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 2018

PERFORMANCE HIGHLIGHTS

- Revenue for the six months ended 30 June 2018 increased by approximately HK$92.1 million or 4.7% to approximately HK$2,038.9 million, as compared to approximately HK$1,946.8 million for the corresponding period last year.

- Gross profit decreased by approximately HK$47.6 million or 12.1% to approximately HK$347.3 million for the six months ended 30 June 2018, as compared to approximately HK$394.9 million for the corresponding period last year.

- Profit for the six months ended 30 June 2018 decreased by approximately HK$0.8 million or 8.1% to approximately HK$9.1 million, as compared to approximately HK$9.9 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 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		For the six months ended 30 June	
		2018	2017
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue			
Sales of goods	*3*	**2,038,915**	1,946,759
Cost of sales		**(1,691,606)**	(1,551,906)
Gross profit		**347,309**	394,853
Other income		**29,968**	22,266
Other gains and losses		**(4,460)**	(6,220)
Selling and distribution costs		**(190,127)**	(231,134)
Administrative expenses		**(106,589)**	(107,155)
Finance costs		**(18,784)**	(10,635)
Other expenses		**(46,737)**	(49,707)
Profit before taxation		**10,580**	12,268
Income tax expenses	*4*	**(1,496)**	(2,397)
Profit for the period	*5*	**9,084**	9,871
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(18,865)**	29,682
Total comprehensive (expense) income for the period		**(9,781)**	39,553

	NOTE	For the six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Profit for the period attributable to:			
Owners of the Company		**4,563**	10,685
Non-controlling interests		**4,521**	(814)
		9,084	9,871
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(12,949)**	40,806
Non-controlling interests		**3,168**	(1,253)
		(9,781)	39,553
Earnings per share	*7*		
– Basic		**HK0.26 cent**	HK0.61 cent
– Diluted		**HK0.26 cent**	HK0.61 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	**At 30 June 2018 *HK$'000* (unaudited)**	At 31 December 2017 *HK$'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**707,678**	713,031
Investment properties		**95,049**	99,389
Prepaid lease payments		**65,472**	67,631
Deposits paid for acquisition of property, plant and equipment		**12,747**	20,806
Goodwill		**62,424**	62,764
Intangible assets		**134,129**	137,268
Rental deposits		**25,547**	24,470
Deferred tax assets		**21,054**	19,710
		1,124,100	1,145,069
CURRENT ASSETS			
Inventories		**696,042**	679,473
Prepaid lease payments		**1,705**	1,727
Trade and other receivables	*8*	**692,070**	847,121
Bills receivables	*9*	**74,102**	16,814
Trade receivables at fair value through other comprehensive income	*10*	**72,064**	–
Tax recoverable		**–**	1,719
Pledged bank deposits		**3,593**	2,912
Fixed bank deposits		**102,897**	32,852
Bank balances and cash		**272,796**	155,485
		1,915,269	1,738,103

	NOTES	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*11*	**565,547**	623,192
Bills payables	*12*	**93,138**	91,474
Dividend payables		**17,500**	–
Taxation payable		**4,507**	20,022
Contract liabilities		**1,480**	–
Unsecured bank borrowings		**687,387**	614,990
		1,369,559	1,349,678
NET CURRENT ASSETS		**545,710**	388,425
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,669,810**	1,533,494
NON-CURRENT LIABILITIES			
Unsecured bank borrowings		**296,634**	121,064
Deferred tax liabilities		**99,949**	102,964
		396,583	224,028
NET ASSETS		**1,273,227**	1,309,466
CAPITAL AND RESERVES			
Share capital		**175,000**	175,000
Reserves		**950,522**	980,030
Equity attributable to owners of the Company		**1,125,522**	1,155,030
Non-controlling interests		**147,705**	154,436
TOTAL EQUITY		**1,273,227**	1,309,466

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards which results in changes in accounting policies and amounts reported as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15")

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

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognises revenue from the following major sources:

- Manufacture and sales of health and household products
- Manufacture and sales of polyurethane foam

The Group sells its health and household products and polyurethane foam to its customers through wholesale and retail channels and distributors. Revenue is recognised at a point in time when there is persuasive evidence that the control of the goods has been transferred to the customers (i.e. the customers have adequate control over the product and the Group has no unfulfilled obligations that affect customer acceptance products). The Group recognised product sales at the sales value of goods less estimated discounts, rebates and sales related taxes.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The initial application of HKFRS 15 has no material impact on retained profits at 1 January 2018.

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

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

(a) As at 1 January 2018, deposits received from customers of approximately HK$1,255,000 in respect of contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	*HK$'000*	*HK$'000*
Current Liabilities			
Trade and other payables	565,547	1,480	567,027
Contract liabilities	1,480	(1,480)	–

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments ("HKFRS 9")

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

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

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

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("**FVTPL**").

Trade receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for trade receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in other comprehensive income ("**OCI**") and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, bills receivables, trade receivables at FVTOCI, pledged bank deposits, fixed bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, bills receivables and trade receivables at FVTOCI. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

2.2.2 Summary of effects arising from initial application of HKFRS 9

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

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

(a) Loans and receivables

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

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

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017	HKFRS 15	HKFRS 9	1 January 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)			(restated)
CURRENT ASSETS				
Trade and other receivables	847,121	–	(87,122)	759,999
Trade receivables at FVTOCI	–	–	86,658	86,658
CURRENT LIABILITIES				
Trade and other payables	623,192	(1,255)	–	621,937
Contract liabilities	–	1,255	–	1,255

Except as described above, the application of the amendments to HKFRSs and the interpretations 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.

3. REVENUE AND SEGMENT INFORMATION

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

The information reported to the 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 and the Group is currently 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 People's Republic of China (the "**PRC**"), Hong Kong and Macau

North American market – manufacture and sale of health and household products for customers located in the United States of America ("**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 and reportable segments are the same as the Group's accounting policies.

Segment revenue

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

For the six months ended 30 June 2018 (unaudited)

	China market	**North American market**	**Europe and other overseas markets**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
SEGMENT REVENUE				
External sales	**1,208,192**	**800,684**	**30,039**	**2,038,915**
Cost of sales				**(1,691,606)**
Other income				**29,968**
Other gains and losses				**(4,460)**
Selling and distribution costs				**(190,127)**
Administrative expenses				**(106,589)**
Finance costs				**(18,784)**
Other expenses				**(46,737)**
Profit before taxation				**10,580**

For the six months ended 30 June 2017 (unaudited)

	China market	North American market	Europe and other overseas markets	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE				
External sales	1,069,042	838,794	38,923	1,946,759
Cost of sales				(1,551,906)
Other income				22,266
Other gains and losses				(6,220)
Selling and distribution costs				(231,134)
Administrative expenses				(107,155)
Finance costs				(10,635)
Other expenses				(49,707)
Profit before taxation				12,268

There were no inter-segment sales during both periods.

4. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax *(Note i)*	**651**	2,059
The PRC Enterprise Income Tax ("**EIT**") *(Note ii)*	**6,995**	14,780
US Income Tax *(Note iii)*	**281**	196
	7,927	17,035
Over provision in prior years		
PRC EIT	**(4,281)**	(2,055)
US Income Tax	**(727)**	–
	(5,008)	(2,055)
Deferred taxation	**(1,423)**	(12,583)
	1,496	2,397

Notes:

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

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$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The two-tiered profits tax rates regime is applicable to the Group for its annual reporting periods ending 31 December 2018.

The application of the two-tiered profits tax rates regime is expected to decrease the amount of current tax payable the Group by a maximum amount of HK$165,000 per year with a corresponding decrease in current tax expense.

The directors of the Company are currently analysing the effect of the two-tiered profits tax rates regime on Group's deferred tax balances and expected that the impact is not material.

(ii) PRC EIT is calculated based on the statutory rate of 25% of the assessable profit of those subsidiaries established in the PRC for both periods, except for certain PRC subsidiaries being approval as High and New Technology Enterprise by the relevant government authorities during the year ended 31 December 2017 which are subject to a preferential tax rate of 15%.

(iii) US corporate tax rate is 21% for the year ending 31 December 2018 in accordance to the Tax Cuts and Jobs Act. The US income tax includes (a) federal income tax calculated at a fixed rate of 21% for the six months ended 30 June 2018 (six months ended 30 June 2017: a progressive rate of 15% to 35%) on the estimated US federal taxable income and (b) state income tax calculated at various state income tax rates for both period on the estimated state taxable income for the respective states. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year.

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 periods.

5. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Total staff costs, including share option expense (included in selling and distribution costs and administrative expenses)	**219,625**	200,132
Net allowance for inventories (included in cost of sales)	**5,258**	6,722
Net allowance for doubtful debts of trade receivables (included in other gains and losses)	**4,351**	1,122
Amortisation of prepaid lease payments	**880**	820
Amortisation of intangible assets	**3,202**	3,358
Depreciation of property, plant and equipment	**36,472**	23,948
Depreciation of investment properties	**2,081**	1,680

6. DIVIDEND

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period:		
Final dividend declared – HK1.0 cent per share for 2017 (six months ended 30 June 2017: HK1.0 cent per share for 2016)	**17,500**	17,500

The final dividend for year ended 31 December 2017 was paid on 10 July 2018 and the directors of the Company did not recommend the payments of an interim dividend for both periods.

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	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	**4,563**	10,685

	For the six months ended 30 June	
	2018	2017
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	**626**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,750,002,626**	1,750,002,000

The computation of the diluted earnings per share for six months ended 30 June 2017 does not assume the exercise of the share options as the exercise price of those share options is higher than the average market price for shares.

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 *HK$'000* (unaudited)	At 31 December 2017 *HK$'000* (audited)
Trade receivables, at amortised cost	**581,080**	727,698
Less: allowance for doubtful debts	**(23,386)**	(19,209)
	557,694	708,489
Deposits, prepayments and other receivables	**134,376**	138,632
	692,070	847,121

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 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 2018 *HK$'000* (unaudited)	At 31 December 2017 *HK$'000* (audited)
Within 30 days	**308,716**	406,961
31 – 60 days	**131,240**	179,487
61 – 90 days	**81,165**	82,170
91 – 180 days	**31,358**	36,474
181 – 365 days	**5,215**	3,388
Over 365 days	**–**	9
	557,694	708,489

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 2018 ***HK$'000*** **(unaudited)**	At 31 December 2017 *HK$'000* (audited)
Within 30 days	**9,161**	3,440
31 to 60 days	**8,340**	2,703
61 to 90 days	**13,611**	1,700
91 to 180 days	**41,589**	8,850
181 to 365 days	**1,401**	121
	74,102	16,814

Included in the bills receivables above amounting to approximately HK$50,851,000 had been endorsed for settling the trade payables for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period.

10. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

As at 30 June 2018, the effective interest rates of the factoring trade receivables at FVTOCI ranged from 2.59% to 5.50% per annum (1 January 2018: 2.59% to 5.50% per annum).

11. TRADE AND OTHER PAYABLES

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Trade payables	**364,591**	374,216
Other payables and accrued expenses	**200,956**	248,976
	565,547	623,192

The credit period of trade payables is ranging from 30 to 60 days and the following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	At 30 June 2018 HK$'000 (unaudited)	At 31 December 2017 HK$'000 (audited)
Within 30 days	**223,655**	213,458
31 to 60 days	**62,352**	103,317
61 to 90 days	**36,083**	31,824
91 to 180 days	**32,325**	14,712
Over 180 days	**10,176**	10,905
	364,591	374,216

12. 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 2018 were secured by pledged bank deposits of approximately HK$3,593,000 (31 December 2017: HK$2,912,000).

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

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**5,249**	10,546
31 – 60 days	**8,385**	1,335
61 – 90 days	**6,790**	25,442
91 – 180 days	**72,714**	54,151
	93,138	91,474

13. COMMITMENT

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**15,902**	35,438

BUSINESS REVIEW

Revenue by operating segments

For the six months ended 30 June 2018 (the "**Period**"), revenue of the Group increased by approximately HK$92.1 million or approximately 4.7% to approximately HK$2,038.9 million (for the six months ended 30 June 2017: approximately HK$1,946.8 million).

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

	For the six months ended 30 June		
	2018	2017	**Changes**
	HK$'000	*HK$'000*	*%*
China market	**1,208,192**	1,069,042	+13.0%
North American market	**800,684**	838,794	-4.5%
Europe and other overseas markets	**30,039**	38,923	-22.8%
Total	**2,038,915**	1,946,759	+4.7%

Sales to China market recorded a significant growth of approximately 13.0% for the Period, as compared with the same period last year. The sales increase in this region was mainly due to the increase in market share of foam sales in China.

As there was a delay in a sales project with a customer in the US, sales to North American market recorded an approximately decrease in 4.5% for the Period, as compared with the same period last year.

The general economy in Europe and other overseas markets were weak and we recorded a decrease of sales of this region by approximately 22.8% for the Period, as compared with the same period last year.

Gross profit

With an increase of approximately 4.7% in the Group's revenue, gross profit (the "**GP**") decreased by approximately HK$47.6 million or approximately 12.1% to approximately HK$347.3 million during the Period as compared to approximately HK$394.9 million for the corresponding period last year. The GP margin decreased by approximately 3.3% from approximately 20.3% to approximately 17.0% 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 production in a factory located in US resulted in a gross loss of HK$20.2 million for the six months ended 30 June 2018;

(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 2018, as compared with the same period last year; and

(3) the re-classification of HK$41.7 million as per selling and distribution costs below.

Costs and expenses

Selling and distribution costs for the Period decreased by approximately HK$41.0 million or approximately 17.7% to approximately HK$190.1 million, as compared to approximately HK$231.1 million for the six months ended 30 June 2017. The decreased was mainly due to the classification of HK$41.7 million previously recorded as selling expenses but now recorded as cost of goods sold of HK$36.7 million and net of sales of HK$5.0 million for the current period as the Group adopted the HKFRS 15.

Administrative expenses for the Period decreased by approximately HK$0.6 million or approximately 0.6% to approximately HK$106.6 million, as compared to approximately HK$107.2 million for the six months ended 30 June 2017.

Other expenses mainly consisted of research and development expenses which decreased by approximately HK$7.1 million or approximately 17.8% from approximately HK$40.0 million for the six months ended 30 June 2017 to approximately HK$32.9 million for the Period.

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$0.8 million or approximately 8.1% to approximately HK$9.1 million, as compared to approximately HK$9.9 million for the six month ended 30 June 2017.

LIQUIDITY, FINANCE AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2018. As at 30 June 2018, the Group had net current assets of approximately HK$545.7 million, as compared to approximately HK$388.4 million as at 31 December 2017.

Bank balances and cash increased by approximately HK$117.3 million or approximately 75.4% to approximately HK$272.8 million, meanwhile the inventory level increased by approximately HK$16.6 million or approximately 2.4% to approximately HK$696.0 million compared to approximately HK$679.4 million as at 31 December 2017 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 2018, the Group had banking facilities amounting to approximately HK$2,071.7 million of which approximately HK$1,077.2 million was utilized (31 December 2017: banking facilities amounting to approximately HK$1,598.4 million of which approximately HK$827.5 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$3.6 million (31 December 2017: approximately HK$2.9 million).

Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK$27.0 million mainly for the purchasing of the Group's plant and machinery (31 December 2017: approximately HK$135.4 million).

Financial ratios

	As at 30 June 2018	As at 31 December 2017
Current ratio[(1)]	**139.8%**	128.8%
Quick ratio[(2)]	**89.0%**	78.4%
Gearing ratio[(3)]	**77.3%**	56.2%
Debt to equity ratio[(4)]	**55.9%**	44.3%

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

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

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

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

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 were due to the production costs of the US Factory and the significant increase in the purchase price of TDI.

1) Though US factory experience a further delay in its production plan in 2018, we have made several changes in areas of production and logistics. As the second half year will be a traditional peak season, 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 2018;

2) We have successfully developed several new customers in the US in 2017. Sales to these customers are gradually increasing over the past months. We are expecting a continuing growth in the second half year of 2018; 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 13.0% 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. We expect the price of TDI will become stable with a greater supply of TDI in the market by the end of 2018.

Recently there are more and more uncertainties in the US market where goods are imported from the PRC. These uncertainties will inevitably affect our business and profitability in the near future. With the advantage of having factories in the US and the PRC, we are more flexible in arranging our production schedule to minimize any additional tariffs that may arise. To further minimize the financial impact arising from the uncertainties, we are looking for alternative locations of production, so as to reduce our overall operating costs and to better serve our customers.

In China market, the Group offers a wide range of health and household products, under its flagship brand "SINOMAX". The Group will further enhance brand management through various marketing activities to reinforce brand recognition and enhance the image of health, relaxation and comfort of the "SINOMAX" brand. Sales under the brands "Octaspring", "SPA Supreme" and "Zeopedic" increased steadily. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. During the Period, e-commerce sales of the Group recorded a growth of approximately HK$1.0 million or 2.9% to approximately HK$35.9 million, as compared to approximately HK$34.9 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the section 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 2018 (for the six months ended 30 June 2017: NIL).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2018, the employee headcount of the Group was 3,408 (30 June 2017: 3,533) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$219.6 million for the Period (for the six months ended 30 June 2017: approximately HK$200.1 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 2018 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 2018 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, 28 August 2018

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.