



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

Interim Report 2014

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

LAM Chi Fan (*Chairman*)  
CHEUNG Tung (*President*)  
CHEN Feng  
LAM Kam Cheung  
LAM Fei Man

### Independent Non-Executive Directors

WONG Chi Keung  
Professor LAM Sing Kwong Simon  
FAN Chun Wah Andrew  
ZHANG HWO Jie  
WU Tak Lung

## MEMBERS OF THE AUDIT COMMITTEE

WONG Chi Keung (*Chairman*)  
Professor LAM Sing Kwong Simon  
FAN Chun Wah Andrew  
ZHANG HWO Jie  
WU Tak Lung

## MEMBERS OF THE NOMINATION COMMITTEE

LAM Chi Fan (*Chairman*)  
WONG Chi Keung  
Professor LAM Sing Kwong Simon

## MEMBERS OF THE REMUNERATION COMMITTEE

Professor LAM Sing Kwong Simon (*Chairman*)  
LAM Chi Fan  
FAN Chun Wah Andrew

## MEMBERS OF THE CORPORATE GOVERNANCE COMMITTEE

WONG Chi Keung (*Chairman*)  
Professor LAM Sing Kwong Simon  
FAN Chun Wah Andrew  
ZHANG HWO Jie  
WU Tak Lung

## COMPANY SECRETARY

LAM Kam Cheung (*CPA, ACCA*)

## AUTHORISED REPRESENTATIVES

CHEUNG Tung  
LAM Kam Cheung

## AUDITORS

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

## LEGAL ADVISOR

King & Wood Mallesons  
13/F, Gloucester Tower, The Landmark  
15 Queen's Road Central  
Central  
Hong Kong

## COMPLIANCE ADVISOR

Somerley Capital Limited  
20th Floor, China Building  
29 Queen's Road Central  
Hong Kong

# Corporate Information (continued)

## PRINCIPAL BANKERS

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Central  
Hong Kong

Standard Chartered Bank (Hong Kong) Limited  
15/F Standard Chartered Tower  
388 Kwun Tong Road  
Hong Kong

China CITIC Bank International Limited  
61-65 Des Voeux Road Central  
Central  
Hong Kong

## SHARE REGISTRARS

### Hong Kong share registrar

Tricor Investor Services Limited  
Level 22 Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Cayman Islands principal share registrar and transfer office

Maples Fund Services (Cayman) Limited  
P.O. Box 1093, Boundary Hall  
Cricket Square  
Grand Cayman, KY1-1102  
Cayman Islands

## REGISTERED OFFICE

P.O. Box 309  
Ugland House  
Grand Cayman KY1-1104  
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2005-2007  
Level 20 Tower 1  
MegaBox Enterprise Square Five  
38 Wang Chiu Road  
Kowloon Bay  
Hong Kong

## LISTING INFORMATION

The Stock Exchange of Hong Kong Limited  
Stock Code: 1418

## WEBSITE

[www.sinomax.com/group](http://www.sinomax.com/group)

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

The Board of Directors (the “**Board**”) of Sinomax Group Limited (the “**Company**”) is pleased to present in this interim report the unaudited results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014 together with comparative figures for the prior period as follows:

	NOTES	For the six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	1,233,265	1,012,459
Cost of sales		(908,011)	(741,117)
Gross profit		325,254	271,342
Other income		19,284	12,789
Other gains and losses		4,167	922
Selling and distribution costs		(152,516)	(120,269)
Administrative expenses		(70,626)	(52,505)
Finance costs		(4,037)	(3,626)
Other expenses		(15,266)	(15,669)
Profit before taxation		106,260	92,984
Income tax expenses	4	(20,715)	(25,873)
<b>Profit for the period</b>	5	<b>85,545</b>	67,111
<b>Other comprehensive (expenses) income that may be reclassified subsequently to profit or loss</b>			
Exchange difference arising on translation of foreign operations		(1,606)	7,663
<b>Total comprehensive income for the period</b>		<b>83,939</b>	74,774
Profit for the period attributable to:			
Owners of the Company		81,643	62,740
Non-controlling interests		3,902	4,371
		<b>85,545</b>	67,111
Total comprehensive income for the period attributable to:			
Owners of the Company		80,133	69,809
Non-controlling interests		3,806	4,965
		<b>83,939</b>	74,774
Earnings per share	7		
– Basic		HK5.44 cents	HK4.18 cents
– Diluted		HK5.44 cents	N/A

# Condensed Consolidated Statement of Financial Position

At 30 June 2014

	NOTES	At 30 June 2014 HK\$'000 (unaudited)	At 31 December 2013 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Investment properties	8	34,282	28,830
Property, plant and equipment	8	196,742	202,241
Prepaid lease payments		23,857	24,258
Deposits paid for acquisition of property, plant and equipment		14,685	17,415
Rental deposits		17,976	17,657
Deferred tax assets		15,690	16,143
		<b>303,232</b>	306,544
<b>CURRENT ASSETS</b>			
Inventories		413,411	346,037
Prepaid lease payments		605	608
Trade and other receivables	9	550,465	508,519
Bills receivables	10	16,114	14,809
Amounts due from related parties		–	31,532
Tax recoverable		7,961	–
Pledged bank deposits	16	14,056	14,916
Structured bank deposits		39,029	40,452
Bank balances and cash		102,720	165,248
		<b>1,144,361</b>	1,122,121
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	375,925	328,538
Bills payables	12	61,679	113,547
Dividend payable		–	60,000
Amounts due to related parties		–	77,302
Taxation payable		97,992	102,557
Bank borrowings		241,848	162,532
		<b>777,444</b>	844,476
<b>NET CURRENT ASSETS</b>		<b>366,917</b>	277,645
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>670,149</b>	584,189

# Condensed Consolidated Statement of Financial Position (continued)

At 30 June 2014

	NOTE	At 30 June 2014 HK\$'000 (unaudited)	At 31 December 2013 HK\$'000 (audited)
<b>NON-CURRENT LIABILITY</b>			
Deferred tax liabilities		9,389	8,933
		<b>9,389</b>	8,933
<b>NET ASSETS</b>			
		<b>660,760</b>	575,256
<b>CAPITAL AND RESERVES</b>			
Share capital	13	5	5
Reserves		621,964	540,266
Equity attributable to owners of the Company		621,969	540,271
Non-controlling interests		38,791	34,985
<b>TOTAL EQUITY</b>			
		<b>660,760</b>	575,256

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Equity attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000 (note (i))	Statutory reserve HK\$'000 (note (ii))	Capital reserve HK\$'000 (note (iii))	Share option reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
<b>At 1 January 2013 (audited)</b>	11	-	-	5,093	1,515	-	31,829	416,562	455,010	24,890	479,900
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	7,069	-	7,069	594	7,663
Profit for the period	-	-	-	-	-	-	-	62,740	62,740	4,371	67,111
Total comprehensive income for the period	-	-	-	-	-	-	7,069	62,740	69,809	4,965	74,774
Group reorganisation (note 1)	(11)	11	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	1,500	-	-	-	(1,500)	-	-	-
<b>At 30 June 2013 (unaudited)</b>	-	11	-	6,593	1,515	-	38,898	477,802	524,819	29,855	554,674
<b>At 1 January 2014 (audited)</b>	5	343,846	(403,835)	6,593	1,510	-	41,329	550,823	540,271	34,985	575,256
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(1,510)	-	(1,510)	(96)	(1,606)
Profit for the period	-	-	-	-	-	-	-	81,643	81,643	3,902	85,545
Total comprehensive (expense) income for the period	-	-	-	-	-	-	(1,510)	81,643	80,133	3,806	83,939
Recognition of share option expense	-	-	-	-	-	1,565	-	-	1,565	-	1,565
<b>At 30 June 2014 (unaudited)</b>	5	343,846	(403,835)	6,593	1,510	1,565	39,819	632,466	621,969	38,791	660,760

Notes:

- (i) The merger reserve represented the difference between the total equity of those subsidiaries (which were transferred from the Individual Shareholders (defined in note 1) to Treasure Range Holdings Limited ("Treasure Range"), a wholly owned subsidiary of the Company, attributable to the owners of the Company and the aggregated share capital of the relevant subsidiaries pursuant to the group reorganisation where the transfer of the relevant subsidiaries to Treasure Range as satisfied by issue of new shares from Treasure Range to the Company and from the Company to Sinomax Enterprises (defined in note 1), the immediate holding company of the Company.
- (ii) According to the relevant requirements in the memorandum of association of the Company's PRC subsidiaries, a portion of their profits after taxation has to be transferred to the statutory reserve. The transfer had been made before the distribution of a dividend to equity owners. The reserve can be applied either to set off accumulated losses, if any, or to increase capital. The statutory reserve fund is non-distributable other than upon liquidation.
- In accordance with the provisions of the Macao Commercial Code, the subsidiary of the Company incorporated in Macau is required to transfer a minimum of 25% of annual net profit to statutory reserve until the accumulated amount equals half of its quota capital. This reserve is not distributable to the shareholder.
- (iii) During the year ended 31 December 2011, the Individual Shareholders acquired an additional 34% interest in Trade Sincere Limited ("Trade Sincere"), a non-wholly owned subsidiary of the Company, from a non-controlling shareholder for a consideration of US\$998,012 (equivalent to HK\$7,755,000) and the Group's interest in Trade Sincere was then increased from 51% to 85%. Simultaneously, Trade Sincere disposed of its 40% equity interest in Sinomax Kuka (Zhejiang) Foam Co. Limited ("Sinomax Kuka") to a non-controlling shareholder for a consideration of US\$1,174,132 (equivalent to HK\$8,855,000). Sinomax Kuka became a 60%-owned subsidiary of Trade Sincere after this partial disposal. The Group's effective interest in Sinomax Kuka remained unchanged. The difference between the consideration received by the Group and the increase in non-controlling interests after these transactions amounting to approximately HK\$1,515,000 was recorded in capital reserve.



# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
<b>Net cash used in operating activities</b>	<b>(79,804)</b>	(15,021)
<b>Net cash from (used in) investing activities</b>		
Repayment from related parties	<b>31,532</b>	–
Interest received	<b>954</b>	444
Payments for property, plant and equipment	<b>(11,025)</b>	(21,492)
Other investing cash flows	<b>2,283</b>	(6,733)
	<b>23,744</b>	(27,781)
<b>Net cash (used in) from financing activities</b>		
Repayment of bank borrowings	<b>(189,160)</b>	(256,693)
Payment of 2013 interim dividend	<b>(60,000)</b>	–
Repayment to related parties	<b>(21,107)</b>	(14,241)
Interest paid	<b>(4,037)</b>	(3,626)
Bank borrowings raised	<b>268,102</b>	294,861
Advances from related parties	<b>–</b>	16,945
	<b>(6,202)</b>	37,246
<b>Net decrease in cash and cash equivalents</b>	<b>(62,262)</b>	(5,556)
Cash and cash equivalents at beginning of the period	<b>165,248</b>	168,523
Effect of foreign exchange rate changes	<b>(266)</b>	(702)
<b>Cash and cash equivalents at end of the period,</b> represented by bank balances and cash	<b>102,720</b>	162,265

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

## 1. GENERAL AND BASIS OF PREPARATION

### Background

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 on 5 June 2012. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 10 July 2014. Its immediate holding company is Sinomax Enterprises Limited ("**Sinomax Enterprises**"), a company incorporated in the British Virgin Islands (the "**BVI**") which is currently legally owned as to 50%, 16.67%, 16.67% and 16.67% by Chi Fan Holding Limited, Wing Yiu Investments Limited, The James' Family Holding Limited and Venture Win Holdings Limited, respectively, and beneficially owned in the same proportion by The Frankie Trust, The Cheung's Family Trust, The James' Family Trust and The Feng Chen's Family Trust, respectively.

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are manufacture and sale of health and household products and polyurethane foam.

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

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 1. GENERAL AND BASIS OF PREPARATION *(Continued)*

### **Basis of Preparation**

Prior to a group reorganisation, the Company and its current subsidiaries were ultimately controlled by the then shareholders of Sinomax Enterprises (the “**Individual Shareholders**”). Except for Trade Sincere and its subsidiaries, Sinomax Kuka and Haining Sinomax Trading Co., Ltd. (“**Haining Sinomax**”), the companies now comprising the Group were beneficially and wholly owned by the Individual Shareholders. Sinomax Kuka is a 60% owned subsidiary of Trade Sincere. Trade Sincere is owned by a company beneficially owned by the Individual Shareholders collectively and a non-controlling shareholder as to 85% and 15% equity interests, respectively. Sinomax Kuka established Haining Sinomax as its wholly owned subsidiary in December 2012.

In the preparation for the listing of the Company’s shares on the Stock Exchange, the companies now comprising the Group underwent a group reorganisation. On 31 July 2013, the group reorganisation was completed by interspersing the Company and its wholly owned subsidiary, Treasure Range, between the Individual Shareholders and the remaining companies now comprising the Group. Part of the group reorganisation also involved business combinations under common control and these combinations are accounted for under merger accounting.

The condensed consolidated statement of profit or loss and other comprehensive income which include the financial results of the companies now comprising the Group for the six months ended 30 June 2013 have been prepared as if the Company had always been the holding company of the Group.

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 (the “**Listing Rules**”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 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 2014 are the same as those followed in the preparation of the Company's accountants' report as set out in the prospectus of the Company dated 30 June 2014 (the "**Prospectus**") for the three years ended 31 December 2011, 2012 and 2013.

### (i) **Application of new accounting policy in respect of equity-settled share-based payment transactions**

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

### (ii) **Application of a new Interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")**

In the current interim period, the Group has applied, for the first time, a new Interpretation and certain amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

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

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 3. REVENUE AND SEGMENT INFORMATION

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

The Group mainly sells its visco-elastic products on a wholesale basis primarily to retailers in the United States of America (the “**US**”), who typically resell the products to consumers through their own country-wide retail networks. The products are sold under own, licensed or third-party brands.

The Group also sells its products under “**SINOMAX**” brand through its retail network comprising stand-alone retail shops and concession counters in department stores in the People’s Republic of China (other than Hong Kong and Macau) (the “**PRC**”), Hong Kong and Macau. In addition to the retail network, the Group also conducts direct sales to corporates and financial institutions in Hong Kong and the PRC, and maintains online sales.

As a separate business line, the Group also supplies quality polyurethane foam tailored to customers’ specific needs and requirements under “**Tung Ah**” (東亞) brand primarily to furniture manufacturers in the PRC on a wholesale basis.

Taking into account the different types of products, the Group’s operating segments, based on information reported to the chief operating decision maker (“**CODM**”) (i.e. the executive directors of the Company) for the purposes of resource allocation and performance assessment, are 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 PRC.

These operating segments also represent the Group’s reportable segments.

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

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Segment revenues and results

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

#### For the six months ended 30 June 2014

	Export sales HK\$'000	Retail and corporate sales HK\$'000	Polyurethane foam sales HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
External sales	625,495	189,829	417,941	1,233,265
Segment profit	156,197	40,896	39,970	237,063
Unallocated other income				16,835
Unallocated costs and expenses				(147,638)
<b>Profit before taxation</b>				<b>106,260</b>

#### For the six months ended 30 June 2013

	Export sales HK\$'000	Retail and corporate sales HK\$'000	Polyurethane foam sales HK\$'000	Consolidated HK\$'000
<b>SEGMENT REVENUE</b>				
External sales	535,965	127,432	349,062	1,012,459
Segment profit	133,705	14,919	37,420	186,044
Unallocated other income				11,112
Unallocated costs and expenses				(104,172)
<b>Profit before taxation</b>				<b>92,984</b>

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Segment revenues and results *(Continued)*

There were no inter-segment sales during both periods.

In the preparation of the segment profit, certain other income items, costs of goods sold and expenses are unallocated and not included in the profit earned by each segment. Unallocated costs and expenses mainly represent unallocated costs of goods sold (representing manufacturing overhead attributable to manufacturing process undertaken in certain of the subsidiaries and allowance made for inventories), unallocated selling and distribution costs, corporate and headquarter expenses and other expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

No further analysis is presented for certain amounts included or excluded in the measure of segment profit or loss and segment assets and liabilities as the information are not regularly provided to the CODM for review.

## 4. INCOME TAX EXPENSES

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current tax		
Hong Kong Profits Tax (Note i)	<b>2,888</b>	6,708
PRC Enterprise Income Tax ("EIT") (Note ii)	<b>13,505</b>	21,736
US income tax (Note iii)	<b>3,054</b>	4,560
	<b>19,447</b>	33,004
(Over)/under provision in prior years		
PRC EIT	<b>(97)</b>	(34)
US income tax	<b>470</b>	–
	<b>373</b>	(34)
Deferred taxation	<b>895</b>	(7,097)
	<b>20,715</b>	25,873

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 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 Hong Kong Inland Revenue Department (the "IRD") commenced a tax audit on certain subsidiaries of the Group in prior period. The IRD has issued estimated profits tax assessments of HK\$14,100,000, HK\$24,000,000 and HK\$26,725,000 to the Group relating to the years of assessment 2005/06, 2006/07 and 2007/08 for the financial years ended 31 December 2005, 2006 and 2007, respectively. The Group has lodged objection with the IRD against the assessments and the IRD agreed that the relevant subsidiaries can completely holdover all the tax demanded for the said years of assessment, except for amounts of HK\$175,000 and HK\$2,275,000 which were required to be paid by one of the subsidiaries concerned for the year of assessment 2006/07 and 2007/08 respectively for which the relevant amounts were settled by the Group during the six months ended 30 June 2013.

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, as well as the tax deductibility of various expenses). The IRD is still in the process of reviewing the case and has not expressed any formal opinion on the potential tax liability.

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 2013 and 30 June 2014.



# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 5. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2014 HK\$'000	2013 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)	125,254	103,143
(Reversal of) allowance for inventories (included in cost of sales)	(6,374)	9,021
(Reversal of) allowance for trade receivables (included in other gains and losses)	(6,100)	3,144
Net exchange losses (gains)	2,011	(4,112)
Amortisation of prepaid lease payments	301	396
Depreciation of property, plant and equipment	10,453	8,419
Depreciation of investment properties	658	836
Listing expenses (included in other expenses)	2,392	5,388

## 6. DIVIDEND

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK1.0 cent per share (interim dividend for 2013: nil) will be paid to shareholders of the Company (the “Shareholders”) whose names appear in the Company’s register of member as at the close of business on 17 September 2014.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 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	
	2014 HK\$'000	2013 HK\$'000
<i>Earnings for the purpose of basic and diluted earnings per share:</i>		
Profit for the period attributable to owners of the Company	<b>81,643</b>	62,740

	For the six months ended 30 June	
	2014 '000	2013 '000
<i>Number of shares:</i>		
Number of ordinary shares for the purpose of basic and diluted earnings per share	<b>1,500,000</b>	1,500,000

The number of ordinary shares for the purpose of basic and diluted earnings per share for both periods has taken into account the shares issued pursuant to the group reorganisation as set out in note 1 and the Capitalisation Issue (as defined in note 18).

The impact of the outstanding share options on diluted earnings per share for the six months ended 30 June 2014 is insignificant.

No diluted earnings per share was presented for the period ended 30 June 2013 as there was no potential ordinary share outstanding during that period.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the current interim period, the Group acquired property, plant and equipment of HK\$13,755,000 (six months ended 30 June 2013: HK\$18,617,000).

During the current interim period, the Group transferred an amount of HK\$22,992,000 from property, plant and equipment to investment properties evidenced by end of owner-occupation (six months ended 30 June 2013: nil).

During the current interim period, the Group transferred an amount of HK\$16,794,000 from investment properties to property, plant and equipment evidenced by commencement of owner-occupation (six months ended 30 June 2013: nil).

## 9. TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Trade receivables	<b>486,365</b>	441,456
Deposits, prepayments and other receivables	<b>64,100</b>	67,063
	<b>550,465</b>	508,519

The Group's online sales, retail sales at self-operated retail shops and sales through retailers in the PRC are transacted either by cash or credit cards. For retail sales made at concession counters for which 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 the department stores ranges from 30 days to 120 days. For sales to wholesalers, retailers and other manufacturers, the credit period ranges from 7 days to 90 days.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 9. TRADE AND OTHER RECEIVABLES *(Continued)*

The 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 the reporting period, is as follows:

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Within 30 days	<b>220,420</b>	214,339
31 – 60 days	<b>117,519</b>	129,914
61 – 90 days	<b>62,668</b>	64,755
91 – 180 days	<b>70,609</b>	19,809
181 – 365 days	<b>13,118</b>	5,380
Over 365 days	<b>2,031</b>	7,259
	<b>486,365</b>	441,456

## 10. 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 analysis of bills receivables at the end of the reporting period presented based on their time to maturity:

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Within 30 days	<b>2,728</b>	3,534
31 to 60 days	<b>4,267</b>	5,557
61 to 90 days	<b>2,203</b>	4,197
91 to 180 days	<b>6,916</b>	1,385
181 to 365 days	<b>–</b>	136
	<b>16,114</b>	14,809

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 11. TRADE AND OTHER PAYABLES

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Trade payables	<b>246,390</b>	196,518
Other payables and accrued expenses	<b>129,535</b>	132,020
	<b>375,925</b>	328,538

The aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period, is as follows:

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Within 30 days	<b>146,560</b>	136,604
31 to 60 days	<b>71,852</b>	52,118
61 to 90 days	<b>20,981</b>	3,020
91 to 180 days	<b>6,276</b>	1,438
Over 180 days	<b>721</b>	3,338
	<b>246,390</b>	196,518

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 12. BILLS PAYABLES

All the bills payables of the Group are not yet due at the end of the reporting period.

The following is an aged analysis of bills payables at the end of the reporting period:

	<b>At 30 June 2014 HK\$'000</b>	At 31 December 2013 HK\$'000
Within 30 days	<b>21,674</b>	38,342
31 – 60 days	<b>7,433</b>	44,422
61 – 90 days	<b>15,558</b>	10,438
91 – 180 days	<b>17,014</b>	20,345
	<b>61,679</b>	113,547

## 13. SHARE CAPITAL

<b>Ordinary shares of HK\$0.1 each</b>	<b>Number of shares</b>	<b>Amount HK\$'000</b>
Authorised:		
At 1 January 2014 and 30 June 2014	<b>10,000,000,000</b>	<b>1,000,000</b>
		<b>HK\$</b>
Issued and fully paid:		
At 1 January 2014 and 30 June 2014	<b>50,000</b>	<b>5,000</b>

The share capital as at 31 December 2013 and 30 June 2014 represents the issued share capital of the Company amounted to HK\$5,000.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 13. SHARE CAPITAL (Continued)

The share capital as at 1 January 2013 and 30 June 2013 represented the combined share capital of the following companies attributable to the owners of the Company:

	30 June 2013 HK\$	1 January 2013 HK\$
<i>Companies</i>		
The Company	78	78
Ascension International Development Limited	–	8
Fullelite Limited	–	78
Year Prosper Limited	–	78
Wonderful Health Limited	–	78
Trade Sincere	–	663
Sinomax International Investment Limited	78	78
Sinomax Health & Household Products Limited	–	10
Sinomax International Trading Limited	–	10,000
	156	11,071

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 14. SHARE OPTION SCHEMES

### (i) The Pre-IPO Share Option Scheme

On 13 December 2013, a share option scheme was adopted by the shareholders of the Company (the “**Pre-IPO Share Option Scheme**”). The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the scheme have or may have made to the Company.

The eligible participants include any full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the directors of the Company, will contribute or have contributed to the Company and/or any of its subsidiaries.

Upon acceptance of the share option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

On 13 December 2013, the Company has authorised to grant share options to 140 eligible participants to subscribe for an aggregate of 34,918,000 shares under the Pre-IPO Share Option Scheme. In February 2014, the Company granted share options to 137 eligible participants to subscribe for an aggregate of 34,903,000 shares, among which 8 out of 137 eligible participants, who have been granted share options to subscribe for 255,000 shares, have ceased to become eligible participants and the said share options have automatically lapsed. As such, the number of outstanding shares subject to the Pre-IPO Share Option Scheme as at 30 June 2014 was 34,648,000, being held by 129 eligible participants.

The subscription price of a share in respect of any particular share option offered under the Pre-IPO Share Option Scheme shall be a price representing 30% discount to the Offer Price (as defined in note 18).

The share options granted to each grantee under the Pre-IPO Share Option Scheme shall be vested equally in five tranches commencing on 10 July 2014, the first date on which dealings in the shares of the Company commenced on the Stock Exchange (the “**Listing Date**”) and on each of the first, second, third and fourth anniversary of the Listing Date. The grantees to whom a share option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the share option any time after the share option has been vested but in any event on or before the date falling on the fifth anniversary of the Listing Date. The share options granted under the Pre-IPO Share Option Scheme are not transferable and share options not exercised within the exercise period will lapse and cease to be of further effect.

The Pre-IPO Share Option Scheme has expired on 10 July 2014 and ceased to have effect after 10 July 2014. Share options granted prior to the expiration of the Pre-IPO Share Option Scheme but not yet exercised at that time shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.



# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 14. SHARE OPTION SCHEMES *(Continued)*

### (i) The Pre-IPO Share Option Scheme *(Continued)*

The following tables disclose details of movements of share options granted under the Pre-IPO Share Option Scheme:

Options	Vesting period	Granted on 10 February 2014	Lapsed during the period	Outstanding at 30 June 2014
<i>Directors</i>				
Tranche 1	10 February 2014 – 10 July 2014	4,045,240	–	4,045,240
Tranche 2	10 February 2014 – 10 July 2015	4,045,240	–	4,045,240
Tranche 3	10 February 2014 – 10 July 2016	4,045,240	–	4,045,240
Tranche 4	10 February 2014 – 10 July 2017	4,045,240	–	4,045,240
Tranche 5	10 February 2014 – 10 July 2018	4,045,240	–	4,045,240
		20,226,200	–	20,226,200
<i>Senior management</i>				
Tranche 1	10 February 2014 – 10 July 2014	1,037,560	–	1,037,560
Tranche 2	10 February 2014 – 10 July 2015	1,037,560	–	1,037,560
Tranche 3	10 February 2014 – 10 July 2016	1,037,560	–	1,037,560
Tranche 4	10 February 2014 – 10 July 2017	1,037,560	–	1,037,560
Tranche 5	10 February 2014 – 10 July 2018	1,037,560	–	1,037,560
		5,187,800	–	5,187,800
<i>Employees</i>				
Tranche 1	10 February 2014 – 10 July 2014	1,897,800	(51,000)	1,846,800
Tranche 2	10 February 2014 – 10 July 2015	1,897,800	(51,000)	1,846,800
Tranche 3	10 February 2014 – 10 July 2016	1,897,800	(51,000)	1,846,800
Tranche 4	10 February 2014 – 10 July 2017	1,897,800	(51,000)	1,846,800
Tranche 5	10 February 2014 – 10 July 2018	1,897,800	(51,000)	1,846,800
		9,489,000	(255,000)	9,234,000
		34,903,000	(255,000)	34,648,000

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 14. SHARE OPTION SCHEMES (Continued)

### (i) The Pre-IPO Share Option Scheme (Continued)

Details of the share options granted under the Pre-IPO Share Option Scheme are as follows:

	<b>Date of grant</b>	<b>Number of share options granted</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>	<b>Fair value per share option HK\$</b>
Tranche 1	10 February 2014	6,980,600	10 July 2014 – 10 July 2019	0.74	0.41
Tranche 2	10 February 2014	6,980,600	10 July 2015 – 10 July 2019	0.74	0.43
Tranche 3	10 February 2014	6,980,600	10 July 2016 – 10 July 2019	0.74	0.45
Tranche 4	10 February 2014	6,980,600	10 July 2017 – 10 July 2019	0.74	0.47
Tranche 5	10 February 2014	6,980,600	10 July 2018 – 10 July 2019	0.74	0.48

The fair value of the share options at the grant date, was calculated using the Binomial Model with different assumed holding period prior to the optional expected exercise of the options.

The inputs into the model were as follows:

Grant date	10 February 2014
Number of share options	34,903,000
Share price	HK\$0.96
Risk-free rate	0.46%
Expected volatility	47.82%
Time-to-maturity	5.41 years

The risk-free rate is based on Hong Kong Dollar Sovereign Curve obtained from Bloomberg.

Expected volatility was determined by using five comparable companies' historical volatility quoted by Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The fair value of the share options granted is approximately HK\$15,662,000 in aggregate. The Group recognised a total expense of HK\$1,565,000 in the current interim period (six months ended 30 June 2013: nil) in relation to the Pre-IPO Share Options granted by the Company.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 14. SHARE OPTION SCHEMES *(Continued)*

### (ii) The Post-IPO Share Option Scheme

On 4 March 2014, a share option scheme was conditionally adopted by the shareholders of the Company (the “**Post-IPO Share Option Scheme**”).

The purpose of the Post-IPO Share Option Scheme is to provide incentive or reward to the eligible participants with an opportunity to acquire the equity interests in the Company, for their contributions to, and continuing efforts to promote the interest of the Group or for such other purposes as the board of directors of the Company may approve from time to time, linking their interests with the interests of the Group and thereby attracting and encouraging those parties to work better for the interests of the Group.

The eligible participants include any full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the directors of the Company, will contribute or have contributed to the Company and/or any of its subsidiaries.

The subscription price of a share of the Company in respect of any particular share option granted under the Post-IPO Share Option Scheme shall be such price as the directors of the Company in its absolute discretion shall determine, save that such price shall at least be the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

The maximum number of shares in respect of which share options may be granted under the Post-IPO Share Option Scheme and under any other share option schemes of the Group must not in aggregate exceed 10% of the total number of shares of the Company in issue at the Listing Date (without taking into account any shares that may be issued upon the full exercise of the options granted pursuant to the Pre-IPO Share Option Scheme), being 165,000,000 Shares (“**Option Limit**”). Options which have lapsed in accordance with the terms of the Post-IPO Share Option Scheme (or any other share option schemes of the Company) will not be counted for the purpose of calculating the Option Limit. Subject to the approval of the shareholders of the Company, the Company may refresh the Option Limit at any time provided that (i) the Option Limit as refreshed does not exceed 10% of the shares of the Company in issue as at the date of the approval by the shareholders of the Company; and (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Post-IPO Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Option Limit as refreshed. The Company may also, with the approval of the shareholders of the Company, grant share options in respect of shares of the Company in excess of the Option Limit (as refreshed from time to time) to eligible participants specifically identified by the Company before such approval is sought.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 14. SHARE OPTION SCHEMES *(Continued)*

### (ii) **The Post-IPO Share Option Scheme** *(Continued)*

Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Group at any time shall not exceed 30% of the issued shares of the Company from time to time. No share options shall be granted under any schemes of the Company (including the Post-IPO Share Option Scheme) if this will result in the 30% limit being exceeded.

The total number of shares issued and which fall to be issued upon exercise of the share options granted under the Post-IPO Share Option Scheme and any other share option schemes of the Group (including both exercised and outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to shareholders' approval in a general meeting.

In addition, any grant of share options to a director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive directors (excluding any independent non-executive director who is proposed to be an option holder). If the Company proposes to grant share options to a substantial shareholder or any independent non-executive director of the Company or their respective associates which will result in the number of shares of the Company issued and to be issued upon exercise of share options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of grant of such grant representing in aggregate over 0.1% of the shares of the Company in issue; and having an aggregate value in excess of HK\$5 million, based on the closing price of the Company's share at the date of grant of each grant, such further grant of share options will be subject to, in addition to the approval of the independent non-executive directors, the approval of shareholders of the Company in general meeting.

No share option under the Post-IPO Share Option Scheme has been granted since its adoption.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 15. CONTINGENCIES AND COMMITMENTS

At the end of the reporting period, the Group had the following contingencies and commitments:

### (i) Contingencies

As at 30 June 2014, certain subsidiaries of the Company had provided corporate guarantees to a bank to secure the banking facilities granted to a fellow subsidiary of the Company, and the utilisation of such facilities amounted to HK\$32,785,000 (31 December 2013: HK\$39,793,000). In the opinion of the directors of the Company, the fair value of such guarantees was insignificant and the guarantees were released on 10 July 2014.

### (ii) Commitments

	At 30 June 2014 HK\$'000	At 31 December 2013 HK\$'000
Capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment	13,459	11,881

## 16. PLEDGE OF ASSETS

The bills payable of the Group were secured by bank deposits of approximately HK\$14,056,000 (31 December 2013: HK\$14,916,000).

## 17. RELATED PARTY DISCLOSURES

During the period, the Group had entered into the following related party transactions:

Relationship with the Group	Nature of transactions	For the six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Fellow subsidiaries of the Company	Rental expenses	5,226	4,707
	Sales of health and household products	-	4,421
Companies controlled by the Individual Shareholders collectively	Sales of foam	-	53,205

In addition, certain trademarks owned by fellow subsidiaries of the Company were used by the Group free of charge during both periods.

# Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

## 17. RELATED PARTY DISCLOSURES (Continued)

During the current interim period, four of the Individual Shareholders, Sinomax Enterprises and its subsidiaries and a company on which one of the Individual Shareholders has significant influence had provided corporate guarantees to banks in respect of the Group's bank borrowings. Two properties owned by one of the Individual Shareholders and a family member of one of the Individual Shareholders, respectively, were pledged against banking facilities granted to the Group. As at 30 June 2014, the utilisation of such facilities by the Group amounted to HK\$89,883,276 (31 December 2013: HK\$171,582,174). These guarantees were released on 10 July 2014.

Details of the guarantees provided by the Group to a bank in respect of the banking facilities granted to a fellow subsidiary of the Company are set out in note 15.

### Compensation of key management personnel

The remuneration of directors and other member of key management during the period was as follows:

	For the six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Salaries and allowances	5,135	4,352
Performance related incentive payments	130	–
Share option expenses	1,140	–
Retirement benefit schemes contributions	102	56
	<b>6,507</b>	4,408

## 18. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 4 March 2014, the Company has approved the issuance of 1,499,950,000 shares standing to the credit of the share premium of the Company conditional on the share premium account of the Company being credited as a result of the global offering of the shares of the Company (“**Capitalisation Issue**”). The Capitalisation Issue was completed on 9 July 2014.

On 10 July 2014, the shares of the Company were listed on the Stock Exchange. 150,000,000 ordinary shares at an offer price of HK\$1.06 each (“**Offer Price**”) have been issued to investors through global offering with a net proceeds of approximately HK\$127,120,000.

# Report on Review of Condensed Consolidated Financial Statements



TO THE BOARD OF DIRECTORS OF SINOMAX GROUP LIMITED

盛諾集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Sinomax Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 4 to 29, which comprises the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**HKSRE 2410**”) issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Report on Review of Condensed Consolidated Financial Statements (continued)

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 August 2014



# Management Discussion and Analysis

## BUSINESS REVIEW

### Revenue by operating segments

For the six months ended 30 June 2014 (the “**Period**”), revenue of the Group increased by approximately HK\$220.8 million or 21.8% to approximately HK\$1,233.3 million (six months ended 30 June 2013: approximately HK\$1,012.5 million). All three operating segments of the Group’s business, namely export sales, retail and corporate sales and polyurethane foam sales, recorded substantial revenue growth for the Period comparing with the corresponding period in last year:

	For the six months ended 30 June		
	2014 HK\$’000	2013 HK\$’000	Changes %
Export sales	<b>625,495</b>	535,965	+16.7
Retail and corporate sales	<b>189,829</b>	127,432	+49.0
Polyurethane foam sales	<b>417,941</b>	349,062	+19.7
Total	<b>1,233,265</b>	1,012,459	+21.8

### Export sales

The Group sells its visco-elastic products on a wholesale basis primarily to leading retailers in the US, who typically resell the products to consumers through their own country-wide retail networks. The products are sold under own, licensed or third-party brands.

During the Period, the main driver of the growth in revenue from export sales was the increase in product sales under own brands, namely “ComforZen” and “Dream Serenity”, as well as under licensed brands. For the Period, revenue from export sales under own and licensed brands increased by approximately HK\$89.5 million or 39.3% to approximately HK\$317.4 million, comparing with approximately HK\$227.9 million for the corresponding period in last year, which contributed to approximately 50.7% of the Group’s revenue from export sales during the Period (six months ended 30 June 2013: approximately 42.5%).

# Management Discussion and Analysis (continued)

## **Retail and corporate sales**

The Group sells its products under its “SINOMAX” brand through its retail network comprising stand-alone retail shops (the “**Sinomax Life Stores**”) and concession counters in department stores in Hong Kong, the PRC and Macau. The Group also conducts direct sales to corporates and other customers in Hong Kong and the PRC, and maintains online sales.

The strong growth in revenue from retail and corporate sales was mainly driven by the increased sales of products under the Group’s flagship brand “SINOMAX”. During the Period, sales of “SINOMAX” branded products to two corporate customers amounted to approximately HK\$58.8 million.

In terms of sales channel, the “Sinomax Life Stores” recorded a same-store sales growth of approximately 18.1% for the Period. However, same-store sales for concession counters in Hong Kong and the PRC experienced a slight drop of approximately 6.2% and 5.3% respectively for the Period. During the Period, the Group opened two new “Sinomax Life Stores” in Hong Kong and the PRC.

## **Polyurethane foam sales**

The Group supplies quality polyurethane foam on a wholesale basis to furniture manufacturers in the PRC under the “Tung Ah” (東亞) brand.

Revenue from polyurethane foam sales increased by approximately HK\$68.9 million or 19.7% (from approximately HK\$349.1 million for the six months ended 30 June 2013 to approximately HK\$417.9 million for the Period) as there was an increasing demand for high quality furniture and home accessories in the PRC market, thus driving the rise in demand for the Group’s polyurethane foam products during the Period.

## **Gross profit**

With an increase of approximately 21.8% in the Group’s revenue, gross profit increased by approximately HK\$53.9 million or 19.9% to approximately HK\$325.3 million during the Period as compared to approximately HK\$271.3 million for the corresponding period in last year. The gross profit margin of approximately 26.4% for the Period was at a level similar to that for the corresponding period in last year, i.e. approximately 26.8%.

# Management Discussion and Analysis (continued)

## Costs and expenses

Selling and distribution costs for the Period increased by approximately HK\$32.2 million or 26.8% to approximately HK\$152.5 million, as compared to approximately HK\$120.3 million for the six months ended 30 June 2013. The increase was mainly due to increased staff costs and rental as a result of the newly opened “Sinomax Life Stores”. In addition, the Group paid higher royalty fees to its licensors as a result of an increase in sales of products under licensed brands.

Administrative expenses for the Period increased by approximately HK\$18.1 million or 34.5% to approximately HK\$70.6 million, as compared to approximately HK\$52.5 million for the six months ended 30 June 2013. The increase was mainly due to recognition of share option expenses under the Pre-IPO Share Option Scheme of approximately HK\$1.6 million, increased in staff costs and staff benefit of approximately HK\$9.6 million and increased in non-initial public offering related legal and professional expenses of approximately HK\$1.4 million.

Other expenses for the Period mainly consisted of listing expenses and costs for research and development amounting to approximately HK\$2.4 million and HK\$6.4 million, respectively.

## Profit for the Period

Profit for the Period increased by approximately HK\$18.4 million or 27.5% to approximately HK\$85.5 million, as compared to approximately HK\$67.1 million for the six months ended 30 June 2013. If the one-off listing expenses of approximately HK\$2.4 million and the share option expenses under the Pre-IPO Share Option Scheme of approximately HK\$1.6 million were both excluded, profit for the Period would have been approximately HK\$89.5 million.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The issued ordinary shares of the Company were listed on the Main Board of the Stock Exchange with effect from the Listing Date with net proceeds received by the Group from the Global Offering (as defined in the Prospectus) amounted to approximately HK\$127.1 million after deducting underwriting commissions and all related expenses. The Group has not yet utilized the net proceeds as at the date of this report. The unutilized net proceeds have been placed in deposits with banks in Hong Kong and the PRC.

# Management Discussion and Analysis (continued)

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The financial position of the Group was healthy as at 30 June 2014 and was further enhanced by the net proceeds received by the Company via the Global Offering. As at 30 June 2014, the Group had net current assets of approximately HK\$366.9 million, as compared to approximately HK\$277.6 million as at 31 December 2013.

### Borrowing and pledge of assets

As at 30 June 2014, the Group had banking facilities amounting to approximately HK\$874.9 million of which approximately HK\$303.5 million (which includes bank borrowings and bills payables) was utilized (31 December 2013: banking facilities amounting to approximately HK\$825.6 million of which approximately HK\$276.1 million was utilized).

As at 30 June 2014, the total amount of interest-bearing bank borrowings of the Group was approximately HK\$241.9 million (31 December 2013: HK\$162.5 million) which were denominated as to 15.6% in Renminbi, 48.7% in Hong Kong dollars and 35.7% in US dollars. 5.2% of bank borrowings bore fixed interest rate. The bank borrowings are all repayable within one year.

The bills payable of the Group was secured by bank deposits of approximately HK\$14.1 million (31 December 2013: approximately HK\$14.9 million).

### Capital expenditure

The Group's capital expenditure for the Period amounted to approximately HK\$13.8 million, which was mainly for the purchasing of the Group's plant and machinery.

### Financial ratios

	As at	
	30 June 2014	31 December 2013
Current ratio <sup>(1)</sup>	147.2%	132.9%
Quick ratio <sup>(2)</sup>	94.0%	91.9%
Gearing ratio <sup>(3)</sup>	36.6%	28.3%
Debt to equity ratio <sup>(4)</sup>	21.1%	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.

# Management Discussion and Analysis (continued)

## Contingent liabilities

As at 30 June 2014, certain subsidiaries of the Company had provided corporate guarantees to a bank to secure the banking facilities granted to a fellow subsidiary of the Company, and the utilisation of such facilities amounted to approximately HK\$32.8 million (31 December 2013: approximately HK\$39.8 million). In the opinion of the directors of the Company, the fair value of such guarantees was insignificant and the guarantees were released on 10 July 2014.

## 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 trends of the Renminbi and take appropriate measures to mitigate 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

We have been very successful in developing the market in the US. In the near future, we plan to acquire or set up production facilities in the US, with which we will be able to provide products made in the US to capture different market segments in the country and also shorten the lead time between production and delivery and thus better serve our customers.

We offer a wide range of health and household products in Hong Kong, the PRC and Macau under our flagship brand "SINOMAX". We will further enhance brand management through various marketing activities to reinforce brand recognition and enhance the image of health, relaxation and comfort of our "SINOMAX" brand. We plan to promote our "SINOMAX" brand in the US as well, focusing on the middle to high-end retail markets.

During the Period, we opened two "Sinomax Life Stores" in Hong Kong and the PRC. We plan to open eight additional "Sinomax Life Stores" in Hong Kong and the PRC in the second half of 2014. We will also expand e-commerce sales channels to promote and distribute our products.

We plan to continue to grow our business by exploring attractive acquisitions and collaboration opportunities that are compatible with our business vision, though we currently do not have any such targets.

# Management Discussion and Analysis (continued)

## **MATERIAL ACQUISITIONS AND DISPOSALS**

During the Period, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

The Group does not have other plans for material investments or capital assets.

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

As the Company was not listed on the Stock Exchange during the six months ended 30 June 2014, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

## **SUBSEQUENT EVENTS AFTER THE INTERIM PERIOD**

On 4 March 2014, the Company has approved the issuance of 1,499,950,000 shares standing to the credit of the share premium of the Company conditional on the share premium account of the Company being credited as a result of the Global Offering. The Capitalisation Issue was completed on 9 July 2014.

In connection with the Global Offering, 150,000,000 shares with a nominal value of HK\$0.10 each were issued at a price of HK\$1.06 per share for a total cash consideration, before underwriting fees, commissions and related expenses, of approximately HK\$159 million. Dealings in the shares of the Company on the Stock Exchange commenced on the Listing Date.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK1.0 cent per share (interim dividend for 2013: nil). The interim dividend will be distributed on 24 September 2014 to the Shareholders whose names appear on the Company's register of members as at the close of business on 17 September 2014.

# Management Discussion and Analysis (continued)

## **CLOSURE OF REGISTER OF MEMBERS**

Shareholders whose names appear on the Company's register of members as at the close of business on 17 September 2014 will be eligible for the interim dividend. The transfer books and the register of members of the Company will be closed from 15 September 2014 to 17 September 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim 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 of Level 22 Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30pm on 12 September 2014.

## **EMPLOYEE AND REMUNERATION POLICY**

As at 30 June 2014, the employee headcount of the Group was 2,685 (30 June 2013: 2,739) and the total staff costs, including Directors' remuneration and share option expenses, amounted to approximately HK\$125.3 million for the Period (six months ended 30 June 2013: approximately HK\$103.1 million). The significant increase in staff cost 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 share option schemes. Details of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are set out in note 14 of the notes to the condensed consolidated financial statements in this interim report.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As the Company was not listed on the Stock Exchange as at 30 June 2014, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (“SFO”) and Section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 30 June 2014.

As at the date of this report, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### Interests in the Company

Name of Director	Nature of interest	Number of shares <sup>(1)</sup>	Approximate percentage of shareholding <sup>(2)</sup>
LAM Chi Fan	Founder of a discretionary trust	950,692,000 (L) <sup>(3)</sup>	57.62%
	Beneficial owner	6,650,000 (L) <sup>(4)</sup>	0.40%
	Interest of spouse	100,000 (L) <sup>(5)</sup>	0.01%
CHEUNG Tung	Beneficial owner	6,376,200 (L) <sup>(4)</sup>	0.39%
CHEN Feng	Beneficial owner	3,050,000 (L) <sup>(4)</sup>	0.18%
LAM Fei Man	Beneficial owner	2,150,000 (L) <sup>(4)</sup>	0.13%
LAM Kam Cheung	Beneficial owner	2,000,000 (L) <sup>(4)</sup>	0.12%

Notes:

(1) The letter “L” denotes long position.

(2) The calculation is based on the total number of 1,650,000,000 ordinary shares of the Company in issue as at the date of this report, without taking into account of any shares to be issued upon exercise of the share options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Post-IPO Share Option Scheme.

(3) These shares belong to Sinomax Enterprises Limited (“Sinomax Enterprises”). Sinomax Enterprises is legally and beneficially owned as to 50% by Chi Fan Holding Limited and The Frankie Trust, respectively. The Frankie Trust is a discretionary family trust established by LAM Chi Fan as settlor and Orangefield Trustees (BVI) Limited (“Orangefield”) acting as the trustee. The beneficiaries of The Frankie Trust are LAM Chi Fan and his family members.

(4) Each of LAM Chi Fan, CHEUNG Tung, CHEN Feng, LAM Fei Man and LAM Kam Cheung, an executive Director, has been granted share options to subscribe for 6,650,000, 6,376,200, 3,050,000, 2,150,000 and 2,000,000 shares, respectively, under the Pre-IPO Share Option Scheme, all of which are still outstanding.

(5) LI Ching Hau, the spouse of LAM Chi Fan, has been granted share options to subscribe for 100,000 shares under the Pre-IPO Share Option Scheme. Under the SFO, LAM Chi Fan is deemed to be interested in the same number of shares in which LI Ching Hau is interested.



## Other Information (continued)

### Interests in associated corporation – Sinomax Enterprises

Name of Director	Nature of interest	Number of shares <sup>(1)</sup>	Approximate percentage of shareholding
<b>LAM Chi Fan</b>	Beneficiary of The Frankie Trust	15 (L)	50%
<b>CHEUNG Tung</b>	Beneficiary of The Cheung's Family Trust	5 (L)	16.67%
<b>CHEN Feng</b>	Beneficiary of The Feng Chen's Family Trust	5 (L)	16.67%

Note:

(1) The letter "L" denotes long position.

Saved as disclosed above, as at the date of this report, none of the Directors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (as defined under the paragraph headed "Model Code for Securities Transaction" in this interim report below).

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As the Company was not listed on the Stock Exchange as at 30 June 2014, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company as at 30 June 2014.

As at the date of this report, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares <sup>(1)</sup>	Approximate percentage of shareholding <sup>(2)</sup>
<b>Sinomax Enterprises<sup>(3)</sup></b>	Beneficial owner	950,692,000 (L)	57.62%
<b>Chi Fan Holding Limited</b>	Interest of a controlled corporation	950,692,000 (L) <sup>(4)</sup>	57.62%
<b>Orangefield<sup>(5)</sup></b>	Trustee of various trusts	950,692,000 (L)	57.62%
<b>LI Ching Hau</b>	Interest of spouse	957,342,000 (L) <sup>(6)</sup>	58.02%
	Beneficial owner	100,000 (L) <sup>(7)</sup>	0.01%
<b>KONG Xian Xing</b>	Beneficial owner	73,078,000 (L) <sup>(8)</sup>	4.43%
	Interest of spouse	36,556,000 (L)	2.22%
<b>GE Li Ping</b>	Beneficial owner	36,556,000 (L) <sup>(9)</sup>	2.22%
	Interest of spouse	73,078,000 (L)	4.43%

## Other Information (continued)

Notes:

- (1) The letter "L" denotes long position.
- (2) The calculation is based on the total number of 1,650,000,000 ordinary shares of the Company in issue as at the date of this report, without taking into account of any shares to be issued upon exercise of the share options granted under the Pre-IPO Share Option Scheme or share options which may be granted under the Post-IPO Share Option Scheme.
- (3) Sinomax Enterprises is legally owned as to 50%, 16.67%, 16.67% and 16.67% by Chi Fan Holding Limited, Wing Yiu Investments Limited, The James' Family Holding Limited and Venture Win Holdings Limited, respectively, and beneficially owned in the same proportion by The Frankie Trust, The Cheung's Family Trust, The James' Family Trust and The Feng Chen's Family Trust, respectively.
- (4) These shares belong to Sinomax Enterprises, which is legally owned as to 50% by Chi Fan Holding Limited.
- (5) Orangefield acts as the trustee of The Frankie Trust, The James' Family Trust, The Cheung's Family Trust and The Feng Chen's Family Trust. The beneficiaries of The Frankie Trust are LAM Chi Fan and his family members. The beneficiaries of The Cheung's Family Trust are CHEUNG Tung and his family members. The beneficiaries of The James' Family Trust are CHEUNG Shui Ying and her family members. The beneficiaries of The Feng Chen's Family Trust are CHEN Feng and his family members.
- (6) These interests belong to LAM Chi Fan, the spouse of LI Ching Hau. Under the SFO, LI Ching Hau is deemed to be interested in the same number of shares in which LAM Chi Fan is interested.
- (7) LI Ching Hau has been granted share options to subscribe for 100,000 shares under the Pre-IPO Share Option Scheme.
- (8) These shares belong to GE Li Ping, the spouse of KONG Xian Xing. Under the SFO, KONG Xian Xing is deemed to be interested in the same number of shares in which GE Li Ping is interested.
- (9) These shares belong to KONG Xian Xing, the spouse of GE Li Ping. Under the SFO, GE Li Ping is deemed to be interested in the same number of shares in which KONG Xian Xing is interested.

## 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 since the Listing Date.

The shares of the Company were listed on the Stock Exchange with effect from the Listing Date. As the Company was not a listed company during the six months ended 30 June 2014, the CG Code was not applicable to it during the Period. The CG Code has been applicable to the Company with effect from the Listing Date. The Board is of the view that the Company has met the code provisions set out in the CG Code from the Listing Date to the date of this report.

## Other Information (continued)

### 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**") of Appendix 10 to the Listing Rules. As the Company was not listed on the Stock Exchange during the six months ended 30 June 2014, the provisions under the Listing Rules in relation to compliance with the Model Code by the Directors were not applicable to the Company for the Period but were applicable with effect from the Listing Date. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the requirements of the Model Code since the Listing Date and up to the date of this report.

### REVIEW OF INTERIM RESULTS

The audit committee has reviewed, with the management, the accounting principles and policies adopted by the Group, and discussed the unaudited condensed consolidated financial statements and interim results report of the Group for the six months ended 30 June 2014 and recommended its adoption by the Board.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 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.

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

Hong Kong, 28 August 2014