Sinomax Group Limited

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1418)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

PERFORMANCE HIGHLIGHTS

- Revenue for the Reporting Period increased by approximately HK$684.0 million or 19.5% to approximately HK$4,183.8 million, as compared to approximately HK$3,499.8 million for FY2016.
- Gross profit for the Reporting Period increased by approximately HK$7.7 million or 0.9% to approximately HK$829.2 million, as compared to approximately HK$821.5 million for FY2016.
- Profit for the Reporting Period decreased by approximately HK$49.7 million or 49.5% to approximately HK$50.8 million, as compared to approximately HK$100.5 million for FY2016.
- The Board resolved to propose a final dividend of HK1.0 cent (2016 final dividend: HK1.0 cent) per share.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sinomax Group Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with the comparative figures for the previous financial year ended 31 December 2016 ("**FY2016**"), as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017**	2016
		HK$'000	*HK$'000*
Revenue	3	**4,183,786**	3,499,762
Cost of sales		**(3,354,589)**	(2,678,250)
Gross profit		**829,197**	821,512
Other income		**51,739**	55,123
Other gains and losses		**(6,548)**	(1,248)
Selling and distribution costs		**(472,796)**	(449,028)
Administrative expenses		**(216,950)**	(206,106)
Finance costs		**(26,158)**	(16,332)
Other expenses		**(100,242)**	(70,124)
Share of loss of an associate		**—**	(12,719)
Net loss on derecognition of an associate		**—**	(10,100)
Profit before taxation	4	**58,242**	110,978
Income tax expenses	5	**(7,457)**	(10,526)
Profit for the year		**50,785**	100,452
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**73,483**	(53,705)

	NOTE	2017 HK$'000	2016 HK$'000
Reclassification of exchange reserve to profit or loss upon dissolution of a subsidiary		**(1,364)**	—
Other comprehensive income (expense) for the year		**72,119**	(53,705)
Total comprehensive income for the year		**122,904**	46,747
Profit (loss) for the year attributable to:			
Owners of the Company		**39,674**	103,525
Non-controlling interests		**11,111**	(3,073)
		50,785	100,452
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**107,652**	52,851
Non-controlling interests		**15,252**	(6,104)
		122,904	46,747
Earnings per share	7		
- Basic		**HK2.27 cents**	HK5.92 cents
- Diluted		**HK2.27 cents**	HK5.91 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	NOTES	**2017**	2016
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**713,031**	572,917
Investment properties		**99,389**	82,274
Prepaid lease payments		**67,631**	64,469
Deposits paid for acquisition of property, plant and equipment		**20,806**	50,781
Goodwill		**62,764**	60,926
Intangible assets		**137,268**	143,545
Rental deposits		**24,470**	23,952
Deferred tax assets		**19,710**	22,673
		1,145,069	1,021,537
CURRENT ASSETS			
Inventories		**679,473**	475,941
Prepaid lease payments		**1,727**	1,607
Trade and other receivables	8	**847,121**	870,760
Bills receivables	9	**16,814**	11,714
Tax recoverable		**1,719**	—
Pledged bank deposits		**2,912**	5,053
Fixed bank deposits		**32,852**	18,623
Bank balances and cash		**155,485**	131,848
		1,738,103	1,515,546
CURRENT LIABILITIES			
Trade and other payables	10	**623,192**	617,331
Bills payables	11	**91,474**	85,433
Taxation payable		**20,022**	24,000
Unsecured bank borrowings		**614,990**	391,593
		1,349,678	1,118,357
NET CURRENT ASSETS		**388,425**	397,189
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,533,494**	1,418,726

	2017	2016
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Unsecured bank borrowings	**121,064**	85,303
Deferred tax liabilities	**102,964**	119,327
	224,028	204,630
NET ASSETS	**1,309,466**	1,214,096
CAPITAL AND RESERVES		
Share capital	**175,000**	175,000
Reserves	**980,030**	884,290
Equity attributable to owners of the Company	**1,155,030**	1,059,290
Non-controlling interests	**154,436**	154,806
TOTAL EQUITY	**1,309,466**	1,214,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Its immediate and ultimate holding company is Sinomax Enterprises Limited ("**Sinomax Enterprises**"), a company incorporated in the British Virgin Islands (the "**BVI**").

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

The Company acts as an investment holding company.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) finance costs, (iii) dividends recognised as distribution and (iv) the effect of changes in foreign exchange rates and (v) other changes.

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

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.

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.

For management purpose, 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 American (the "**US**"), Canada and other North American countries
Europe and other overseas markets	—	manufacture and sale of health and household products for customers located overseas except for those customers located in North American market

The CODM makes decisions based on the revenue of each segment and reviews reports on the financial performance of the Group as a whole. No information of segment results, segment assets and liabilities are reviewed by the CODM for the assessment of performance of operating segments. Therefore, only the segment revenue is presented. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

Segment revenues

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

For the year ended 31 December 2017

	China market *HK$'000*	**North American market** *HK$'000*	**Europe and other overseas markets** *HK$'000*	**Consolidated** *HK$'000*
SEGMENT REVENUE				
External sales	**2,336,373**	**1,754,104**	**93,309**	**4,183,786**
Unallocated other income				**56,049**
Unallocated costs and expenses				**(4,181,593)**
Profit before taxation				**58,242**

For the year ended 31 December 2016

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

There were no inter-segment sales during both years.

Revenue from major products and services

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

	2017	2016
	HK$'000	*HK$'000*
Health and household products	**2,478,265**	2,147,302
Polyurethane foam	**1,705,521**	1,352,460
	4,183,786	3,499,762

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the retail shops and concession counters for retail sales and location of customers for other sales.

	2017	2016
	HK$'000	*HK$'000*
The US	**1,626,152**	1,411,594
The PRC	**2,006,126**	1,609,574
Hong Kong	**324,275**	277,863
Macau	**5,972**	8,430
Europe	**72,605**	90,548
Other Asian countries	**14,812**	12,411
Other North American countries	**127,952**	82,808
Others	**5,892**	6,534
	4,183,786	3,499,762

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

	2017	2016
	HK$'000	*HK$'000*
The US	**578,538**	466,116
The PRC	**528,152**	515,583
Hong Kong	**18,643**	17,138
Macau	**26**	27
	1,125,359	998,864

Information about major customers:

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

	2017	2016
	HK$'000	*HK$'000*
Customer A	**637,600**	711,512

4. PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**13,297**	12,871
Other staff costs	**387,825**	310,688
Retirement benefit scheme contributions for other staff	**39,119**	38,906
Share based payment expenses, excluding those of directors	**3,784**	919
Total staff costs	**444,025**	363,384
Amortisation of prepaid lease payments	**1,659**	1,478
Amortisation of intangible assets	**6,277**	4,707
Depreciation of investment properties	**2,420**	3,129
Depreciation of property, plant and equipment	**57,986**	40,425
Total depreciation and amortisation	**68,342**	49,739
Cost of inventories recognised as expenses including provision for inventories of HK$6,338,000 (2016: HK$8,023,000)	**3,354,589**	2,678,250

5. INCOME TAX EXPENSES

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax (Note i)	**3,426**	3,709
PRC Enterprise Income Tax (the "**EIT**") (Note ii)	**20,643**	37,063
PRC Withholding Tax	**1,734**	—
US income tax (Note iii)	**535**	3
	26,338	40,775
(Over)underprovision in prior years		
Hong Kong Profits Tax	**565**	(14,500)
PRC EIT	**(2,631)**	(5,268)
US income tax	**111**	(7,087)
	(1,955)	(26,855)
Deferred taxation	**(16,926)**	(3,394)
	7,457	10,526

Notes:

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

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

(iii) The US income tax includes (a) federal income tax calculated at a progressive rate of 15% to 35% on the estimated US federal taxable income and (b) state income tax calculated at various state income tax rates on the estimated state taxable income for the respective states for both years. The income subject to tax in a specific state (i.e. state taxable income) is calculated based on the federal taxable income with state tax adjustments, which is then allocated or apportioned to the respective states (i.e. percentage of taxable income that should be apportioned or specially allocated to the respective states in which the Group operates) based on the apportionment factors provided from the state tax returns in previous year. During the year, US corporate tax rate is reduced from 35% to 21% with effective on 1 January 2018 in accordance to the Tax Cuts and Jobs Act, accordingly, deferred tax assets and liabilities recognised for the current and prior years are re-measured.

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

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

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

6. DIVIDENDS

	2017	*2016*
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Interim, paid - Nil for 2017 (2016: HK0.6 cents per share for 2016)	**—**	10,500
Final, paid - HK1.0 cent per share for 2016 (2016: HK2.5 cents per share for 2015)	**17,500**	43,750
	17,500	54,250

Subsequent to the end of the reporting period, a final dividend of HK1.0 cent per share in respect of the year ended 31 December 2017, amounting to approximately HK$17,500,000 has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed final dividend is not recognised as a liability in these consolidated financial statements.

7. EARNINGS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the year attributable to owners of the Company	**39,674**	103,525

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,750,002,000**	1,750,002,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	**—**	788,805
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,750,002,000**	1,750,790,805

The computation of diluted earnings per share for the year ended 31 December 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 for 2017.

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**727,698**	754,373
Less: allowance for doubtful debts	**(19,209)**	(23,363)
	708,489	731,010

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.

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**406,961**	371,154
31 to 60 days	**179,487**	206,123
61 to 90 days	**82,170**	106,625
91 to 180 days	**36,474**	33,326
181 to 365 days	**3,388**	6,758
Over 365 days	**9**	7,024
	708,489	731,010

9. BILLS RECEIVABLES

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

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**3,440**	2,850
31 to 60 days	**2,703**	923
61 to 90 days	**1,700**	1,179
91 to 180 days	**8,850**	6,762
181 to 365 days	**121**	—
	16,814	11,714

10. TRADE AND OTHER PAYABLES

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**213,458**	204,086
31 to 60 days	**103,317**	131,086
61 to 90 days	**31,824**	46,071
91 to 180 days	**14,712**	9,242
Over 180 days	**10,905**	5,240
	374,216	395,725

11. BILLS PAYABLES

All the bills payables of the Group are not yet due at the end of each reporting period. Bills payables as at 31 December 2017 were secured by pledged bank deposits of HK$2,912,000 (2016: HK$5,053,000).

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**10,546**	7,267
31 - 60 days	**1,335**	42,426
61 - 90 days	**25,442**	17,392
91 - 180 days	**54,151**	18,348
	91,474	85,433

12. COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**35,438**	32,510

BUSINESS REVIEW

Revenue by operating segments

During the Reporting Period, revenue of the Group increased by approximately HK$684.0 million or approximately 19.5% to approximately HK$4,183.8 million (FY2016: HK$3,499.8 million).

	For the year ended 31 December		
	2017	2016	*Changes %*
	HK$'000	*HK$'000*	
China market	**2,336,373**	1,895,867	23.2
North American market	**1,754,104**	1,494,402	17.4
Europe and other overseas markets	**93,309**	109,493	-14.8
Total	**4,183,786**	3,499,762	19.5

The sales in China market increased by approximately 23.2 % as a result of the increase in the market share of foam sales.

In terms of sales channel, same-store sales recorded an increase of approximately 6.5% for the Reporting Period. Same-store sales for each of Life Stores and concession counters increased by approximately 8.3% and 5.7%, respectively for the Reporting Period. During the Reporting Period, the Group opened ten new Life Stores in Hong Kong and the PRC.

Though sales in the North American market recorded an approximately 17.4 % growth during the Reporting Period, the growth was slightly less than our expectation as there was a delay in a sales project with a customer in the US.

Gross profit

With an increase of approximately 19.5% in the Group's revenue, gross profit (the "**GP**") increased by approximately HK$7.7 million or 0.9% to approximately HK$829.2 million during the Reporting Period as compared to approximately HK$821.5 million for FY2016. The GP margin decreased by 3.7% from approximately 23.5% to approximately 19.8% as compared with FY2016. The major reasons for the decrease in the GP margin during the Reporting Period were:

(1) the cost incurred in the trial run of production in the Group's factory located in the US resulted in a gross loss of HK$60.3 million for the Reporting Period; and

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

Costs and expenses

Selling and distribution costs for the Reporting Period increased by approximately HK$23.8 million or 5.3% to approximately HK$472.8 million, as compared to approximately HK$449.0 million for FY2016. The increase was mainly due to increase in transportation expenses that were incurred to better serve our customers in the PRC and the US. Staff costs increased as we recruited more sales staff to strengthen sales tasks in the US.

Administrative expenses for the Reporting Period increased by approximately HK$10.8 million or 5.3% to approximately HK$217.0 million, as compared to approximately HK$206.1 million for FY2016, which were used to support the growth of business.

Other expenses for the Reporting Period mainly consisted of research and development expenses amounting to approximately HK$77.4 million, as compared to approximately HK$59.0 million for FY2016. The Group has put much more resources on improving and developing more foam features to meet the increasing customers' needs.

Profit for the year

Profit for the Reporting Period decreased by approximately HK$49.7 million or 49.4% to approximately HK$50.8 million, as compared to approximately HK$100.5 million for FY2016.

The major reasons for the decrease were:

(1) Net loss incurred for the US production facility of HK$71.5 million; and

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

The performance of Dormeo North America, LLC ("**Dormeo**") has improved. Net loss of Dormeo (including net loss on derecognition of an associate and share of loss of an associate) decreased from HK61.1 million in 2016 to HK$6.8 million in 2017.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2017, the Group had net current assets of approximately HK$388.4 million, as compared to approximately HK$397.2 million as at 31 December 2016.

Borrowings and pledge of assets

As at 31 December 2017, the Group had banking facilities amounted to approximately HK$1,598.4 million of which approximately HK$827.5 million was utilized (31 December 2016: banking facilities amounting to approximately HK$1,383.0 million of which approximately HK$562.3 million was utilized) (which included unsecured bank borrowings and bills payables).

The bills payables of the Group were secured by pledged bank deposits of approximately HK$2.9 million (31 December 2016: approximately HK$5.1 million).

We expect we will have more bank borrowings in 2018 to finance our rapid business growth.

Capital expenditure

The Group's capital expenditure for the Reporting Period amounted to approximately HK$135.4 million mainly for the purchasing of the Group's plant and machinery (31 December 2016: HK285.0 million).

Financial ratios

	As at	
	31 December 2017	31 December 2016
Current ratio(1)	**128.8%**	135.5%
Quick ratio(2)	**78.4%**	93.0%
Gearing ratio(3)	**56.2%**	39.3%
Debt to equity ratio(4)	**44.3%**	28.4%

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

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

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

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

FOREIGN CURRENCY EXPOSURE

The Group carries on business mainly in Hong Kong, the PRC and the US. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by its revenue and expenditure in the PRC. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against Renminbi which could materially affect the Group's results on operations, and therefore no hedging instrument has been employed. The Group will closely monitor the trend of the Renminbi and take appropriate measures to deal with the foreign exchange exposure if necessary.

TREASURY POLICY AND MARKET RISKS

The Group has a treasury policy that aims to better control its treasury operations and lower borrowing cost. Such treasury policy requires the Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance the Group's daily operations and to address short term funding needs. The Group reviews and evaluates its treasury policy from time to time to ensure its adequacy and effectiveness.

PROSPECTS

The polyurethane foam products are becoming more and more popular in the US. With our new US production facility, we can have a vertically integrated solution to customers including product design, foam manufacturing, trimming and assembly, inventory and logistics management as well as sales and marketing in the US. This is particularly a good time where we can capture the increasing demand of polyurethane foam business opportunities as evidenced by the increase in number of new customers and sales amount.

Recently there are more and more uncertainties in the US market where goods are imported from the PRC. 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. A lot of projects are already in the pipeline and we expect there will be significant sales growth in the near future.

For the China market, the Group offers a wide range of health and household products, under its flagship brand "SINOMAX". The Group will further enhance brand management through various marketing activities to reinforce brand recognition and enhance the image of health, relaxation and comfort of the "SINOMAX" brand. The Group will continue to promote its brands and products to corporate customers so as to attract more corporate sales. To penetrate into the furniture market, we are setting a new subsidiary to promote and distribute our health and household products in the furniture mall channel in the PRC.

The Group is also expanding e-commerce sales channels to promote and distribute its products. During the Reporting Period, e-commerce sales of the Group recorded a substantial growth of HK$44.2 million or 66.7% to approximately HK$110.5 million, as compared to approximately HK$66.3 million for FY2016.

The purchase price of TDI increased significantly in 2017. There will be more supply in the TDI market by the end of 2018, we expect the purchase price of TDI will become stable.

The Group will continue to upgrade the machinery so as to improve the production efficiency and increase its 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. A factory in Shandong started operation in the third quarter of 2017 to serve our customers in that region. It will further enhance our leading position in the polyurethane foam industry in the PRC.

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

MATERIAL ACQUISITIONS AND DISPOSALS

For the Reporting Period, the Group had no material acquisitions or disposal of subsidiaries or associates.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the paragraph headed "Prospects" in this announcement above, the Group does not have other plans for material investments or capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

EVENT AFTER THE REPORTING PERIOD

From 31 December 2017 to the date of this results announcement, there was no significant event of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2017, the employee headcount of the Group was 3,422 (31 December 2016: 3,492) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK$444.0 million for the Reporting Period (FY2016: approximately HK$363.4 million). The significant increase in staff costs was primarily due to salary increment, increase in social insurance contributions, housing provident fund and share option expenses.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including housing and travel allowances depending on their grade and ranking within the Group. The Group also maintains medical insurance for the benefit of its employees. The Group conducts induction training for all of its new employees and on-going training from time to time during their employment. The nature of training offered depends on their specific field of operation. The Group also operates an employee incentive scheme pursuant to which rewards take the form of promotions, salary raises and monetary bonuses, and a share option scheme.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company had met the applicable code provisions set out in the CG Code during the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors of the Company and all Directors of the Company confirmed that they had complied with the required standards set out in the Model Code during the Reporting Period.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the audited consolidated financial statements and annual results announcement of the Group for the Reporting Report and recommended its adoption by the Board.

PROPOSED FINAL DIVIDEND

The Board has proposed the payment of a final dividend of HK1.0 cent per ordinary share amounting to approximately HK$17.5 million for the Reporting Period (FY2016: HK$17.5 million). The financial statements do not reflect the dividend payable. The proposed final dividend is subject to approval by the Company's shareholders at the forthcoming annual general meeting (the "**AGM**") to be held on 15 June 2018. If the resolution for the proposed final dividend is passed at the AGM, the proposed final dividend will be paid on 11 July 2018.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM

The register of members of the Company will be closed from 12 June 2018 to 15 June 2018, both days inclusive, during which period, no transfer of shares will be registered. In order to be qualified to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 11 June 2018.

CLOSURE OF REGISTER OF MEMBERS FOR FINAL DIVIDEND

Subject to the approval of the proposed final dividend at the AGM, the register of members of the Company will be closed from 27 June 2018 to 29 June 2018, both days inclusive, during which period, no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited, at Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 26 June 2018.

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

This annual results announcement has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinomax.com/group). The annual report for the year ended 31 December 2017 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, 27 March 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, J.P., Mr. Zhang Hwo Jie and Mr. Wu Tak Lung.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese which are marked with "" is for identification purposes only.*