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 2016

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period increased by approximately HK$630.0 million or 21.9% to approximately HK$3,499.8 million, as compared to approximately HK$2,869.8 million for FY2015.
- Gross profit for the Reporting Period increased by approximately HK$34.0 million or 4.3% to approximately HK$821.5 million, as compared to approximately HK$787.5 million for FY2015.
- Profit for the Reporting Period decreased by approximately HK$84.2 million or 45.6% to approximately HK$100.5 million, as compared to approximately HK$184.7 million for FY2015.
- The Board resolved to propose a final dividend of HK1.0 cent (2015 final dividend: HK2.5 cents) 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 2016 (the "**Reporting Period**"), together with the comparative figures for the previous financial year ended 31 December 2015 ("**FY2015**"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016**	2015
		HK$'000	*HK$'000*
Revenue	*3*	**3,499,762**	2,869,846
Cost of sales		**(2,678,250)**	(2,082,370)
Gross profit		**821,512**	787,476
Other income		**55,123**	47,946
Other gains and losses		**(1,248)**	(11,229)
Selling and distribution costs		**(449,028)**	(342,416)
Administrative expenses		**(206,106)**	(162,565)
Share of loss of an associate		**(12,719)**	(7,924)
Net loss on derecognition of an associate		**(10,100)**	–
Finance costs		**(16,332)**	(7,955)
Other expenses		**(70,124)**	(58,894)
Profit before taxation	*4*	**110,978**	244,439
Income tax expenses	*5*	**(10,526)**	(59,763)
Profit for the year		**100,452**	184,676
Other comprehensive expense that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(53,705)**	(28,069)
Total comprehensive income for the year		**46,747**	156,607
Profit (loss) for the year attributable to:			
Owners of the Company		**103,525**	172,674
Non-controlling interests		**(3,073)**	12,002
		100,452	184,676
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**52,851**	146,381
Non-controlling interests		**(6,104)**	10,226
		46,747	156,607
Earnings per share	*7*		
— Basic		**HK5.92 cents**	HK10.09 cents
— Diluted		**HK5.91 cents**	HK10.07 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	**2016**	2015
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**572,917**	211,904
Investment properties		**82,274**	28,676
Prepaid lease payments		**64,469**	21,989
Deposits paid for acquisition of property, plant and equipment		**50,781**	61,893
Goodwill		**60,926**	–
Intangible assets		**143,545**	–
Interests in an associate		**–**	71,569
Rental deposits		**23,952**	19,764
Deferred tax assets		**22,673**	19,937
		1,021,537	435,732
CURRENT ASSETS			
Inventories		**475,941**	298,707
Prepaid lease payments		**1,607**	580
Trade and other receivables	*8*	**870,760**	613,406
Bills receivables	*9*	**11,714**	22,485
Tax recoverable		**–**	17,841
Pledged bank deposits		**5,053**	8,513
Fixed bank deposits		**18,623**	57,118
Structured bank deposits		**–**	26,539
Bank balances and cash		**131,848**	328,790
		1,515,546	1,373,979
CURRENT LIABILITIES			
Trade and other payables	*10*	**617,331**	367,557
Bills payables	*11*	**85,433**	59,493
Taxation payable		**24,000**	115,184
Unsecured bank borrowings		**391,593**	160,541
		1,118,357	702,775
NET CURRENT ASSETS		**397,189**	671,204
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,418,726**	1,106,936
NON-CURRENT LIABILITIES			
Unsecured bank borrowings		**85,303**	–
Deferred tax liabilities		**119,327**	10,247
		204,630	10,247
NET ASSETS		**1,214,096**	1,096,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued
AT 31 DECEMBER 2016

	2016	2015
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**175,000**	175,000
Reserves	**884,290**	883,352
Equity attributable to owners of the Company	**1,059,290**	1,058,352
Non-controlling interests	**154,806**	38,337
TOTAL EQUITY	**1,214,096**	1,096,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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. Its ultimate holding company is Sinomax Enterprises Limited, a company incorporated in the British Virgin Islands.

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

The Company acts as an investment holding company.

The 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")

Application of amendments to HKFRSs

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above amendments to HKFRSs has had no material impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

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

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 7	Disclosure Initiative[3]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after a date to be determined
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows except for the short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of HK$289,742,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

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

In previous years, the Group reported its primary segment information based on three major operating and reportable segments as follows:

Export sales	–	wholesales of products to overseas customers;
Retail and corporate sales	–	sales of products through self-operated retail network, third-party distributors, direct sales to corporates and other customers and e-commerce sales channel; and
Polyurethane foam sales	–	wholesales of polyurethane foam to furniture manufacturers in the People's Republic of China (the "**PRC**") (other than Hong Kong and Macau).

3. REVENUE AND SEGMENT INFORMATION — continued

During the current year, management has changed the presentation of the information reported to the chief operating decision maker ("**CODM**") (i.e. the executive directors of the Company), in order to present a more meaningful representation of its business operations, consistent with the Group's long-term strategy, and for the purpose of allocating resources to the segments and assessing the performance of the segment. The information reported to CODM in respect of the Group's business is focused on the location of customers.

In compliance with the requirements of HKFRS 8 "Operating Segments", the change of the presentation of the information reported to CODM has led to a change in the segment report for all comparable years. The Group is now organised into the following three operating and reportable segments as follows:

China market	–	manufacture and sale of health and household products and polyurethane foam for customers located in the PRC, Hong Kong and Macau
North American market	–	manufacture and sale of health and household products for customers located in the 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 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. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment revenues and results

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

For the year ended 31 December 2016

	China market *HK$'000*	**North American market** *HK$'000*	**Europe and other overseas markets** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE				
External sales	**1,895,867**	**1,494,402**	**109,493**	**3,499,762**
Share of loss of an associate				**(12,719)**
Net loss on derecognition of an associate				**(10,100)**
Unallocated other income				**58,207**
Unallocated costs and expenses				**(3,424,172)**
Profit before taxation				**110,978**

3. REVENUE AND SEGMENT INFORMATION — continued

For the year ended 31 December 2015 (as restated)

	China market *HK$'000*	North American market *HK$'000*	Europe and other overseas markets *HK$'000*	Consolidated *HK$'000*
SEGMENT REVENUE				
External sales	1,696,827	1,118,756	54,263	2,869,846
Share of loss of an associate				(7,924)
Unallocated income				48,940
Unallocated costs and expenses				(2,666,423)
Profit before taxation				244,439

There were no inter-segment sales during both years.

Revenue from major products and services

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

	2016 ***HK$'000***	2015 *HK$'000*
Health and household products	**2,147,302**	1,765,801
Polyurethane foam	**1,352,460**	1,104,045
	3,499,762	2,869,846

Geographical information

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 other sales.

	2016 ***HK$'000***	2015 *HK$'000*
The US	**1,411,594**	1,101,612
The PRC	**1,609,574**	1,532,469
Hong Kong	**277,863**	157,893
Macau	**8,430**	6,465
Europe	**90,548**	31,454
Other Asian countries	**12,411**	18,259
Other American countries	**82,808**	17,144
Others	**6,534**	4,550
	3,499,762	2,869,846

3. REVENUE AND SEGMENT INFORMATION — continued

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

	2016	2015
	HK$'000	*HK$'000*
The PRC	**515,583**	276,317
The US	**466,116**	119,174
Hong Kong	**17,138**	20,265
Macau	**27**	39
	998,864	415,795

Information about major customers:

An analysis of revenue from a customer in the segment of North American market contributing over 10% of the Group's total revenue during the year is as follows:

	2016	2015
	HK$'000	*HK$'000*
Customer A	**711,512**	755,508

4. PROFIT BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**12,271**	14,268
Other staff costs	**311,288**	227,385
Retirement benefit scheme contributions for other staff	**38,906**	31,873
Share based payment expenses, excluding those of directors	**919**	1,534
Total staff costs	**363,384**	275,060
Amortisation of prepaid lease payments	**1,478**	592
Amortisation of intangible assets	**4,707**	–
Depreciation of investment properties	**3,129**	1,564
Depreciation of property, plant and equipment	**40,425**	29,934
Total depreciation and amortisation	**49,739**	32,090
Cost of inventories recognised as expenses (included in cost of sales)	**2,670,227**	2,083,441

5. INCOME TAX EXPENSES

	2016	2015
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax *(Note i)*	**3,709**	1,393
PRC Enterprise Income Tax (the "**EIT**") *(Note ii)*	**37,063**	56,781
US income tax *(Note iii)*	**3**	4,757
	40,775	62,931
(Over)underprovision in prior years		
Hong Kong Profits Tax	**(14,500)**	(588)
PRC EIT	**(5,268)**	1,637
US income tax	**(7,087)**	(2,743)
	(26,855)	(1,694)
Deferred taxation	**(3,394)**	(1,474)
	10,526	59,763

Notes:

(i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(ii) PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC for both years.

The amounts include PRC withholding tax on distributed profits of a PRC subsidiary of HK$1,115,000 for the year ended 31 December 2015.

(iii) The US income tax includes (a) federal income tax calculated at 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 on the estimated state taxable income for the respective states for both years. 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 state 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 both years.

The Inland Revenue Department (the "**IRD**") commenced a tax audit on certain subsidiaries of the Company in prior years. The IRD had issued estimated profits tax assessments of HK$14,100,00, HK$24,000,000, HK$26,725,000, HK$19,140,000 and HK$24,519,000 to the Group relating to the years of assessment 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 for the financial years ended 31 December 2005, 2006, 2007, 2008 and 2009 (the "**Relevant Years**"), respectively. The Group had lodged objection with the IRD against the assessments and the IRD agreed that the relevant subsidiaries could holdover the tax demanded for the said years of assessment, except for the amounts of HK$175,000, HK$2,275,000, HK$8,150,000 and HK$11,300,000 concerned for the years of assessment 2006/07, 2007/08, 2008/09 and 2009/10, respectively, which were required to be paid by acquiring tax certificates by one of the subsidiaries in 2013, 2014, 2015 and 2016, respectively.

5. **INCOME TAX EXPENSES — continued**

The Group had provided various information and supporting documents from time to time. However, having considered the different opinion of the IRD on the controversial issue, and in order to avoid further protracted exchange of correspondences, which may not be in the best interest of the Company from the commercial perspective, the directors of the Company decided to take an alternative means with a compromised settlement approach to resolve the case. During the current year, the Group submitted a settlement proposal to IRD for the Relevant Years (the "**Settlement Proposal**") with an aggregate of HK$93,450,000 as a full and final settlement of the tax audit. Subsequent to the submission of the Settlement Proposal, the Group received formal notices of revised assessment for the Relevant Years from the IRD pursuant to the Settlement Proposal. With the Settlement Proposal accepted by the IRD, the tax audit in respect of the Relevant Years has now been completely settled. The Group had previously made adequate provision for this tax audit in prior years. A provision of approximately HK$14,453,000 has been released for the year ended 31 December 2016.

6. **DIVIDENDS**

	2016 ***HK$'000***	2015 *HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Interim, paid — HK0.6 cent per share for 2016 (2015: HK1.5 cents per share)	**10,500**	26,250
Final, paid — HK2.5 cents per share for 2015 (2015: HK2.5 cents per share for 2014)	**43,750**	43,750
	54,250	70,000

Subsequent to the end of the reporting period, a final dividend of HK1.0 cent per share in respect of the year ended 31 December 2016, amounting to approximately HK$17,500,000 has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed final dividend is not recognised as a liability in these consolidated financial statements.

7. **EARNINGS PER SHARE**

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

	2016 ***HK$'000***	2015 *HK$'000*
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**103,525**	172,674

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,750,002,000**	1,711,645,836
Effect of dilutive potential ordinary shares in respect of outstanding share options	**788,805**	2,658,793
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,750,790,805**	1,714,304,629

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**754,373**	548,408
Less: allowance for doubtful debts	**(23,363)**	(27,514)
	731,010	520,894

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the revenue recognition date at the end of each reporting period.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**371,154**	249,521
31 to 60 days	**206,123**	142,112
61 to 90 days	**106,625**	54,232
91 to 180 days	**33,326**	20,830
181 to 365 days	**6,758**	29,578
Over 365 days	**7,024**	24,621
	731,010	520,894

9. BILLS RECEIVABLES

The amount represents bills receivables on hand which are not yet due at the end of the reporting period. The management considers the default rate is low based on past experience as the Group seldom encounters default on bills receivables.

The following is an aged analysis of bills receivables based on their time to maturity as at the respective reporting dates.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**2,850**	3,538
31 to 60 days	**923**	2,850
61 to 90 days	**1,179**	3,071
91 to 180 days	**6,762**	12,822
181 to 365 days	**–**	204
	11,714	22,485

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables based on the invoice date at the end of each reporting period.

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**204,086**	131,749
31 to 60 days	**131,086**	58,446
61 to 90 days	**46,071**	4,025
91 to 180 days	**9,242**	2,795
Over 180 days	**5,240**	3,789
	395,725	200,804

11. BILLS PAYABLES

All the bills payables of the Group are not yet due at the end of each reporting period. Bills payables as at 31 December 2016 were secured by pledged bank deposits of HK$5,053,000 (2015: HK$8,513,000).

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**7,267**	4,392
31 to 60 days	**42,426**	11,588
61 to 90 days	**17,392**	8,070
91 to 180 days	**18,348**	35,443
	85,433	59,493

12. COMMITMENTS

	2016	2015
	HK$'000	*HK$'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**32,510**	107,978

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group increased by approximately HK$630.0 million or approximately 21.9% to approximately HK$3,499.8 million (FY2015: HK$2,869.8 million).

In the past, the Group reported its segment under export sales, retail and corporate sale and polyurethane foam sales. However, as our business continues to expand and we have production facilities in the US as well as in the PRC, the previous presentation by separating operating segments to export sales, retail and corporate sales and polyurethane foam sales may not be adequate to assess the performance of our business. We will concentrate our business on different geographical markets and the respective sales during the Reporting Period were as follows:

	For the year ended 31 December		
	2016	2015	Changes
	HK$'000	*HK$'000*	*%*
China market	**1,895,867**	1,696,827	11.7
North American market	**1,494,402**	1,118,756	33.6
Europe and other overseas markets	**109,493**	54,263	101.8
Total	**3,499,762**	2,869,846	21.9

Though the consumer demand in China market was generally weak, the sales in this region increased by approximately 11.7% as a result of the increase in foam and e-commerce sales.

In terms of sales channel, same-store sales recorded a decrease of approximately 6.7% for the Reporting Period. Same-store sales for each of Life Stores and concession counters decreased by approximately 5.3% and 7.2%, respectively, for the Reporting Period. During the Reporting Period, the Group opened five new Life Stores in Hong Kong and the PRC.

Sales in North American market recorded an approximately 33.6% growth during the Reporting Period. With the setting up of the production facilities in the US, we were able to co-operate with several new customers in the US.

During the year, we have successfully promoted our own brands including "Zeopedic" and "PureLUX" with sales amounted to approximately HK$304 million for these two brands.

Though the general economy in Europe and other overseas markets were weak, we were able to achieve a sales growth of approximately 101.8% by selling newly-innovated products.

Gross profit

With an increase of approximately 21.9% in the Group's revenue, gross profit (the "**GP**") increased by approximately HK$34.0 million or 4.3% to approximately HK$821.5 million during the Reporting Period as compared to approximately HK$787.5 million for FY2015. The GP margin decreased by 3.9% from approximately 27.4% to approximately 23.5% as compared with FY2015. During the Reporting Period, the major reasons for the decrease in the GP margin were:

(1) several products were sold at a relatively lower margin to attract some new customers;

(2) the new production facility in the US started the trial run of production and a gross loss of HK$26.0 million was incurred during the Reporting Period;

(3) the cost of our key raw material of polyurethane foam increased significantly in the fourth quarter as announced on 20 October 2016 and 21 February 2017.

Costs and expenses

Selling and distribution costs for the Reporting Period increased by approximately HK$106.6 million or 31.1 % to approximately HK$449.0 million, as compared to approximately HK$342.4 million for FY2015. The increase was mainly due to increase in transportation expenses that were incurred to better serve our customers in the PRC and the US. Staff costs increased as we recruited more sales staff to strengthen sales tasks in the US. In addition, advertising expenses and royalty fee also increased which were in line with the sales growth.

Administrative expenses for the Reporting Period increased by approximately HK$43.5 million or 26.8 % to approximately HK$206.1 million, as compared to approximately HK$162.6 million for FY2015. The increase was mainly due to the increase in staff cost for newly acquired subsidiaries during the Reporting Period.

Other expenses for the Reporting Period mainly consisted of research and development expenses amounting to approximately HK$59.0 million, as compared to approximately HK$39.8 million for FY2015. The Group has put much more resources on improving and developing more foam features to meet the increasing customers' needs.

Profit for the year

Profit for the Reporting Period decreased by approximately HK$84.2 million or 45.6% to approximately HK$100.5 million, as compared to approximately HK$184.7 million for FY2015.

The major reasons for the decrease were:

(1) Net loss incurred on the trail run for the US production facility of HK$33.1 million;

(2) Loss related to Dormeo North America, LLC ("**Dormeo**") (including net loss on derecognition of an associate, share of loss of an associate and the post-acquisition loss) of HK$61.1 million; and

(3) The significant increase in the cost of our key raw material as mentioned above.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2016, the Group had net current assets of approximately HK$397.2 million, as compared to approximately HK$671.2 million as at 31 December 2015.

Borrowings and pledge of assets

As at 31 December 2016, the Group had banking facilities amounted to approximately HK$1,383.0 million of which approximately HK$562.3 million was utilized (31 December 2015: banking facilities amounting to approximately HK$1,251.8 million of which approximately HK$220.0 million was utilized) (which included bank borrowings and bills payables).

The bills payables of the Group were secured by bank deposits of approximately HK$5.1 million (31 December 2015: approximately HK$8.5 million).

We expect we will have more bank borrowings in 2017 to finance our rapid business growth.

Capital expenditure

The Group's capital expenditure for the Reporting Period amounted to approximately HK$285.0 million mainly for the purchasing of the Group's plant and machinery (31 December 2015: HK86.1 million).

Financial ratios

	As at	
	31 December 2016	31 December 2015
Current ratio (1)	**135.5%**	195.5%
Quick ratio (2)	**93.0%**	153.0%
Gearing ratio (3)	**39.3%**	14.6%
Debt to equity ratio (4)	**28.4%**	N/A

(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 and the US. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by its revenue and expenditure in the 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 polyurethane foam products are becoming more and more popular in the US. With our new US production facility, we can have a vertically integrated solution to customers including product design, foam manufacturing, trimming and assembly, inventory and logistics management as well as sales and marketing in the US. This is particularly a good time where we can capture the increasing demand of polyurethane foam business opportunities as evidenced by the increase in number of new customers and sales amount.

The US factory is expected to be operational in the second quarter of 2017. By that time, we can produce polyurethane foam as well as the end consumer health products to capture different segments in North American market and shorten the lead time between production and delivery and thus better serve our customers. Production volume will gradually increase so that the cost of our products will decrease. Sales growth is expected to be significant in the coming years in North American market.

As mentioned in "Profit for the year" in the Business Review Section, there were several factors which led to the decrease in profit for 2016. However, these factors will be eliminated or minimized in the second half year of 2017 where:

(1) we expect there will be a normal gross profit instead of gross loss when the US factory is operational starting from the second quarter of 2017;

(2) more new customers were developed with increasing sales for Dormeo in 2017. At the same time, we were implementing various cost-cutting measures on production costs and selling expenses on the operation of Dormeo. We expect these costing-cutting measures will be fully in place in the second half year of 2017. In fact, the loss in the first two months in 2017 decreased by 77.8% comparing with the same period in 2016;

(3) we generally quotes our products at a cost-plus basis. However, there is a time lag where it may take some time to discuss with our customers on the prices when there is a sudden change in cost. If the material cost does not fluctuate significantly, our selling prices will gradually catch up the previous cost increase.

We are setting up another logistics centre of about 180,000 square feet in Phoenix, Arizona so that we can better serve our customers in the western part of the North America market. We also have a showroom in New York of about 8,700 square feet to demonstrate newly developed products to our customers there.

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. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. The Group is also expanding e-commerce sales channels to promote and distribute its products. During the Reporting Period, e-commerce sales of the Group recorded a substantial growth of approximately HK$37.9 million or 133.5% to approximately HK$66.3 million, as compared to approximately HK$28.4 million for FY2015.

As the sales growth for Europe and other overseas markets is significant, we will devote more resources to explore more business opportunities in these regions.

The Group will continue to upgrade the machinery so as to improve the production efficiency and increase the competitiveness. The Group will continue to devote more resources on research and development to develop more innovative products and to enhance its product features.

The Group plans to continue to grow its business by exploring attractive acquisition and collaboration opportunities that are compatible with its business vision. As disclosed in the paragraph headed "Material Acquisitions and Disposals", the Group acquired Chengdu Xingang Sponge Co., Ltd and Dormeo during the Reporting Period. We are also setting up a new foam factory in Shandong to serve our customers in that region. We expect that the Shandong factory will be operational by the end of 2017. This will further enhance our leading position in the polyurethane foam industry in the PRC.

Going forward, the Group will continue to look for other strategic acquisition and business opportunities.

MATERIAL ACQUISITIONS AND DISPOSALS

(a) Acquisition of Chengdu Xingang Sponge Co., Ltd.

On 19 February 2016, an indirectly wholly-owned subsidiary of the Company entered into an acquisition agreement (the "**Acquisition Agreement**") with Mr. Liu Jiaming, an independent third party of the Group. Pursuant to the Acquisition Agreement, the Group conditionally agreed to acquire and Mr. Liu Jiaming agreed to sell 51% of the equity interest in Chengdu Xingang Sponge Co., Ltd. (成都新港海綿有限公司) ("**Chengdu Xingang**"), a company established in the PRC with limited liability, and is principally engaged in the manufacturing and sales of polyurethane foam, sales of decorative materials, sofa materials, cloth materials and mattress materials. The cash consideration of the acquisition is RMB81,740,000 (equivalent to approximately HK$97,948,000). The acquisition was completed on 1 March 2016.

Acquisition-related costs amounting to approximately HK$390,000 that related to the above acquisition have been excluded from the cost of acquisition and have been recognised as an expense in the current year, included in “other expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

(b) Step acquisition of Dormeo

On 9 September 2015, a wholly-owned subsidiary of the Company entered into a first securities purchase agreement (the “**First Purchase Agreement**”) with, among others, Dormeo, a company formed as a limited liability company pursuant to the Delaware Limited Liability Company Act, to acquire 36.5% of all of the membership interest in Dormeo at an aggregate cash consideration of United States dollars (“**US$**”) 10,000,000 (equivalent to HK$77,500,000). Pursuant to the First Purchase Agreement, the Group’s membership interest in Dormeo is initially set at 36.5%, but will be automatically reduced to 25% at 31 December 2017 if certain performance warranties given by the investee and its parent company are met (“**Possible Reduction**”).

On 11 April 2016, a wholly-owned subsidiary of the Company entered into a second securities purchase agreement (the “**Second Purchase Agreement**”) with, among others, Dormeo, to increase the Group’s ownership in Dormeo by an additional 14.81% and to waive the Possible Reduction pursuant to First Purchase Agreement for a cash consideration of US$2,500,000 (equivalent to HK$19,375,000) by way of capital injection to Dormeo.

The acquisition was completed on 12 April 2016. Together with the 25% membership interest previously held by the Group and the 11.5% membership interest gain on the waiver of Possible Reduction, the Group is able to exercise control over Dormeo and Dormeo became a 51.31% subsidiary of the Company from that date.

Dormeo is principally engaged in the business of selling pillows, mattresses and related bedding accessories and other consumer products in North America.

The Group recognised a net loss of approximately of HK$10,100,000 as a result of the re-measurement of membership interests in Dormeo previously held and the derivative financial assets related to membership interests in Dormeo upon waiver of Possible Reduction. The net loss is included in “Net loss on derecognition of an associate” line item in the consolidated statement of profit or loss and other comprehensive income.

Acquisition-related costs amounting to approximately HK$286,000 that related to the above acquisition have been excluded from the cost of acquisition and have been recognised as an expense in the current year, included in “other expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

For details of the above-mentioned material acquisitions, please refer to the announcements published by the Company dated 19 February 2016 and 12 April 2016.

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

On 26 January 2017 (the "**Date of Grant**"), the Company offered to grant a total of 30,800,000 share options (the "**Share Options**") to the Directors and certain eligible employees of the Group (the "**Grantees**"), subject to the acceptance of the Grantees and pursuant to the Share Option Scheme. The Grantees are entitled, subject to the terms and conditions of grant and upon exercise, to subscribe for a total of 30,800,000 new Shares in the capital of the Company, representing approximately 1.76% of the 1,750,002,000 Shares in issue as at the Date of Grant. The exercises price is HK$0.69 per share.

All 30,800,000 Share Options are valid for a period of 5 years commencing from the relevant vesting date and subject to the following vesting periods:

(a) 50% of the Share Options granted to each Grantee shall vest on the first anniversary date of the Date of Grant (i.e. 26 January 2018); and

(b) 50% of the Share Options granted to each Grantee shall vest on the second anniversary date of the Date of Grant (i.e. 26 January 2019).

For details of the grant of the Share Options, please refer to the announcement published by the Company dated 26 January 2017.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the employee headcount of the Group was 3,429 (31 December 2015: 3,197) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$363.4 million for the Reporting Period (FY2015: approximately HK$275.1 million). The significant increase in staff costs was primarily due to salary increment, increase in social insurance contributions, housing provident fund and share option expenses.

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.

PROPOSED FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK 1.0 cent per ordinary share amounting to approximately HK$17.5 million for the Reporting Period (FY2015: HK$43.8 million). 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 9 June 2017. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be paid on 4 July 2017.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 6 June 2017 to 9 June 2017, 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 5 June 2017.

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 19 June 2017 to 21 June 2017, both days inclusive, during which period, no transfer of shares will be registered. 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 Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16 June 2017.

PUBLICATION OF THE ANNUAL RESULTS AND 2016 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 2016 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 2017

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, 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.*