# 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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

**PERFORMANCE HIGHLIGHTS**

- Revenue for the six months ended 30 June 2017 increased by approximately HK$413.0 million or 26.9% to approximately HK$1,946.8 million, as compared to approximately HK$1,533.8 million for the corresponding period last year.
- Gross profit decreased by approximately HK$23.5 million or 5.6% to approximately HK$394.9 million for the six months ended 30 June 2017, as compared to approximately HK$418.4 million for the corresponding period last year.
- Profit for the six months ended 30 June 2017 decreased by approximately HK$31.9 million or 76.3% to approximately HK$9.9 million, as compared to approximately HK$41.8 million for the corresponding period last year.

## INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinomax Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

| | NOTES | **For the six months ended 30 June 2017** *HK$'000* *(unaudited)* | 2016 *HK$'000* *(unaudited)* |
|---|---|---|---|
| Revenue | 3 | **1,946,759** | 1,533,836 |
| Cost of sales | | **(1,551,906)** | (1,115,419) |
| Gross profit | | **394,853** | 418,417 |
| Other income | | **22,266** | 16,566 |
| Other gains and losses | | **(6,220)** | 1,524 |
| Selling and distribution costs | | **(231,134)** | (216,439) |
| Administrative expenses | | **(107,155)** | (93,223) |
| Share of loss of an associate | | **—** | (8,304) |
| Net loss on derecognition of an associate | | **—** | (13,524) |
| Finance costs | | **(10,635)** | (5,111) |
| Other expenses | | **(49,707)** | (42,613) |
| Profit before taxation | | **12,268** | 57,293 |
| Income tax expenses | 4 | **(2,397)** | (15,494) |
| **Profit for the period** | 5 | **9,871** | 41,799 |
| **Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss** | | | |
| Exchange difference arising on translation of foreign operations | | **29,682** | (14,236) |
| **Total comprehensive income for the period** | | **39,553** | 27,563 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **10,685** | 39,909 |
| Non-controlling interests | | **(814)** | 1,890 |
| | | **9,871** | 41,799 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **40,806** | 26,658 |
| Non-controlling interests | | **(1,253)** | 905 |
| | | **39,553** | 27,563 |
| Earnings per share | 7 | | |
| – Basic | | **HK0.61 cent** | HK2.28 cents |
| – Diluted | | **HK0.61 cent** | HK2.28 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2017*

| | *NOTES* | **At 30 June 2017** *HK$'000* *(unaudited)* | At 31 December 2016 *HK$'000* *(audited)* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **675,855** | 572,917 |
| Investment properties | | **83,060** | 82,274 |
| Prepaid lease payments | | **65,589** | 64,469 |
| Deposits paid for acquisition of property, plant and equipment | | **33,243** | 50,781 |
| Goodwill | | **61,658** | 60,926 |
| Intangible assets | | **140,406** | 143,545 |
| Rental deposits | | **24,044** | 23,952 |
| Deferred tax assets | | **32,221** | 22,673 |
| | | **1,116,076** | 1,021,537 |
| **CURRENT ASSETS** | | | |
| Inventories | | **598,700** | 475,941 |
| Prepaid lease payments | | **1,655** | 1,607 |
| Trade and other receivables | 8 | **921,730** | 870,760 |
| Bills receivables | 9 | **17,246** | 11,714 |
| Pledged bank deposits | | **4,999** | 5,053 |
| Fixed bank deposits | | **19,223** | 18,623 |
| Bank balances and cash | | **163,329** | 131,848 |
| | | **1,726,882** | 1,515,546 |

| | NOTES | At 30 June 2017 HK$'000 (unaudited) | At 31 December 2016 HK$'000 (audited) |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | **724,766** | 617,331 |
| Bills payables | 11 | **75,509** | 85,433 |
| Dividend payable | | **17,500** | — |
| Taxation payable | | **16,836** | 24,000 |
| Bank borrowings | | **493,635** | 391,593 |
| | | **1,328,246** | 1,118,357 |
| **NET CURRENT ASSETS** | | **398,636** | 397,189 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,514,712** | 1,418,726 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank borrowings | | **170,344** | 85,303 |
| Deferred tax liabilities | | **117,323** | 119,327 |
| | | **287,667** | 204,630 |
| **NET ASSETS** | | **1,227,045** | 1,214,096 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **175,000** | 175,000 |
| Reserves | | **910,390** | 884,290 |
| Equity attributable to owners of the Company | | **1,085,390** | 1,059,290 |
| Non-controlling interests | | **141,655** | 154,806 |
| TOTAL EQUITY | | **1,227,045** | 1,214,096 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies applied and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2016.

**Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")**

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of annual Improvements to HKFRSs 2014 - 2016 Cycle |

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

## 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.

The information reported to chief operating decision maker ("**CODM**") (i.e. the executive directors of the Company), in respect of the Group's business is focused on the location of customers.

The Group is 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 Mainland China, Hong Kong and Macau |
| North American market | — | manufacture and sale of health and household products for customers located in the United States of America ("**US**"), Canada and other North American countries |
| Europe and other overseas markets | — | manufacture and sale of health and household products for customers located in overseas countries 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 by operating and reportable segments:

*For the six months ended 30 June 2017*

| | **China market** *HK$'000* | **North American market** *HK$'000* | **Europe and other overseas markets** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| SEGMENT REVENUE | | | | |
| External sales | **1,069,042** | **838,794** | **38,923** | **1,946,759** |
| Unallocated income | | | | **25,848** |
| Unallocated costs and expenses | | | | **(1,960,339)** |
| Profit before taxation | | | | **12,268** |

*For the six months ended 30 June 2016*

| | China market HK$'000 | North American market HK$'000 | Europe and other overseas markets HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| SEGMENT REVENUE | | | | |
| External sales | 778,633 | 687,200 | 68,003 | 1,533,836 |
| Share of loss of an associate | | | | (8,304) |
| Net loss on derecognition of an associate | | | | (13,524) |
| Unallocated income | | | | 23,304 |
| Unallocated costs and expenses | | | | (1,478,019) |
| Profit before taxation | | | | 57,293 |

There were no inter-segment sales during both periods.

## 4. INCOME TAX EXPENSES

| | For the six months ended 30 June **2017** *HK$'000* | 2016 *HK$'000* |
|---|---|---|
| Current tax | | |
| Hong Kong Profits Tax (Note i) | **2,059** | 3,699 |
| The People's Republic of China ("**PRC**") Enterprise Income Tax ("**EIT**") (Note ii) | **14,780** | 17,079 |
| US Income Tax (Note iii) | **196** | 3,100 |
| | **17,035** | 23,878 |
| Under(over)provision in prior years | | |
| Hong Kong Profits Tax | **—** | 1,844 |
| PRC EIT | **(2,055)** | (732) |
| | **(2,055)** | 1,112 |
| Deferred taxation | **(12,583)** | (9,496) |
| | **2,397** | 15,494 |

*Notes:*

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC for both periods except for Dongguan Sinohome Limited, a subsidiary of the Company, as it satisfied the condition as a high technology development enterprise and was subject to a preferential tax rate of 15%.

The amounts include PRC withholding tax on distributed profit of a PRC subsidiary of HK$1,700,000 (six months ended 30 June 2016: nil) for the six months ended 30 June 2017.

(iii) US

The US income tax included (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 periods. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

(iv) Macau

Under Decree-Law no. 58/99/M, the Group's Macau subsidiary incorporated under the Decree-Law, is exempted from Macau Complementary tax as it satisfies the relevant conditions as specified in the Decree-Law, one of which being that it does not sell its products to any Macau resident company during the reporting period.

## 5. PROFIT FOR THE PERIOD

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Total staff costs, including share option expenses (included in selling and distribution expenses and administrative expenses) | **200,132** | 176,307 |
| Net allowance for inventories (included in cost of sales) | **6,722** | 972 |
| Net allowance for trade receivables (included in other gains and losses) | **1,122** | 4,174 |
| Net exchange losses (gains) | **4,452** | (2,708) |
| Amortisation of prepaid lease payments | **820** | 655 |
| Amortisation of intangible assets | **3,358** | 1,569 |
| Depreciation of property, plant and equipment | **23,948** | 14,738 |
| Depreciation of investment properties | **1,680** | 1,355 |

## 6. DIVIDEND

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution: | | |
| Final for 2016, declared, of HK1.0 cent (2016: HK2.5 cents for 2015) per share | **17,500** | 43,750 |

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 2016: interim dividend of HK0.6 cent per share amounting to approximately HK$10,500,000).

## 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:

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| *Earnings for the purpose of basic and diluted earnings per share:* | | |
| Profit for the period attributable to owners of the Company | **10,685** | 39,909 |

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| *Number of shares:* | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,750,002,000** | 1,750,002,000 |
| Effect of dilutive potential ordinary shares in respect of outstanding share options | **—** | 2,151,187 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,750,002,000** | 1,752,153,187 |

The calculation of the diluted earnings per share for the six months ended 30 June 2017 does not assume the exercise of the share options as they are anti-dilutive.

## 8. TRADE AND OTHER RECEIVABLES

| | At 30 June 2017 HK$'000 | At 31 December 2016 HK$'000 |
|---|---|---|
| Trade receivables | **772,656** | 731,010 |
| Deposits, prepayments and other receivables | **149,074** | 139,750 |
| | **921,730** | 870,760 |

The Group's retail sales are made through its retail network comprising stand-alone retail shops and concession counters in department stores. The Group also sells the 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 are transacted either by cash or credit cards. For sales made at concession counters, the department stores collect cash from the ultimate customers and then repay the balance, after deducting the concessionaire commission, to the Group. The credit period granted to department stores ranges from 30 days to 120 days. For sales to wholesalers, retailers and other manufacturers, the Group generally allows a credit period ranging from 7 days to 90 days.

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

| | At 30 June 2017 HK$'000 | At 31 December 2016 HK$'000 |
|---|---|---|
| Within 30 days | **454,116** | 371,154 |
| 31 - 60 days | **201,130** | 206,123 |
| 61 - 90 days | **81,458** | 106,625 |
| 91 - 180 days | **30,705** | 33,326 |
| 181 - 365 days | **3,631** | 6,758 |
| Over 365 days | **1,616** | 7,024 |
| | **772,656** | 731,010 |

## 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:

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **2,902** | 2,850 |
| 31 to 60 days | **1,116** | 923 |
| 61 to 90 days | **4,353** | 1,179 |
| 91 to 180 days | **8,778** | 6,762 |
| 181 to 365 days | **97** | — |
| | **17,246** | 11,714 |

## 10. TRADE AND OTHER PAYABLES

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **509,019** | 395,725 |
| Other payables and accrued expenses | **215,747** | 221,606 |
| | **724,766** | 617,331 |

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

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **296,177** | 204,086 |
| 31 to 60 days | **130,647** | 131,086 |
| 61 to 90 days | **50,505** | 46,071 |
| 91 to 180 days | **24,058** | 9,242 |
| Over 180 days | **7,632** | 5,240 |
| | **509,019** | 395,725 |

## 11. BILLS PAYABLES

All the bills payables of the Group are not yet due at the end of the reporting period. Bills payables as at 30 June 2017 were secured by pledged bank deposits of HK$4,999,000 (31 December 2016: HK$5,053,000).

The following is an aged analysis of bills payables at the end of the reporting period presented based on their time to maturity:

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **4,208** | 7,267 |
| 31 - 60 days | **15,833** | 42,426 |
| 61 - 90 days | **17,235** | 17,392 |
| 91 - 180 days | **38,233** | 18,348 |
| | **75,509** | 85,433 |

## 12. COMMITMENT

At the end of the reporting period, the Group had the following commitment:

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment | **24,774** | 32,510 |

## BUSINESS REVIEW

### Revenue by operating segments

For the six months ended 30 June 2017 (the "**Period**"), revenue of the Group increased by approximately HK$413.0 million or approximately 26.9% to approximately HK$1,946.8 million (for the six months ended 30 June 2016: approximately HK$1,533.8 million).

China market and North American markets recorded substantial revenue growth for the Period comparing with the corresponding period last year.

| | **For the six months ended 30 June** | | |
|---|---|---|---|
| | **2017** | 2016 | Changes |
| | ***HK$'000*** | *HK$'000* | *%* |
| China market | **1,069,042** | 778,633 | +37.3% |
| North American market | **838,794** | 687,200 | +22.1% |
| Europe and other overseas markets | **38,923** | 68,003 | -42.8% |
| Total | **1,946,759** | 1,533,836 | +26.9% |

Sales to China market recorded a significant growth of approximately 37.3% for the Period, as compared with the same period last year. The sales increase in this region was mainly due to the increase in the corporate customer sales and increase in market share of foam sales in China.

Sales to North American market recorded an approximately 22.1% growth for the Period, as compared with the same period last year. With the setting up of the production facilities in the US, we were able to co-operate with more and more new customers in the US.

The general economy in Europe and other overseas markets were weak and we recorded a decrease of sales of this region by approximately 42.8% for the Period, as compared with the same period last year.

### Gross profit

With an increase of approximately 26.9% in the Group's revenue, gross profit (the "**GP**") decreased by approximately HK$23.5 million or approximately 5.6% to approximately HK$394.9 million during the Period as compared to approximately HK$418.4 million for the corresponding period last year. The GP margin decreased by approximately 7.0% from approximately 27.3% to approximately 20.3% as compared with the corresponding period last year. The major reasons of the decrease in the GP margin during the Period were:

(1) the cost incurred in setting up trial run of production in a factory located in US resulted in a gross loss of HK$21.8 million for the six months ended 30 June 2017; and

(2) the significant increase in the purchase price of a key raw material of polyurethane foam, namely toluene diisocyanate ("**TDI**") for the six months ended 30 June 2017, as compared with the same period last year.

**Costs and expenses**

Selling and distribution costs for the Period increased by approximately HK$14.7 million or approximately 6.8% to approximately HK$231.1 million, as compared to approximately HK$216.4 million for the six months ended 30 June 2016. The increase was mainly due to increase in staff costs for recruiting more sales staff to strengthen sales force in the US. In addition, advertising expenses for promoting the Group's own and licensed brands "Zeopedic", "PureLUX" and "Octaspring", respectively, also increased.

Administrative expenses for the Period increased by approximately HK$14.0 million or approximately 15.0% to approximately HK$107.2 million, as compared to approximately HK$93.2 million for the six months ended 30 June 2016. The increase was mainly due to the increase in staff cost for supporting the growth of US business.

Other expenses mainly consisted of research and development expenses which increased by approximately 34.2% from approximately HK$29.8 million for the six months ended 30 June 2016 to approximately HK$40.0 million for the Period as the Group has devoted much more resources on improving and developing more foam features to meet increasing customers' needs.

**Profit for the Period**

As a result of the decline in gross profit and increases in costs and expenses as mentioned above, profit for the Period decreased by approximately HK$31.9 million or approximately 76.3% to approximately HK$9.9 million, as compared to approximately HK$41.8 million for the six month ended 30 June 2016.

## LIQUIDITY, FINANCE AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2017. As at 30 June 2017, the Group had net current assets of approximately HK$398.6 million, as compared to approximately HK$397.2 million as at 31 December 2016.

Bank balances and cash increased by approximately HK$31.5 million or approximately 23.9% to approximately HK$163.3 million compared to approximately HK$131.8 million as at 31 December 2016, meanwhile the inventory level increased by approximately HK$122.8 million or approximately 25.8% to approximately HK$598.7 million in order to cope with the increasing demand of several large customers in the coming months.

### Borrowings and pledge of assets

As at 30 June 2017, the Group had banking facilities amounting to approximately HK$1,514.9 million of which approximately HK$739.5 million was utilized (31 December 2016: banking facilities amounting to approximately HK$1,383.0 million of which approximately HK$562.3 million was utilized) (which amount includes bank borrowings and bills payables).

The bills payables of the Group were secured by bank deposits of approximately HK$5.0 million (31 December 2016: approximately HK$5.1 million).

### Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK$99.3 million mainly for the purchasing of the Group's plant and machinery (31 December 2016: approximately HK$120.4 million).

### Financial ratios

| | **As at 30 June 2017** | As at 31 December 2016 |
|---|---|---|
| Current ratio (1) | **130.0%** | 135.5% |
| Quick ratio (2) | **84.9%** | 93.0% |
| Gearing ratio (3) | **54.1%** | 39.3% |
| Debt to equity ratio (4) | **40.8%** | 28.4% |

(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 of operations, and therefore no hedging instrument has been employed. The Group will closely monitor the trends of various foreign currencies 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

As mentioned in "Profit for the Period" in the Business Review Section, the major reasons of the decrease in the profit during the Period was due to the trial-run costs of the US Factory and the significant increase in the purchase price of TDI.

1) Though US factory delayed in its production plan from the first quarter in 2017 to June 2017, we expect the production volume of the US factory will gradually pick up and there will be a turnaround of gross loss to gross profit by the end of 2017;

2) Various large customers are being developed in the US and future sales growth will be substantial. In particular, we have successfully developed a new customer namely Mattress Firm, a mattress retailer with more than 3,500 points of sale in the US. Sales started in June 2017 and we expect sales will grow in coming years. In addition, as announced on 12 June 2017, we entered into a three-year strategic partnership with Serta Simmons Bedding, LLC, one of the largest manufacturers and distributors of mattresses in the US, for developing new bed-in-a-box offerings for Serta Simmons Bedding's Serta® and Beautyrest® brands. The new product offerings will be available for sale in the second half year of 2017. These customers are selling products under various high-end brands; and

3) As mentioned in Gross Profit section, the TDI price increased significantly during the Period. Strategically, we did not wholly transfer cost increase to our customers. As a result, our gross profit dropped but we are able to obtain a larger market share of foam sales. This was evidenced by the increase in sales of approximately 37.3% in China market for the Period, as compared with the same period last year. We believe a larger market share will generate more sales and profit for the Group in the long run.

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. We will also introduce our own brand "Zeopedic" from US to our sales in the China market in the second half year of 2017. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. During the Period, e-commerce sales of the Group recorded a substantial growth of approximately HK$15.0 million or 75.4% to approximately HK$34.9 million, as compared to approximately HK$19.9 million for the same period last year.

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.

## 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 Period.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK0.6 cent).

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2017, the employee headcount of the Group was 3,533 (30 June 2016: 3,432) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$200.1 million for the Period (for the six months ended 30 June 2016: approximately HK$176.3 million). The significant increase in staff costs was primarily due to salary increment, increase in social insurance contributions and 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. During the Period, all the code provisions set out in the CG Code were met by the Company.

## 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 have complied with the required standards of the Model Code regarding Directors' securities transactions during the Period.

## REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed, together with the management of the Group, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements and interim results announcement of the Group for the Period and recommended its adoption by the Board.

In addition, the unaudited condensed consolidated financial statements of the Group for the Period have been reviewed by the independent auditors of the Company, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

## PUBLICATION OF THE INTERIM RESULTS AND 2017 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement for the Period is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinomax.com/group), and the 2017 interim report 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, 29 August 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, JP, Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.*