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Sinomax Group Limited
盛諾集團有限公司
(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1418)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

PERFORMANCE HIGHLIGHTS

- Revenue for the six months ended 30 June 2016 increased by approximately HK$155.2 million or 11.3% to approximately HK$1,533.8 million, as compared to approximately HK$1,378.6 million for the corresponding period last year.
- Gross profit increased by approximately HK$25.4 million or 6.5 % to approximately HK$418.4 million for the six months ended 30 June 2016, as compared to approximately HK$393.0 million for the corresponding period last year.
- Profit for the six months ended 30 June 2016 decreased by approximately HK$56.7 million or 57.5 % to approximately HK$41.8 million, as compared to approximately HK$98.5 million for the corresponding period last year.
- The Board has resolved to declare an interim dividend of HK0.6 cent (2015 interim dividend: HK1.5 cents) per share.

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 2016, together with the comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	**For the six months ended 30 June 2016** *HK$'000* **(unaudited)**	2015 *HK$'000* (unaudited)
Revenue	*3*	**1,533,836**	1,378,590
Cost of sales		**(1,115,419)**	(985,557)
Gross profit		**418,417**	393,033
Other income		**16,566**	21,254
Other gains and losses		**1,524**	(2,549)
Selling and distribution costs		**(216,439)**	(171,210)
Administrative expenses		**(93,223)**	(72,493)
Share of loss of an associate		**(8,304)**	–
Net loss on derecognition of an associate		**(13,524)**	–
Finance costs		**(5,111)**	(4,290)
Other expenses		**(42,613)**	(34,387)
Profit before taxation		**57,293**	129,358
Income tax expenses	*4*	**(15,494)**	(30,901)
Profit for the period	*5*	**41,799**	98,457
Other comprehensive (expenses) income that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**(14,236)**	13
Total comprehensive income for the period		**27,563**	98,470
Profit for the period attributable to:			
Owners of the Company		**39,909**	94,555
Non-controlling interests		**1,890**	3,902
		41,799	98,457

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — continued
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTE	For the six months ended 30 June **2016** *HK$'000* (unaudited)	2015 *HK$'000* (unaudited)
Total comprehensive income for the period attributable to:			
Owners of the Company		**26,658**	94,596
Non-controlling interests		**905**	3,874
		27,563	98,470
Earnings per share	*7*		
— Basic		**HK2.28 cents**	HK5.65 cents
— Diluted		**HK2.28 cents**	HK5.65 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016

	NOTES	**At 30 June 2016 *HK$'000* (unaudited)**	At 31 December 2015 *HK$'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**326,723**	211,904
Investment properties		**88,432**	28,676
Prepaid lease payments		**68,636**	21,989
Deposits paid for acquisition of property, plant and equipment		**141,823**	61,893
Goodwill		**57,222**	–
Intangible assets		**146,683**	–
Interest in an associate		**–**	71,569
Rental deposits		**23,582**	19,764
Deferred tax assets		**40,416**	19,937
		893,517	435,732
CURRENT ASSETS			
Inventories		**454,263**	298,707
Prepaid lease payments		**1,689**	580
Trade and other receivables	*8*	**811,886**	613,406
Bills receivables	*9*	**18,457**	22,485
Tax recoverable		**29,324**	17,841
Pledged bank deposits		**7,284**	8,513
Fixed bank deposits		**41,342**	57,118
Structured bank deposits		**–**	26,539
Bank balances and cash		**280,483**	328,790
		1,644,728	1,373,979
CURRENT LIABILITIES			
Trade and other payables	*10*	**589,746**	367,557
Bills payables	*11*	**69,287**	59,493
Dividend payable		**43,750**	–
Taxation payable		**122,012**	115,184
Bank and other borrowings		**308,063**	160,541
		1,132,858	702,775
NET CURRENT ASSETS		**511,870**	671,204
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,405,387**	1,106,936

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued
AT 30 JUNE 2016

	At 30 June 2016 *HK$'000* (unaudited)	At 31 December 2015 *HK$'000* (audited)
NON-CURRENT LIABILITIES		
Bank and other borrowings	**62,080**	–
Deferred tax liabilities	**132,889**	10,247
	194,969	10,247
NET ASSETS	**1,210,418**	1,096,689
CAPITAL AND RESERVES		
Share capital	**175,000**	175,000
Reserves	**867,717**	883,352
Equity attributable to owners of the Company	**1,042,717**	1,058,352
Non-controlling interests	**167,701**	38,337
TOTAL EQUITY	**1,210,418**	1,096,689

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

(i) Application of new and revised 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 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 HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

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.

(ii) Application of new accounting policy in respect of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

2. PRINCIPAL ACCOUNTING POLICIES — continued

(ii) Application of new accounting policy in respect of goodwill — continued

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(iii) Application of new accounting policy in respect of intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported as costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

The estimated useful life of the intangible assets are as follows:

Brand Name	Indefinite
Customer relationship	10 years

(iv) Application of new accounting policy in respect of impairment on intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

2. PRINCIPAL ACCOUNTING POLICIES — continued

(iv) Application of new accounting policy in respect of impairment on intangible assets other than goodwill — continued

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(v) Application of new accounting policy in respect of derecognition of interest in an associate

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

(vi) Application of new accounting policy in respect of derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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 periods, 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 period, 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 periods. 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 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, 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 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**

3. REVENUE AND SEGMENT INFORMATION — continued

For the six months ended 30 June 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	784,763	571,696	22,131	1,378,590
Unallocated income				21,341
Unallocated costs and expenses				(1,270,573)
Profit before taxation				129,358

There were no inter-segment sales during both periods.

4. INCOME TAX EXPENSES

	For the six months ended 30 June **2016** ***HK$'000***	2015 *HK$'000*
Current tax		
Hong Kong Profits Tax *(Note i)*	**3,699**	530
PRC Enterprise Income Tax ("**EIT**") *(Note ii)*	**17,079**	28,953
US income tax *(Note iii)*	**3,100**	2,492
	23,878	31,975
(Over)underprovision in prior years		
Hong Kong Profits Tax	**1,844**	–
PRC EIT	**(732)**	1,281
	1,112	1,281
Deferred taxation	**(9,496)**	(2,355)
	15,494	30,901

4. INCOME TAX EXPENSES — continued

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 is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC for both periods.

(iii) US

The US income tax includes (a) federal income tax calculated at 34% 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 both periods. The income subject to tax in a specific state (i.e. state taxable income) is calculated from adjusting the federal taxable income with state modifications and apportionment (i.e. percentage of taxable income that should be allocated to each state in which the Group operates in).

(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.

The Inland Revenue Department (the "**IRD**") commenced a tax audit on certain subsidiaries of the Company in prior period. The IRD has issued estimated profits tax assessments of HK$14,100,000, 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, respectively. The Group has lodged objection with the IRD against the assessments and the IRD agreed to grant complete holdover to the relevant subsidiaries for the tax demanded for the said years of assessment, except for 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 purchasing tax reserve certificates by one of the subsidiaries in 2013, 2014, 2015 and 2016 respectively.

The Group has provided various information and supporting documents to address the enquiries raised by the IRD and to defend its tax position (i.e. offshore claim in relation to certain of its profits). However, having considered the different opinion of the IRD on the controversial issue, and in order to avoid a further protracted exchange of correspondences, which may not be in the best interest from the commercial prospective, the directors of the Company decided to take alternative means with a compromised settlement approach to resolve the case. Subsequent to the end of the current interim period, the Group has submitted a settlement proposal to IRD. Up to the date of this report, IRD has not issued any formal notice of revised assessment to the Group.

In the opinion of the directors of the Company and based on their best estimate, the Group has made adequate provisions for Hong Kong Profits Tax and related potential penalty and/or interest for the tax audit as at 31 December 2015 and 30 June 2016.

5. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2016	2015
	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)	**176,307**	131,738
Net allowance for inventories (included in cost of sales)	**972**	2,188
Net allowance for trade receivables (included in other gains and losses)	**4,174**	2,731
Net exchange gains	**(2,708)**	(87)
Amortisation of prepaid lease payments	**655**	299
Amortisation of intangible assets	**1,569**	–
Depreciation of property, plant and equipment	**14,738**	11,718
Depreciation of investment properties	**1,355**	752

6. DIVIDEND

	For the six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
Final for 2015, declared, of HK2.5 cents (2015: HK2.5 cents for 2014) per share	**43,750**	43,750
Interim, proposed, of HK0.6 cent (2015: HK1.5 cents) per share	**10,500**	26,250
	54,250	70,000

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK0.6 cent (2015: HK1.5 cents) per share amounting to approximately HK$10,500,000 (2015: HK$26,250,000) in total will be paid to the shareholders of the Company on 15 September 2016 whose names appear on the Company's register of members on 8 September 2016.

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	
	2016	2015
	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	**39,909**	94,555

7. EARNINGS PER SHARE — continued

	For the six months ended 30 June	
	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,750,002,000**	1,672,653,934
Effect of dilutive potential ordinary shares in respect of outstanding share options	**2,151,187**	1,957,433
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,752,153,187**	1,674,611,367

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2016	At 31 December 2015
	HK$'000	*HK$'000*
Trade receivables	**667,173**	520,894
Deposits, prepayments and other receivables	**144,713**	92,512
	811,886	613,406

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.

8. TRADE AND OTHER RECEIVABLES — continued

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 2016 HK$'000	At 31 December 2015 HK$'000
Within 30 days	**312,615**	249,521
31–60 days	**175,052**	142,112
61–90 days	**73,084**	54,232
91–180 days	**47,063**	20,830
181–365 days	**29,118**	29,578
Over 365 days	**30,241**	24,621
	667,173	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:

	At 30 June 2016 HK$'000	At 31 December 2015 HK$'000
Within 30 days	**3,780**	3,538
31 to 60 days	**638**	2,850
61 to 90 days	**3,321**	3,071
91 to 180 days	**10,718**	12,822
181 to 365 days	**–**	204
	18,457	22,485

10. TRADE AND OTHER PAYABLES

	At 30 June 2016 HK$'000	At 31 December 2015 HK$'000
Trade payables	**369,738**	200,804
Other payables and accrued expenses	**220,008**	166,753
	589,746	367,557

10. TRADE AND OTHER PAYABLES — continued

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Within 30 days	**243,366**	131,749
31 to 60 days	**89,073**	58,446
61 to 90 days	**26,057**	4,025
91 to 180 days	**8,074**	2,795
Over 180 days	**3,168**	3,789
	369,738	200,804

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 2016 were secured by pledged bank deposits of HK$7,284,000 (31 December 2015: HK$8,513,000).

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 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Within 30 days	**12,513**	4,392
31–60 days	**13,936**	11,588
61–90 days	**5,950**	8,070
91–180 days	**36,888**	35,443
	69,287	59,493

12. COMMITMENT

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

	At 30 June 2016 *HK$'000*	At 31 December 2015 *HK$'000*
Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment	**53,262**	107,978

BUSINESS REVIEW

Revenue by operating segments

For the six months ended 30 June 2016 (the "**Period**"), revenue of the Group increased by approximately HK$155.2 million or approximately 11.3% to approximately HK$1,533.8 million (for the six months ended 30 June 2015: approximately HK$1,378.6 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 United States of America (the "**US**") as well as in the PRC, the previous presentation may not be adequate to reflect our business. We will concentrate our business on different geographical markets and the respective sales during the Period were as follows:

	For the six months ended 30 June		
	2016	2015	Changes
	HK$'000	*HK$'000*	%
China Market	**778,633**	784,763	–0.8%
North American Market	**687,200**	571,696	+20.2%
Europe and other overseas Markets	**68,003**	22,131	+207.3%
Total	**1,533,836**	1,378,590	+11.3%

The general consumer demand in China market was weak. The sales in this region decreased by approximately 0.8% due to the decrease in sales through traditional retail channels and the decrease in corporate customer sales. However, sales from e-commerce channel and foam increased as we have more production and distribution networks in China.

Sales to North American market recorded an approximately 20.2% growth during the 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.

Though the general economy in Europe and other overseas markets were weak, we were able to achieve a sales growth of approximately 207.3% by selling newly-innovated products.

Gross profit

With an increase of approximately 11.3% in the Group's revenue, gross profit (the "**GP**") increased by approximately HK$25.4 million or 6.5% to approximately HK$418.4 million during the Period as compared to approximately HK$393.0 million for the corresponding period last year. The GP margin decreased by 1.2% from approximately 28.5% to approximately 27.3% as compared with the corresponding period last year. For the Period, several products were sold at a relatively lower margin to attract some new customers. In addition, the new manufacturing facility in the US started the trial run of production and cost of approximately HK$8.0 million was incurred during the Period.

Costs and expenses

Selling and distribution costs for the Period increased by approximately HK$45.2 million or approximately 26.4% to approximately HK$216.4 million, as compared to approximately HK$171.2 million for the six months ended 30 June 2015. The increase was mainly due to increase in warehouse and 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 force in the US. In addition, advertising expenses and royalty fee also increased which were in line with the sales growth.

Administrative expenses for the Period increased by approximately HK$20.7 million or approximately 28.6% to approximately HK$93.2 million, as compared to approximately HK$72.5 million for the six months ended 30 June 2015. The increase was mainly due to the increase in staff cost for newly acquired subsidiaries during the Period.

Other expenses mainly consisted of research and development expenses which increased from approximately HK$23.2 million for the six months ended 30 June 2015 to approximately HK$29.8 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 disclosed in the paragraph headed "Material Acquisitions and Disposals" in this announcement below, the Company acquired Dormeo North America, LLC ("**Dormeo**") as an associated company in September 2015 and further acquired additional membership interest as a non-wholly owned subsidiary in April 2016. We shared a loss of HK$8.3 million during January to March 2016 and recorded an operating loss of HK10.0 million during April to June 2016. After taking into account for the net loss on the derecognition of an associate of HK$13.5 million, profit for the period decreased by approximately HK$56.7 million or 57.5% to approximately HK$41.8 million, as compared to approximately HK$98.5 million for the six months ended 30 June 2015.

LIQUIDITY, FINANCE AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2016. As at 30 June 2016, the Group had net current assets of approximately HK$511.9 million, as compared to approximately HK$671.2 million as at 31 December 2015.

Bank balances and cash decreased by approximately HK$48.3 million or 14.7% to approximately HK$280.5 million compared to HK$328.8 million as at 31 December 2015, meanwhile the inventory level increased by approximately HK$155.6 million or 52.1% to approximately HK$454.3 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 2016, the Group had banking facilities amounting to approximately HK$1,440.1 million of which approximately HK$422.2 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 amount includes bank borrowings and bills payables).

The following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group.

	At 30 June 2016 ***HK$'000***	At 31 December 2015 *HK$'000*
Buildings	**78,163**	–
Investment properties	**61,103**	–
Prepaid lease payments	**48,510**	–
Pledged bank deposits	**7,284**	8,513
	195,060	8,513

Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK$120.4 million mainly for the purchasing of the Group's plant and machinery (31 December 2015: HK86.1 million).

Financial ratios

	As at 30 June 2016	As at 31 December 2015
Current ratio(1)	**145.2%**	195.5%
Quick ratio(2)	**105.1%**	153.0%
Gearing ratio(3)	**30.6%**	14.6%
Debt to equity ratio(4)	**7.4%**	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 the Renminbi which could materially affect the Group's results of operations, and therefore no hedging instrument has been employed. It should be noted that though the portion during the Period was small, revenue denominated in Euro increased significantly. The Group will closely monitor the trends of the Renminbi as well as Euro 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

The set up of the new production facility in the US is a right move of the Group. We are able to fulfill much more variety of the customer requirements in different market segments. This would be evidenced by the increase in number of new customers with meaningful sales amount.

We are now installing the Phase II equipment in the US factory. The US factory is expected to be completed in early 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.

The Group offers a wide range of health and household products in China market, 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. During the Period, two Sinomax Life Stores were opened. 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 Period, e-commerce sales of the Group recorded a substantial growth of approximately HK$9.4 million or 89.5% to approximately HK$19.9 million, as compared to approximately HK$10.5 million for the corresponding period last year.

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" in this announcement below, the Group acquired Chengdu Xingang Sponge Co., Ltd and Dormeo during the Period.

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), 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 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 period, included in "other expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

(b) Step acquisition of Dormeo North America, LLC

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$13,524,000 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 condensed consolidated statement of profit or loss and other comprehensive income.

Acquisition-related costs amounting to 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 period, included in "other expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

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 has resolved to declare an interim dividend of HK0.6 cent (2015 interim dividend: HK1.5 cents) per share. The interim dividend will be distributed on 15 September 2016 to the Shareholders whose names appear on the Company's register of members as at the close of business on 8 September 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 September 2016 to 8 September 2016, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the entitlement to the interim dividends, 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 pm on 5 September 2016.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2016, the employee headcount of the Group was 3,432 (30 June 2015: 2,956) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$176.3 million for the Period (for the six months ended 30 June 2015: approximately HK$131.7 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 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 of 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 2016 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 2016 interim report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 22 August 2016

* *The English name of the company is for identification purpose only*

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.