demand as well as the production costs and will increase our investment in relevant equipment and resources as appropriate to cope with the increasing demands of various global customers. We will continue to explore opportunities in the growing Mattress-in-a-Box market and to diversify our customer base in order to maintain our position as one of the leading experts in visco-elastic health and wellness products in the US and Europe 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.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2023, the employee headcount of the Group was 2,846 (FY2022: 2,477) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$523.6 million for the Reporting Period (FY2022: approximately HK\$482.7 million). The increase in staff costs was primarily due to increase 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 C1 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 C3 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 audited 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.

PROPOSED FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK\$1.3 cents per ordinary share amounting to approximately HK\$22,750,000 for the Reporting Period (FY2022: Nil). The financial statements do not reflect the dividend payable. The proposed final dividend is subject to approval by the Company's shareholders at the forthcoming annual general meeting (the "AGM") to be held on 7 June 2024. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be paid on 19 July 2024 to shareholders whose names appear in the Company's register of members on 5 July 2024.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 4 June 2024 to 7 June 2024, both days inclusive, during which period, no transfer of shares will be registered and the AGM record date will be 7 June 2024. 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 3 June 2024.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

Subject to the approval of the proposed final dividend at the AGM, the register of members of the Company will be closed from 3 July 2024 to 5 July 2024, both days inclusive, during which period, no transfer of shares will be registered and the record date will be 5 July 2024. In order to qualify for the entitlement to the proposed final dividend, 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 2 July 2024.

PUBLICATION OF THE ANNUAL RESULTS AND 2023 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 Reporting Period containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 22 March 2024

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

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.*