

SINOMAX

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



Global Offering

Sole Global Coordinator, Sole Bookrunner and Sole Sponsor

CMS  **招商证券**

China Merchants Securities (HK) Co., Limited

IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should seek independent professional advice.



Sinomax Group Limited

盛諾集團有限公司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	750,000,000 Shares (comprising 150,000,000 New Shares and 600,000,000 Sale Shares, subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	75,000,000 New Shares (subject to adjustment)
Number of International Offer Shares	:	675,000,000 Shares (comprising 75,000,000 New Shares and 600,000,000 Sale Shares, subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$1.43 per Offer Share, plus a brokerage fee of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.1 per Share
Stock code	:	1418

Sole Global Coordinator, Sole Bookrunner and Sole Sponsor



China Merchants Securities (HK) Co., Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in "Appendix V – Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of US persons, except that Offer Shares may be offered or sold outside the United States in accordance with Regulation S under the Securities Act.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 4 July 2014 and, in any event, not later than Tuesday, 8 July 2014. The Offer Price will be no more than HK\$1.43 per Offer Share and is currently expected to be no less than HK\$1.06 per Offer Share unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.43 for each Hong Kong Offer Share together with a brokerage fee of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. If, for any reason, the Offer Price is not agreed by Tuesday, 8 July 2014 between the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in the section headed "Risk Factors".

The Sole Global Coordinator may, with the consent of our Company and the Selling Shareholders, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.sinomax.com/group not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable.

For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. It is important that you refer to the section headed "Underwriting" in this Prospectus for further details.

30 June 2014

EXPECTED TIMETABLE⁽¹⁾

Latest time for lodging **PINK Application Forms**
at our Company's headquarters, Units 2005-2007,
Level 20, Tower 1 MegaBox Enterprise Square Five,
38 Wang Chiu Road, Kowloon Bay, Hong Kong 4:00 p.m. on
Thursday, 3 July 2014

Latest time to complete electronic applications
under **HK eIPO White Form** service through the
designated website at www.hkeipo.hk⁽²⁾⁽³⁾⁽⁴⁾ 11:30 a.m. on
Friday, 4 July 2014

Application lists of the Hong Kong Public
Offering open at⁽³⁾ 11:45 a.m. on
Friday, 4 July 2014

Latest time to lodge **WHITE** and **YELLOW**
Application Forms 12:00 noon on
Friday, 4 July 2014

Latest time to give **electronic application**
instructions to HKSCC⁽³⁾⁽⁵⁾ 12:00 noon on
Friday, 4 July 2014

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking
transfer(s) or PPS payment transfer(s) 12:00 noon on
Friday, 4 July 2014

Application lists of the Hong Kong Public Offering close at 12:00 noon on
Friday, 4 July 2014

Expected Price Determination Date⁽⁶⁾ Friday, 4 July 2014

(1) Announcement of:

- the final Offer Price;
- an indication of the level of interest
in the International Offering;
- the level of applications in the Hong Kong
Public Offering and the Employee
Preferential Offering; and
- the basis of allocation of the Hong Kong
Offer Shares and the Employee Reserved Shares

to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) and on the websites of the Hong Kong
Stock Exchange at www.hkexnews.hk and
our Company at www.sinomax.com/group on
or before Wednesday, 9 July 2014

EXPECTED TIMETABLE⁽¹⁾

(2) Announcement of results of allocations in the Hong Kong Public Offering and Employee Preferential Offering (including the Hong Kong identity cards, passport numbers or Hong Kong business registration certificate numbers (where applicable) of successful applicants) to be available through a variety of channels including the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.sinomax.com/group (see the section headed "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares – 11. Publication of Results" in this Prospectus) from Wednesday, 9 July 2014

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk⁽⁸⁾ and our Company's website at www.sinomax.com/group⁽⁹⁾ from Wednesday, 9 July 2014

Results of allocations for the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result with a "search by ID" function Wednesday, 9 July 2014

Despatch of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering and Employee Preferential Offering on or before⁽⁷⁾ Wednesday, 9 July 2014

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques on or before⁽¹⁰⁾ Wednesday, 9 July 2014

Dealings in Shares on the Main Board of the Hong Kong Stock Exchange to commence on Thursday, 10 July 2014

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 July 2014, the application lists will not open on that day. See "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this Prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares through the **HK eIPO White Form** service should refer to the section headed "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares – 5. Applying through **HK eIPO White Form** service" in this Prospectus.
- (5) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS" in this Prospectus.
- (6) The Price Determination Date is expected to be on or around Friday, 4 July 2014 and, in any event, not later than Tuesday, 8 July 2014. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Selling Shareholders and our Company by Tuesday, 8 July 2014, the Global Offering will not proceed and will lapse.

EXPECTED TIMETABLE⁽¹⁾

- (7) **Share certificates are expected to be issued on Wednesday, 9 July 2014 but will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at or around 8:00 a.m. on the Listing Date. If the Global Offering does not become unconditional or either of the Underwriting Agreements is terminated in accordance with its terms, we will make an announcement as soon as possible. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely at their own risk.**
- (8) The announcement will be available for viewing on the “Main Board – Allotment of Results” page on the Hong Kong Stock Exchange’s website www.hkexnews.hk and our Company’s website at www.sinomax.com/group.
- (9) None of the website or any of the information contained on the website forms part of this Prospectus.
- (10) **e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.**

You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares” in this Prospectus for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

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IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an applicable exemption therefrom.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and the Underwriters, any of our or their respective directors, employees or advisers, or any other person or party involved in the Global Offering. Information contained in our website, located at www.sinomax.com/group, does not form part of this Prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this Prospectus, before you decide to invest in our Hong Kong Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Hong Kong Offer Shares are set out in the section headed "Risk Factors" in this Prospectus. You should read that section carefully before you decide to invest in our Hong Kong Offer Shares. Various expressions used in this section are defined in the sections headed "Definitions" and "Glossary of Technical Terms" in this Prospectus.

OVERVIEW

We are a leading marketer, manufacturer and distributor of quality visco-elastic pillows, mattress toppers and mattresses in the US, Hong Kong and the PRC. In 2013, in terms of retail sales value, we were the second largest supplier of mainstream visco-elastic health and wellness products in the US, with a market share of 30.2%, and were ranked first in both Hong Kong and the PRC retail markets of visco-elastic health and wellness products with a market share of 41.9% and 4.4% respectively, according to Frost & Sullivan. As a separate business line, we sell polyurethane foams tailored to customers' needs and requirements primarily to furniture manufacturers in the PRC. We were ranked first in terms of 2013 sales value of polyurethane foam manufacturers in the PRC, according to Frost & Sullivan.

Sales Channels and Customers

The following table sets forth our revenue by sales channels for the years indicated:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Export sales	877,118	49.3	1,019,902	51.7	1,254,223	52.9
Retail and corporate sales	304,206	17.1	296,623	15.0	284,057	12.0
Polyurethane foam sales	597,119	33.6	654,970	33.3	831,259	35.1
Total	1,778,443	100	1,971,495	100	2,369,539	100

We adopt a multi-faceted distribution method for dissemination of our products:

- (i) **Export sales.** We sell our visco-elastic products on a wholesale basis primarily to leading retailers in the US which resell our products to consumers through their own retail network spanning across the US. As at 31 March 2014, our products were offered at over 6,000 POS in the US, via these retailers. We have established relationships of on average over six years with our key retailer customers and subject to their preferences, we sell to them our products under our own or licensed brands or work closely with them to develop and manufacture visco-elastic products under their own brands and/or designs. One of our key retailer customers was our largest customer during the Track Record Period, and our sales to them accounted for approximately 20.6%, 25.0% and 28.9% of our total revenue during the respective periods.
- (ii) **Retail and corporate sales.** In Hong Kong and the PRC, we mainly sell our products under our "SINOMAX" brand through an extensive distribution network operated by us and by third-party distributors, comprising 39 POS in Hong Kong, 427 POS in the PRC and four POS in Macau, as at 31 March 2014, which are primarily located in leading department stores. In addition to our retail network, we also conduct direct sales to corporates in Hong Kong and the PRC and through third-party online channels.

SUMMARY

- (iii) **Polyurethane foam sales.** We supply polyurethane foams tailored to customers' needs and requirements under our "Tung Ah" (東亞) brand primarily to furniture manufacturers in the PRC. Our key customers include sofa manufacturers, the majority of which are located in the vicinity of our factories.

Products and Brands

Our principal products are: (i) visco-elastic pillows, mattress toppers, mattresses and other health and wellness accessory products; and (ii) polyurethane foams. Our visco-elastic mattresses and mattress toppers are endorsed by the Chiropractic Doctors' Association of Hong Kong. Our visco-elastic, conventional polyether and high resilience foams have been certified by CertiPUR-US, assuring that our foams meet the international standards with respect to physical performance, indoor emissions and environmental stewardship. We own a portfolio of brands with different focus markets and consumer groups, including our established flagship brand "**SINOMAX**" which is primarily targeted at the middle to high end market in Hong Kong and the PRC.

The following table sets forth our revenue by brands for the years indicated:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Export sales segment and retail and corporate sales segment						
Own brands						
SINOMAX ⁽¹⁾	302,949	17.0	315,892	16.0	283,405	12.0
ComforZen	182,759	10.3	281,851	14.3	167,319	7.1
Dream Serenity/ Dream Essentials ⁽²⁾	–	–	111	0.0	385,390	16.2
SPA Supreme	2,304	0.1	4,067	0.2	2,616	0.1
Licensed brands	–	–	11,431	0.6	48,540	2.0
Third-party brands⁽³⁾	693,312	39.0	703,173	35.7	651,010	27.5
Polyurethane foam sales segment						
Tung Ah	597,119	33.6	654,970	33.2	831,259	35.1
Total	1,778,443	100	1,971,495	100	2,369,539	100

Notes:

- (1) Includes products sold collaboratively under "Sinomax" brand and a well-known licensed brand.
- (2) We ceased using the "Dream Essentials" brand since October 2013, which is replaced by the "Dream Serenity" brand.
- (3) Sales under third-party brands means products manufactured for customers to be sold under their own brand names. Such products are either manufactured according to the customers' specifications or designed by us.

Please refer to the section headed "Business – Products and Brands" on page 117 to page 123 of this Prospectus for details.

Research and Development, Production and Suppliers

We adopt a vertically integrated business model that gives us centralised and complete control over our processes, from raw material procurement, design, production and marketing to sales, and gives us the ability to respond quickly to our customers' needs and preferences. This vertically integrated business model serves as the backbone for our future growth.

We put great emphasis on product design. Through our research and development team comprising 54 members as at 31 March 2014, we have taken initiatives to develop and deliver to our customers an array of products adapted to diverse consumer needs over the

SUMMARY

years. We developed 100, 106, 137 and 50 new products and product modifications, and 56, 54, 44 and 11 new foam specifications in each of the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014, respectively. Our visco-elastic pillows, mattress toppers and mattresses are manufactured in our three factories located at Dongguan, Jiashan and Haining in the PRC. These factories have a total designed annual production capacity of 75,113.0 tonnes of foam and a total utilisation rate of over 85% for the year ended 31 December 2013. To enhance quality control in our plants, all of our manufacturing facilities are ISO 9001:2008 and ISO 14001:2004 certified.

Apart from our quality control over the production process, we attribute our ability to maintain the quality of our products in part to our scalable operation which strengthens our bargaining power to source and maintain stable supply of raw materials. In particular, we have been sourcing PPG and TDI, two key raw materials for production of visco-elastic material, from global crude oil companies, including CNOOC and Shell Petrochemicals Company Limited, Mitsui & Co., Ltd. and SKC Co., Ltd., with which we have established stable relationships of an average of over 13 years. For the years ended 31 December 2011, 2012 and 2013, total purchases from our five largest suppliers, all being suppliers of PPG and/or TDI, accounted for approximately 37.5%, 40.7% and 46.4% of our total purchases of raw materials, respectively.

Competitive Strengths

We believe the following strengths differentiate us from our competitors and enable us to maintain our leading position in the markets that we currently operate:

- We own a broad range of brands targeted at various market segments domestically and internationally, enabling us to satisfy consumers with different preferences and needs;
- We have strong research and development capabilities on both foam and product design which support us to offer a comprehensive range of visco-elastic products;
- We possess a vertically integrated business model, allowing us to coordinate rapid responses to changes in market demand, efficiently collaborate on new innovations whilst maintaining uniform standards of product quality;
- Our extensive and international sales and distribution network enables us to reach a diverse consumer base;
- We have leading positions in the mainstream market in the US and in the retail markets in Hong Kong and the PRC of visco-elastic health and wellness products and are well-positioned to capture growth opportunities in the respective markets; and
- We have a dedicated and experienced management team with proven track record of delivering sustainable growth and profitability.

Business Strategies

We strive to maintain and strengthen our position as a globally recognised marketer, manufacturer and distributor of visco-elastic health and wellness products. We aim to strengthen our leading position through the following strategies:

- strengthen our flagship brand recognition through various marketing activities to further enhance overall image, reinforce the association between our products and the notions of health, relaxation and comfort;
- expand our distribution network and diversify our sales channels, in particular, in our key markets, through opening over 10 “Sinomax Life Stores” in the PRC and Hong Kong in 2014, developing our e-commerce channels and exploring an expansion of our traditional and other sales channels in the US;
- expand and diversify our product portfolio through further enhancements of our research and development capabilities and develop into other complementary product segments to capture market opportunities and to meet evolving preferences and demands of consumers;

SUMMARY

- encourage repeat customer purchases and increase customer spending through adjusting our product variety, product mix, hiring more experienced sales personnel and strengthening our customer loyalty programme;
- pursue appropriate strategic acquisitions and business opportunities that are compatible with our business or which will further strengthen our value chain; and
- further enhance our vertically integrated business model through upgrading and acquisition of machineries and expansion of production and warehousing facilities to further improve our operational efficiency.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of our Group. We have derived the summary consolidated financial information from the consolidated financial statements of our Group set forth in the Accountants' Reports in Appendix I to this Prospectus. Our consolidated financial information was prepared in accordance with HKFRSs. You should read the summary consolidated financial information together with the consolidated financial statements in this Prospectus, including the related notes.

Selected Consolidated Income Statement Data

	For the year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Revenue	1,778,443	1,971,495	2,369,539
Gross profit	395,742	464,759	620,627
Gross profit margin	22.3%	23.6%	26.2%
Profit for the year	94,623	115,676	145,033

Our total revenue increased from HK\$1,778.4 million for the year ended 31 December 2011 to HK\$2,369.5 million for the year ended 31 December 2013, representing a CAGR of approximately 15.4%. Our total revenue for the year ended 31 December 2013 increased by 20.2% as compared with that for the year ended 31 December 2012. The increase in revenue was mainly attributable to: (i) the increased sales of our own branded products in North America; (ii) the opening of new self-operated POS in the PRC and HK and the increased sales after we launched Sinomax Life Stores; and (iii) the increased consumer spending and demand for high-end furniture and home accessories made of quality polyurethane foam in the PRC and the increased orders from our polyurethane foam customers. Our gross profit margin increased during the three years ended 31 December 2013 mainly due to the increased sales of our own branded products which had a higher profit margin.

Selected Consolidated Balance Sheet Data

	As of 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	296,050	264,756	306,544
Current assets	881,553	1,018,355	1,122,121
Non-current liabilities	10,166	10,058	8,933
Current liabilities	804,451	793,153	844,476
Total equity	362,986	479,900	575,256

SUMMARY

Selected Consolidated Statement of Cash Flows Data

	For the year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Net cash from operating activities	155,267	139,367	124,227
Net cash (used in) from investing activities	(124,465)	(52,125)	16,002
Net cash from (used in) financing activities	9,536	(70,249)	(146,027)

Key Financial Ratios

The following table sets forth certain key financial ratios of our Group as of the dates indicated:

	As of 31 December		
	2011	2012	2013
Current ratio ⁽¹⁾	109.6%	128.4%	132.9%
Gearing ratio ⁽²⁾	59.5%	39.9%	28.3%

	Year ended 31 December		
	2011	2012	2013
Return on assets ⁽³⁾	8.4%	9.4%	10.7%
Return on equity ⁽⁴⁾	29.7%	27.4%	27.5%

Notes:

- (1) Current ratio is equal to the current assets divided by the current liabilities.
- (2) Gearing ratio is derived by dividing interest-bearing debt incurred in the ordinary course of business by total equity.
- (3) Return on assets represents the profit for the year as a percentage of average total assets. Average total assets equals total assets at the beginning of the year plus total assets at the end of the year, divided by two.
- (4) Return on equity represents the profit for the year as a percentage of the average total equity. Average total equity equals total equity at the beginning of the year plus total equity at the end of the year, divided by two.

The decrease in return on equity for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011 was primarily because we retained a significant portion of our earnings to support our business growth in 2012 while having paid a dividend of HK\$14.4 million in 2011. The return on equity remained stable for the years ended 31 December 2012 and 2013. Our profitability increased by 25.4% between 2012 and 2013, while our average total equity increased by only 25.1% over the same periods because we declared a dividend of HK\$60.0 million in 2013.

The return on assets improved for the years ended 31 December 2012 and 2013, primarily due to our increased net profit.

Please refer to the section headed "Financial Information" on page 201 to page 253 of this Prospectus for further details.

RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. Potential

SUMMARY

investors should consider carefully all the information set forth in this Prospectus and, in particular, the section headed “Risk Factors” in connection with an investment in us. We believe that the following risks are some of the major risks that may materially and adversely affect us:

- For the years ended 31 December 2011, 2012 and 2013, we generated approximately 41.1%, 40.4% and 46.7% of our revenue from our five largest customers and approximately 20.6%, 25.0% and 28.9% of our revenue from the largest customer, respectively. We did not enter into any long-term agreements with these top five customers. Their purchases are on an order-by-order basis;
- For the years ended 31 December 2011, 2012 and 2013, we generated approximately 91.3%, 94.0% and 94.9% of our revenue, respectively, from sales in the US, Hong Kong and the PRC. Our sales are therefore sensitive to changes in the economic conditions, real estate sentiments and consumer discretionary spending in these regions;
- Sales generated from our own and licensed brands represented approximately 27.4%, 31.1% and 37.4% of our total revenue in the years ended 31 December 2011, 2012 and 2013, respectively. We could be adversely impacted if there is any deterioration in the value of any of our brands; and
- The IRD has issued estimated tax assessments to two of our subsidiaries for the years of assessment 2005/06, 2006/07 and 2007/08 amounting to approximately HK\$14,100,000, HK\$24,000,000 and HK\$26,725,000, respectively, against which we have lodged objections. Further, we have not yet filed certain tax returns in respect of taxes for the State of California, United States. We cannot assure that the provisions we have made in relation thereto will be sufficient. See “Financial Information – Description of Selected Income Statement Line Items – Taxation”.

RECENT DEVELOPMENTS

Set forth below are certain developments or expected developments after 31 December 2013 regarding our business:

- Our Directors declared an interim dividend of HK\$60.0 million on 19 September 2013 which was settled in February 2014 from internal resources.
- On 4 March 2014, our Board approved the issuance of 1,499,950,000 Shares under the Capitalisation Issue on or around Listing Date. For further details, please refer to the paragraph headed “A. Further information about our Company and the subsidiaries of our Group” in Appendix IV to this Prospectus.
- Assuming the final Offer Price to be HK\$1.25, being the mid-point of the Offer Price range, we estimate to charge an amount not more than HK\$8.9 million for the year ending 31 December 2014 as employee benefit expenses in connection with the options granted under the Pre-IPO Share Option Scheme.

The Directors confirmed that the listing expenses and expenses in connection with the options granted under the Pre-IPO Share Option Scheme, to be charged to our consolidated statements of profit or loss and/or other comprehensive income for the year ending 31 December 2014, should not have any material adverse impact on our financial position, as the aggregated amount of such expenses are not material to profit attributable to owners of the Company for the year ended 31 December 2013.

The directors of the Company have prepared the consolidated statement of financial position of the Group as at 30 April 2014, and the related consolidated statements of profit or loss and other comprehensive income for the four months ended 30 April 2014 (the “**Subsequent Interim Financial Information**”). The Subsequent Interim Financial Information, which has been prepared in accordance with the accounting policies consistent to those followed in the preparation of the financial information of the Group for the Track Record Period in the Accountants’ Report as set out in Appendix I, does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard (“**HKAS**”) 1 “Presentation of Financial Statements” or an interim financial report as defined in HKAS 34 “Interim Financial Reporting”. Our Reporting Accountants, Deloitte Touche Tohmatsu, have conducted a review on the Subsequent Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity”.

SUMMARY

The following sets out certain financial data for the four months ended 30 April 2014 and as at 30 April 2014:

- Based on the Subsequent Interim Financial Information, our revenue for the four months ended 30 April 2014 was HK\$768.1 million, which represents an increase of 23.3% when compared to that for the same period in 2013, mainly due to increased sales across all three of our business segments (export sales, retail and corporate sales and polyurethane foam sales). In particular our retail and corporate sales increased by 60.2%.
- Based on the Subsequent Interim Financial Information, our gross profit margin for the four months ended 30 April 2014 was 27.0%, which slightly increased from our gross profit margin for the year ended 31 December 2013 of 26.2%.
- As at 30 April 2014, we have recovered 93.2% of the trade receivables outstanding as at 31 December 2013.
- As at 30 April 2014, our Group had banking facilities of HK\$741.0 million, of which HK\$318.7 million were utilised (which amount includes bank loans and bills payables) and our Directors confirmed that we were able to meet the relevant covenants of the relevant bank loans.

Our Directors confirm that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2013 and there is no event since 31 December 2013 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report set out in Appendix I to this Prospectus, in each case except as otherwise disclosed herein.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon Listing. The remaining listing related fees are charged to statement of profit or loss and other comprehensive income. An amount of HK\$20.8 million listing expenses was charged to the consolidated statement of profit or loss and other comprehensive income during the Track Record Period. Assuming an Offer Price of HK\$1.25, being the mid-point of the Offer Price range, we expect to incur approximately an additional HK\$16.3 million in listing expenses, of which approximately HK\$5.7 million will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2014 and approximately HK\$10.6 million will be deducted from equity upon Listing.

SHAREHOLDERS INFORMATION

Upon completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be issued or allotted pursuant to the exercise of the Over-allotment Option or options granted pursuant to the Share Option Schemes), Sinomax Enterprises, one of our Controlling Shareholders, will own 54.55% of the total issued share capital of our Company. LAM Chi Fan, another Controlling Shareholder and our Chairman and an executive Director, is the settlor of The Frankie Trust, the trust assets of which comprise a 50% beneficial interest in Sinomax Enterprises. CHEUNG Tung, another Controlling Shareholder and our President and an executive Director, is the settlor of The Cheung's Family Trust, the trust assets of which comprise a 16.67% beneficial interest in Sinomax Enterprises. CHEN Feng, another Controlling Shareholder and an executive Director, is the settlor of The Feng Chen's Family Trust, the trust assets of which comprise a 16.67% beneficial interest in Sinomax Enterprises. CHEUNG Shui Ying, another Controlling Shareholder, is the settlor of The James' Family Trust, the trust assets of which comprise a 16.67% beneficial interest in Sinomax Enterprises. Please refer to the section headed "Relationship with our Controlling Shareholders" on page 165 to page 168 of this Prospectus for details.

Whilst our Directors are satisfied that we can carry on our business independently of our Controlling Shareholders, we have entered into certain transactions with our connected persons which will continue following the Listing and which will constitute continuing connected transactions within the meaning of the Amended Listing Rules. Please refer to the section headed "Connected Transactions" in this Prospectus for details.

SUMMARY

Further, we have adopted a Pre-IPO Share Option Scheme and a Post-IPO Share Option Scheme. As at the Latest Practicable Date, the number of outstanding Shares subject to the Pre-IPO Share Option Scheme was 34,648,000, being held by 129 Eligible Participants. Assuming the Over-allotment Option is not exercised and all of the outstanding options granted are exercised in full on the Listing Date, this would have a dilutive effect on the shareholdings of our Company of approximately 2.06%. No further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. As at the Latest Practicable Date, no options have been granted under the Post-IPO Share Option Scheme. Please refer to the paragraphs headed “D. Pre-IPO Share Option Scheme” and “E. Post-IPO Share Option Scheme” in Appendix IV to this Prospectus for details.

NON-COMPLIANCE INCIDENTS

Our Directors confirm that all members of our Group have obtained and currently maintain all necessary permits and licences which are material to our Group’s production and sales activities conducted in the US, Hong Kong, the PRC and Macau.

The following sets forth our Group’s incidents of non-compliance during the Track Record Period which, as at the Latest Practicable Date, are either in the process of being resolved or are not matters of a material nature:

- Before October 2013, we did not contribute in full social insurance and housing provident fund contributions.
- Before December 2013, Sinomax Kuka and Sinomax Zhejiang did not obtain the required waste disposal certificates due to the fact that the local environmental protection authorities did not strictly enforce the relevant national laws and regulations.
- The landlords of certain properties for business operation leased by our subsidiaries in the PRC have not completed the lease filing with relevant housing administration due to uncooperative landlords.
- We did not file the relevant tax returns during the Track Record Period in respect of inventories maintained in the State of California, United States.

For details, please refer to the section headed “Business – Legal and Compliance – Non-compliance incidents during the Track Record Period” on page 155 to page 157 in this Prospectus.

Set out below is one non-compliance incident which involved two predecessor companies that took place before the Track Record Period:

In 2008, our predecessor companies, Dongguan Donglian and DG Polyurethane; the Former Management (being our former chairman, vice-chairman and president); and two customs filing staff of our predecessor companies were found guilty by the Guangdong Province Higher People’s Court, upholding the first-instance judgement issued in 2007 by the Guangzhou City Intermediate People’s Court of Guangdong Province for smuggling of common goods during the period from February 2004 to February 2006. As a result, Dongguan Donglian and DG Polyurethane were ordered to pay fines of approximately RMB4.5 million and total evaded duties of approximately RMB7.4 million, and that the Former Management and the two customs filing staff were sentenced to jail for terms ranging from two and a half years to 12 years.

After the incident, our Group has undergone a group reorganisation and has taken steps to address the deficiencies in our internal control system while the Former Management have ceased to be involved in the management of our business since 2006. The Former Management confirmed that they will not be involved in the business of our Group going forward. In addition, each of LIN Han Li and CHEUNG Fung, Jackson has respectively transferred his interest in our Company to The Lin’s Family Trust and The Jackson Trust, and registered under the name of Summer Wealth and Jacksonville, respectively. Immediately following the Capitalisation Issue, all interest in our Company held by Summer Wealth and Jacksonville (being altogether 600,000,000 Shares) will be sold to the public pursuant to the International Offering. For details of the sale of Shares by the Selling Shareholders, please refer to the section headed “Structure of the Global Offering” in this Prospectus.

SUMMARY

Each of (i) the Former Management, (ii) Summer Wealth, (iii) Jacksonville and (iv) Orangefield (in its capacity as trustee of The Lin's Family Trust and The Jackson Trust) has unconditionally and irrevocably undertaken to our Company, the Sole Sponsor and the Hong Kong Stock Exchange that, to the extent applicable, (1) before the Global Offering, he/it will not exercise the voting rights of any Shares directly or indirectly attributable to any of the Former Management, The Lin's Family Trust or The Jackson Trust, (2) he/it will dispose of all Shares held directly or indirectly by the Former Management, The Lin's Family Trust and The Jackson Trust in the Global Offering; and (3) after the Global Offering, he/it shall not directly or indirectly acquire, participate or hold any rights, interests or shares in our Company. Please refer to the section headed "Our History and Reorganisation – Reorganisation and Corporate Structure – The Reorganisation – (6) Formation of family trusts" for further details.

To further enhance our corporate governance procedures and our internal control system, we have taken and will adopt after Listing various measures. Please refer to the section headed "Business – Legal and Compliance – Non-compliance incident of our predecessor companies" on page 158 to page 162 in this Prospectus for further details regarding the incident and the preventive measures adopted by our Group.

OFFERING STATISTICS

All statistics in this table are based on the assumption that none of the Over-allotment Option or options granted or to be granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme is exercised.

	Based on minimum indicative Offer Price of HK\$1.06 per Offer Share	Based on maximum indicative Offer Price of HK\$1.43 per Offer Share
Market capitalisation of our Shares	HK\$1,749 million	HK\$2,360 million
Unaudited pro forma adjusted net tangible assets value per Share	HK\$0.41	HK\$0.45
Global Offering structure	<p>(i) the Hong Kong Public Offering of initially 75,000,000 Hong Kong Offer Shares (comprising 75,000,000 New Shares, subject to adjustment), representing 10% of the total number of Offer Shares initially available under the Global Offering. Of the 75,000,000 Hong Kong Offer Shares, 3,750,000 Offer Shares are available for subscription by Eligible Employees on a preferential basis under the Employee Preferential Offering; and</p> <p>(ii) the International Offering of initially 675,000,000 International Offer Shares (comprising 75,000,000 New Shares and 600,000,000 Sale Shares, subject to adjustment and the Over-allotment Option), representing 90% of the total number of Offer Shares initially available under the Global Offering</p> <p><i>Note:</i> The Selling Shareholders, being Summer Wealth and Jacksonville, will each sell 300,000,000 Sale Shares to the public under the Global Offering.</p>	
Employee Preferential Offering	3,750,000 Employee Reserved Shares initially, representing approximately 5% of the total number of Hong Kong Offer Shares	

SUMMARY

Over-allotment Option up to an aggregate of 112,500,000 additional Shares to be allotted and issued by our Company representing approximately 15% of the total number of Offer Shares initially available under the Global Offering, in connection with over-allocations in the International Offering, if any

DIVIDEND POLICY

In 2011, Sinomax Kuka declared dividends of approximately RMB26.1 million (equivalent to approximately HK\$32.1 million) to Trade Sincere and in turn, Trade Sincere declared dividends of approximately HK\$28.3 million, which was paid to their then shareholders at the time of declaration. On 19 September 2013, our Directors declared an interim dividend totaling HK\$60.0 million to our then sole shareholder and the amount was settled in February 2014 from internal resources. Save as disclosed above, we did not declare or pay any dividend during the Track Record Period.

The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon our earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions our Directors may deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends.

USE OF PROCEEDS

The net proceeds from the Global Offering to us (after deducting underwriting fees and estimated total expenses paid and payable by us in connection thereto) are estimated to be approximately HK\$171.2 million assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 per Share, being the mid-point of the proposed Offer Price range of HK\$1.06 to HK\$1.43 per Share. We intend to use such net proceeds as follows:

<u>Approximate Amount</u>	<u>Approximate Percentage of Net Proceeds</u>	<u>Purposes</u>
HK\$46.2 million.	27%.	Brand building and promotion
HK\$47.9 million.	28%.	Strategic acquisitions and business opportunities
HK\$20.5 million.	12%.	Expand our distribution network and diversify our sales channels
HK\$24.0 million.	14%.	Upgrading and acquiring production equipment and building new production warehouse facilities in Dongguan and Jiashan
HK\$10.3 million.	6%	Acquiring or set up production facilities in the US
HK\$5.2 million	3%	Design, research and development
HK\$17.1 million.	10%.	General working capital

If the Offer Price is set at the highest or lowest point of the Indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase by approximately HK\$26.1 million or decrease by approximately HK\$27.5 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis. Please refer to the section headed "Future Plans and Use of Proceeds" on page 254 to page 255 of this Prospectus for details.

The net proceeds from the Sale Shares are estimated to be approximately HK\$707.7 million assuming an Offer Price of HK\$1.25 per Share, being the mid-point of the proposed Offer Price range of HK\$1.06 to HK\$1.43 per Share. The net proceeds from the Sale Shares will be attributable to the Selling Shareholders only and will not belong to our Company.

Investors should read this entire Prospectus carefully and should not consider any particular statements in this Prospectus or in published media reports without carefully considering the risks and other information contained in this Prospectus.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms and expressions shall have the meanings set out below.

“Accountants’ Report”	the Accountants’ Report contained in Appendix I to this Prospectus
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s), GREEN Application Form(s) and PINK Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Amended Listing Rules”	the Listing Rules which shall be amended and shall become effective on 1 July 2014
“Articles of Association” or “Articles”	the articles of association of our Company approved and conditionally adopted by our then Shareholders on 4 March 2014 and effective on the Listing Date, as amended or supplemented from time to time, a summary of which is contained in Appendix III to this Prospectus
“Ascension”	Ascension International Development Limited (高晉國際發展有限公司), formerly known as Ascension International Limited (高升國際有限公司), a company incorporated in the BVI on 23 November 2004 and an indirect wholly-owned subsidiary of our Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules and on or after 1 July 2014, the Amended Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of a certain sum standing to the credit of the share premium account of the Company referred to in the sub-paragraph headed “3. Resolutions in writing of our Shareholders” under the paragraph headed “A. Further information about our Company and the subsidiaries of our Group” in Appendix IV to this Prospectus
“Cayman Companies Law”	the Companies Law (2013 Revision) of the Cayman Islands, as amended, supplemented, or otherwise modified from time to time

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China which, for the purpose of this Prospectus, excludes Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Amended Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “Sinomax Group”	Sinomax Group Limited, a company incorporated under the laws of the Cayman Islands on 5 June 2012 as an exempted company with limited liability
“connected person(s)”	has the meaning ascribed to it under the Listing Rules and on or after 1 July 2014, the Amended Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules and on or after 1 July 2014, the Amended Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and upon completion of the Global Offering, comprises Sinomax Enterprises, LAM Chi Fan, CHEUNG Tung, CHEN Feng and CHEUNG Shui Ying
“core connected person(s)”	has the meaning ascribed to it under the Amended Listing Rules

DEFINITIONS

“DG Polyurethane”	Sinomax Polyurethane (Dongguan) Co., Ltd.* (聖諾盟聚氨酯(東莞)有限公司), a company established in the PRC on 18 July 2003 as a wholly foreign-owned enterprise indirectly wholly-owned by Sinomax Enterprises, hence, a connected person of our Company
“Director(s)”	the director(s) of our Company
“Dongguan Donglian”	Dongguan Donglian Furniture Co., Ltd.* (東莞東聯傢俱有限公司), a company established in the PRC on 12 February 1999 as a wholly foreign-owned enterprise and indirectly wholly-owned by Sinomax Enterprises, hence, a connected person of our Company
“Dongguan Sinohome”	Dongguan Sinohome Limited* (東莞賽諾家居用品有限公司), a company established in the PRC on 19 June 2007 as a wholly foreign-owned enterprise and an indirect wholly-owned subsidiary of our Company
“Eligible Employee”	an employee of our Group who: (a) is at least 18 years of age; (b) has a Hong Kong address and is a holder of Hong Kong Identity Card; (c) remains as an employee of our Group and is not on probation, as at the Latest Practicable Date; (d) has not tendered his/her resignation or been given notice of termination of employment for any reason other than redundancy or retirement on or before the Latest Practicable Date; (e) not a director or chief executive officer of our Company and/or any of its subsidiaries; (f) not an existing beneficial owner of our Shares or of shares of any of the subsidiaries of our Company; and (g) is not an associate (as defined in the Listing Rules) or close associate (as defined in the Amended Listing Rules), where applicable, of the persons listed in (e) and/or (f) above
“Employee Preferential Offering”	the preferential offer of the Employee Reserved Shares to the Eligible Employees for subscription at the Offer Price on a preferential basis as to allocation only, as further described in the section headed “Structure of the Global Offering – The Employee Preferential Offering” in this Prospectus
“Employee Reserved Shares”	the 3,750,000 Offer Shares (representing approximately 5% of the total number of Offer Shares initially being offered under the Hong Kong Public Offering and 0.5% of the Global Offering (assuming that the Over-allotment Option is not exercised)), being offered pursuant to the Employee Preferential Offering and which are to be allocated out of the Hong Kong Offer Shares

DEFINITIONS

“Eurozone”	the euro area, an economic and monetary union of 18 European Union member states that have adopted the euro (€) as their common currency and sole legal tender
“Former Management”	the former chairman, vice-chairman and president of Sinomax Holding, namely CHEUNG Chi Hung, LIN Han Li and CHEUNG Fung, Jackson respectively
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an independent third party
“Frost & Sullivan Report”	a report that we commissioned Frost & Sullivan to prepare regarding the visco-elastic health and wellness product markets in the US, Hong Kong and the PRC, and polyurethane foam market in the PRC
“Fullelite”	Fullelite Limited (傑豐有限公司), a company incorporated in the BVI on 12 May 2005 and an indirect wholly-owned subsidiary of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “the Group” or “our Group”	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries
“Gross Floor Area” or “GFA”	the above-ground and underground saleable and/or leasable area contained within the external walls of any property at each floor level and the whole thickness of the external walls of the relevant property together with other non-leasable and non-saleable area, as shown in the relevant property ownership certificate. In general, this includes mechanical and electrical services rooms, refuse rooms, water tanks, carparking floors, lifts and staircases (as the case may be)
“Gu Jia Household”	Gu Jia Household Co., Limited* (顧家家居股份有限公司), formerly known as Hangzhou Zhuangsheng Furniture Manufacturing Co., Limited* (杭州莊盛家具製造有限公司), a company established in the PRC on 31 October 2006, a connected person of our Company, holding 40% equity interest in Sinomax Kuka

DEFINITIONS

“Haining Sinomax”	Haining Sinomax Trading Co., Ltd.* (海寧聖諾盟貿易有限公司), a company established in the PRC on 27 December 2012 and a wholly-owned subsidiary of Sinomax Kuka
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form (www.hkeipo.hk)
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by us, as specified on the designated website www.hkeipo.hk
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 75,000,000 New Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong at the Offer Price, on and subject to and the terms and conditions set out in this Prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the section headed “Underwriting – Hong Kong Underwriters” in this Prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated 27 June 2014 relating to the Hong Kong Public Offering entered into amongst our Company, the Selling Shareholders, the Hong Kong Underwriters and our Controlling Shareholders
“independent third party(ies)”	persons or companies who/which, as far as our Directors are aware after having made reasonable enquiries, are not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of our Company or any of our subsidiaries, or their respective associates
“Individual Shareholders”	the six individuals, namely Mr. LAM Chi Fan, Mr. LIN Han Li, Mr. CHEUNG Fung, Jackson, Ms. CHEUNG Shui Ying, Mr. CHEUNG Tung and Mr. CHEN Feng, who, prior to the Reorganisation, were ultimately in control of the companies now comprising the Group
“International Offer Shares”	the 675,000,000 Shares being initially offered for subscription under the International Offering, comprising 75,000,000 New Shares being initially offered by our Company for subscription and 600,000,000 Sale Shares offered by the Selling Shareholders for purchase at the Offer Price (subject to the Over-allotment Option and adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus)
“International Offering”	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in reliance on Regulation S, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this Prospectus
“International Underwriters”	the underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into amongst our Company, the International Underwriters, the Selling Shareholders and our Controlling Shareholders on or about the Price Determination Date
“IRD”	the Hong Kong Inland Revenue Department
“Jacksonville”	Jacksonville Sky Park Limited, a company incorporated in the BVI on 26 February 2014, directly wholly-owned by Orangefield beneficially as trustee of The Jackson Trust

DEFINITIONS

“Latest Practicable Date”	Friday, 20 June 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this Prospectus prior to its publication
“Leased area”	in relation to a property, the GFA of the property subject to a lease agreement
“Listing”	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Hong Kong Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Main Board of the Hong Kong Stock Exchange, which is expected to be on or about Thursday, 10 July 2014
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company approved and conditionally adopted by our then Shareholders on 4 March 2014 and effective on the Listing Date, as amended or supplemented from time to time
“Ministry of Commerce” or “MOFCOM”	The Ministry of Commerce of the PRC (中華人民共和國商務部)
“New Shares”	the new Shares being initially offered by our Company for subscription under the Hong Kong Public Offering and the International Offering
“Offer Price”	the final offer price per Offer Share (exclusive of a brokerage fee of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK\$1.43 and expected to be not less than HK\$1.06, such price to be agreed upon by us, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date, in the manner further described in the section headed “Structure of the Global Offering” in this Prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together (where relevant) with any Shares which may be issued pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Orangefield”	Orangefield Trustees (BVI) Limited, a company incorporated in the BVI on 6 April 2010, a professional trustee authorised to provide trustee services pursuant to a licence issued by BVI Financial Services Commission on 29 May 2013 and a member of the Orangefield Group, the predecessor of which is ING Trust
“Over-allotment Option”	the option to be granted by the Company to the International Underwriters pursuant to the International Underwriting Agreement, exercisable by the Sole Global Coordinator, on behalf of the International Underwriters, pursuant to which the Company may be required to allot and issue an aggregate of up to 112,500,000 additional Shares (representing approximately 15% of the total number of Offer Shares initially available under the Global Offering) at the Offer Price to, amongst other things, cover over-allocations in the International Offering (if any) as further described in the section headed “Structure of the Global Offering – Over-allotment Option” in this Prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pearl River Delta”	for the purposes of this Prospectus only, a region of Guangdong province of the PRC, which is a low-lying area surrounding the Pearl River estuary where the Pearl River flows into the South China Sea, including major cities such as Dongguan, Foshan, Hong Kong, Huizhou, Jiangmen, Macau, Shenzhen, Zhongshan and Zhuhai
“ PINK Application Form(s)”	the application form(s) to be sent to Eligible Employees to subscribe for Employee Reserved Shares pursuant to the Employee Preferential Offering
“POS”	points of sale
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by our Company on 4 March 2014, the principal terms of which are set out under the paragraph headed “E. Post-IPO Share Option Scheme” in Appendix IV to this Prospectus
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally adopted by our Company on 13 December 2013, the principal terms of which are set out under the paragraph headed “D. Pre-IPO Share Option Scheme” in Appendix IV to this Prospectus

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into among our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters), at or about the Price Determination Date to fix the Offer Price
“Price Determination Date”	the date on which the Offer Price is to be fixed by the Price Determination Agreement, which is expected to be on or about Friday, 4 July 2014
“Prospectus”	this prospectus dated 30 June 2014 being issued in connection with the Hong Kong Public Offering
“Regulation S”	Regulation S under the US Securities Act
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the reorganisation arrangements undergone by our Group in preparation for the Listing which are more particularly described in the section headed “Our History and Reorganisation” in this Prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	the 600,000,000 Shares being initially offered by the Selling Shareholders for purchase under the International Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Selling Shareholders”	Summer Wealth and Jacksonville
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share Option Schemes”	Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme
“Share(s)”	ordinary share(s) of nominal value of HK\$0.1 each in the capital of our Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Sinohome Shenzhen”	Sinohome Household Products (Shenzhen) Limited* (賽諾家居用品(深圳)有限公司), a company established in the PRC on 10 December 2005 as a wholly foreign-owned enterprise, an indirect wholly-owned subsidiary of our Company
“Sinomax Enterprises”	Sinomax Enterprises Limited (聖諾盟企業有限公司), a company incorporated in the BVI on 26 July 2004, and one of our Controlling Shareholders
“Sinomax Health”	Sinomax Health & Household Products Limited (聖諾盟健康家居用品有限公司), a company incorporated in Hong Kong on 30 June 2003 and an indirect wholly-owned subsidiary of our Company
“Sinomax Holding”	Sinomax (Holding) Group Limited (聖諾盟控股集團有限公司), a company incorporated in Hong Kong on 19 January 2000 by our founders to engage in the wholesale of polyurethane foams and export of polyurethane foam products and the predecessor company of Sinomax Enterprises
“Sinomax Investment”	Sinomax International Investment Limited (聖諾盟國際投資有限公司*), a company incorporated in the BVI on 18 December 2003 and an indirect wholly-owned subsidiary of our Company
“Sinomax Kuka”	Sinomax Kuka (Zhejiang) Foam Co. Limited* (浙江聖諾盟顧家海綿有限公司), a company established in the PRC on 29 December 2005 as a wholly foreign-owned enterprise and subsequently transformed into a Sino-foreign joint venture, which is owned as to 60% by Trade Sincere and 40% by Gu Jia Household
“Sinomax Life Store”	「生活館」, a self-operated POS, where a comprehensive selection of health and wellness products under our flagship brand “ SINOMAX ” (SINOMAX) are displayed in an atmosphere embodying our philosophy of relaxation, health and comfort
“Sinomax Macao”	Sinomax Macao Commercial Offshore Limited, (also known as Sinomax Comercial Offshore de Macau Limitada) (聖諾盟澳門離岸商業服務有限公司), a company incorporated in Macau on 6 October 2004 and an indirect wholly-owned subsidiary of our Company
“Sinomax Trading”	Sinomax International Trading Limited (聖諾盟國際貿易有限公司), a company incorporated in Hong Kong on 15 September 2011 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Sinomax USA”	Sinomax USA, Inc, a company incorporated under the laws of the State of Delaware, USA on 7 June 2005 and an indirect wholly-owned subsidiary of our Company
“Sinomax Zhejiang”	Sinomax (Zhejiang) Polyurethane Household Products Limited* (聖諾盟(浙江)聚氨酯家居用品有限公司), a company established in the PRC on 2 August 2004 and an indirect wholly-owned subsidiary of our Company
“Sole Sponsor”, “Sole Global Coordinator” and “Sole Bookrunner”	China Merchants Securities (HK) Co., Limited, licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO
“Stabilisation Manager”	China Merchants Securities (HK) Co., Limited
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between the Stabilisation Manager and Sinomax Enterprises
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Summer Wealth”	Summer Wealth Holding Limited, a company incorporated in the BVI on 26 February 2014, directly wholly-owned by Orangefield beneficially as trustee of The Lin’s Family Trust
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as approved by the SFC and as amended from time to time
“Track Record Period”	the three financial years ended 31 December 2011, 31 December 2012 and 31 December 2013
“Trade Sincere”	Trade Sincere Limited (貿誠有限公司*), a company incorporated in the BVI on 12 May 2005, owned as to 85% by Treasure Range and as to 15% by QIAN Hong Xiang, a director of certain subsidiaries of our Company and a connected person of our Group
“Treasure Range”	Treasure Range Holdings Limited, a company incorporated in Hong Kong on 21 May 2013 and a direct wholly-owned subsidiary of our Company
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

DEFINITIONS

“United States” or “US” or “USA” or “U.S.” or “U.S.A”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US persons”	US persons as defined in Regulation S
“US Securities Act”	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“USD” or “US\$”	United States dollars, the lawful currency of the United States
“ WHITE Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in an applicant’s own name
“Wonderful Health”	Wonderful Health Limited, a company incorporated in the BVI on 8 April 2005 and an indirect wholly-owned subsidiary of our Company
“Year Prosper”	Year Prosper Limited (盛年有限公司*), a company incorporated in the BVI on 6 February 2004 and an indirect wholly-owned subsidiary of our Company
“ YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this Prospectus was as of the Latest Practicable Date.

Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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 or another language which are marked with “*” and the Chinese translation of company names in English which are marked with “*” is for identification purposes only.

Unless otherwise specified, all relevant information in this Prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary contains certain technical terms used in this Prospectus in connection with our Company and our business. Such terms and their meanings may not correspond to standard industry definitions or usage.

“ANSI/ASQ Z1.4-2008”	ANSI/ASQ Z1.4-2008 Sampling Procedures and Tables for Inspection by Attributes, an acceptance sampling system used with switching rules on a continuing series of lots for specified Acceptance Quality Limit (AQL), providing tightened, normal, and reduced plans to be applied for attributes inspection
“CAGR”	compound annual growth rate
“CertiPUR-US”	CertiPUR-US [®] , a programme of the Alliance for Flexible Polyurethane Foam, Inc., an organisation formed in 1995 and incorporated in 2008 as the trade association of US flexible polyurethane foam manufacturers and their suppliers
“ERP”	enterprise resource planning system, a computer system adopted by us that helps us keep track of our production and inventory levels
“GDP”	gross domestic product (all references to GDP growth rates are, unless expressly specified otherwise, to real as opposed to nominal rates of GDP growth)
“health and wellness products”	means pillows, mattresses, mattress toppers, and/or other products including cushions and travel accessories
“Incoterms”	International Commercial Terms
“ISO”	International Organisation for Standardisation
“ISO 9001”	ISO standards for quality management which are primarily concerned with what an organisation does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organisation must do to manage processes influencing product quality
“ISO 14001”	ISO standards for environmental management which are primarily concerned with what an organisation does to minimise harmful effects on the environment caused by its activities and which set requirements for what an organisation must do to manage processes influencing the impact of its activities on the environment

GLOSSARY OF TECHNICAL TERMS

“mainstream market”	means the market selling mainstream products in the US
“mainstream products”	means visco-elastic health and wellness mainstream products in the US market, with retail tag price of a mainstream queen size mattress (60x80 inches) and a mainstream regular contour pillow (21x15 inches) mainly under US\$1,000 and US\$80, respectively, in 2013, according to Frost & Sullivan
“polyurethane foam” or “foam”	a number of different types of foam consisting of polymers made of molecular chains bound together by urethane links, consisting of conventional polyether foams, high resilience foams and visco-elastic foams, which are commonly used for furniture, sofa, bedding and cushion
“PPG”	polypropylene glycol or polypropylene oxide, a key raw material of polyurethane foam
“TDI”	toluene diisocyanate, a key raw material of polyurethane foam
“visco-elastic” or “visco-elastic material” or “visco-elastic foam”	means visco-elastic polyurethane foam, commonly known as memory foam, originally developed by National Aeronautics and Space Administration (NASA) in 1966 in an effort to relieve astronauts of the g-forces experienced during lift-off and subsequently made this formulae publicly available
“visco-elastic health and wellness products” or “visco-elastic products”	means pillows, mattresses, mattress toppers, and/or other products including cushions and travel accessories made of visco-elastic material

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES

This Prospectus contains certain statements that are, or may be deemed to be, “forward-looking statements”, and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim”, “anticipate”, “believe”, “consider”, “continue”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negatives thereof or similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, our business, results of operations, financial condition, profitability, future prospects, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our strategies, plans, objectives and goals;
- changes to our strategy, plans, objectives and goals;
- the business opportunities that we may pursue;
- the amount and nature of, and potential for, future development of our business;
- our ability to reduce costs;
- the actions and developments of our customers and competitors;
- the loss of any of our largest customers;
- increases in the costs of raw materials;
- our dividend policy;
- global general economic, market and business conditions;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- changes in the general operating environment of the visco-elastic health and wellness product industries around the world;
- changes in the governmental policies, laws or regulations of the relevant jurisdictions our Group or its customers operate in, in particular those affecting the visco-elastic health and wellness product industry;

FORWARD-LOOKING STATEMENTS

- certain statements in the section headed “Financial Information” in this Prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- the other risk factors discussed in this Prospectus as well as other factors beyond our control.

Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Investing in the Shares involves certain risks. You should read this Prospectus in its entirety and carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares.

If any of the following risks materialises, our business, results of operations, financial condition, profitability and future prospects could be materially and adversely affected. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

In addition, we are also subject to other risks and uncertainties that are not currently known to us or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition, profitability and future prospects.

We believe that there are certain risks and uncertainties involved in our operations and on investing in our Shares, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our sales are concentrated among our key customers and the loss of any one of these customers could reduce our revenues and have a material adverse effect on our business, financial condition and results of operations

Sales to our top five customers accounted for approximately 41.1%, 40.4% and 46.7% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively, with one customer in our export sales segment accounting for more than 20.6%, 25.0% and 28.9% of our total revenue during the same periods.

We do not enter into any long-term agreements with these top five customers. Their purchases are on an order-by-order basis. As such, these customers are not bound by any exclusivity terms nor obliged to fulfil any minimum purchasing requirements with us. Accordingly, we cannot assure you that they will continue to place purchase orders with us at existing volumes or pricing levels, or at all. We cannot assure you that we will be able to maintain stable relationships with our key customers. A substantial decrease of purchases from these customers, or deterioration in business relationships with them, could materially and adversely affect our product sales, financial condition and results of operations.

Changes in the economic conditions in the US, Hong Kong and the PRC could adversely affect our sales or growth

Our sales are sensitive to changes in the economic conditions, real estate market sentiments and consumer discretionary spending, especially in the US, Hong Kong and the PRC. Approximately 91.3%, 94.0% and 94.9% of our total revenue was generated from sales in the US, Hong Kong and the PRC, for the years ended 31 December 2011, 2012 and 2013, respectively. The global economy as a whole has experienced a slowdown in recent years due to factors such as the Eurozone debt crisis and resulting pressure on global financial markets. For instance, nominal GDP growth in the US has slowed down from 3.8% in 2011 to 3.0% in 2013, nominal GDP growth in Hong Kong has slowed down from 9.0% in 2011 to 6.2% in 2013 and that of the PRC has slowed down from a nominal GDP growth of 17.8% in 2011 to 9.5% in 2013, according to the International Monetary Fund forecast and the National Bureau of Statistics of China.

RISK FACTORS

A decline in the global economy, the real estate market or in consumer confidence may dampen the demand for our products which could have a material adverse effect on our business, results of operations and financial condition.

In addition, as was evident in the economic downturn in 2008 and 2009, disruptions in the financial markets can result in reduced liquidity and increased borrowing costs, which could adversely affect us, our customers and our suppliers. We may not be able to raise capital on favourable terms or at all, which could have an adverse impact on our business. As a result, we may find it difficult to plan or carry out future business activities. A continuation or further weakening of current economic conditions could have a material adverse impact on our business, financial condition and results of operations.

Deterioration in the value of our brands could have an adverse effect on our sales, financial condition and results of operations

We are dependent on the goodwill of our brands for the continued success and growth of our business. In particular, we rely on sales of our “SINOMAX” branded products in Hong Kong and the PRC, and products under other brands owned by or licensed to us in other territories. Sales of our own and licensed brands products represented approximately 27.4%, 31.1% and 37.4% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Maintaining and promoting the strength of our brands will depend on our design and marketing efforts, including advertising and consumer campaigns, as well as product innovation. We could be adversely impacted if we fail to achieve any of these objectives.

Adverse publicity about regulatory or legal action against us could damage our reputation, our brands images, undermine our customers’ confidence in us and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations. In addition, as there is a strong correlation between the strength of a brand and the pricing of the brand’s products, any negative publicity associated with our branded products, including our “SINOMAX” brand, could result in our inability to maintain or increase the retail prices of our products. If we do not maintain, develop or enhance our brand image, then our product sales, financial condition and results of operations could be materially and adversely affected. Please refer to the section headed “Business – Products and Brands – Our brands” in this Prospectus for further details regarding our brands.

We may be subject to additional tax liabilities, which could have adverse impacts on our financial condition

Our income tax filing positions and consolidated income tax provisions and accruals are based on interpretations of applicable tax law, including income tax treaties between the various countries in which we operate, as well as underlying rules and regulations with respect to transfer pricing. Significant judgment and the use of estimates are required in determining our provisions for income taxes. Although we believe our tax estimates are reasonable and our transfer pricing policies comply with applicable laws and practices, the final determination of the relevant tax authorities could be materially different from our historical income tax provisions and accruals and we may face adverse tax consequences if any of the relevant tax authorities determine that our transfer pricing policies constitute unfavourable transfer pricing arrangements. This could have a material effect on our financial statements in the period or periods for which that determination is made. We also periodically review and adjust our estimates and assumptions of income tax assets and liabilities as circumstances warrant. Any such adjustment could reduce or increase the value of income tax assets and liabilities resulting in a material income tax charges or recovery in future periods.

RISK FACTORS

The IRD has issued estimated profits tax assessments of approximately HK\$14,100,000, HK\$24,000,000 and HK\$26,725,000 to two of our subsidiaries for the years of assessment 2005/06, 2006/07 and 2007/08 respectively, against which our Group has lodged objection. Further, we have not yet filed certain tax returns in respect of taxes for the State of California, United States. Please refer to the section headed “Financial Information – Description of selected income statement line items – Taxation” in this Prospectus for details. We cannot assure you the provisions made by us in relation thereof will be sufficient for the final assessment by the relevant tax authorities. Any additional tax liabilities that are not sufficiently covered by the provisions could have adverse impacts on our future financial condition.

Counterfeiting, imitation, and/or infringement by third-parties could negatively affect our reputation and brand name, which in turns affects our sales, financial condition and results of operations

We rely on intellectual property laws in the US, Hong Kong, the PRC and other jurisdictions to protect our trademarks and brands. While we undertake a pro-active approach to manage our intellectual property portfolio to protect our trademarks and brands, including seeking and maintaining proper registration of our trademarks and patents, the measures we take to protect our trademarks or other intellectual property rights may not be adequate to prevent unauthorised use by third-parties. We cannot give assurance that counterfeiting or imitation of our products will not occur in the future or, if it does occur, that we will be able to detect or address the problem effectively. Any occurrence of counterfeiting or imitation of our products or other breaches of our intellectual property rights could negatively affect our reputation and brand name, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our results of operations. Please refer to the section headed “Business – Intellectual Property” in this Prospectus for further details regarding our intellectual properties.

Risk associated with our export sales, such as import/export restrictions, may adversely affect our business, results of operations and financial condition

We derive a significant portion of our revenue from our export sales operating segment, which accounted for approximately 49.3%, 51.7% and 52.9% of our revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Our export sales operations are subject to certain inherent risks, including:

- exposure to local economic, political and labour conditions;
- changes in laws, regulations, trade, monetary or fiscal policy;
- tariffs, quotas, customs and other import or export restrictions and other trade barriers, trade sanctions or anti-dumping measures; and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

Due to the international nature of our business, we may be required to allocate appropriate staffing to monitor our on-going compliance matters. Our export sales operations may further be adversely affected by natural disaster, acts of war, political instabilities, domestic or international terrorist attacks and hostilities or other complications. These uncertainties could have a material adverse effect on the continuity of our business, results of operations and financial condition.

RISK FACTORS

Our new retail POS may not achieve our expected level of profitability within our desired time frame, or at all, which could adversely affect our growth prospects and financial condition

During the past year, we opened several new retail POS in Hong Kong and the PRC and as part of our business strategy, we plan to establish more POS within the geographical areas where we currently operate and in new areas where we currently have no presence. For further details, please refer to the section headed “Business – Strategies” in this Prospectus. The success of our expansion plan is subject to, among other things, the following factors:

- the existence and availability of suitable regions and locations for expansion of our retail network and sales channels in Hong Kong and the PRC;
- the availability of suitable distributors;
- our ability to negotiate favourable cooperation terms with our landlords and department stores;
- the availability of adequate management and financial resources;
- our ability to hire, train and retain skilled personnel;
- the effectiveness of our marketing activities in the locality; and
- the adaptation of our logistics and other operational and management systems to expanded distribution and sales channels.

Accordingly, we cannot give assurance that we will be able to achieve our expansion goals or effectively achieve our expected level of profitability for our new POS for a prolonged period of time. If we encounter difficulties in expanding our sales channels, or our new POS do not break even or achieve our expected level of profitability within our expected time frame, or at all, our growth prospects may be limited, and our business, financial condition and results of operations may be adversely affected.

Our future acquisitions may prove to be difficult to integrate and manage or may not be successful

We consider growing our business by exploring attractive acquisitions and collaboration opportunities that are compatible with our business. Please refer to the section headed “Business – Strategies” in this Prospectus for further details. As of the Latest Practicable Date, we had no acquisition target and had not entered into any agreement or memorandum to acquire any company or business. This strategy entails potential risks that could have a material adverse effect on our business, financial condition, results of operations and prospects, including unidentified or unanticipated liabilities or risks in the assets or businesses which we may acquire, inability to successfully integrate the products, services and personnel of the businesses which we may acquire into our operations or to realise any expected cost savings or other synergies from the acquisitions, the need to incur additional indebtedness, which may reduce our cash available for operations and other uses due to increased debt repayment obligations, inability to retain employees and customers relationships, customer overlap or loss of customers and diversion of management attention and other resources.

We may not be able to identify attractive acquisition opportunities, or make acquisitions on attractive terms or obtain financing necessary to complete and support such acquisitions. In addition, the anticipated future expansion of our operations through acquisitions will place a significant strain on our management, internal controls and

RISK FACTORS

information technology systems and resources, and could also result in additional expenditure. In addition to training, managing and integrating our workforce, we will need to continue to develop and improve our management and financial controls. We cannot assure you that we will be able to successfully integrate any acquisitions that we undertake or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

Any failure to maintain effective quality control systems at our facilities could have a material adverse effect on our business and operations

The performance and quality of our products are critical to the success of our business, and depend significantly on the effectiveness of our quality control systems, which in turn, rely on a number of factors, including the design of the systems, the quality training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, reputation, financial condition and results of operations.

In addition, our production plants, having received the ISO 14001 and ISO 9001 certificates, are internationally recognised with respect to our environmental and quality management standards. Our Directors believe these recognitions and certifications are a significant contributor to our overall success. Accordingly, any significant failure or deterioration of our quality control systems could result in a loss of such recognitions and certifications, which in turn could have a material adverse effect on our reputation and prospects.

Our operating results may fluctuate due to seasonality and other factors

Our operating results are subject to seasonality. We typically experience higher sales in our export sales segment during Thanksgiving and Christmas holidays and lower sales in our polyurethane foam sales segment during the Chinese New Year holidays when most of the factories in the PRC are closed. Sales may also fluctuate during the course of a financial year for a number of other reasons, including the timing of launching new products and advertising and promotional campaigns. As a result, these seasonal consumption patterns may cause our operating results to fluctuate from period to period and therefore, comparisons of revenue and results of operations across different periods of a given year as an indicator of our performance may not be meaningful and should not be relied upon as indicators of our future performance.

Volatility in the pricing of raw materials that we use in our products could materially and adversely affect our business, financial condition and results of operations

Our industry has been challenged by volatility in the price of petroleum-based products, which affects the cost of chemicals, including PPG and TDI, the principal raw materials for the production of visco-elastic material and other polyurethane foams. The total purchases of chemicals accounted for approximately 69.9%, 77.1% and 77.3% of our total raw material purchases, for the years ended 31 December 2011, 2012 and 2013, respectively. We are exposed to commodity price risks resulting from fluctuation of prices of chemicals. Please refer to the section headed "Financial Information" in this Prospectus for our sensitivity analysis in relation thereto. We have not entered into any long-term agreement with any of our raw materials suppliers, nor have we entered into any hedging arrangements or transactions to reduce our exposure to fluctuations in raw materials costs. If we experience an increase in the cost of sales due to fluctuations in the price of raw materials and we cannot pass the costs on to our customers, our sales, sales margins, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

We are subject to the risks of obsolete and slow-moving inventory which may have an adverse impact on our cash flow and liquidity

The balance of our inventory as at 31 December 2011, 2012 and 2013 accounted for approximately 31.0%, 27.5% and 30.8%, respectively, of our total current assets. For the years ended 31 December 2011, 2012 and 2013, we had inventory in the amount of approximately HK\$273.1 million, HK\$279.7 million and HK\$346.0 million, respectively. For the years ended 31 December 2011, 2012 and 2013, our average inventory turnover days were approximately 81 days, 67 days and 65 days, respectively.

We operate in an industry that is subject to market trends, and any sudden decrease in the market demand for our products and the corresponding unanticipated drop in the sales of our products could cause our inventory to accumulate and may adversely affect our financial condition and results of operations. We conduct an ageing analysis of inventories at the end of each reporting period, and make an allowance for slow-moving inventory items based on the then market conditions and the historical experience of selling merchandise of similar nature. If our inventories are identified as obsolete, we may be required to sell the relevant inventory at a price lower than the cost and/or provide allowance on inventory. In such event, our business, financial condition and results of operations will be materially and adversely affected.

We are exposed to the credit risk of our customers

We are subject to the credit risks of our customers and our cash flow is dependent on punctual payments from our customers for products we supply to them. Trade and bills receivables turnover days for the years ended 31 December 2011, 2012 and 2013 were 61 days, 63 days and 64 days, respectively. The credit period granted to department stores in relation to our retail and corporate sales ranges from 30 days to 120 days, and for sales to wholesalers, retailers and other manufacturers, we generally allow a credit period ranging from seven to 90 days. Please refer to the section headed "Financial Information – Trade, bills and other receivables" in this Prospectus for the reasons for the increase in our trade and bills receivables turnover days during the Track Record Period.

We cannot assure you that we will be able to collect all or any part of our trade and bill receivables within the credit terms granted by us, or at all. In addition, if any of our customers were to go into liquidation or bankruptcy, we might not be able to receive full or any payment of uncollected sums due to us or enforce any judgment debts on such customers. Global economic downturns may cause customer defaults to increase and we may need to make greater provisions for receivables, particularly for receivables from our customers who may be more significantly impacted by the downturn. Non-payment or delay in payments by our customers could materially and adversely affect our business, financial condition and results of operations.

We consider the formulae and know-how to produce our visco-elastic material and other polyurethane foams to be our trade secret, and our competitive edge could be harmed if such trade secret is disclosed to third-parties

Our visco-elastic material and other polyurethane foams are produced using our own formulae of chemicals and know-how. We keep these formulae and know-how as our trade secret. We have entered into confidentiality agreements with certain of our employees who have knowledge of our confidential information. However, we have not made any applications for patents for our formulae and know-how because patent registration in the PRC involves publication of the relevant details of the subject of the patent. We believe that such disclosure would provide our competitors with details of our formulae and know-how and would therefore enable them to imitate our production methods or refine their own production accordingly.

RISK FACTORS

We cannot give assurance that our formulae and know-how will not be obtained by a competitor or another third-party or products using similar formulae and know-how will not be developed or marketed by such persons. After obtaining the same or similar formulae and know-how, such person may seek intellectual property rights and enjoin, or even prevent, us from producing, promoting, selling or using products based on these formulae and know-how. We may not have adequate legal remedies to prevent products based on the same or similar formulae and know-how from being produced or marketed by a third-party. Consequently, we may lose our market share, and our business, financial condition and results of operations may be materially and adversely affected.

Our products are subject to the laws, regulations and industry standards in the US. Failure to comply with these rules and standards or failure to make timely adjustments in response to changes in such rules and standards would have an adverse effect on our business and results of operations

Our products are subject to extensive laws, regulations and industry standards in the US, one of the jurisdictions where we market and distribute our products. Our products sold into the US must comply with the standards set by the US laws and regulations. For example, our mattress products sold to our US customers are subject to flammability requirements that all mattress sets must meet before sale or introduction into the market and must also conform to relevant labelling requirements. As a distributor or importer of consumer products in the US, our products are also subject to the US Consumer Product Safety Act, which empowers the US Consumer Product Safety Commission to exclude from the market products that are found to be unsafe or hazardous. Ensuring compliance with any new or amended laws, rules, regulations or standards imposed on our products may result in considerable additional costs and lead to additional manufacturing and quality control procedures that may affect our financial condition and results of operations.

Third-parties may assert or claim that we have infringed their intellectual property rights, which could have a material adverse effect on our business, results of operations and financial condition

Intellectual property rights, such as trademarks and patents, are important in the consumer products industry as they protect brand images, product formulations and other valuable rights. Our competitors or other third-parties may have intellectual property rights and interests which could potentially come into conflict with ours. For instance, we received objection from a third-party with respect to our application for registration of one of our trademarks in the US. For details regarding our intellectual property, please refer to the section headed “Business – Intellectual Property” in this Prospectus. As at the Latest Practicable Date, we were in the process of applying for registration of 10 trademarks and we have not received any objection so far. If any trademark or patent infringement or other intellectual property claims against us is successful, we may not have a legal right to continue to develop, manufacture, use or sell products that are adjudicated to have infringed third-parties’ intellectual property rights. We may be required to expend significant resources to redesign our products so that they do not infringe third-parties’ intellectual property rights or we may be required to obtain relevant licences to avoid further infringements. Intellectual property litigation against us could significantly disrupt our business, divert our management’s attention, or consume much of our financial resources. As a result, any intellectual property disputes could have a material adverse effect on our business, financial condition and results of operations.

We may incur material losses and costs as a result of product liability actions that may be brought against us and reduce consumer confidence in our products

We face an inherent business risk of exposure to product liability claims if the use of any of our products results in personal injury or property damage. In the event that any of our products prove to be defective, we may be required to replace, recall, redesign or even

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discontinue those products. This could cause us to experience loss of revenue, increased costs associated with customer support and legal expenses and damaged business reputation, which could negatively affect our business, results of operations and financial condition.

Although our export sales products are sold on a wholesale basis and our export customers are responsible for the sale of those products, depending on each of these export customers' practises regarding product liability actions, they might look to us for indemnification or contribution when faced with product liability claims. We currently maintain insurance to cover product liability claims in the US, but we may not be able to obtain such insurance on acceptable terms in the future, or at all, and such insurance may not provide adequate coverage against potential claims. A product liability claim brought against us in excess of our available insurance coverage could have a material adverse effect on our business.

We may not be able to renew our existing leases or concessionaire agreements for our POS when they expire or on terms acceptable to us

As at 31 March 2014, we leased 12 and five self-operated retail shops in Hong Kong and the PRC, respectively, and we had 27 and 234 self-operated concession counters in Hong Kong and the PRC, respectively, within department stores through concessionaire agreements. Our total rental expenses and fees paid under these retail shop tenancy agreements and concessionaire agreements accounted for HK\$54.6 million, HK\$55.8 million and HK\$68.2 million, representing approximately 28.0%, 26.2% and 24.3% of our total selling and distribution costs for the years ended 31 December 2011, 2012 and 2013, respectively.

The term of a significant majority of our leases for our retail shops ranges from one year to three years. It is important to our business that the existing leases for our POS are maintained and renewed. In recent years, property prices and rental related expenses in Hong Kong and the PRC have increased significantly. In the event we are unable to renew our leases on terms acceptable to us or such leases are terminated for any reason prior to their expiration, we will need to relocate the relevant POS to alternative premises. Relocation of any POS may cause disruptions to our business and may require significant expenditures, and we cannot assure you that in such case, we will be able to find alternative premises that are suitable or on commercially acceptable terms and in a timely manner.

The terms of most of our concessionaire agreements are generally reviewed every year or two years. In hosting the concession counters, the department stores generally charge a concession fee of a fixed percentage of all proceeds received in respect of our sales, with a minimum concession fee guarantee. These department stores may attempt to transfer any increases in their costs, such as rental expenses, to us by increasing our concession fees as we seek to renew our concessionaire agreements. We cannot assure you that we will be able to renew our concessionaire agreements on the same terms or on commercially acceptable terms and in a timely manner or at all. As a result, our business, financial condition and results of operations may be affected.

We may be affected by disruptions to our production facilities and warehouses, which may severely disrupt our business

Our production facilities and warehouses may be exposed to natural disasters, such as fires, floods, tsunamis and earthquakes and to other events beyond our control such as pandemics, political instabilities, outage of critical utilities or terrorist attacks. Events like these occurring in the future could disrupt production at our facilities, materially increase our cost of sales and other operating expenses and result in material asset losses. Such events could also disrupt shipping and freight forwarding services and interrupt the availability of basic services and infrastructure, including power and water. Disruptions such as these would have an adverse impact on our business, operating results and financial condition.

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We maintain insurance policies covering losses to our production facilities, equipment and inventories due to fire, as described in the section headed “Business – Insurance” in this Prospectus. However, there can be no assurance that our insurance coverage will be sufficient to cover all our potential losses. Furthermore, if we are unable to find suitable alternative facilities in a timely manner in the event that our production facilities are destroyed or become inoperable, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are subject to the risks associated with our manufacturing activities, and may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities

Our business requires the use of hazardous materials, such as TDI, which are stored in our warehouses next to our production facilities. Our production facilities and warehouses also house foams at various stages of production which are flammable. Our operations are therefore susceptible to the risk of fire and exposed to other hazards including the release of noxious substances, manual handling hazards, exposure to dust and hazards related to the malfunctioning of equipment and manufacturing machinery. These operating hazards may cause personal injury to our employees, property damage or environmental damage, which could result in the imposition of civil and/or criminal penalties on us.

In the event that any of these occurs, we could suffer financial losses, product losses and damage to our reputation. Any material loss, even if covered by our insurance, could harm our business and financial condition and results of operations. Please refer to the section headed “Business – Insurance” in this Prospectus for more information on our insurance policies.

Labour issues such as shortage of labour, increase in staff costs and labour disputes may potentially have an adverse effect on our business and results of operations

Our production operations are labour-intensive. As at 31 March 2014, we employed 1,587 workers for our production facilities. Our facilities are located at Dongguan, Jiashan and Haining in the PRC. With the increasing affluence and development of these less developed regions, as well as increasing demand for skilled labour in other rapidly developing cities, there is no assurance that we will continue to attract workers at our current level of wages or that our current workers will continue to work for us.

We have also observed an overall tightening of the labour market in recent years. For instance, the Employment Contract Law (中華人民共和國勞動合同法) which came into effect on 1 January 2008, as amended on 28 December 2012, entered into force on 1 July 2013 and its implementation rules (the “**Rules**”, and together with the Employment Contract Law, the “**EC Law**”) were promulgated and became effective on 18 September 2008. The EC Law imposes more stringent requirements on employers in relation to the entry into written employment contracts, the hiring of temporary employees and the dismissal of employees. The EC Law also establishes requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation periods as well as the duration and the number of times that an employee can be placed on fixed-term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and that the employees are entitled to unilaterally terminate their respective labour contract if this requirement is not satisfied.

Due to the tightening labour market as well as the increase in the minimum wage requirements set by the relevant authorities, we have faced a general increase in labour costs in recent years. If the labour market continues to tighten, we may not be able to employ sufficient suitable workers in a timely manner or we may have to pay higher wages for such employees and as a result, our financial performance could be materially and adversely affected.

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Our success and business operations are largely dependent on our ability to retain key executives and our senior management team

Our senior executives and management team, in particular LAM Chi Fan, CHEUNG Tung and CHEN Feng, are responsible for the development of our Company and business and have been key drivers of our strategies and achievements to date. The continued successful management of our business is, to a considerable extent, dependent on the continued service of our executives and senior management. If one or more of our senior executives or management or other key employees are unable or unwilling to continue with their present positions, we may not be able to replace them promptly or at all with suitable or qualified candidates, and may have to incur additional expenses to recruit and train new personnel, which may severely disrupt our business, affect our results of operations and future prospects and inhibit our ability to grow. Further, if we lose our key management personnel and other personnel of our management team to our competitors, our competitiveness, operations and our ability to grow may be adversely affected.

Please refer to the section headed “Directors and Senior Management” in this Prospectus for further details of regarding our management and other personnel.

Our industry is competitive and if we are unable to respond effectively to changes in market trends and customer preferences, our business, result of operations and financial condition may be adversely affected

The market for visco-elastic health and wellness products is competitive. In the US and Hong Kong, we operate in a highly concentrated market with only a handful of well-established players, whereas in the PRC, the market is more fragmented. Please refer to the section headed “Industry Overview” in this Prospectus for further details.

We believe that our success depends on our ability to anticipate, gauge and react to fast changing consumer and market trends in a timely manner, especially in respect of our target markets. These trends change frequently and may differ in different markets in different regions. As such, we launch new designs frequently to cater to the needs of each market. There can be no assurance that all the new designs that we launch will be commercially viable or successful. In the event that the new designs are not commercially viable or successful, the time and resources committed to each new design will be wasted. In such event, our financial performance may be adversely affected.

Additionally, we sell our products through our retailers in the US or distributors in the PRC, who may be unable or unwilling to provide us with information in relation to their inventory levels or sales in a timely manner. Our sales to such third-party retailers or distributors may not be reflective of actual sales trends to consumers, and we may not be able to timely gather sufficient information and data regarding the market acceptance of our products and consumers’ preferences for our products. This may cause us to incorrectly predict sales trends and impede our ability to quickly align our marketing and research and development strategies to market changes. If we are unable to continuously develop commercially viable products which appeal to consumers and meet the fast changing consumer trends and needs in a timely manner, our business, operating results and financial condition will be adversely affected. In the long run, this could also lead to a loss or diminution in the commercial value of our brands.

We are exposed to foreign currency fluctuations as a result of our substantial global operations, which may adversely affect our business, financial condition and results of operations

The vast majority of our sales are denominated in US\$ and HK\$ and a portion of our purchases and labour costs are made in other currencies including RMB. As such, we are subject to foreign exchange risks and our profits may be adversely affected should RMB appreciate against US\$ or HK\$.

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Our reporting currency is HK\$. When we prepare our consolidated financial statements, sales and purchases made in foreign currencies are converted into HK\$ at average exchange rates of the relevant financial years whereas foreign currency balance sheets are translated into HK\$ at the rates as at the balance sheet date. Accordingly, the profits we derived in foreign currencies would be lower should there be any appreciation in the exchange rates of HK\$ against the respective currencies. Fluctuations in foreign exchange rates may also affect our customers' purchasing power and their willingness to purchase our products. Our business, financial condition and results of operations could be negatively affected by fluctuations in exchange rates.

Some landlords may not have registered our lease agreements or provided to us relevant title certificates with respect to some of our leased properties in the PRC

As at Latest Practicable Date, some landlords had not registered our lease agreements with the relevant government authorities or had not obtained proper building ownership certificates, with respect to some of our leased properties in the PRC. For details, please refer to the sections headed "Business – Properties – Leased Properties" and "Business – Legal and compliance – Non-compliance incidents during the Track Record Period" in this Prospectus.

We may be subject to fines for the failure to register the lease agreements and if our landlords are not the owner or not authorised by the real owner to lease the properties to us, we might need to seek alternative properties and incur additional costs relating to such relocation. Any dispute or claim in relation to the rights to use or lease the properties occupied by us, including any litigation involving allegations of illegal or unauthorised use of these properties, may require us to relocate our warehouses, offices or staff quarters. If any of our leases were terminated as a result of any challenge by third-parties or any failures of our landlords to renew the leases or obtain their legal titles or the requisite government approval or consent to lease the relevant properties, we may need to seek alternative premises and incur additional costs for relocation. Although immaterial, our subsidiaries may be fined by the housing administration for failing to complete the lease filing. This could disrupt our financial conditions and results of operations.

Non-compliance with housing provident fund and social insurance contributions

We are required to make housing provident fund and social insurance contributions for the benefit of employees of our PRC subsidiaries under PRC laws and regulations. Some of our PRC subsidiaries had not made housing provident fund and social insurance contributions in full for all of their employees before October 2013. We estimated the outstanding amount of housing provident fund contributions and social insurance contributions during the Track Record Period was approximately RMB6.77 million (equivalent to approximately HK\$8.79 million) and RMB1.08 million (equivalent to approximately HK\$1.40 million) respectively. We have not made any provision in relation thereto. Please refer to the section headed "Business – Legal and compliance – Non-compliance incidents during the Track Record Period" in this Prospectus for further details.

Under the relevant PRC laws and regulations, we may be ordered by the relevant authorities to pay the outstanding housing provident fund or social insurance contributions within the prescribed period. In the event that any of these occurs, our business, financial position or operation may be affected.

RISKS RELATING TO THE PRC

The PRC's economic, political and legal conditions, as well as governmental policies, could affect our business, financial condition and results of operations

A significant portion of our revenue is derived from the PRC. Revenue derived from the PRC accounted for approximately 44.6%, 41.0% and 41.6% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. In addition, all of our

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production facilities are located in the PRC. Accordingly, our business, financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political, social and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including but not limited to, the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, settling monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented measures with greater emphasis on the use of market forces for economic reform, an attempt to reduce state ownership of productive assets and to establish improved corporate governance in business enterprises. However, these economic reform measures may be adjusted or modified, or applied inconsistently from industry to industry, or across different regions of the country. We cannot predict whether changes in the PRC economic, political and government policies will have any material adverse effect on our business or industry.

Under the PRC Enterprise Income Tax Law and other PRC tax laws, we may be classified as a “resident enterprise”, which could result in unfavourable tax consequences to us and our non-PRC shareholders

Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (“EIT Law”), passed by the National People’s Congress of the PRC on 16 March 2007 and effective on 1 January 2008, as amended, supplemented and otherwise modified from time to time, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise”, meaning that it can be treated as a Chinese enterprise for PRC enterprise income tax purposes. The implementation rules of the EIT Law define “de facto management bodies” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Pursuant to the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in Accordance with Their De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which was issued by the SAT on 22 April 2009 and made retrospectively effective from 1 January 2008, an enterprise controlled by Chinese enterprises or enterprises groups and registered outside the PRC will be regarded as a PRC resident enterprise with “de facto management bodies” located in the PRC (hereinafter referred to as an offshore-registered resident enterprise), provided that all of the following criteria are satisfied: (i) the senior management personnel responsible for the execution of the daily management and operation of production and business of the enterprise and the relevant senior personnel departments performing such duties are mainly located within the PRC; (ii) the decisions of the enterprise in terms of finance (e.g., borrowing, lending, financing, financial risk controls, etc.) and personnel (e.g., appointment, dismissal and remuneration, etc.) matters are made by or subject to approval of organisation(s) or individual(s) located in the PRC; (iii) the main properties, accounting ledger, corporate seal, minutes of the board meetings and shareholders’ meetings, etc., of the enterprise are situated or kept in the PRC; and (iv) 50% or more of directors with voting rights or senior management personnel of the enterprise ordinarily reside in the PRC. Moreover, whether or not a Chinese-controlled offshore enterprise is an offshore-registered resident enterprise is subject to preliminary review by the local tax bureau where the “de facto management body” of the Chinese-controlled offshore enterprise or its controller is based and is subject to final confirmation by the SAT.

Pursuant to the above-mentioned laws and regulations, we are of the view that we are not an offshore-registered resident enterprise because our “de facto management bodies” are outside the PRC, but it is possible that the PRC tax authorities will determine that our

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Company is a “resident enterprise” for PRC enterprise income tax purposes. If we are determined to be a “resident enterprise”, we would be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. By comparison, there is no taxation on such income in the Cayman Islands. In addition, if we are treated as a PRC “resident enterprise” under PRC law, our foreign corporate Shareholders may be subject to PRC income tax on the capital gains realised from the sale of our Shares, and dividends paid to non-PRC residents with respect to our Shares may be subject to PRC withholding tax as such income may be regarded as income from “sources within the PRC”. In each case, our foreign corporate Shareholders may be subject to a 10% income tax rate under the EIT Law, unless any such foreign corporate shareholder is qualified for a preferential tax rate under an applicable tax treaty.

We face taxation uncertainties with respect to the indirect transfer of equity interest in our PRC resident enterprises through transfers of our non-PRC holding companies

The SAT issued the Circular on Strengthening Administration of Enterprise Income Tax on Income Derived from the Equity Transfer of Non-resident Enterprises (Guo Shui Han (2009) No. 698) (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (國稅函(2009)698號) (the “**Circular**”) on 10 December 2009, which was made retrospectively effective from 1 January 2008. Pursuant to the Circular, where a non-PRC investor (the actual controlling party) indirectly transfers the equity interests of a PRC resident enterprise through disposing of its equity interests (the “**Indirect Transfer**”) in a non-PRC holding company, and such non-PRC holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-PRC investor shall report the Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the non-PRC holding company if it lacks a reasonable commercial purpose and is established for the purpose of avoiding PRC tax. The Circular also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

In connection with our Reorganisation, we conducted, or were involved in, a series of indirect transfers of equity interests in our PRC subsidiaries. Please refer to the section headed “Our History and Reorganisation” in this Prospectus for further details. If the relevant PRC tax authorities hold that our overseas holding company transferred does not have substance or the Indirect Transfer does not have any bona fide commercial purpose and was conducted for the purpose of avoiding PRC tax, or any such transfers are otherwise taxable under the Circular, we may be required to pay enterprise income taxes for the Indirect Transfers. However, since further detailed implementation rules of the Circular have not been issued by the SAT and in practise the views of the implementation of the Circular vary across different local tax authorities, it remains unclear how the PRC tax authorities will use the “substance over form” principle to examine the substance of the non-PRC holding companies and the bona fide commercial purpose of the Indirect Transfer.

The PRC regulation of direct investment and loans by offshore holding companies to the PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries

Capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including proceeds from this Global Offering, are subject to PRC regulations. For example, loans to each of our PRC subsidiaries which are foreign-invested enterprises cannot exceed the difference between the total amount of investments made to each, as approved under relevant PRC laws, and their respective registered capital. Such loans must also be registered with the local branch of the SAFE.

In addition, our capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce of the PRC or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such

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approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected. This may in turn adversely affect the liquidity and working capital funding of our subsidiaries, and they may not be able to keep up with any planned expansion projects or meet their obligations and commitments.

Uncertainties presented by the PRC legal system could limit the legal protections available to us and to our investors

Our business and operations in the PRC are governed by the PRC laws and regulations. Our PRC subsidiaries are mainly foreign-invested enterprises and subject to laws and regulations applicable to foreign investment in the PRC. The PRC has a civil law legal system based on written statutes. Unlike the common law system, prior court decisions in the PRC may be cited for reference but have limited precedential value. The interpretations of many PRC laws, regulations and rules are not always consistent among different government authorities with judicial power, and enforcement of these laws, regulations and rules involve uncertainties, which may limit the reliability of any legal protection available to us.

Further, laws, regulations and rules in the PRC and requirements of government authorities in the PRC may change over time and new provisions may impose more stringent requirements, limit the scope of our operations or substantially increase the difficulty of our operations. In addition, the PRC administrative and judicial authorities have significant discretion in interpreting and implementing statutory and contractual terms. It may be more difficult to assess the outcomes or level of legal protection we enjoy in administrative and legal proceedings taking place in the PRC, as compared to other more-developed legal systems. These uncertainties may impede our ability to enforce any contract we have entered into with our business partners, customers and suppliers and could adversely affect our business and results of operations.

It may be difficult to effect service of process upon us or our subsidiaries' directors or senior management who reside in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts

We are incorporated in the Cayman Islands. All of our production lines and some of our subsidiaries' directors and senior management are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon us or those persons residing in the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts.

The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

RMB is not freely convertible

The PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE provided that we satisfy certain procedural requirements. However, approval from SAFE or its local counterpart is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses under the capital account such as the repayment of loans denominated in foreign currencies.

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RISKS RELATING TO THE GLOBAL OFFERING

There is no existing market for our Shares, which may trade at a discount from the initial offering price

Prior to the Global Offering, there has not been a public market for our Shares and we cannot predict the extent of investor interest in us. The Offer Price of our Shares will be determined by negotiations between us, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the open market following the Global Offering. Consequently, you may not be able to sell our Shares at prices equal to or higher than the Offer Price.

An active and liquid trading market for our Shares may not develop

Prior to the Global Offering, our Shares were not traded on any market. An active and liquid trading market for our Shares may not develop or be maintained after the Global Offering. Liquid and active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your investment in our Shares.

The market price and trading volume of our Shares may be volatile, which could result in rapid and substantial losses for our shareholders

The market price of our Shares may be highly volatile and could be subject to significant fluctuations. In addition, the trading volume of our Shares may fluctuate, which may cause significant price variations. Some of the factors that could negatively affect the price of our Shares, or result in fluctuations in the price or trading volume of our Shares include:

- variations in our operating results;
- failure to meet the market's earnings expectations;
- departures of key personnel;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation and governmental investigations; and
- general market and economic conditions.

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Investors will experience dilution in the pro forma adjusted consolidated net tangible asset value per Share because the Offer Price is higher than our net tangible asset value per Share.

As the Offer Price of our Shares is higher than the net tangible asset value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value to HK\$0.41 per Share (assuming an Offer Price of HK\$1.06 per Share), or HK\$0.45 per Share (assuming an Offer Price of HK\$1.43 per Share). If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their ownership percentage.

Future sales or perceived sales of a substantial number of our Shares in public markets could have a material and adverse effect on the prevailing market price of our Shares; you will experience dilution if we issue additional Shares in the future

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares, or the perception that such sales or issuances may occur. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for period up to 12 months after the date on which trading in our Shares commences on the Hong Kong Stock Exchange, details of which are set forth in the section headed “Underwriting” in this Prospectus. We cannot give any assurance that our Controlling Shareholders will not sell, dispose of or otherwise transfer any Shares it may own now or in the future at the expiry of the applicable lock-up periods. In addition, we may consider offering and issuing additional Shares in the future. We may also issue Shares pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme. You will experience dilution if we issue additional Shares in the future. Future sales, or perceived sales, of substantial amounts of our Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favourable to us.

The interests of our Controlling Shareholders may differ from those of other Shareholders

Immediately following the Global Offering, the Capitalisation Issue and the sale of the Sale Shares by the Selling Shareholders, one of our Controlling Shareholders, Sinomax Enterprises, will beneficially own 54.55% of our Company’s outstanding Shares, taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, or any option granted under the Pre-IPO Share Option Scheme and/or the Post-IPO Share Option Scheme.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, you could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other Shareholders.

RISK FACTORS

We are a holding company that relies heavily on dividend payments from our subsidiaries, and limitations on their ability to pay dividends to us could have a material adverse effect on our business, results of operations and financial condition

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in the PRC and elsewhere. Therefore, our ability to satisfy our obligations and to pay dividends to our Shareholders depends upon dividends received from our subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, we may not be able to satisfy our obligations or our ability to pay dividends may be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles. PRC laws also require foreign invested enterprises and domestic enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in our bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Other factors such as cash flow conditions, restrictions on distributions contained in our subsidiaries' articles of association, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect our subsidiaries' ability to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may affect our ability to meet our obligations or to pay dividends to our Shareholders.

Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law, and Cayman Islands law may provide different remedies to minority shareholders when compared with the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our Memorandum and Articles and by the Companies Law and the common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents in Hong Kong, the US and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong, the US or other jurisdictions. Please refer to the section headed "Appendix III – Summary of the Constitution of the Company and Cayman Islands Law" in this Prospectus for further details.

Certain facts, forecasts and other statistics with respect to the US, Hong Kong and the PRC, the health and wellness products market and the polyurethane foam market in this Prospectus are derived from various sources and may not be reliable

Certain facts, forecasts and other statistics in this Prospectus relating to the US, Hong Kong and the PRC, the health and wellness product market and the polyurethane foam market have been derived from various independent third party sources. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Sole Global Coordinator, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside such economies or markets. Our Directors have reproduced the data and statistics extracted from various publications in a reasonably cautious manner. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practise and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

RISK FACTORS

Due to a gap of up to five Business Days between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price

The Offer Price will be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, which is expected to be up to five Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Offer Shares during such period, and thus are subject to the risk that the market price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.

You should read the entire Prospectus and we strongly caution you not to place any reliance on any information contained in press coverage, other media and/or research analyst reports in relation to the Global Offering, our business, our industry, our operations or our Group in connection with a decision to invest in the Shares

There has been prior to the publication of this Prospectus, and there may be subsequent to the date of this Prospectus but prior to the completion of the Global Offering, press, media, and/or research analyst coverage regarding us, our business, our industry and the Global Offering and other forward-looking statements. There can be no assurance that there will not be further press coverage or other media reports prior to Listing in relation to the Global Offering, our business, our industry, our operations or other details about our Group, including forward-looking information and other types of information. There can be no assurance that such press coverage or other media reports will not be negative or hostile. You should rely solely upon the information contained in this Prospectus and we do not accept any responsibility for the accuracy or completeness of the information contained in such press coverage, other media or research analyst reports nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analysts regarding the Shares, the Global Offering, our business, our industry or us. We make no representation or warranty as to the appropriateness, accuracy, completeness or reliability of any such information, forecast, report, projection, valuation, view, opinion expressed or forward-looking information about us, or any of the assumptions underlying such information. To the extent that such statements, forecasts, reports, projections, valuations, views, opinions expressed or forward-looking information about us in the press or other media are inconsistent or conflict with the information contained in this Prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this Prospectus only and should not rely on any other information.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE AMENDED LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In relation to the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Amended Listing Rules and exemption from the relevant provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER IN RESPECT OF THE PRE-IPO SHARE OPTION SCHEME

According to paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, this Prospectus is required to include details of the number, description and amount of Shares which a person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, and the names and addresses of the persons to whom it or the right to it was given (the “**Share Option Disclosure Requirements**”). Under paragraph 27 of Appendix 1A to the Listing Rules, where options have been granted to employees under a share scheme, it is not necessary to disclose the names and addresses of the grantees of the options.

Rule 17.02(1)(b) of the Listing Rules requires that full details of all outstanding options and their potential dilution effect on the shareholdings upon Listing as well as the impact on the earnings per Share arising from the exercise of such outstanding options be disclosed in this Prospectus.

On 13 December 2013, we granted options to subscribe for an aggregate of 34,918,000 Shares to 140 grantees under the Pre-IPO Share Option Scheme. Prior to the Latest Practicable Date, 11 out of the 140 grantees, who have been granted share options to subscribe for an aggregate of 270,000 Shares, have ceased to become Eligible Participants and the said share options have automatically lapsed. As such, as at the Latest Practicable Date, the outstanding options granted under the Pre-IPO Share Option Scheme involve 34,648,000 Shares and such options are held by 129 grantees. Except for those grantees who are connected persons of our Company and members of the senior management of our Group as disclosed in the paragraph headed “Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme” in this Prospectus, no options have been granted to any connected person of our Company or member of senior management of our Group.

Our Company has applied to the Hong Kong Stock Exchange and the SFC respectively for and has been granted (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, in connection with the disclosure of certain details relating to the options granted to the employees of our Group and who are neither Directors, members of our senior management, connected persons of our Company nor employees of our Group with options to subscribe for more than 1,000,000 Shares, on the ground that full compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

- (a) the outstanding number of options granted pursuant to the Pre-IPO Share Option Scheme to individual grantees are, individually de minimis, and collectively represents 2.10% of the total number of Shares in issue immediately following completion of the Global Offering (assuming the Over-allotment Option is not

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
THE AMENDED LISTING RULES AND EXEMPTION FROM THE COMPANIES
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exercised and none of the options granted pursuant to the Pre-IPO Share Option Scheme have been exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Post-IPO Share Option Scheme);

- (b) given that 129 grantees are involved as at the Latest Practicable Date, among which 116 are employees of the Group who are neither Directors, members of our senior management, connected persons of our Company nor employees with options to subscribe for more than 1,000,000 Shares, the strict compliance with the Share Option Disclosure Requirements to disclose names, addresses, and entitlements on an individual basis in this Prospectus will require approximately 32 pages of additional disclosure and will not provide any material information to the investing public;
- (c) the grant and exercise in full of the options granted pursuant to the Pre-IPO Share Option Scheme will not cause any material adverse change in the financial position of our Company;
- (d) the lack of full compliance with the applicable Share Option Disclosure Requirements will not hinder our Company in providing an informed assessment of our Company's activities, assets and liabilities, financial position, management and prospects to potential investors;
- (e) the disclosure of a summary of information relating to the options granted pursuant to the Pre-IPO Share Option Scheme, as described in the paragraph headed "Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme" in this Prospectus, should have provided potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process; and
- (f) the options granted pursuant to the Pre-IPO Share Scheme are considered part of the participants' remuneration package, and involve highly sensitive and confidential individual information of the grantees. As such, disclosure in this Prospectus as to the identity, address and respective entitlement of each grantee on an individual basis may have a negative impact on our Company's relationship with the grantees.

The Hong Kong Stock Exchange has granted a waiver from strict compliance with the relevant disclosure requirements in connection with the information of the options granted under the Pre-IPO Share Option Scheme on the following conditions:

- (a) the grant of a certificate of exemption from strict compliance with the relevant Companies (Winding Up and Miscellaneous Provisions) Ordinance requirements by the SFC;
- (b) disclosure in this Prospectus, on an individual basis, the full details of all options granted by our Company under the Pre-IPO Share Option Scheme to Directors, senior management of our Company and our subsidiaries, connected persons of the Company and those grantees who have been granted options to subscribe for more than 1,000,000 Shares, such details to include all the particulars required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
THE AMENDED LISTING RULES AND EXEMPTION FROM THE COMPANIES
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- (c) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme other than those referred to in (b) above, the following details are disclosed in this Prospectus;
 - (i) the aggregate number of grantees and the aggregate number of Shares underlying such options;
 - (ii) the consideration paid for such options;
 - (iii) the exercise period of such options; and
 - (iv) the exercise price of such options;
- (d) an aggregate number of Shares subject to the options granted by our Company under the Pre-IPO Share Option Scheme and the percentage to our Company's total issued share capital represented by them;
- (e) the potential dilution effect on the shareholdings of our Company upon Listing and the impact on the earnings per Share upon full exercise of the options granted under the Pre-IPO Share Option Scheme; and
- (f) a full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be made available for inspection by the public as one of the documents available for inspection in accordance with the paragraph headed "Appendix V – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection" in this Prospectus.

The SFC has granted an exemption (pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the following conditions:

- (aa) on an individual basis, full details of the options granted by our Company under the Pre-IPO Share Option Scheme to Directors and members of the senior management of our Company and any of its subsidiaries, connected persons of our Company, and those grantees who have been granted options to subscribe for more than 1,000,000 Shares, including all requirements required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, will be disclosed in this Prospectus;
- (bb) in respect of the options granted by our Company under the Pre-IPO Share Option Scheme other than those referred to in sub-paragraph (aa) above, the following details be disclosed in this Prospectus:
 - (i) the aggregate number of grantees;
 - (ii) the aggregate number of Shares subject to the options granted by our Company under the Pre-IPO Share Option Scheme and the percentage to our Company's total issued share capital represented by them;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND THE AMENDED LISTING RULES AND EXEMPTION FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (iii) the consideration paid for the grant of the options; and
- (iv) the vesting period, the exercise period and the exercise price for the options;
- (cc) a full list of all the grantees (including the persons referred to in sub-paragraph (aa) above) who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance be made available for public inspection in accordance with the paragraph headed “Appendix V – Documents Delivered to the Registrar of Companies and Available for Inspection – Documents Available for Inspection” in this Prospectus; and
- (dd) the particulars of this exemption are set out in this Prospectus.

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed “Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme” in this Prospectus.

Our Directors believe that, in considering the above conditions undertaken by our Company, the granting of waiver and exemption by the Hong Kong Stock Exchange and the SFC will not prejudice the interest of the investing public.

WAIVER IN RESPECT OF CERTAIN CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions which would constitute continuing connected transactions of our Company pursuant to Chapter 14A of the Amended Listing Rules upon Listing. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and shareholders’ approval requirements under the Amended Listing Rules in respect of continuing connected transactions under Chapter 14A of the Amended Listing Rules. For further details of such continuing connected transactions and the waiver, please refer to the section headed “Connected Transactions” in this Prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving our information to the public. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

UNDERWRITING

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Offering is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement. The Global Offering is managed by the Sole Global Coordinator, and is subject to our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 8 July 2014, the Global Offering (including the Hong Kong Public Offering) will not proceed. For information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this Prospectus.

INFORMATION ON THE GLOBAL OFFERING

This Prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this Prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 75,000,000 Offer Shares (subject to adjustment) and the International Offering of initially 675,000,000 Offer Shares (subject to adjustment and the Over-allotment Option) of which 150,000,000 are New Shares offered for subscription by our Company and 600,000,000 are Sale Shares to be offered for sale by the Selling Shareholders. The Selling Shareholders, being Summer Wealth and Jacksonville, will each sell 300,000,000 Sale Shares to the public under the Global Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering. Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in this Prospectus is correct as of any subsequent time.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offer of the Offer Shares described in this Prospectus, where applicable.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the listing committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme.

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or currently proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are urged to consult their professional tax advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Selling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited in Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited in Hong Kong.

Dealings in our Shares registered on our Hong Kong Share Registrar will be subject to Hong Kong stamp duty. Please refer to “Appendix IV – Statutory and General Information – F. Other Information – 10. Taxation of holders of Shares” in this Prospectus for more details.

PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth under the section headed “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares” in this Prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this Prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 10 July 2014, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. in Hong Kong on Thursday, 10 July 2014. Our Shares will be traded in board lots of 2,000 Shares each, the stock code of our Shares will be 1418.

CONSEQUENCES OF HOLDING AN INTEREST IN SHARES

Holders and beneficial owners of our Shares should be aware that they may be subject to certain legal requirements under Hong Kong law and the Listing Rules, including, for example, reporting obligations upon reaching certain specified ownership thresholds. You should consult your own legal adviser as to the Hong Kong legal consequences of investing in our Shares.

EXCHANGE RATE CONVERSION

For exchange rate conversions throughout this Prospectus, unless otherwise specified, or except in respect of transactions that have occurred at historical exchange rates, all conversions from HK dollars into US dollars were made at the rate of US\$1.00 to HK\$7.77 and from HK dollars into Renminbi were made at the rate of HK\$1.00 to RMB0.77. We make no representation and none should be construed as being made, that any of the HK dollar, US dollar and RMB amounts contained in this Prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this Prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
Executive Directors		
LAM Chi Fan (林志凡)	Stage 1, House 72 Marina Cove Sai Kung New Territories Hong Kong	Chinese
CHEUNG Tung (張棟)	75 Hong Lok Road West Hong Lok Yuen Tai Po New Territories Hong Kong	Chinese
CHEN Feng (陳楓)	7607 Emerald Meadow Ct KATY TX 77494-4382 USA	American
LAM Kam Cheung (林錦祥)	Flat B, 1/F, Tower 10 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong	Chinese
LAM Fei Man (林斐雯)	136A, Hong Lok Road East Hong Lok Yuen Tai Po New Territories Hong Kong	Chinese
Independent Non-Executive Directors		
WONG Chi Keung (王志強)	Flat E, 19/F Tower 3 Metro Town Tseung Kwan O Kowloon, Hong Kong	Chinese
Professor LAM Sing Kwong Simon (林誠光教授)	Flat 5A, Block 2 Pine Court 23 Sha Wan Drive Pok Fu Lam Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
FAN Chun Wah Andrew (范駿華)	Flat A, 11/F Robinson Crest 71-73 Robinson Road Mid-Levels Hong Kong	Chinese
ZHANG HWO Jie (張傑)	38/F, No.10 Celestial Heights 80 Sheung Shing Street Ho Man Tin, Kowloon Hong Kong	Chinese
WU Tak Lung (吳德龍)	Flat C, 11/F, Block 11 Pacific Palisades 1 Braemar Hill Road Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” in this Prospectus for further details.

PARTIES INVOLVED

Sole Sponsor, Sole Global Coordinator and Sole Bookrunner

China Merchants Securities (HK) Co.,
Limited
48/F, One Exchange Square
Central
Hong Kong

Joint Lead Managers

China Merchants Securities (HK) Co.,
Limited
48/F, One Exchange Square
Central
Hong Kong

Taiping Securities (HK) Co., Limited
2901 China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

Legal Advisers to the Company

As to Hong Kong law
King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen’s Road Central
Hong Kong

As to PRC law
King & Wood Mallesons
28/F, Landmark
4028 Jintian Road
Futian District, Shenzhen
Guangdong 518035
PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to Cayman Islands law</i> Maples and Calder 53/F, The Center 99 Queen's Road Central Hong Kong</p>
	<p><i>As to US law</i> Loeb & Loeb in association with Pang & Co. 21/F, CCB Tower 3 Connaught Road Central, Hong Kong</p>
	<p><i>As to Macau law</i> MdME Avenida Da Praia Grande 409, China Law Building 21 and 23 A/B, Macau</p>
California Tax Attorneys to the Company	<p>The Law Office of Williams & Associates, PC 3600 American River Drive Suite 135 Sacramento, CA 95864 USA</p>
Legal Advisers to Sole Sponsor, Sole Global Coordinator and Sole Bookrunner	<p><i>As to Hong Kong and US law</i> Norton Rose Fulbright Hong Kong 38/F Jardine House 1 Connaught Place Central Hong Kong</p>
	<p><i>As to PRC law</i> Jingtian & Gongcheng Attorneys at Law 34th Floor, Tower 3 China Central Place 77 Jianguo Road Chaoyang District Beijing China 100025 PRC</p>
Auditors and Reporting Accountants	<p>Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F, One Pacific Place 88 Queensway Hong Kong</p>

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Property Valuer and Consultant

Jones Lang LaSalle Corporate Appraisal
and Advisory Limited
6/F, Three Pacific Place
1 Queens Road East
Hong Kong

Receiving Banks

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

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

Compliance Adviser

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

CORPORATE INFORMATION

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
Registered office	P.O. Box 309 Ugland House Grand Cayman KY1-1104 Cayman Islands
Company's website	<u>www.sinomax.com/group</u> (The contents of this website do not form part of this Prospectus)
Company Secretary	LAM Kam Cheung (林錦祥) (CPA, ACCA) Flat B, 1/F, Tower 10 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong
Authorised Representatives	CHEUNG, Tung (張棟) 75 Hong Lok Road West Hong Lok Yuen Tai Po New Territories Hong Kong LAM Kam Cheung (林錦祥) Flat B, 1/F, Tower 10 Discovery Park 398 Castle Peak Road Tsuen Wan New Territories Hong Kong
Audit Committee	WONG Chi Keung (王志強) (Chairman) Professor LAM Sing Kwong Simon (林誠光教授) FAN Chun Wah Andrew (范駿華) ZHANG HWO Jie (張傑) WU Tak Lung (吳德龍)
Nomination Committee	LAM Chi Fan (林志凡) (Chairman) WONG Chi Keung (王志強) Professor LAM Sing Kwong Simon (林誠光教授)
Remuneration Committee	Professor LAM Sing Kwong Simon (林誠光教授) (Chairman) LAM Chi Fan (林志凡) FAN Chun Wah Andrew (范駿華)

CORPORATE INFORMATION

Corporate Governance Committee	WONG Chi Keung (王志強) (Chairman) Professor LAM Sing Kwong Simon (林誠光教授) FAN Chun Wah Andrew (范駿華) ZHANG HWO Jie (張傑) WU Tak Lung (吳德龍)
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
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Adviser	Somerley Capital Limited 20th Floor, China Building 29 Queen's Road Central Hong Kong
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

INDUSTRY OVERVIEW

Certain information and statistics set forth in this section and elsewhere in this Prospectus have been derived from various official government sources, market data providers and other independent third-party sources. In addition, this section contains information, including estimates, extracted from a report commissioned by us and prepared by Frost & Sullivan, or the Frost & Sullivan Report, for the purposes of this Prospectus. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in the PRC includes consumer products, chemicals, automotive and transportation, materials and food, commercial aviation, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. The Frost & Sullivan Report was prepared based on detailed primary research involving discussions with leading industry participants and industry experts and secondary research involving the review of company reports, independent research reports and data based on Frost & Sullivan's own research database. On this basis, we believe that the sources of the information in this "Industry Overview" section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, the information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, any of the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy or completeness. As such, investors are cautioned not to place any undue reliance on the information and statistics set forth in this section and elsewhere in this Prospectus. The fees for Frost & Sullivan to prepare and update the Frost & Sullivan Report amount to a total of RMB1,550,000.

INTRODUCTION

Visco-elastic foam, commonly known as memory foam, is a type of polyurethane foam originally developed by the National Aeronautics and Space Administration (NASA) in 1966 in an effort to relieve astronauts of the g-forces experienced during lift-off and subsequently made this formulae publicly available. Visco-elastic foam is commonly used in making visco-elastic health and wellness products including pillows, mattress toppers, mattresses, and other products including cushions and travel accessories.

Visco-elastic health and wellness products, such as the Company's products, have various advantages compared with traditional health and wellness products such as innerspring mattresses and feather pillows. They have the feature of conforming to the body and therefore are believed to provide better support to spine, thereby relieve pressure points and prevent pressure sores. Visco-elastic health and wellness products usually have longer product life as compared to their traditional counterparts because of their open-cell structure.

According to the Frost & Sullivan Report, consumers in the US in the past used to consider visco-elastic health and wellness products as higher-end, while nowadays they gradually treat some visco-elastic health and wellness products as daily commodities. Meanwhile, in Hong Kong and the PRC, visco-elastic health and wellness products are still seen as higher-end as compared to traditional products.

Our Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

US VISCO-ELASTIC HEALTH AND WELLNESS PRODUCT MARKET

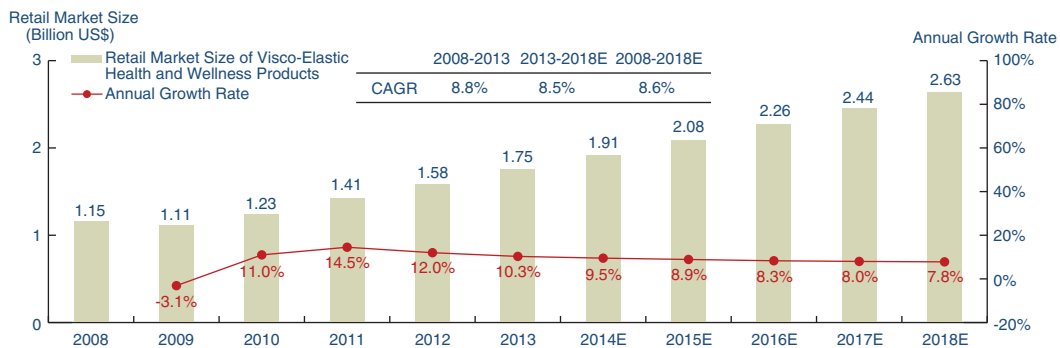
Overview

The US visco-elastic health and wellness product market has experienced steady growth in recent years at a CAGR of 8.8% from US\$1.15 billion in 2008 to US\$1.75 billion in 2013 and has reached a late growth stage in terms of industry life cycle. Market competitors are fighting for market share and new applications of visco-elastic material have been emerging. Following the recession in 2008 and 2009, when US consumer goods market was adversely affected, visco-elastic health and wellness product market resumed growth momentum and grew at a CAGR of 12.3% from 2010 to 2013 in terms of retail sales value with the recovery of the US economy. In the next five years, US consumers are expected to continue to increase their expenditure on consumer goods, supporting the continual growth of the visco-elastic health and wellness product market.

According to Frost & Sullivan, the US visco-elastic health and wellness product market is expected to experience sustained growth in the next five years at a CAGR of 8.5% and is expected to reach US\$2.63 billion by 2018.

The following chart illustrates the historical and forecasted retail size of the visco-elastic health and wellness product market in the US:

Retail Market Size of Visco-Elastic Health and Wellness Products (US), 2008-2018E



Source: Frost & Sullivan

Key drivers of the market include:

- Increased retail sales and consumption of visco-elastic health and wellness products given the following favourable macroeconomics conditions:

	2008	2013E	2018E	CAGR 2008-2013E	CAGR 2013E-2018E
Nominal GDP (Billion USD)	14,720.3	16,724.3	21,556.0	2.6%	5.2%
Per Capita Personal Income (USD)	40,947.0	42,693.0	51,881.1	1.4%	3.4%

Source: International Monetary Fund, US Department of Commerce and Frost & Sullivan

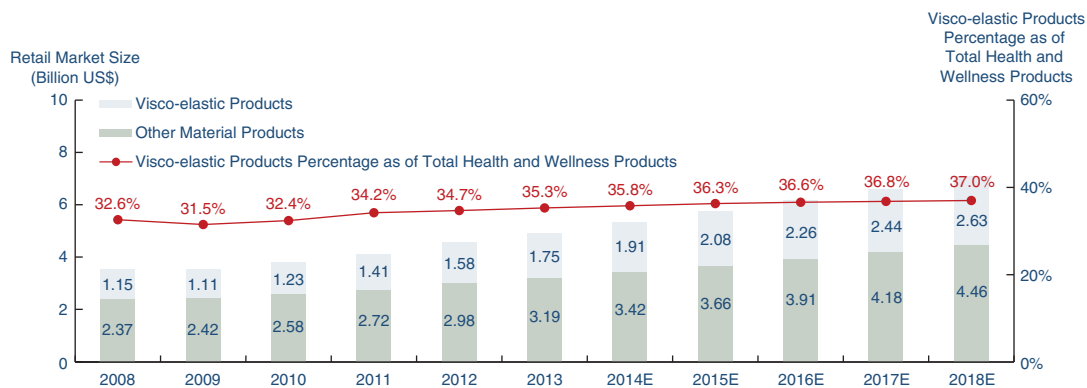
- The rebound of the US real estate industry evidenced by the increase in the number of monthly new privately owned housing units from 553.9 thousand units in 2009 to 929.1 thousand units in 2013, which led to an increasing demand of new mattresses and pillows for new house decoration; and
- US consumers' preferences of buying new mattresses and pillows when moving homes, as well as their willingness to try quality new products.

INDUSTRY OVERVIEW

The market share of visco-elastic health and wellness products is also expected to gradually increase against that of health and wellness products made of other materials. As at 2013, the market for visco-elastic health and wellness products accounted for 35.3% of the total health and wellness product market, increasing from 32.6% in 2008. Visco-elastic health and wellness product market was adversely affected due to the recession in 2008 and 2009, and has gradually recovered since 2010. The pent-up demand as consumers have delayed replacing their mattresses during the recession was released in 2011, and as a result, the health and wellness product market, especially the visco-elastic health and wellness product market, recorded a strong growth from 2010 to 2011 of 14.5%.

According to Frost & Sullivan, the market share of visco-elastic health and wellness products will increase to 37.0% of the total health and wellness product market by 2018. The following chart illustrates the historical and forecasted retail size of the total health and wellness product market in the US and the share of which visco-elastic health and wellness products accounted for during the corresponding periods:

**Retail Market Size of Health and Wellness Products by Material (US),
2008-2018E**



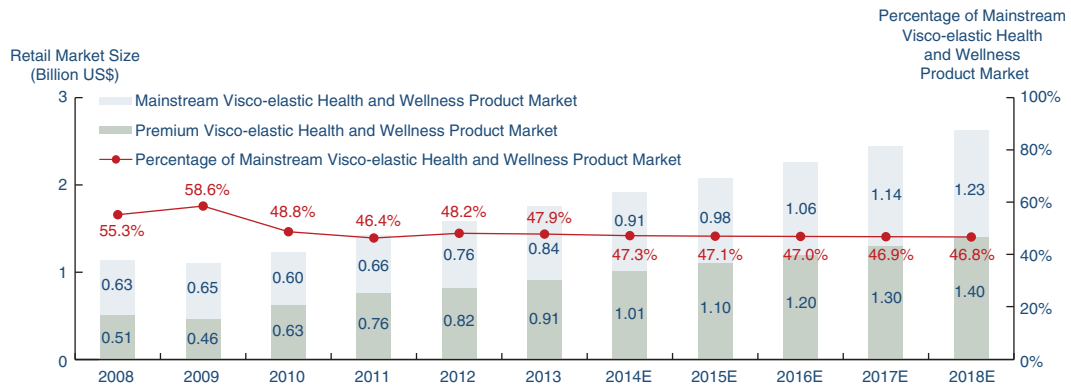
Source: Frost & Sullivan

Competition in the US visco-elastic health and wellness product market in 2013

According to Frost & Sullivan, visco-elastic health and wellness product market in the US can generally be divided into (i) premium product market and (ii) mainstream product market. Queen size mattress (60x80 inches) and regular contour pillow (21x15 inches) are the two most common products offered in the US visco-elastic health and wellness product market. Frost & Sullivan uses the retail prices of a queen size mattress and a regular contour pillow as the yardsticks to segment the visco-elastic health and wellness product market in the US. In 2013, the retail tag price of a queen size mattress and a regular contour pillow in the US premium product market was typically no less than US\$1,000 and US\$80 each, respectively, while the retail tag price of a queen size mattress and a regular contour pillow in US mainstream product market was typically under US\$1,000 and US\$80 each. On the above basis, in 2013, the market size of the US premium product market and that of the mainstream product market was US\$910.6 million and US\$835.6 million, respectively accounting for 52.1% and 47.9% of the total visco-elastic health and wellness product market, respectively.

INDUSTRY OVERVIEW

Retail Market Size of Visco-Elastic Health and Wellness Product by Price Range (US), 2008-2018E



Source: Frost & Sullivan

According to Frost & Sullivan, the share of mainstream visco-elastic health and wellness product market with respect to the total market rose from 55.3% in 2008 to 58.6% in 2009. Due to the recession in 2008, consumers were not willing to spend on premium visco-elastic health and wellness products, and therefore mainstream visco-elastic health and wellness products took up some market share from that of premium market during the period.

From 2010 to 2013, the economy started to recover and consumers' pent-up demand for premium visco-elastic health and wellness products were being released, thus leading to the decrease in market share of mainstream products. Since 2012, the market has gradually stabilised, and the mainstream visco-elastic health and wellness product market accounted for 47.9% of the total visco-elastic health and wellness product market in 2013.

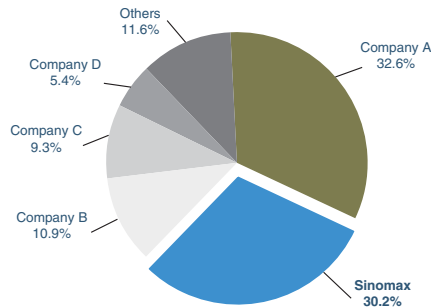
According to Frost & Sullivan, the premium and mainstream visco-elastic health and wellness product markets are forecasted to grow at a CAGR of 8.9% and 8.0% respectively, in terms of retail sales value, from 2013 to 2018. With the favourable US economic conditions forecasted by the International Monetary Fund, US consumers are likely to spend more on visco-elastic health and wellness products, especially at the premium end. The market share of mainstream visco-elastic health and wellness product market is expected to drop slightly from 47.9% in 2013 to 46.8% in 2018.

Our Company competes in the mainstream visco-elastic health and wellness product market, as our Company generally sells visco-elastic health and wellness products through US retailers, and our products generally are priced within the price range of the mainstream product market.

The mainstream visco-elastic health and wellness product market is highly concentrated with only a handful of well-established players. According to Frost & Sullivan, our Company was the second largest supplier of mainstream visco-elastic health and wellness products in 2013, in terms of retail sales value, with a market share of 30.2% in the mainstream visco-elastic health and wellness product market in the US. Our Company operates in a highly concentrated market whereby the top five market players together, accounted for 88.4% of the entire mainstream visco-elastic health and wellness product market in 2013.

INDUSTRY OVERVIEW

Ranking of Top 5 Mainstream Product Market Suppliers by Retail Sales Value (US), 2013



Rank	Mainstream Product Market Supplier	Retail Sales Value in the US (Million US\$)	Market Share in Mainstream Product Market
1	Company A	273	32.6%
2	Sinomax	252	30.2%
3	Company B	91	10.9%
4	Company C	78	9.3%
5	Company D	45	5.4%
	Others	97	11.6%
	Total	836	100.0%

Note: The above mentioned suppliers' retail sales values are obtained through adding their sales value and average mark-ups from their distributors.

Source: Frost & Sullivan

According to Frost & Sullivan, product quality and safety are the key factors to compete in the US mainstream visco-elastic health and wellness product market. Our visco-elastic material has been certified since 2010 by CertiPUR-US programme, a programme for testing, analysis and certification of polyurethane foams, administered by a non-profit organisation, the Alliance for Flexible Polyurethane Foam, whereby all polyurethane foams certified by such programme must meet specific criteria on physical properties, volatile organic compounds content, environmental management, etc. Therefore, our products are recognised by US retailers as high quality.

Further, according to Frost & Sullivan, high product penetration is also a key success factor of a visco-elastic health and wellness product brand competing in the mainstream market. Having established stable relationships with leading retailers in the US, our Company has been able to extend our product reach to local consumers in the US.

Entry barriers to the US visco-elastic health and wellness product market

Significant and continuous capital investment is needed for entering and maintaining leading position in the retail market, including investment on the launch and promotion of new products, marketing campaigns, studying and catering consumers' needs and consumption habits. Time and cost on building a sound distribution network and research and design ability are also barriers for new entrants by smaller scale manufacturers.

Future trends

In the coming years, the visco-elastic health and wellness product market is expected to experience steady growth. The US real estate industry is likely to continue to recover, which is expected to drive the demand of visco-elastic health and wellness products. Amidst an improved economic situation, consumers are more likely to turn to visco-elastic health and wellness products because of their unique features and advantages over traditional health and wellness products. Visco-elastic health and wellness product suppliers with strong research and design ability to develop new products catering to consumers' needs are likely to perform better in the market. Driven by more affordable prices, mainstream visco-elastic health and wellness products are expected to be gradually welcomed by an enlarged consumer group.

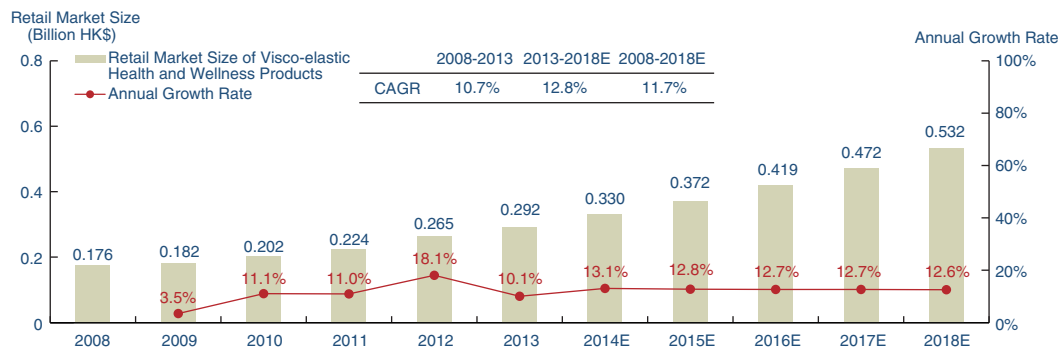
INDUSTRY OVERVIEW

HONG KONG VISCO-ELASTIC HEALTH AND WELLNESS PRODUCT MARKET

Overview

The Hong Kong visco-elastic health and wellness product market is in the middle growth stage of the industry life cycle. There was a handful of visco-elastic health and wellness product brands competing in the market in 2013. Consumers of visco-elastic health and wellness products were growing, and suppliers were working on new applications of visco-elastic material. Total retail sales of visco-elastic health and wellness products in Hong Kong rose from HK\$0.18 billion in 2008 to HK\$0.29 billion in 2013, representing a CAGR of 10.7%. The following chart sets forth the historical and forecasted retail size of the visco-elastic health and wellness product market in Hong Kong:

Retail Market Size of Visco-Elastic Health and Wellness Product (Hong Kong), 2008-2018E



Source: Frost & Sullivan

According to Frost & Sullivan, the Hong Kong visco-elastic health and wellness product market is expected to record a CAGR of 12.8% from 2013 to 2018 to HK\$0.53 billion in 2018 due to the following drivers:

- Increased retail sales and consumption of visco-elastic health and wellness products given favourable macroeconomics conditions including:

	2008	2013E	2018E	CAGR 2008- 2013E	CAGR 2013E- 2018E
Nominal GDP (Billion HK\$)	1,707.5	2,169.3	3,252.2	4.9%	8.4%
Per Capita Personal Income (HK\$)	259,851.0	311,405.7	427,876.4	3.7%	6.6%

Note: Per capita personal income above refers to the per capita gross national income from Census and Statistics Department of Hong Kong.

Source: International Monetary Fund, Census and Statistics Department of Hong Kong and Frost & Sullivan

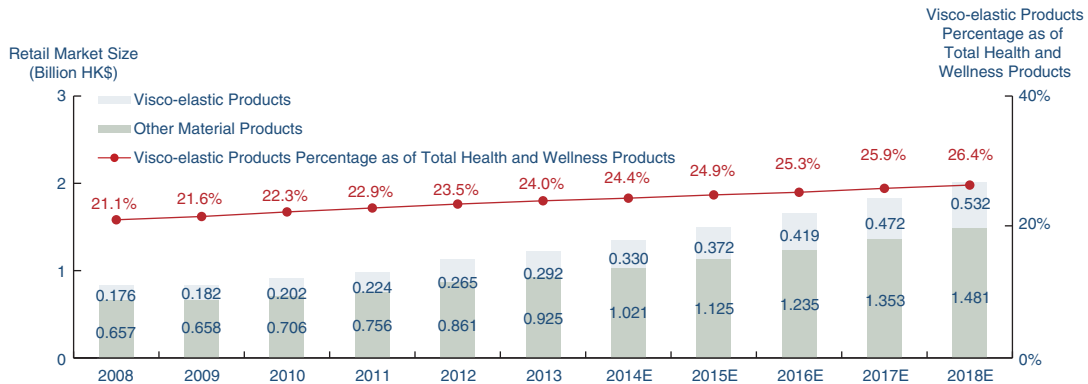
- Increasing pursuit of products which can enhance sleep quality and comfort; and
- Growing awareness amongst Hong Kong population of the benefits of visco-elastic health and wellness products against that of traditional health and wellness products.

According to Frost & Sullivan, the share of visco-elastic health and wellness products in the total health and wellness products in Hong Kong increased from 21.1% in 2008 to 24.0% in 2013. The share of visco-elastic health and wellness products in the total health and wellness product market is estimated to grow to 26.4% by 2018.

INDUSTRY OVERVIEW

The following chart illustrates the historical and forecasted size of the total health and wellness product market in Hong Kong and the share of visco-elastic health and wellness products accounted for during the corresponding periods:

Retail Market Size of Health and Wellness Products by Material (Hong Kong), 2008-2018E



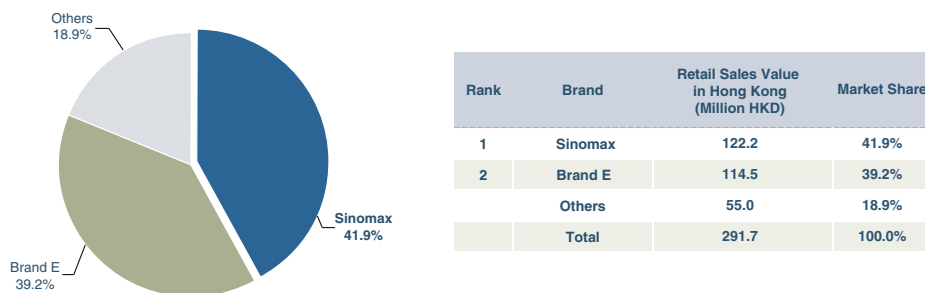
Source: Frost & Sullivan

Competition in the Hong Kong visco-elastic health and wellness product market

Having regard to the relatively high entry barriers described below, the Hong Kong health and wellness product market remains highly concentrated.

According to Frost & Sullivan, our Company was the largest brand of visco-elastic health and wellness products in Hong Kong in 2013 in terms of retail sales value, with a market share of 41.9%. With the top two market players together, accounting for 81.1% of the market share in 2013, our Company operates in a highly concentrated market.

Top 2 Brands of Visco-Elastic Health and Wellness Product by Retail Sales Value (Hong Kong), 2013



Source: Frost & Sullivan

According to Frost & Sullivan, branding and a well established sales network enable us to stand out in the Hong Kong visco-elastic health and wellness product market in 2013. The “SINOMAX” branded mattresses and mattress toppers of the Company are endorsed by the Chiropractic Doctors’ Association of Hong Kong, which is the largest chiropractic professional body in Hong Kong. The endorsement by such a professional body evidences the product quality of the Company and hence promotes the brand awareness amongst the public. We had a well-established sales network with 39 POS covering major department stores and shopping centres in Hong Kong as at 31 March 2014, compared to other major visco-elastic health and wellness product brands which had fewer POS. We believe that our well-established sales network raised our brand awareness and market penetration rate.

INDUSTRY OVERVIEW

Entry barriers to the Hong Kong visco-elastic health and wellness product market

As a large number of retail distribution points are required to promote brand awareness, newcomers face the challenges of large initial capital investments to build their brand image, establish relationships with department stores and shopping centers and secure highly-sought after retail premises to operate their retail outlets.

Future trends

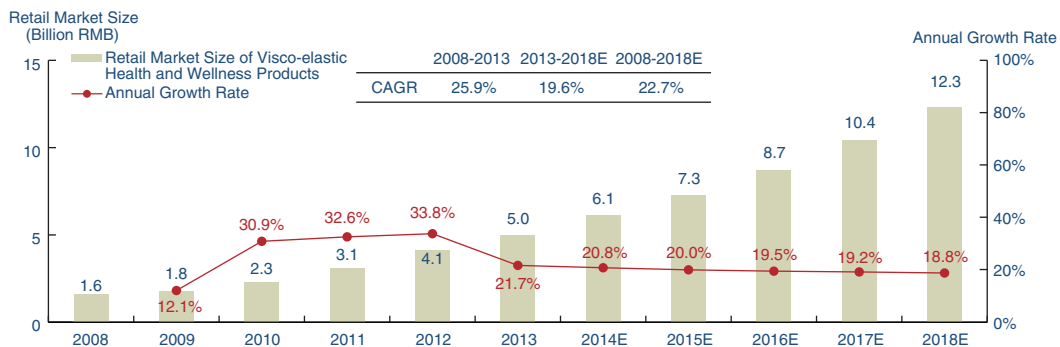
Growing health awareness amongst Hong Kong consumers is likely to drive the growth of visco-elastic health and wellness product market in Hong Kong. The market is expected to remain high concentration with the presence of only a few market players due to the high entry barriers. Product scope of visco-elastic health and wellness product market is expected to enlarge due to the continuous product development to cater consumers' needs.

PRC VISCO-ELASTIC HEALTH AND WELLNESS PRODUCT MARKET

Overview

The PRC visco-elastic health and wellness product market stands at a relatively early stage of growth of the industry life cycle. The PRC visco-elastic health and wellness product market was fragmented in 2013. Competitors were fighting for larger market share and more consumers were adopting visco-elastic health and wellness products. In 2013, the value of PRC visco-elastic health and wellness product market stood at RMB5.0 billion in terms of total retail sales value, representing a CAGR of 25.9% from 2008. According to Frost & Sullivan, the PRC visco-elastic health and wellness product market is expected to experience high growth to reach approximately RMB12.3 billion by 2018, representing a CAGR of 19.6% from 2013. The following chart illustrates the historical and forecasted size of the visco-elastic health and wellness product market in the PRC:

Retail Market Size of Visco-Elastic Health and Wellness Products (PRC), 2008-2018E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

This is due to the following key drivers:

- Increased retail sales and consumption of visco-elastic health and wellness products given favourable macroeconomics conditions including:

	2008	2013	2018E	CAGR 2008-2013	CAGR 2013- 2018E
Nominal GDP (Billion RMB)	31,404.5	56,884.5	91,630.9	12.6%	10.0%
Per Capita Personal Income of Urban Households (RMB)	15,780.8	26,995.0	44,150.0	11.3%	10.3%
Per Capita Personal Income of Rural Residents (RMB)	4,760.6	8,896.0	15,906.9	13.3%	12.3%

Note: Per capita personal income of urban households and rural residents above refer to the per capita annual disposable income of urban households and per capita annual net income of rural residents, respectively from National Bureau of Statistics of China.

Source: International Monetary Fund, National Bureau of Statistics of China and Frost & Sullivan

- The historical and sustainable future development of real estate market in the PRC, driving the demand of visco-elastic health and wellness products, in particular, mattresses. Set out below are certain information of the PRC property market:

	2008	2013	CAGR 2008- 2013
GFA of New Commencements of Commodity Properties (Million sq.m)	1,025.5	2,012.1	14.4%
Investment in Real Estate Development in Residential Properties (Billion RMB)	2,244.1	5,895.1	21.3%
GFA of Commodity Properties Sold (Million sq.m)	659.7	1,305.5	14.6%

Note: GFA refers to gross floor area

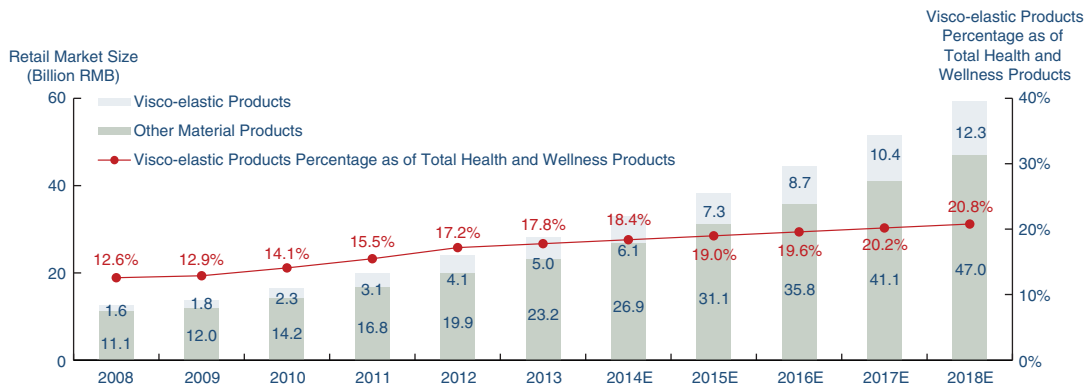
Source: National Bureau of Statistics of China

- Advent of a new generation of increasingly health-conscious consumers in the PRC orientated by product quality and aesthetic designs, who are willing to spend on products which improve their overall well-being; and
- Rising urban population, who are the main consumer groups of visco-elastic health and wellness products.

INDUSTRY OVERVIEW

As at 2013, the market of visco-elastic health and wellness products accounted for 17.8% of the total health and wellness product market, increasing from its 12.6% share in 2008, evidencing the growing popularity of visco-elastic health and wellness products against traditional products. The market share of visco-elastic health and wellness products is expected to increase to 20.8% in 2018, according to Frost & Sullivan. The following chart illustrates the historical and forecasted size of the total health and wellness product market in the PRC and the share of visco-elastic health and wellness products during the corresponding periods:

Retail Market Size of Health and Wellness Products by Material (PRC), 2008-2018E

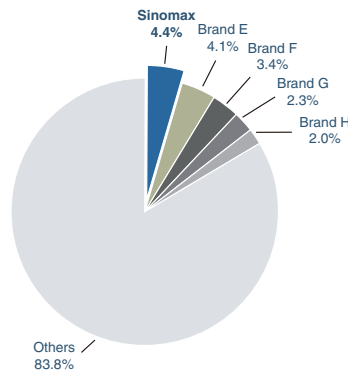


Source: Frost & Sullivan

Competition in the PRC visco-elastic health and wellness product market

As the PRC visco-elastic health and wellness product market remains at an early growth stage, the market continues to be highly fragmented with a large number of market players with the top five market players together, accounting for only 16.2% of the entire market in 2013. According to Frost & Sullivan, our Company was ranked first among all the brands of visco-elastic health and wellness products in the PRC in 2013, in terms of retail sales value, with a market share of 4.4%.

Top 5 Brands of Visco-Elastic Health and Wellness Products by Retail Sales (PRC), 2013



Rank	Brand	Retail Sales Value in the PRC (Billion RMB)	Market Share
1	Sinomax	0.223	4.4%
2	Brand E	0.206	4.1%
3	Brand F	0.170	3.4%
4	Brand G	0.114	2.3%
5	Brand H	0.100	2.0%
	Others	4.219	83.8%
	Total	5.032	100.0%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

According to Frost & Sullivan, our well-established sales network and quality brand image differentiate us from other key players in the PRC visco-elastic health and wellness product market. Through our well-established sales network of 427 POS, including both self-operated and third-party distributor operated POS, located in over 20 provinces or municipalities or autonomous regions in the PRC as at 31 March 2014, we have been able to increase our brand awareness.

Entry barriers to the PRC visco-elastic health and wellness product market

The main challenges faced by new entrants include technology and know-how which newcomers must acquire through significant initial investments into research and development over time. Notably, research and development requires time and continuous investment, as manufacturers need to conduct numerous tests on raw materials to perfect production formulae and techniques.

Similarly, investment to promote brand awareness and the establishment of distribution networks which allow for greater market penetration also continues to be representing significant hurdles for new, smaller scale competitors.

Future trends

Visco-elastic health and wellness products are likely to be welcomed by substantial demand amongst the Chinese population, particularly those from urban areas where sales networks are seen to build up. With the rising urbanisation rate, the market is likely to grow with increasing urban population and their rising purchasing power.

There is a growing diversification of sales channels in the PRC, especially shopping malls and online purchasing, which have become more and more popular among Chinese consumers. Shopping malls and online sales channel provide convenient access for consumers. As visco-elastic health and wellness products become more accessible to consumers, it is expected that the total visco-elastic health and wellness product sales in the PRC will increase.

PRC POLYURETHANE FOAM MARKET

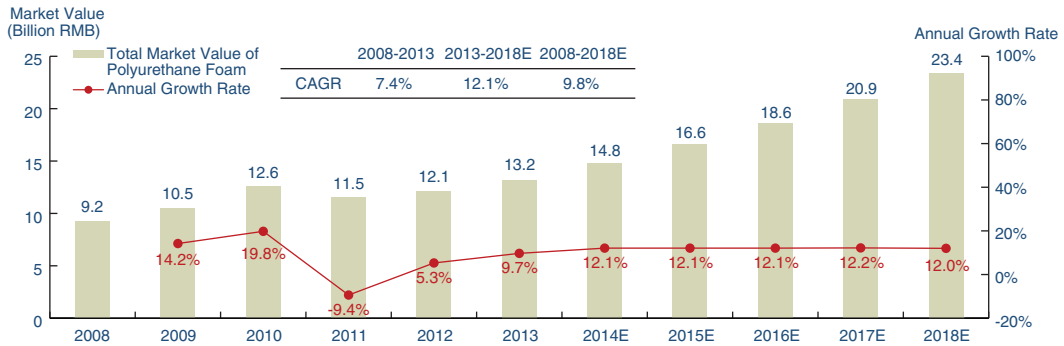
Overview

The polyurethane foam market grew with a CAGR of 7.4% from 2008 to 2013, and the total market value increased from RMB9.2 billion in 2008 to RMB13.2 billion in 2013. The main usage of polyurethane foams is as upholstery foams in sofas, and therefore, the polyurethane foam market in the PRC was, to a large extent, affected by the PRC real estate industry. In 2011, the real estate industry in the PRC experienced a difficult time due to the continued efforts by the PRC authorities to control the property market, leading to the contraction of polyurethane foam market in terms of market value.

INDUSTRY OVERVIEW

In recent years, the furniture industry has experienced significant growth in terms of production value supporting both domestic and export demand, which resulted in the recovery of polyurethane foam sales in China. The total market value of polyurethane foam is expected to grow to RMB23.4 billion in 2018, representing the CAGR of 12.1% from 2013 to 2018.

Total Market Value of Polyurethane Foam (PRC), 2008-2018E



Source: Frost & Sullivan

Key drivers of the PRC polyurethane foam market

According to Frost & Sullivan, the polyurethane foam market is expected to grow steadily due to the following drivers:

- Expected growth of the PRC furniture industry at a CAGR of 16.2% from RMB646.3 billion in 2013 to RMB1,369.1 billion in 2018;
- Increasing demand of quality furniture such as mattresses and sofas from Chinese consumers, which is likely to increase the demand of high quality polyurethane foams; and
- Growing health awareness amongst the PRC population and increasing pursuit of a higher level of sleep comfort offered by foam mattresses.

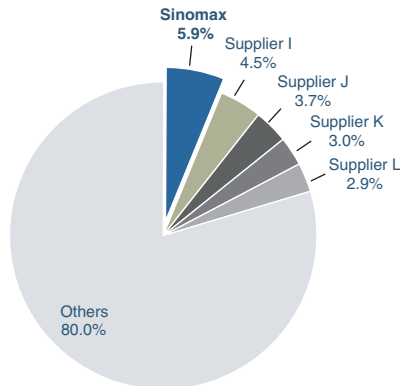
Competition in the PRC polyurethane foam market

According to Frost & Sullivan, the polyurethane foam market is highly fragmented with numerous players.

INDUSTRY OVERVIEW

In 2013, our Company was the largest manufacturer of polyurethane foams in the PRC in terms of sales value. In 2013, the top five market players together accounted for only 20.0% of the market by sales value. As such, there remains potential for new entrants to penetrate into the market or for existing market players to increase their market share.

Top 5 Polyurethane Foam Manufacturers' Market Share by Sales Value (PRC), 2013



Rank	Polyurethane Foam Manufacturer	Polyurethane Foam Sales Value in the PRC (Billion RMB)	Market Share
1	Sinomax	0.78	5.9%
2	Supplier I	0.60	4.5%
3	Supplier J	0.49	3.7%
4	Supplier K	0.40	3.0%
5	Supplier L	0.38	2.9%
	Others	10.58	80.0%
	Total	13.23	100.0%

Note: Polyurethane foam sales value above includes value added tax.

Source: Frost & Sullivan

We offer quality polyurethane foams tailored to customers' needs and requirements including conventional polyether foams, high resilience foams and visco-elastic foams, ranging widely in product density, firmness, elasticity and durability, which are suitable for a variety of furniture applications; and we have a scalable production capacity of 75,113 tonnes of foam per annum as at 31 December 2013, making us a leading polyurethane foam supplier in terms of production capacity.

Entry barriers to the PRC polyurethane foam market

Strict quality control management is required for polyurethane foam suppliers, as downstream furniture manufacturers attach great importance to the quality of polyurethane foams. Further, there are geographical constraints as downstream furniture manufacturers usually choose their polyurethane foam suppliers located within 250 kilometres or in the same province to save transport cost. This industry practice also sets up entry barriers for new entrants and smaller scale manufacturers.

Future trends

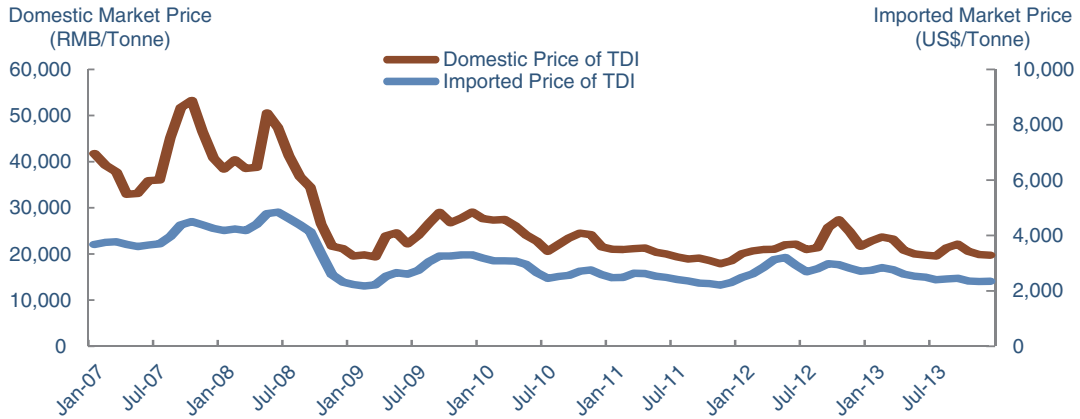
The PRC furniture industry is likely to continue to consolidate in the next five years with increasing consumer brand consciousness. Polyurethane foam suppliers who have the production know-how to develop and supply a wide range of quality foams to cater to different needs are likely to perform better in the future competition. Meanwhile, increasing demand of high quality furniture from Chinese consumers is expected to drive the growth of high quality polyurethane foam as well.

INDUSTRY OVERVIEW

MARKET PRICE OF TDI AND PPG

TDI and PPG are the key raw materials for the production of visco-elastic and other foams. Supply of TDI and PPG is concentrated with some chemical giants, including Mitsui and SKC and other leading chemical companies. Prices of TDI and PPG from January 2007 to December 2013 are set out below:

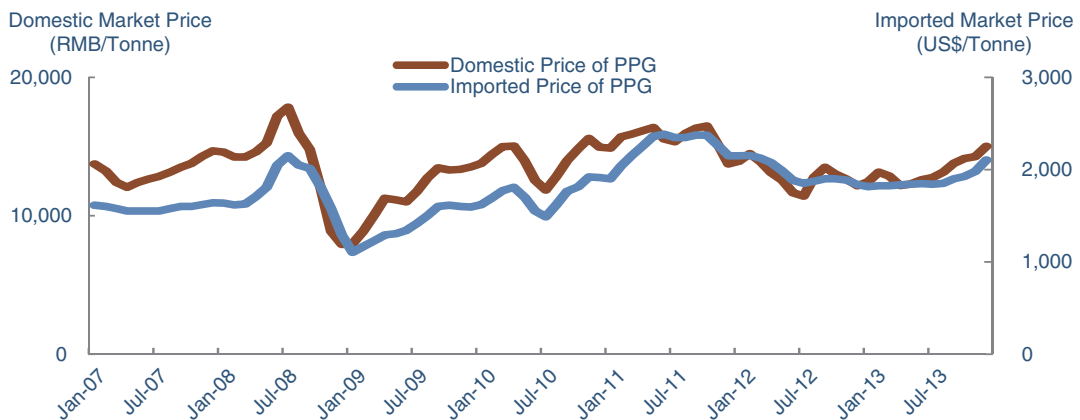
**Market Price of Domestic and Imported TDI (PRC),
January 2007 – December 2013**



Note: Domestic market price refers to monthly average domestic market price of TDI in RMB; Imported market price refers to monthly average imported market price of TDI in US\$; TDI here refers to TDI-80.

Source: Frost & Sullivan

**Market Price of Domestic and Imported PPG (PRC),
January 2007 – December 2013**



Note: Domestic market price refers to monthly average domestic market price of PPG in RMB; Imported market price refers to monthly average imported market price of PPG in US\$; PPG here refers to bulk PPG with molecular weight of about 3,000.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Domestic and imported price of TDI and PPG experienced similar fluctuation trends. Since the production volume of TDI from some global chemical giants and domestic chemical manufacturers declined in 2007 and 2008, the supply shortage resulted in the peak market prices of TDI in 2007 and 2008. Both domestic and imported market price of TDI in the PRC were relatively stable from January 2009 to December 2013, gradually reducing to less than RMB30,000.0 and US\$3,300.0 per tonne, respectively, from January 2009.

The market price of PPG fluctuated with the trend of global crude oil price, as raw materials of PPG come from crude oil. The market price of crude oil in 2008 dropped dramatically, and then rebounded gradually. Similarly, the market price of PPG dropped in 2008 and then recovered accordingly since January 2009. Domestic and imported market price of PPG ranged from RMB7,900.0 to RMB17,875.0 per tonne, and US\$1,100.0 to US\$2,387.5 per tonne, respectively.

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This section summarises selected key current laws and regulations in the US, Hong Kong, the PRC and Macau that are relevant to our business and operations. Information contained in this section should not be construed as a comprehensive summary of the laws and regulations applicable to our Group.

LAWS AND REGULATIONS OF THE US

Regulations Relating to Consumer Protection

Consumer Product Safety Act (“CPSA”)

CPSA, entered into law on 27 October 1972, was enacted to establish the Consumer Product Safety Commission (“CPSC”) and define its authority with the purpose of protecting the public against unreasonable risks of injury associated with consumer products; assisting consumers in evaluating the comparative safety of consumer products, developing uniform safety standards for consumer products; and to promote research and investigation into the causes and prevention of product-related deaths, illnesses, and injuries.

Flammability Requirements for Mattress Sets, Mattresses, and Mattress Pads

16 CFR 1632, Standard for the Flammability of Mattresses and Mattress Pads and 16 CFR 1633, Standard for the Flammability (Open Flame) of Mattress Sets set forth the flammability requirements for mattress sets, mattresses, and mattress pads. 16 CFR 1632 requires prototype designs of mattresses and mattress pads, before the sale in commerce or the introduction in commerce, to comply with the flammability requirements of this standard.

16 CFR 1633 establishes flammability requirements that all mattress sets must meet before sale or introduction into commerce. The test method set forth in this regulation measures the flammability (fire test response characteristics) of a mattress specimen by exposing the specimen to a specified flaming ignition source and allowing it to burn freely under well ventilated, controlled environmental conditions. All mattress sets must meet the flammability requirements of this regulation. This regulation also establishes mandatory labelling criteria for mattress sets.

Federal Hazardous Substances Act (“FHSA”)

FHSA regulations set forth requirements for hazardous household substances. The FHSA requires household substances that meet the definition of hazardous (as defined in the FHSA) to bear cautionary labelling to warn the consumer of the hazard(s) associated with the use of the product, that would enable the consumer to safely use and store the product, first aid instructions where applicable, and the statement “Keep out of the reach of children”. Whether a product must be labelled depends on its formulation and the likelihood that consumers will be exposed to any hazards it presents in customary use which includes ingestion by children. The FHSA also defines as banned hazardous substances those products that are intended for use by children that present an electrical, mechanical, or thermal hazard, with some exceptions. The FHSA also allows the CPSC to ban certain products that are so dangerous or the nature of the hazard is such that the labeling act requirements are not adequate to protect consumers.

Regulations Relating to Environment, Health and Safety

Toxic Substances Control Act (“TSCA”)

The TSCA provides EPA with authority to require reporting, record-keeping and testing requirements, and restrictions relating to chemical substances and/or mixtures. Certain substances are generally excluded from TSCA, including, among others, food, drugs, cosmetics and pesticides.

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Regulations Relating to Customs and Border Protection

All products imported into the US must conform to 19 CFR 134, Country of Origin Marking regulations. This regulation requires that every article of foreign origin (or its container) imported into the US be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or container) will permit, and in such a manner as to indicate to the ultimate purchaser in the US, the English name of the country of origin of the article at the time of importation.

Regulation Relating to Trade and Commerce

Federal Trade Commission Act (“FTC Act”)

The FTC Act broadly prohibits unfair or deceptive acts or practices in or affecting commerce. The Federal Trade Commission (“**FTC**”) will find deception if, either by the inclusion or exclusion of information, it is likely to mislead consumers acting reasonably under the circumstances, or affect the consumer’s choice or conduct, thereby leading to injury. The FTC Act allowed the FTC to enact several acts and regulations intended to prohibit unfair or deceptive act or practices.

State Laws and Regulations Relating to the Group’s Business

Our operations are also subject to US state and local consumer protection regulations and other regulations relating specifically to the Group’s business.

Packaging and Labelling

The Uniform Laws and Regulations in the areas of Legal Metrology and Engine Fuel Quality, NIST Handbook 130, Uniform Packaging and Labelling Regulation (“**UPLR**”), have been adopted into law in forty-five of the fifty US states. The purpose of these regulations is to provide accurate and adequate information as to the identity and quantity of contents of packages so that purchasers can make price and quantity comparisons. UPLR requires that consumer packaging bear a label specifying the identity of the commodity; the name and place of business of the manufacturer, packer, or distributor; and the net quantity of contents in terms of weight or mass measure, or numerical count in a uniform location upon the principal display panel.

Toxics in Packaging Legislation

This legislation was originally drafted by the Source Reduction Council of the Coalition of Northeastern Governors (“**CONEG**”) in 1989. It was developed in an effort to reduce the amount of heavy metals in packaging and packaging components that are sold or distributed throughout the US. The law is designed to phase out the use and presence of mercury, lead, cadmium, and hexavalent chromium in packaging. The legislation has been successfully adopted by nineteen states.

Uniform Law Label

Filled bedding, furniture, sleeping bags and toys sold in the U.S require a special label. Thirty-one states, including California, Massachusetts, New York, Ohio, and Pennsylvania, have established laws requiring labelling of bedding and upholstered furniture. In order to simplify compliance with the various state bedding and upholstered furniture labelling laws, the International Association of Bedding and Furniture Law Officials (“**IABFLO**”, an association made up of state officials responsible for the enforcement of bedding and furniture laws in their respective states), established a uniform law labelling system to assist manufacturers.

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Flame Retardant Regulations

Several US states have legislation banning the use of PentaBDE and/or OctaBDE in products, including upholstered furniture. The states include: Maine, Maryland, Minnesota, Oregon, and Washington. Brominated flame retardant limits have been proposed in the following states: California, Connecticut, Hawaii, Illinois, Massachusetts, Michigan, New York, Rhode Island, and Wisconsin.

Laws and Regulations on Transfer Pricing

Section 482 of the US Internal Revenue Code of 1986, as Amended (the “Code”)

Section 482 of the Code generally provides that in any case of two or more organisations, trades, or businesses (whether or not incorporated, whether or not organised in the United States, and whether or not affiliated) owned or controlled directly or indirectly by the same interests, the Secretary of the Treasury or his delegate may distribute, apportion or allocate gross income, deductions, credits, or allowances between or among such organisations, trades, or businesses, if he determines that such distribution, apportionment, or allocation is necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such organisations, trades, or businesses. Section 482 of the Code further provides that in the case of any transfer (or license) of certain intangible property, the income with respect to such transfer or license shall be commensurate with the income attributable to the intangible.

LAWS AND REGULATIONS OF HONG KONG

Laws and Regulations on Product Liability and Consumer Protection

Hong Kong does not have a specific legislation governing product liability and consumer protection. The law in this area can be drawn from legislations and common law, which imposes both criminal and civil liability upon breach.

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

The most common form of civil liability arises from the contract for the sale of goods. Under the Sale of Goods Ordinance, vendors have various implied obligations towards consumers, including but not limited to an implied undertaking that the goods provided are of merchantable quality and reasonably fit for the purposes for which goods of that kind are commonly bought for.

Tortious Duty Under Common Law

Apart from contractual liability, under common law, manufacturers, distributors and retailers of products also owe a duty of care to consumers and may be liable for damage resulting from defects in goods caused by their negligent acts or for any fraudulent misrepresentation made in the distributing and selling of goods. Where a manufacturer, distributor and retailer knows or reasonably believes that the products may be defective, he may have to cease to supply such goods and to give warning and instructions to persons to whom the products are supplied. Any person who undertakes to design, import or supply a product, and who negligently performs his work and causes damage to another person or property, will also attract civil liability.

Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)

The Consumer Goods Safety Ordinance imposes criminal liability on persons who supply, manufacture or import into Hong Kong consumer goods that do not comply with the general safety requirement or where applicable, the approved standard for the particular consumer goods.

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The general safety requirement means a duty to ensure that consumer goods are reasonably safe having regard to all of the circumstances, for example, the manner the consumer goods are presented, promoted or marketed, the instructions or warnings given, etc. The approved standard means a safety standard or specification approved by the Secretary for Commerce and Economic Development.

Under the said ordinance, the Commissioner of Customs and Excise has the power to serve a recall notice on a person, requiring the immediate withdrawal and retrieval of any consumer goods which he believes to be unsafe and may cause serious injury.

Electrical Products (Safety) Regulation (Chapter 406G of the Laws of Hong Kong)

It is a requirement under the Electrical Products (Safety) Regulation that electrical products which are designed for household use and supplied in Hong Kong shall comply with certain safety requirements and obtain recognised certificates of safety compliance.

Laws and Regulations on Advertising and Promotion Practise

Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

Hong Kong does not have any specific legislation regulating advertising practise. There are a number of ordinances and regulations regulating advertising and promotion of products and services. One of the relevant legislation is the Trade Descriptions Ordinance.

The Trade Descriptions Ordinance prohibits vendors from providing false trade descriptions, false, misleading or incomplete information and false marks and misstatements in respect of goods provided in the course of trade. It is an offence to apply a false trade description to any goods, or supply any goods which a false trade description is applied, or possess for sale, trade or manufacture any goods which a false trade description is applied. False and misleading trade descriptions of products in advertisements are also prohibited.

The said ordinance underwent some amendments which came to effect on 19 July 2013. The key changes include:

- extending the definition of “trade description” to cover any indication (of information) in any form and by any means;
- extending the prohibition of false trade descriptions to services made in consumer transactions;
- creating new offences for specified unfair trade practises, such as misleading omissions, aggressive commercial practises, bait advertising, bait-and-switch and wrongly accepting payment; and
- introducing a compliance-based enforcement mechanism enabling consumers to commence civil actions to recover any loss or damage suffered in addition to criminal sanctions.

Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong)

The Personal Data (Privacy) Ordinance regulates the collection, retention, use and security of any data relating directly or indirectly to a living individual, from which it is practicable for the identity of the individual to be ascertained and is in a form in which access to or processing of the data is practicable.

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Laws and Regulations on Employment and Related Matters

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

Our Group provides retirement benefits for its employees under the Mandatory Provident Fund Scheme (the “**MPF Scheme**”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the said ordinance, except for exempt persons, employees (full-time and part-time) and self-employed persons who are at least 18 but under 65 years of age are required to join an MPF Scheme.

Under the MPF Scheme, both the employer and each of its employees are each required to make contributions to the plan at 5% of the employee’s relevant income, subject to a monthly relevant income cap of HK\$30,000 for employers and a minimum and maximum monthly relevant income cap of HK\$7,100 and HK\$30,000 respectively for employees. Where the employee’s income exceeds HK\$30,000, both the employer and employee shall contribute a monthly sum of HK\$1,500 to the plan. This contribution amount will immediately be vested in the employee as his/her accrued benefits in the MPF Scheme.

Employers found to have evaded payment of MPF contributions, deducted employer contributions from an employee’s pay, or failed to enrol their employees to an MPF Scheme, may be liable to a financial penalty and potential criminal prosecution.

Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

The Employment Ordinance provides for the protection of the wages of employees, regulates general conditions of employment and employment agencies, and for matters connected therewith.

Under the said ordinance, employees who are employed under a continuous contract are entitled to additional benefits including but not limited to rest days, paid annual leave, sickness allowance, severance payment and long service payment.

Where an employer wilfully and without reasonable excuse fails to pay wages to an employee when it becomes due, or fails to pay interest on the outstanding amount of wages to the employee is liable on conviction to a fine and imprisonment. Where an employer who is no longer able to pay wages due, he should terminate the contract of employment in accordance with its terms.

Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees’ Compensation Ordinance regulates the payment of compensation to employees who are injured in the course of their employment. Under the said ordinance, an employer must be in possession of a valid insurance policy to cover his liabilities both under the said ordinance and at common law for the work injuries of his employees, irrespective of the length of employment contract or working hours, full-time or part-time employment. An employer who fails to secure an insurance cover commits an offence and is liable on conviction to a fine and imprisonment.

Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance aims to ensure the safety and health of employees when they are at work. Under the said ordinance, an employer must ensure the safety and health of his workplace by (i) providing and maintaining plant and work systems that are safe and without risks to health; (ii) making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or

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substances; (iii) providing all necessary information, instruction, training and supervision for ensuring safety and health; (iv) providing and maintaining safe access to and egress from the workplace; and (v) providing and maintaining a safe and healthy work environment. An employer who fails to comply with the above may be liable on conviction to a fine and imprisonment, if he did so intentionally, knowingly or recklessly.

Occupational Safety and Health Regulation (Chapter 509A of the Laws of Hong Kong)

The said regulation further sets out basic requirements for accident prevention, fire precaution, workplace environment control, hygiene at workplaces, first aid, as well as what employers and employees are expected to do in manual handling operations.

Laws and Regulations on Transfer Pricing

Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)

The Inland Revenue Ordinance provides that where a non-resident person carries on business with a resident person with whom he is closely connected and the course of such business is so arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong, the business done by the non-resident person in pursuance of his connection with the resident person shall be deemed to be carried on in Hong Kong, and such non-resident person shall be assessable and chargeable with tax in respect of his profits from such business in the name of the resident person as if the resident person were his agent.

LAWS AND REGULATIONS OF THE PRC

Laws and Regulations on Company Establishment and Foreign Investment

Company Law and the Wholly Foreign-owned Enterprise Law

The establishment, operation and management of corporate entities in the PRC is governed by the Company Law of the PRC (中華人民共和國公司法) (the “**Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994. The Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. According to the Company Law, companies established in the PRC are either limited liability companies or joint stock limited liability companies. The Company Law applies to both PRC domestic companies and foreign-invested companies; however where the laws on foreign investment enterprise provide otherwise, the provisions of such laws shall apply. Where the Company Law is silent on matters related to foreign invested companies, such matters may be addressed by other PRC laws and regulations.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practises, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**WFOE Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則) (the “**WFOE Law Implementation Regulation**”), which was promulgated on 12 December 1990 and amended on 12 April 2001. The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a joint venture are regulated by the Chinese-Foreign Equity Joint Ventures Law of the PRC (中華人民共和國中外合資經營企業法) (the “**Joint Ventures Law**”), which was

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promulgated on 8 July 1979 and amended on 4 April 1990 and 15 March 2001, and the Implementation Regulation of the Chinese-Foreign Equity Joint Ventures Law (中華人民共和國中外合資經營企業法實施條例) (the “**Joint Ventures Law Implementation Regulation**”), which was promulgated on 20 September 1983 and amended on 15 January 1986, 21 December 1987, and 22 July 2001.

For the purposes of accurately applying the law regarding the examination, approval and registration of foreign investments in a standardised manner, the State Administration for Industry and Commerce (國家工商行政管理總局), the Ministry of Commerce (商務部), the General Administration of Customs (海關總署) and the State Administration of Foreign Exchange (國家外匯管理局) jointly promulgated the Circular on the Issue of the Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies (Gong Shang Wai Qi Zi [2006] No. 81) (關於印發《關於外商投資的公司審批登記管理法律適用若干問題的執行意見》的通知) on 24 April 2006, which further interprets the application of the Company Law and the relevant laws on foreign investment enterprise regarding the approval and registration various aspects, such as the registered capital, capital contribution, and organ of authority.

PRC Regulations on Foreign Investment Industrial Guidance Catalogue (2011 Revision)

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (中華人民共和國國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部) jointly promulgated the Interim Provisions on Guiding Foreign Investment (指導外商投資方向暫行規定) (the “**Interim Foreign Investment Provisions**”) and the Catalogue for the Guidance of Foreign Investment (外商投資產業指導目錄) (the “**Foreign Investment Catalogue**”), classifying all foreign investment projects into one of four categories: encouraged projects, permitted projects, restricted projects and prohibited projects.

The State Council (國務院) has further promulgated the Provisions on Guiding Foreign Investment (指導外商投資方向規定) in 2002 to revise the Interim Foreign Investment Provisions. The Foreign Investment Catalogue has been revised several times since it was first promulgated, with the most significant revisions taking place in 2002, 2004, 2007 and 2011. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission and MOFCOM on 24 December 2011 and came into effect on 30 January 2012. According to the latest Foreign Investment Catalogue, a company engaged in production and sale of household products falls within the category of permitted projects.

Provisional Administrative Measures on the Examination and Approval of Foreign Investment Projects

Pursuant to the Investment Reform Decision, on 9 October 2004 the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) (the “**NDRC**”) promulgated the Provisional Administrative Measures on the Examination and Approval of Foreign Investment Projects (外商投資項目核准暫行管理辦法) (the “**Provisional Administrative Measures**”) which became effective on the date of promulgation. According to the Provisional Administrative Measures, the NDRC shall, in accordance with the Foreign Investment Catalogue, examine and approve foreign investment projects: (i) with a total investment of US\$100 million or more that come within the category of encouraged projects or permitted projects; and (ii) those with a total investment of US\$50 million or more that come within the category of restricted projects. Furthermore, foreign investment projects with a total investment of US\$500 million or more that come within the category of encouraged projects or permitted projects and those with total investment of US\$100 million or more that come within the category of restricted projects are subject to further approval by the State Council based on the examination and approval of the NDRC. Local counterparts of the NDRC have authority to approve projects with total investment less than the above thresholds.

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According to the Several Opinions of the State Council on Further Enhancing Utilisation of Foreign Capital (Guo Fa [2010] No. 9) (國務院關於進一步做好利用外資工作的若干意見) issued by the State Council in April 2010 and the Circular of the National Development and Reform Commission on Doing a Good Job in Delegating the Authority to Approve Foreign-Invested Projects (Fa Gai Wai Zi [2010] No. 914) (國家發展改革委關於做好外商投資項目下放核准權限工作的通知) promulgated by the NDRC in May 2010, the approval threshold for foreign-invested projects to be approved by Chinese central government has been raised from US\$100 million to US\$300 million. With the promulgation of those regulations, foreign investment projects in the encouraged or permitted industries with a total investment amount of US\$300 million or more, or in the restricted industries with a total investment amount of US\$50 million or more shall be subject to approval by NDRC or the State Council.

Laws and Regulations on Product Quality

The Product Quality Law of the PRC (中華人民共和國產品質量法) (“**Product Quality Law**”) was promulgated by the Standing Committee of the National People’s Congress on 22 February 1993 and amended on 8 July 2000 and entered into force on 1 September 2000.

According to the Product Quality Law, producers should establish complete internal quality management system and strictly implement the rules on quality specification, product liability and corresponding evaluation methods. Producers are responsible for their product quality, and their products shall be inspected and qualified. Selective examination on the product quality is the primary means of the administrative supervision and inspection, which are used on products adversely affecting human health that may endanger the safety of persons or property, crucial to the people’s life and other products that have been reported by consumers or other relevant organisations.

Under existing PRC laws, where a defective product causes personal injury and damage to properties, a victim may seek compensation from the manufacturer or the seller of the product; where a seller commits faults which results in a defective product and causes personal injury and damage, the seller shall be liable for compensation. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

The PRC Tort Liability Law (中華人民共和國侵權責任法) which took effect on 1 July 2010 also has similar provisions on product liabilities. Further, according to such law, where a defective product is identified after it has been launched, the manufacturer and the seller shall take remedial measures such as warning or recalling the product in a timely manner. If the manufacturer or the seller knows that there are defects in a product but still produces or sells such product, and thus causes death or serious damage to the health of consumer, the consumer shall have the right to request for punitive damages.

Laws and Regulations on Standardization

The Standardization Law of the PRC (中華人民共和國標準化法) (“**Standardization Law**”) was promulgated by the Standing Committee of the National People’s Congress and took effect on 1 April 1989. The Regulations for the Implementation of the Standardization Law of the PRC (中華人民共和國標準化法實施條例) (“**Implementation Regulations**”) was promulgated by the State Council and became effective on 6 April 1990.

According to such regulations, standards should be formulated for the technical requirements regarding industrial products that need to be unified, which include national standards, trade standards and local standards. To unify the technical requirements for a certain trade or region, trade standards may be formulated in the absence of national

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standards, and local standards may be formulated if both national and trade standards are in the absence. For drafting standards and examining the technical aspects of the drafts, the departments responsible for formulating national, trade and local standards should set up standardization technical committees consisting of experts from, among others, production enterprises and trade associations.

Laws and Regulations on Importation and Exportation of Goods

Pursuant to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), which was promulgated on 12 May 1994 and took effect on 1 July 1994, and then amended on 6 April 2004 and became effective on 1 July 2004, foreign trade dealer who are engaged in the import or export of goods or technologies shall register with the authority responsible for foreign trade under the State Council or its authorised bodies unless such registration is not required under the laws and regulations of the State Council and/or by the authority responsible for foreign trade under the State Council. Where a foreign trade dealer fails to register as required, the Customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (中華人民共和國海關對報關單位註冊登記管理規定), which were promulgated on 31 March 2005 which became effective on 1 June 2005 and amended on 13 March 2014, “consignor or consignee of export or import goods” means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of imports or exports goods shall go through registration formalities with their local Customs authorities in accordance with the applicable provisions. After going through the registration formalities with Customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of three years.

Laws and Regulations on Employment and Social Insurance

Labour Law and Employment Contract Law

According to the Labour Law of the PRC (中華人民共和國勞動法) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and perfect their system of work place safety and sanitation, strictly abide by state rules and standards on work place safety, educate labourers in labour safety and sanitation in the PRC. Labour safety and sanitation facilities shall comply with state-fixed standards. Enterprises and Institutions shall provide labourers with a safe work place and sanitation conditions which are in compliance with state stipulations and the relevant articles of labour protection.

The Employment Contract Law of the PRC (中華人民共和國勞動合同法) was promulgated by the Standing Committee of the National People’s Congress on 29 June 2007 and came into effect on 1 January 2008. In order to implement the Employment Contract Law, Implementing Regulations of the Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) was promulgated by the State Council on 18 September 2008 and entered into force upon promulgation. The Employment Contract Law is primarily aimed at the regulation of employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. Under the Employment Contract Law, (i) employers must pay employees double income in circumstances where an employer fails to enter into an employment contract within one year with an employee who works for the employer for a period exceeding one month. Where

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such period exceeds one year, the parties are deemed to have entered into a labour contract with an “unfixed term”; (ii) employees who fulfil certain criteria, including having worked for the same employer for 10 years or more, may demand that the employer execute a labour contract with an unfixed term; (iii) employees must adhere to regulations concerning commercial confidentiality and non-competition; (iv) employees in respect of whom employers have not in accordance with law made social insurance contributions may terminate their employment contracts. Employment Contract Law was amended on 28 December 2012 to put more stringent requirements on labour dispatching, and entered into force on 1 July 2013.

Social Insurance and Housing Provident Funds

Pursuant to the Social Insurance Law of PRC (中華人民共和國社會保險法) promulgated on 28 October 2010 and implemented on 1 July 2011, the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by PRC State Council, the Interim Measures Concerning the Maternity Insurance of Enterprise Employees (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labour, the Regulation Concerning the Administration of Housing Provident Fund (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, the Regulation on Occupational Injury Insurance (工傷保險條例) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

Laws and Regulations on Foreign Exchange and Dividend Distribution

Rules on Foreign Exchange

The principal regulations governing foreign currency exchange in the PRC are the Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例) enacted in 1996, as amended in 1997 and 2008, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) promulgated in 1996.

Under the Regulations of the PRC on Foreign Exchange Administration, the Renminbi is freely convertible for current account items, including the distribution of dividends payments, interest payment, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and repatriation of investment, however, is still generally subject to the approval or verification of SAFE or its local counterparts.

Under the Administration Rules of Settlement, Sale and Payment of Foreign Exchange, foreign-invested enterprises may only buy, sell or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE.

On 29 August 2008, SAFE promulgated the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (the “SAFE Circular 142”), regulating

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the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 stipulates that the registered capital of a foreign-invested company settled in Renminbi converted form foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. Violations of the SAFE Circular 142 will result in severe penalties, including monetary fines. On 18 July 2011, SAFE further promulgated the Supplementary Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的補充通知) to stipulate detailed procedures regarding the aforesaid conversion.

In addition, any foreign loans to an operating subsidiary in the PRC that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective.

SAFE Registration

According to the Circular of the State Administration of Foreign Exchange on Issues Concerning the Regulation of Foreign Exchange in Equity Finance and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) effective from 1 November 2005 (the “**Circular 75**”), the Circular of the State Administration of Foreign Exchange on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the “**Circular 59**”) effective from 17 December 2012 and the Circular of the State Administration of Foreign Exchange on Printing and Distributing the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors and Relevant Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) (the “**Circular 21**”) effected from 13 May 2013, a PRC domestic resident legal person or a PRC domestic resident natural person is required to effect foreign exchange registration with the local foreign exchange bureau, when such domestic residents use its/his/her enterprise assets or interests in the PRC to establish or take control of a special purpose company abroad, and its/his/her domestic enterprises receive round-trip investments from funds raised by an overseas special purpose company controlled by domestic residents. “Control” as mentioned in the Circular 75 refers to the behaviour that a domestic resident obtains the rights to carry out business operation of, to gain proceeds from or to make decisions on a special purpose company or a domestic enterprise by means of acquisition, trusteeship, holding shares on behalf of others, voting rights, repurchase, convertible bonds, etc.

Regulation on Dividend Distribution

The principal laws and regulations governing distribution of dividends paid by PRC wholly foreign owned enterprises include (i) the Company Law; (ii) the WFOE Law; and (iii) WFOE Law Implementation Regulation. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each as reserve fund and may cease doing so when the accumulative amount of the reserve fund has reached 50% of the registered capital.

Laws and Regulations on Movable Property

On 1 December 2010, Ministry of Housing and Urban-Rural Development promulgated the Administrative Measures for Commodity Housing Tenancy (商品房屋租賃管理辦法), which has come into effect as of 1 February 2011. According to these Measures, the parties

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concerned to a housing tenancy shall go through the housing tenancy registration formalities with the competent construction (real estate) departments of the municipalities directly under the Central Government, cities and counties. The competent construction (real estate) departments will impose a fine below RMB1,000 on individuals who fail to make corrections within the specified time limit, and a fine between RMB1,000 and RMB10,000 on units which fail to make corrections within the specified time limit.

Laws and Regulations on Taxation

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Implementation Regulations of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) enacted on 6 December 2007 and took effect on 1 January 2008 (collectively, the “**EIT Law**”), the enterprise income tax for both domestic and foreign-invested enterprises is unified at 25%. For those enterprises established before 16 March 2007 and entitled to enjoy preferential income tax treatments by tax-related laws and administrative regulations, the EIT Law provides a five year transitional period, during which the applicable enterprise income tax rate shall be converted to the unified rate of 25% gradually.

Provisional Regulations Concerning Value-Added Tax of the PRC

The Provisional Regulations Concerning Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例) (the “**VAT Provisional Regulation**”) was promulgated by the State Council on 13 December 1993. On 5 November 2008, the State Council amended the VAT Provisional Regulation which became effective on 1 January 2009. The Implementation Rules on the VAT Provisional Regulation (中華人民共和國增值稅暫行條例實施細則) was promulgated by the Ministry of Finance of the PRC and entered into force on 25 December 1993, as amended in 2008 and 2011. Pursuant to the VAT Provisional Regulation and the Implementation Rules on the VAT Provisional Regulation, entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods in the PRC are taxpayers of value-added tax and shall pay value-added tax at the rate of 17% unless otherwise stipulated.

Transfer Pricing

According to the EIT Law, in respect of a transaction between an enterprise and its related parties, if the taxable revenue or income of the enterprise or its related parties derived from such transaction is reduced because they have not observed the “arm’s length principle” (i.e. to consummate transactions at a fair price and as per business norms), the tax authority may adjust the taxable revenue or income in compliance with reasonable methods (including comparable uncontrolled price method, resale price method, cost-plus method, transactional net profit method, profit split method and other methods that meet the arm’s length principle). Further, when calculating taxable income, the cost incurred in joint development or transfer of intangible assets, or joint provision or acceptance of labor services by an enterprise and its related parties shall be apportioned between the parties based on the arm’s length principle. It is required that the enterprise and its related party enter into an agreement of cost apportionment and apportion cost between the parties in accordance with the cost-and-expected-income matching principle, and submit the relevant documents to the taxation authorities within the prescribed time limit. If they fail to do so, the apportioned cost cannot be deducted when calculating the taxable income.

According to the Administrative Law of the PRC on the Levying and Collection of Taxes (“中華人民共和國稅收徵收管理法”) promulgated by Standing Committee of the National People’s Congress and its implementation rules (“中華人民共和國稅收徵收管理法實施細則”) promulgated by the State Council, the prices or fees in respect of business transactions

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between institutions or entities engaging in production or business operations established in China by foreign enterprises and their associated enterprises shall follow the arm's length principle. Where the prices or fees do not follow the arm's length principle and result in a reduction of taxable income, the tax authorities shall have the right to make reasonable adjustments.

According to the Implementation Regulations for Special Tax Adjustments (“特別納稅調整實施辦法”) promulgated by State Administration of Taxation, enterprises entering into a transaction with associated parties, and taxation authorities reviewing and evaluating such transaction shall observe the arm's length principle and select and employ a reasonable transfer pricing method. As provided in the implementation rules of the EIT Law, transfer pricing methods include the comparable uncontrolled price method, the resale price method, the cost plus method, the transactional net margin method, the profit split method, and other approaches that are in compliance with the arm's length principle.

According to the Circular of the State Administration of Taxation on Strengthening Supervision and Investigation of Cross-Border Related Party Transactions promulgated by the State Administration of Taxation on 6 July 2009 (“國家稅務總局關於強化跨境關聯交易監控和調查的通知”), enterprises established within the PRC by a multinational enterprise with limited functions and risks such as mono-production (processing with supplied materials or processing with imported materials), distributions or contractual research and development, are not to bear risks such as market risk or decision-making risk during financial crisis, and shall maintain reasonable profits pursuant to transfer pricing principles which match functions and risks with profits.

Laws and Regulations on Environmental Protection

General Provisions

According to the PRC Environmental Protection Law (中華人民共和國環境保護法) promulgated by the standing committee of the National People's Congress on 26 December 1989 which has come into effect on the same date, the State Environmental Protection Administration (now the Ministry of Environmental Protection) has the right to establish the national standards for environment quality and the subordinate environmental protection departments of the government at or above the county level are responsible for supervision environmental protection work within their administrative areas. For any project not regulated by the national emission standards, the local governmental authorities of the provinces, autonomous regions and municipalities may establish their local standards; for any items already listed in the national emission standards, the local governmental authorities of the provinces, autonomous regions and municipalities may set local standards which are more stringent than the national standards and report the same to the competent department of environmental protection administration under the State Council for record.

The PRC government has promulgated a series of laws on discharge of waste water, waste gas, solid wastes and noise to the environment, including: Prevention and Control of the Water Pollution Law of the PRC (中華人民共和國水污染防治法) (latest amended on 28 February 2008, and effective as from 1 June 2008), Prevention and Control of the Atmospheric Pollution Law of the PRC (中華人民共和國大氣環境防治法) (latest amended on 29 April 2000, and effective as from 1 September 2000), Prevention and Control of the Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法) (promulgated by the Standing Committee on 29 October 1996 and effective as from 1 March 1997) and Prevention and Control of the Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法) (latest amended on 29 December 2004 and effective as from 1 April 2005), which have respectively specified the prevention and control and supervision and administration of water pollution, atmospheric pollution and pollution from noise and solid wastes. Pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects

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that discharge pollutants to water body, atmosphere and/or produce noise or solid wastes, the relevant enterprise shall observe the state regulations concerning administration of construction project environmental protection and make pollutant discharge declaration according to law and discharge pollutants in accordance with regulations. With regard to enterprises violating the aforesaid laws, the relevant competent authorities of environmental protection may impose administrative penalties on them in accordance with laws and regulations. Any enterprises that have caused an environmental pollution hazard shall be responsible for eliminating it and compensating the entities or individuals directly damaged.

Environmental Impact Assessment

According to the Regulations on Administration of Environmental Protection of Construction Projects (建設項目環境保護管理條例) promulgated by the State Council on 29 November 1998, Administrative Measures for Construction Project Completion Acceptance on Environmental Protection (建設項目竣工環境保護驗收管理辦法) promulgated by the State Environmental Protection Administration on 27 December 2001 and the Law on Appraising of Environment Impact (中華人民共和國環境影響評價法) promulgated by Standing Committee of the National People's Congress on 28 October 2002, enterprises shall entrust competent institutions with qualified environmental impact assessment services certificate and submit relevant reports to the Environmental Protection departments. Enterprises shall not commence any engineering construction until the approvals from the Environmental Protection departments have been obtained. Pollution prevention and control facilities in construction projects shall be designed, built and put into operation simultaneously with the main body. After the completion of a construction project, the construction unit shall apply with the administrative department of environmental protection which approved the construction project for inspection and acceptance of the completed environmental protection facilities which need to be associated with the construction project.

According to the List of Systematic Management on Construction Projects Impact Assessment (the “**List**”) (建設項目環境影響評價分類管理名錄), promulgated by the Ministry of Environmental Protection on 2 September 2008 and became effective on 1 October 2008, the State has implemented the classification management system according to the degree about project's impact on the environment. Construction enterprises shall, in accordance with the provisions of the List, respectively submit the environmental impact report, the environmental impact report form or fill the environmental impact registration form.

LAWS AND REGULATIONS IN MACAU

Laws and Regulations on Company Establishment and Foreign Investment

Macau General Company Law

The establishment, operation and management of corporate entities in Macau is governed by the Macau Commercial Code, which was approved by Decree-Law 40/99/M on 3 August 1999 and came into effect on 1 November 1999 (the “**Commercial Code**”). The Commercial Code was subsequently amended by Law 6/2000 and by Law 16/2009. According to the Commercial Code, companies established in Macau may be one of four types: “general partnerships” (*sociedade em nome colectivo*), “limited liability partnerships” (*sociedade em comandita*), “limited liability companies” (*sociedade por quotas*) and “joint stock companies” (*sociedades anónima*). The Commercial Code applies to Macau incorporated companies and governs all matters in respect of their incorporation and functioning.

A limited liability company may take the form of a “sole-shareholder limited liability company” (*sociedade por quotas unipessoal*), on which the shares of the company are fully held by one entity only. The legal provisions concerning limited liability companies apply equally to sole-shareholder limited liability companies with the following restrictions: (i) a

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sole-shareholder limited liability company cannot be held by another sole-shareholder limited liability company incorporated in Macau; and (ii) all transactions between the company and its sole shareholder must be done in writing, be necessary, useful or convenient to the pursuit of the company's interests and must be audited by a chartered auditor, which shall declare that the interests of the company are duly protected and that the transaction is in accordance with standard market conditions and price.

There are no restrictions to foreign investment or acquisition of shares or assets by foreign entities in Macau. Foreign entities or individuals may generally purchase business interests in Macau under the same terms and conditions of local entities and individuals.

Macau Offshore Company Law

The legal regime governing offshore activity in Macau was established by Decree-Law no. 58/99/M, which came into effect on 18 October 1999 (the "**Macau Offshore Company Law**"). Offshore activity is defined as "any economic activity dedicated to foreign markets, to be pursued exclusively with non-residents and by means of transactions in currencies other than the pataca".

An offshore entity may take the form of a company incorporated under the laws of Macau or of a branch of an entity incorporated abroad. The incorporation of an offshore institution requires the prior authorisation of the Macau Trade and Investment Promotion Institute ("**IPIM**"). Macau offshore institutions shall abide by the provisions of the Commercial Code in all matters not specifically regulated under Macau Offshore Company Law.

Offshore institutions are classified in four types according to their business scope: 1) offshore financial institutions, 2) offshore commercial services institutions, 3) offshore auxiliary services institutions, and 4) offshore trust management.

The specific activities which may be legally carried out by an offshore commercial services institution are set out in the Chief Executive's Decree no. 205/2005, and include the following: management and administration of ships and aircraft; information technology equipment consultancy; information technology consultancy and programming; data processing; database services; research and development activities; technical testing and analysis activities; administrative and archive support activities.

Offshore commercial services institutions incorporated prior to 2005 were also permitted to carry out the following activities, as defined in Chief Executive's Decree no. 236/GM/99: commercial agency and intermediary services; long-distance sales services; collection and provision of commercial information; management and administration of ships and aircraft; documentation services; client services for information providing, reservation, registry and product ordering; Investigation and security services; information technology equipment consultancy; information technology consultancy and programming; data processing; database services; research and development activities; legal activities; accounting, auditing and tax consultancy; business and management consultancy; architecture, engineering and related technical activities; technical testing and analysis activities; packaging activities; administrative and archive support activities; professional training activities.

Offshore Commercial Services Institutions incorporated before 2005 may still validly carry out the abovementioned activities if said activities were included in the approved registered business scope of the offshore institution prior to that date.

Offshore institutions are generally prohibited from carrying out any commercial activities with Macau residents and institutions and from using Macau currency in their activities. Offshore institutions benefit from a wide range of tax exemptions in Macau, including income tax, industrial tax, inheritance and donations tax, real estate transmission tax and certain stamp duties.

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Laws and Regulations on Relation to Importation and Exportation of Goods

Law no. 7/2003 sets out the general regime of import and export of goods in Macau. The entry, exit and transit of goods in Macau is free, except for certain products from time to time listed as restricted – the latest list was published under CE order no. 452/2011 – (the “**Restricted Products**”).

Any company that intends to carry out import/export activities in Macau must be duly licensed as an import/export company by the Macau Economic Services Bureau. Furthermore, the import/export of Restricted Products requires a specific licence from the relevant industry regulator. The entry of any goods in Macau must be declared at the port of arrival by the licensed entity.

Goods may be imported in a transit regime for a period not exceeding 180 days. This prerogative is subject to declaration upon entrance of the products and the goods must be warehoused in a location under the supervision of the Macau Customs, and cannot be unpacked or repackaged without prior authorisation of the Macau Customs.

Laws and Regulations on Employment and Social Insurance

Law no. 7/2008 (“**Labour Relations Law**”) sets out the general framework governing employment relations in Macau. The Labour Relations Law establishes the minimal labour conditions acceptable in Macau and its guiding principle is that of “*favour labouris*” – i.e. employers may not contractually offer lower working terms and conditions than those minimum terms provided by statute, and any discrepancy therewith should be interpreted in favour of the employee.

The Labour Relations Law contains a variety of institutes primarily aimed at regulating the rights and obligations between employee/employer, these include statutory minimum requirements on matters such as duration of contract, working hours, overtime work, weekly and annual leave, absences, remuneration and termination of contract, etc.

Employment contracts are, by rule, without term, unless the specific nature or scope of the services to be performed require otherwise or if the relevant employee is a non-resident worker. Any termination of contract that is not grounded on just cause may entitle the employee to severance compensation. There are statutory minimums in respect of daily and weekly working hours, as well as in respect of annual leave.

The Macau Labour Affairs Bureau is the regulatory authority competent to supervise the compliance with the Labour Relations Law and will promote the investigation to alleged breaches by employees or employers, having powers to apply administrative fines.

Law 21/009 governs the employment of non-Macau residents by Macau employers and imposes certain specific rules to the respective employment contracts. The employment of non-resident workers is subject to the issuance of a non-resident worker permit (blue card) issued by the Macau Human Resources Office, which is valid for a fixed term of up to two years and subject to re-approval upon expiration.

Pursuant to the applicable Macau laws and regulations, employers are required to contribute to the Macau Social Security Fund account (*Fundo de Segurança Social*) for each worker at their service and to transfer liability for work related injuries to an insurance company authorised to operate in Macau.

Laws and Regulations on Foreign Exchange and Dividend Distribution

The Macau Pataca is freely convertible and there are no restrictions to the repatriation of funds, namely to the repatriation of dividends.

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Unless otherwise agreed in the respective articles of association, the shareholders of a Macau company are entitled to share its distributed dividends in the proportion of the relevant shareholdings. The distribution of dividends is approved on the annual general meeting of the company, upon approval of the annual accounts of the previous financial year.

Distributable dividends are calculated on the basis of the profit of the company for each financial year, determined in accordance with the Macau accounting standards and regulations, that exceeds the aggregate of its share capital and the sums that shall integrate the mandatory and voluntary reserves on that financial year.

A Macau company may pay dividends before or after taxes.

Laws and Regulations on Real Estate Property and Lease

The general regime of sale and purchase and of lease of real estate in Macau is set forth in the Macau Civil Code (Part II, Book II, Chapter's I and III). The parties to the sale and purchase and lease of real estate in Macau are free to contractually define the terms and conditions therewith, without prejudice of the applicable Civil Code mandatory provisions.

Under Macau law, the term of a lease agreement is freely defined by the parties. If neither party communicates its intention of non-renewal upon expiry of its term, the lease is automatically renewed for an equal term or for one year, whichever is longer, unless the parties have contractually agreed otherwise.

Offshore institutions are expressly prohibited from acquiring or leasing real estate in Macau other than for the purposes of conducting the operation of its business.

Taxation

Corporate Tax

In Macau, corporate tax ("**complementary tax**") is imposed on a company's profits, which consist of business income, interest income and realised capital gains and is levied at progressive rates ranging from 9% to 12%. Normal business expenses may be deducted in computing taxable income. Dividends received from another Macau company are exempt of complementary tax of the dividends are paid out after-tax profits.

Other Taxes on Corporations

Other taxes consist in industrial tax, real property tax, motor-vehicle tax and stamp duties on transactions. There is no consumer tax or VAT or sales tax in Macau (with exception of some specific products like fuel, tobacco and alcohol).

Offshore Tax Regime

Offshore institutions in Macau are exempted from complementary tax, industrial tax, inheritance and donations tax, real property tax and certain stamp duties, operating in a nearly "tax-free" environment in Macau. Furthermore, the offshore entities' managerial personnel and non-resident skilled employees are exempted from income tax during the first three years of their employment.

Offshore institutions are subject to a bi-annual operating fee that ranges between MOP3,000 to MOP15,000 depending on the type of offshore entity and its registered capital.

OUR HISTORY AND REORGANISATION

HISTORY

Our Company was incorporated on 5 June 2012 in the Cayman Islands and, as part of the Reorganisation, became the holding company of our Group with our business being conducted through our subsidiaries. Currently, we are a leading marketer, manufacturer and distributor of quality visco-elastic pillows, mattress toppers and mattresses in the US, Hong Kong and the PRC.

Our history can be traced back to 2000, when LAM Chi Fan, our Chairman and executive Director, CHEUNG Chi Hung, LIN Han Li and CHEUNG Fung, Jackson established Sinomax Holding to engage in the wholesale of polyurethane foams and export of polyurethane foam products. Each of LAM Chi Fan, CHEUNG Chi Hung and LIN Han Li had years of experience in the foam industry prior to founding our Group. CHEUNG Chi Hung, LIN Han Li and CHEUNG Fung, Jackson are the elder brother, uncle and nephew of LAM Chi Fan, respectively. Our businesses have grown steadily since the establishment of Sinomax Holding. The following sets out our major business milestones and achievements since 2000:

- | | |
|------|---|
| 2000 | <ul style="list-style-type: none">• Sinomax Holding was established to engage in the wholesale of polyurethane foams and export of polyurethane foam products• Our factory located at Dongguan commenced operation |
| 2001 | <ul style="list-style-type: none">• Commenced production of our visco-elastic products• Our first POS in Hong Kong was established for the sale of “SINOMAX” branded products• Registration of our “SINOMAX” trademark in Hong Kong |
| 2003 | <ul style="list-style-type: none">• Our first POS in the PRC was established for the sale of “SINOMAX” branded products |
| 2004 | <ul style="list-style-type: none">• Sinomax Enterprises was established to serve as the new investment holding company of our Group’s business |
| 2005 | <ul style="list-style-type: none">• Extending our business reach to the US market with the establishment of Sinomax USA |
| 2006 | <ul style="list-style-type: none">• Business relationship with our largest US customer, which is a leading retailer in the US, began• Our flagship brand “SINOMAX” was awarded the status of a “Hong Kong Top Brand – Pillow category” by the Hong Kong Brand Development Council yearly since 2006• “SINOMAX” was awarded “Hong Kong Superbrand” by Superbrands• Sinomax Health was awarded “Caring Company” by The Hong Kong Council of Social Service yearly since 2006 |
| 2007 | <ul style="list-style-type: none">• Official Endorsement of the SINOMAX Memory Foam products by the Chiropractic Doctor’s Association of Hong Kong (香港執業脊醫協會) since 2007 (Mattresses: 2007-2014; Mattress toppers: 2011-2014) |

OUR HISTORY AND REORGANISATION

- 2008
- Sinomax Kuka, jointly with other parties, first taking part in the drafting of PRC national standards of foams jointly published by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and the Standardisation Administration of the PRC (中國國家標準化管理委員會)
 - Our factory located at Jiashan commenced production
- 2010
- Our visco-elastic foam was certified by CertiPUR-US since 2010
- 2011
- Sinomax USA was awarded the “Award for exceptional gains in supply chain management” by a US leading retailer customer
 - Dongguan Sinohome obtained Class A enterprise (A級管理企業) in the category of “Consignees and Consigners of Imported and Exported Goods” under The Measures of the Customs of the People’s Republic of China on the Classified Management of Enterprises (中華人民共和國海關企業分類管理辦法) by Huangpu Customs of the People’s Republic of China (中華人民共和國黃埔海關)
- 2012
- Sinomax USA was awarded the “Supplier Award of Excellence” by a US leading retailer customer
 - Sinomax USA was awarded the “Achievement in Sales & Profit Growth Award” by a US leading wholesale club customer
 - Our production facilities at Dongguan, Jiashan and Haining obtained ISO 9001:2008 and ISO 14001:2004 accreditation for their quality management system
- 2013
- Sinomax Health was awarded the Quality Tourism Services accreditation (「優質旅遊服務」計劃認可) by the Hong Kong Tourism Board
 - Sinomax Health was awarded the Chinese Credible Enterprise Certificate (中國信譽企業認證) by the Assessment Committee for Credible Enterprise of China Accreditation (中國信譽企業認證評審委員會)
 - Dongguan Sinohome obtained “Enterprise of Good Conduct – AAAA Level of Standardisation” (AAAA級標準化良好行為企業) accreditation from WTO/TBT Notification, Consultation and Research Centre of Guangdong Province (廣東省WTO/TBT通報諮詢研究中心)
 - Dongguan Sinohome obtained Class AA enterprise (AA級管理企業) certification in the category of “Consignees and Consigners of Imported and Exported Goods” under The Measures of the Customs of the People’s Republic of China on the Classified Management of Enterprises (中華人民共和國海關企業分類管理辦法) by Huangpu Customs of the People’s Republic of China (中華人民共和國黃埔海關)

OUR HISTORY AND REORGANISATION

OUR OPERATING SUBSIDIARIES

Pursuant to the Reorganisation, Sinomax Health, Sinomax Zhejiang, Sinomax Macao, Sinomax USA, Sinohome Shenzhen, Sinomax Kuka, Dongguan Sinohome, Sinomax Trading and Haining Sinomax have become subsidiaries of our Company.

Sinomax Health

Sinomax Health was incorporated in Hong Kong on 30 June 2003 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. The entire shareholding of Sinomax Health was held by Sinomax Enterprises during the Track Record Period and immediately prior to the Reorganisation.

Sinomax Health is principally engaged in the retail sales of our products in Hong Kong.

Sinomax Zhejiang

Sinomax Zhejiang was established under the laws of the PRC on 2 August 2004 as a wholly foreign-owned enterprise with a total investment amount and registered capital of US\$68,040,000 and US\$22,680,000, respectively. During the Track Record Period, the entire equity interests of Sinomax Zhejiang was held by Sinomax Investment.

Sinomax Zhejiang is principally engaged in the manufacture and sale of our products in the PRC.

Sinomax Macao

Sinomax Macao was incorporated in Macau on 6 October 2004 with an authorised share capital of MOP100,000 comprising one share of par value MOP100,000. During the Track Record Period, the entire shareholding of Sinomax Macao was held by Year Prosper, a wholly-owned subsidiary of Sinomax Enterprises until immediately prior to the Reorganisation.

Sinomax Macao is principally engaged in the export sales of our products under our own or licensed brands or under third-party brands to overseas customers.

Sinomax USA

Sinomax USA was incorporated on 7 June 2005 under the laws of the State of Delaware, USA with an authorised stock capital of 100 shares of common stock of no par value. During the Track Record Period, the entire shareholding of Sinomax USA was held by Wonderful Health, a wholly-owned subsidiary of Sinomax Enterprises until immediately prior to the Reorganisation.

Sinomax USA is principally engaged in the wholesale of our products to retailers and sales of our products under third-party brands in the US.

Sinohome Shenzhen

Sinohome Shenzhen was established under the laws of the PRC on 10 December 2005 as a wholly foreign-owned enterprise with a total investment amount and registered capital of HK\$1,000,000 each. During the Track Record Period, the entire equity interests of Sinohome Shenzhen was held by Fullelite, a wholly-owned subsidiary of Sinomax Enterprises until immediately prior to the Reorganisation. On 15 June 2011, Sinohome Shenzhen set up a branch company in Shanghai, the business scope of which is the retail, wholesale and export of furniture and daily consumables. Such branch company was set up in order to facilitate the expansion of the business of Sinohome Shenzhen.

OUR HISTORY AND REORGANISATION

Sinohome Shenzhen is principally engaged in the retail and wholesale of our products in the PRC.

Sinomax Kuka

Sinomax Kuka was established under the laws of the PRC on 29 December 2005 as a wholly foreign-owned enterprise with a total investment amount and registered capital of US\$4,000,000 and US\$2,100,000, respectively.

As at 1 January 2010, the entire equity interests of Sinomax Kuka was held by Trade Sincere, a company then held as to 51%, 40% and 9% by Sinomax Enterprises, H.K. Gu's Holdings Group Co., Limited and QIAN Hong Xiang, respectively. QIAN Hong Xiang, being a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax, and a substantial shareholder of Trade Sincere, is a connected person.

As part of a shareholding reorganisation, H.K. Gu's Holdings Group Co., Limited transferred 34% and 6% shareholding in Trade Sincere to Sinomax Enterprises and QIAN Hong Xiang, at a consideration of US\$998,012.2 and US\$176,119.8, respectively on 28 July 2011, as a result of which Trade Sincere was held as to 85% and 15% by Sinomax Enterprises and QIAN Hong Xiang, respectively. Meanwhile, Trade Sincere transferred 40% equity interests in Sinomax Kuka to Gu Jia Household at a consideration of US\$1,174,132, which transfer and the resulting transformation of Sinomax Kuka into a Sino-foreign equity joint venture enterprise was approved by the relevant PRC authority on 29 August 2011. The said consideration was determined based on the then valuation of the entire equity interest of Sinomax Kuka as agreed between the relevant parties, being US\$2,935,330. The transfer was properly and legally completed and settled. On 27 September 2011, the registration at the relevant administration for industry and commerce showing Sinomax Kuka was owned as to 60% by Trade Sincere and 40% by Gu Jia Household was completed. H.K. Gu's Holdings Group Co., Limited was subsequently dissolved. The effective holding of Sinomax Kuka by Sinomax Enterprises remains unchanged at 51%.

Sinomax Kuka is principally engaged in the wholesale of polyurethane foams to furniture manufacturers.

Dongguan Sinohome

Dongguan Sinohome was established under the laws of the PRC on 19 June 2007 as a wholly foreign-owned enterprise with an initial total investment amount and registered capital of HK\$8,000,000 each. On 28 December 2011, the total investment amount and registered capital of Dongguan Sinohome was approved to be increased to HK\$56,000,000 and HK\$32,000,000, respectively, by the Dongguan Bureau of Foreign Trade & Economic Cooperation (東莞市對外貿易經濟合作局). During the Track Record Period, the entire equity interests of Dongguan Sinohome was held by Ascension, a wholly-owned subsidiary of Sinomax Enterprises until immediately prior to the Reorganisation.

Dongguan Sinohome is principally engaged in the manufacture and sale of our products in the PRC.

Sinomax Trading

Sinomax Trading was incorporated in Hong Kong on 15 September 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. The entire shareholding of Sinomax Trading was held by Sinomax Enterprises during the Track Record Period until immediately prior to the Reorganisation.

Sinomax Trading is principally engaged in the export sales of our products.

OUR HISTORY AND REORGANISATION

Haining Sinomax

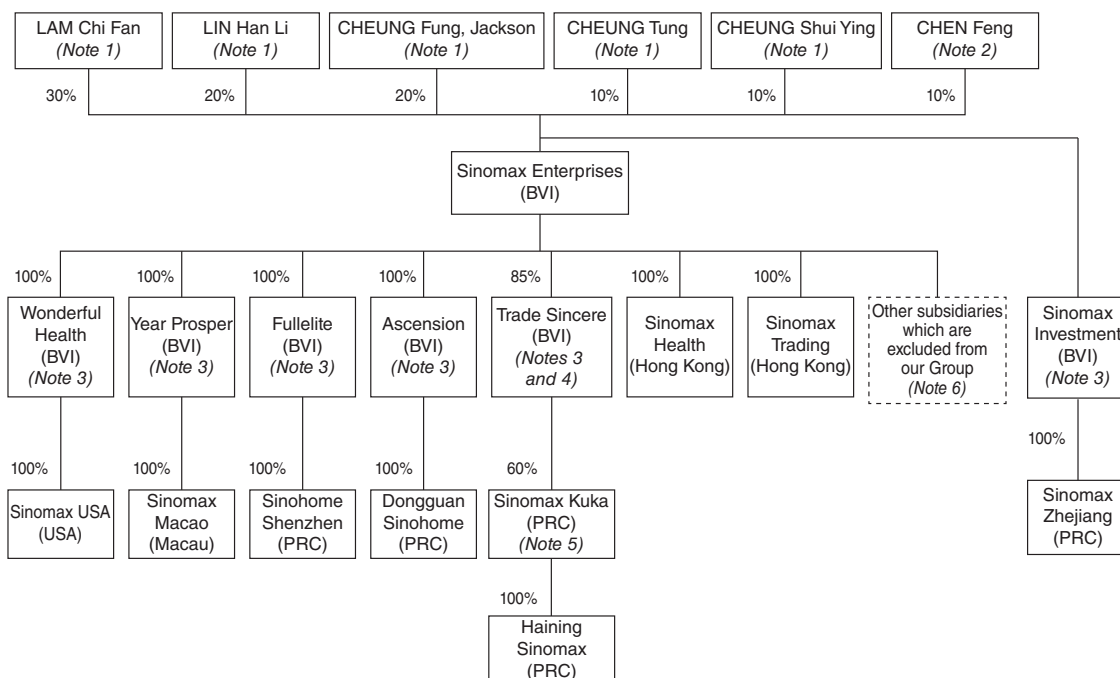
Haining Sinomax was established under the laws of the PRC on 27 December 2012 as a domestic enterprise with a registered capital of RMB1,000,000. During the Track Record Period, the entire equity interests of Haining Sinomax was held by Sinomax Kuka.

Haining Sinomax is principally engaged in the sale of polyurethane foams to furniture manufacturers.

REORGANISATION AND CORPORATE STRUCTURE

Pre-Reorganisation corporate structure

The corporate structure of our Group immediately prior to the Reorganisation was as follows, with the then controlling shareholders of the Group being Sinomax Enterprises and the Individual Shareholders:



Notes:

- LAM Chi Fan is the nephew of LIN Han Li, the uncle of CHEUNG Fung, Jackson and CHEUNG Tung, the brother-in-law of CHEUNG Shui Ying. LAM Chi Fan and CHEUNG Tung are our executive Directors. LIN Han Li is the father of LAM Fei Man, our executive Director.
- CHEN Feng, our executive Director, is the cousin of LIN Han Li's spouse.
- An investment holding company holding interest in the relevant Group company.
- The remaining 15% shareholding of Trade Sincere is held by QIAN Hong Xiang. QIAN Hong Xiang, being a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax, and a substantial shareholder of Trade Sincere, is a connected person.
- The remaining 40% equity interests in Sinomax Kuka is held by Gu Jia Household. Being a substantial shareholder of Sinomax Kuka, Gu Jia Household is a connected person. Gu Jia Household is also a customer of our polyurethane foam sales segment.
- Other subsidiaries which are held by Sinomax Enterprises as at Latest Practicable Date and excluded from our Group are People Achieve Group Limited, Dongguan Donglian, Charmax Enterprises Limited (昌萬企業有限公司), Sinomax Europe GMBH, Onview Limited and DG Polyurethane (the "Excluded Companies"). Please refer to the paragraphs headed "Excluded Companies" in this section below for further details of the Excluded Companies.

OUR HISTORY AND REORGANISATION

Excluded Companies

Background information of Excluded Companies

(1) People Achieve Group Limited

People Achieve Group Limited, a company incorporated in BVI, is held as to 100% of its shareholding by Sinomax Enterprises. The principal business activity of People Achieve Group Limited is holding of the entire equity interests in Dongguan Donglian, one of the Excluded Companies. As Dongguan Donglian is not included in our Group, People Achieve Group Limited is also not included in our Group to streamline our Group structure. The financial results of People Achieve Group Limited during the Track Record Period were not consolidated into our Group's accounts. Our Directors and the Sole Sponsor are of the view that as People Achieve Group Limited is principally engaged in investment holding, its business will not compete with that of our Group.

(2) Dongguan Donglian

Dongguan Donglian is held as to its entire equity interests by People Achieve Group Limited, a wholly-owned subsidiary of Sinomax Enterprises. The principal business activity of Dongguan Donglian is property investment, in particular, the investment and ownership in certain properties in Dongguan, PRC currently leased to Dongguan Sinohome as factories and employee's dormitories. Please refer to the section headed "Connected Transactions – Continuing Connected Transactions – (B) Continuing Connected Transaction exempt from independent shareholders' approval requirements – Lease Agreements between Dongguan Sinohome and Dongguan Donglian" in this Prospectus for further details of the lease. Dongguan Donglian is excluded from our Group because (i) if Dongguan Donglian were transferred to our Group, the existing owner of Dongguan Donglian would be required to pay PRC Enterprise Income Tax based on the current market value of the underlying properties less the investment costs times the applicable tax rate of 10%; (ii) Dongguan Donglian does not and will not carry out businesses which might compete with our Group; (iii) our Directors consider that it is in the best interest of our Group to focus on our principal business activities of marketing, manufacturing and distributing quality visco-elastic products but not on properties investment; and (iv) our Directors believe that the asset light business model would enhance the return-on-assets ratio of our Group which is beneficial to us and our Shareholders as a whole. The financial results of Dongguan Donglian during the Track Record Period were not consolidated into our Group's accounts. Our Directors and the Sole Sponsor are of the view that as Dongguan Donglian is principally engaged in property investment, its businesses will not compete with that of our Group.

(3) Charmax Enterprises Limited (昌萬企業有限公司)

Charmax Enterprises Limited, a company incorporated in Hong Kong, is held as to 100% by Sinomax Enterprises. The principal business activity of Charmax Enterprises Limited is property investment. Charmax Enterprises Limited is excluded from our Group because (i) Charmax Enterprises Limited does not and will not carry out businesses which might compete with our Group; (ii) our Directors consider that it is in the best interest of our Group to focus on our principal business activities of marketing, manufacturing and distributing quality visco-elastic products but not on properties investment; and (iii) our Directors believe that the asset light business model would enhance the return-on-assets ratio of our Group which is beneficial to us and our Shareholders as a whole. The financial results of Charmax Enterprises Limited during the Track Record Period were not consolidated into our Group's accounts. Our Directors and the Sole Sponsor are of the view that as Charmax Enterprises Limited is principally engaged in property investment, its businesses will not compete with that of our Group.

OUR HISTORY AND REORGANISATION

(4) Sinomax Europe GMBH

Sinomax Europe GMBH, a company incorporated in Germany, is held as to 100% of its shareholding by Sinomax Enterprises. The principal business activity of Sinomax Europe GMBH was distributing products, mainly low-end massage chairs produced by our Group, to the European market.

In the past, our Group manufactured low-end massage chairs for customers under third-party brands, the profit margin of which was low. As a result of a change in strategies, our Group has started to sell high-end massage chairs in Hong Kong since the second half of 2013 and ceased to manufacture low-end massage chairs. Our Group has discontinued selling products to Sinomax Europe GMBH since September 2013 and our business (in relation to products other than low-end massage chairs) in the European market is now handled by other companies in our Group. Given the major purpose of the incorporation of Sinomax Europe GMBH was to distribute products, mainly low-end massage chairs produced by our Group, Sinomax Enterprises intends to dispose of Sinomax Europe GMBH to independent third parties or dissolve it in the near future. Therefore, Sinomax Europe GMBH is not included in our Group. The financial results of Sinomax Europe GMBH during the Track Record Period were not consolidated into our Group's accounts.

Our Directors and the Sole Sponsor are of the view that the sales of massage chairs by Sinomax Europe GMBH would not lead to competition with our Group because (i) our Group has been selling high-end massage chairs (in the price range of approximately HK\$19,000 to HK\$26,000) in Hong Kong; whilst Sinomax Europe GMBH were selling low-end massage chairs (in the price range of approximately US\$100 to US\$370, equivalent to approximately HK\$777 to HK\$2,875) in Europe; our Group and Sinomax Europe GMBH have been operating in different market segments in terms of geographical location and market positioning; and (ii) our Group has discontinued selling products (including low-end massage chairs) to Sinomax Europe GMBH since September 2013.

(5) Onview Limited

Onview Limited, a company incorporated in BVI, is held as to 100% of its beneficial interest by Sinomax Enterprises. The principal business activity of Onview Limited is holding of the entire equity interests in DG Polyurethane. As DG Polyurethane is not included in our Group, Onview Limited is also not included in our Group to streamline our Group structure. The financial results of Onview Limited during the Track Record Period were not consolidated into our Group's accounts. Our Directors and the Sole Sponsor are of the view that as Onview Limited is principally engaged in investment holding, its business will not compete with that of our Group.

(6) DG Polyurethane

DG Polyurethane is held as to its entire equity interests by Onview Limited, whose beneficial interest is wholly-owned by Sinomax Enterprises. According to its liquidation accounts, DG Polyurethane commenced its liquidation in December 2012 and has been inactive since then. To streamline our Group structure, DG Polyurethane is not included in our Group. The financial results of DG Polyurethane during the Track Record Period were not consolidated into our Group's accounts. Our Directors and the Sole Sponsor are of the view that as DG Polyurethane has been inactive and has commenced its liquidation, there is no concern of competition between DG Polyurethane and our Group.

OUR HISTORY AND REORGANISATION

Financial information of Excluded Companies

Set out below is the approximate key financial information of the Excluded Companies for the three years ended 31 December 2011, 2012 and 2013, respectively:

Excluded Company	Turnover			Net profit			Net assets	
	For the year ended 31 December			For the year ended 31 December			As at 31 December	
	2011	2012	2013	2011	2012	2013	2012	2013
People Achieve Group Limited (Note a)	N/A	N/A	N/A	(HK\$8,000)	(HK\$17,000)	(HK\$17,000)	(HK\$69,000)	(HK\$86,000)
Dongguan Donglian (Note b)	RMB5.3 million	RMB5.4 million	RMB7.5 million	(RMB350,000)	(RMB410,000)	RMB38,000	RMB15.4 million	RMB15.4 million
Charmax Enterprises Limited (Note a)	HK\$1.9 million	HK\$3.2 million	HK\$3.3 million	(HK\$490,000)	HK\$1.3 million	HK\$590,000	(HK\$8.9 million)	(HK\$8.3 million)
Sinomax Europe GMBH (Note a)	nil	€670,000	€666,000	(€190,000)	(€440,000)	(€936,000)	(€600,000)	(€1.5 million)
Onview Limited (Note a)	N/A	N/A	N/A	(HK\$6,300)	(HK\$6,500)	(HK\$9,000)	(HK\$58,000)	(HK\$67,000)
DG Polyurethane (Note b)	nil	RMB1.3 million	nil	(RMB430,000)	(RMB2.5 million)	(RMB187,000)	RMB20.4 million (Note c)	RMB15.0 million

Notes:

- a. Financial statements prepared under HKFRS.
- b. Financial statements prepared under relevant accounting rules and financial regulations applicable to PRC enterprises.
- c. The net assets value was calculated as at 12 December 2012, the date when DG Polyurethane commenced its liquidation, according to its liquidation accounts.

The Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below:

(1) Incorporation of our Company and Treasure Range

On 5 June 2012, our Company was incorporated in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1.00 each. On the same date, one subscriber's share held by Offshore Incorporations (Cayman) Limited, an independent third party, was transferred to LAM Chi Fan at par, and two, two, two, one, one and one shares were allotted and issued as fully paid at par to LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng, respectively. Upon completion of the share transfer and allotment of new shares, the entire shareholding of our Company, being 10 shares of US\$1.00 each, were held as to three, two, two, one, one and one shares by LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng, respectively.

On 21 May 2013, Treasure Range was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares with par value of HK\$1.00 each, and one subscriber's share was allotted and issued as fully paid at par to Blear Services Limited, an independent third party. On 24 June 2013, the subscriber's share held by Blear Services Limited was transferred to our Company, and nine shares were allotted and issued as fully paid, at par to our Company. Upon completion of the share transfer and allotment of new shares, the entire shareholding of Treasure Range, being 10 shares of HK\$1.00 each, were held by our Company.

OUR HISTORY AND REORGANISATION

(2) Transfer of shares of our Company

On 29 June 2013, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng transferred their entire shareholdings in our Company to Sinomax Enterprises, in consideration of which Sinomax Enterprises allotted and issued as fully paid three, two, two, one, one and one shares to LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng, respectively. Upon completion of the share transfer, the entire shareholding of our Company, being 10 shares of US\$1.00 each, were held by Sinomax Enterprises.

(3) Transfer of our subsidiaries to Treasure Range by way of share swap

On 30 June 2013, the entire shareholding of Wonderful Health was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Wonderful Health, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, the entire shareholding of Year Prosper was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Year Prosper, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, the entire shareholding of Fullelite was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Fullelite, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, the entire shareholding of Ascension was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Ascension, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, 85% of the entire shareholding of Trade Sincere was transferred by Sinomax Enterprises to Treasure Range at 85% of the net assets value of Trade Sincere, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, the entire shareholding of Sinomax Health was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Sinomax Health, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

On 30 June 2013, the entire shareholding of Sinomax Trading was transferred by Sinomax Enterprises to Treasure Range at the net assets value of Sinomax Trading, which consideration was settled by the allotment and issue of one share, credited as fully paid, by Treasure Range to our Company at the direction of Sinomax Enterprises.

In consideration of the seven shares allotted and issued by Treasure Range to our Company at the direction of Sinomax Enterprises as stated above, our Company allotted and issued seven shares, credited as fully paid, to Sinomax Enterprises on 5 September 2013.

OUR HISTORY AND REORGANISATION

On 31 July 2013, each of LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng transferred their entire shareholdings in Sinomax Investment to Treasure Range at the net assets value of Sinomax Investment, which consideration was settled by the allotment and issue of 10 shares, credited as fully paid, by Treasure Range to our Company at the direction of LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng. On 5 September 2013, our Company, in consideration of the foregoing, allotted and issued 10 shares, credited as fully paid, to Sinomax Enterprises, which in turn allotted and issued three, two, two, one, one and one shares, credited as fully paid, to LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng, respectively.

(4) Changes in shareholding structure of our Company

On 11 December 2013, the following steps took place to, inter alia, increase the authorised share capital of our Company and repurchase our US\$ denominated shares in our share capital:

- (1) the authorised share capital of our Company was increased by HK\$1,000,000,000 by the creation of 10,000,000,000 Shares of par value HK\$0.10 each;
- (2) 50,000 Shares of par value HK\$0.10 each were issued and allotted to Sinomax Enterprises at par and credited as fully paid;
- (3) 27 shares of par value US\$1.00 each held by Sinomax Enterprises were repurchased and cancelled by our Company; and
- (4) the authorised share capital of our Company was reduced by US\$50,000 by the cancellation of 50,000 unissued shares of par value US\$1.00 each.

Accordingly, our Company has an authorised share capital of HK\$1,000,000,000 divided into 10,000,000,000 Shares of par value HK\$0.10 each, with 50,000 Shares issued and allotted to Sinomax Enterprises, credited as fully paid.

(5) Transfer of Shares to LIN Han Li and CHEUNG Fung, Jackson

On 21 February 2014, LIN Han Li transferred his entire shareholding in Sinomax Enterprises to LAM Chi Fan. On the same date, CHEUNG Fung, Jackson transferred his entire shareholding (being six shares) in Sinomax Enterprises to CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng in equal shares, i.e. two shares to each of them. Upon the said transfers, LAM Chi Fan, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng respectively held 50%, 16.67%, 16.67% and 16.67% shareholding in Sinomax Enterprises.

In consideration of the abovementioned transfers, LAM Chi Fan, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng procured a transfer of 20,000 Shares by Sinomax Enterprises to LIN Han Li and CHEUNG Fung, Jackson in equal shares, i.e. 10,000 Shares to each of them, on 21 February 2014. As a result, the effective shareholding of our Company held by each of LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng remained unchanged, i.e. 30%, 20%, 20%, 10%, 10% and 10%, respectively.

OUR HISTORY AND REORGANISATION

(6) Formation of family trusts

On 26 February 2014, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng each established a discretionary family trust for the purpose of (i) making long-term financial provision for themselves and/or their close family members, (ii) protecting the family's assets and (iii) estate planning. Orangefield was appointed to act as the trustee of each of the said discretionary family trusts, whose duty is to exercise its discretion to manage, administer, deal with and distribute the capital and income of each of the trusts for the benefit of the relevant beneficiaries. For each of the said trusts, not more than three individuals were appointed as trust protector(s) (each a "Protector"), who are given the right to replace the incumbent trustee. Orangefield shall give notice to the relevant Protector(s) before varying the beneficiaries or distributing the trust assets of any of the said trusts.

Set out below are the details of each discretionary family trust.

The Frankie Trust

Pursuant to a deed of settlement dated 26 February 2014, LAM Chi Fan, as the settlor, established an irrevocable discretionary family trust, namely The Frankie Trust. The current Protector of The Frankie Trust is LAM Chi Fan. On 26 February 2014, Chi Fan Holding Limited was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The Frankie Trust.

By way of a deed of gift dated 28 February 2014, LAM Chi Fan transferred the beneficial ownership of his entire shareholding of Sinomax Enterprises to Orangefield in its capacity as trustee of The Frankie Trust, which shares shall be registered in the name of Chi Fan Holding Limited. Accordingly, the trust assets of The Frankie Trust comprise 50% beneficial interest in Sinomax Enterprises.

The Frankie Trust is a discretionary trust, of which LAM Chi Fan and his family members are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. As at the Latest Practicable Date, no instruction has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The Frankie Trust attributable to each of the beneficiaries thereof is not ascertainable.

The Lin's Family Trust

Pursuant to a deed of settlement dated 26 February 2014, LIN Han Li, as the settlor, established an irrevocable discretionary family trust, namely The Lin's Family Trust. The current Protectors of The Lin's Family Trust are LAM Fei Man and LIN Fei Tung, Tiffany. LIN Fei Tung, Tiffany is the sister of LAM Fei Man, our executive Director. On 26 February 2014, Summer Wealth, one of the Selling Shareholders, was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The Lin's Family Trust.

By way of a deed of gift dated 28 February 2014, LIN Han Li transferred the beneficial ownership of his entire shareholding of our Company to Orangefield in its capacity as trustee of The Lin's Family Trust, which Shares shall be registered in the name of Summer Wealth. Accordingly, the trust assets of The Lin's Family Trust comprise a 20% beneficial interest in our Company.

The Lin's Family Trust is a discretionary trust, of which the family members of LIN Han Li are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. LIN Han Li has signed a letter of wishes, contents of which Orangefield may but is not obliged to

OUR HISTORY AND REORGANISATION

consider. The letter of wishes sets out only the following: (1) Orangefield is given absolute discretion to handle the trust assets for the benefit of the beneficiaries and is not required to consult any other person including LIN Han Li; and (2) LIN Han Li's wishes as to the distribution of the trust assets. As at the Latest Practicable Date, no indication has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The Lin's Family Trust attributable to each of the beneficiaries thereof is not ascertainable.

According to the terms of the relevant deed of settlement, the trustee shall not at any time and in any manner seek, directly or indirectly, any advice, direction or instruction from the settlor in connection with the trust assets or the management, disposition or investment thereof, or act upon any advice, direction or instruction which might nevertheless be proffered by the settlor.

LIN Han Li has unconditionally and irrevocably undertaken to our Company, the Sole Sponsor and the Hong Kong Stock Exchange that (i) he, as settlor of The Lin's Family Trust, shall not, and shall procure the Protector(s) of The Lin's Family Trust shall not, dissolve, terminate The Lin's Family Trust nor replace the trustee of The Lin's Family Trust until the disposal of all interests held by The Lin's Family Trust in our Company to independent third parties; and (ii) LIN Han Li shall not be a Protector of The Lin's Family Trust. LIN Han Li, Summer Wealth and Orangefield, as trustee of The Lin's Family Trust, have provided further undertakings in relation to voting rights in our Company. Please refer to the paragraphs headed "Voting rights in our Company" in this section below for further details.

The Jackson Trust

Pursuant to a deed of settlement dated 26 February 2014, CHEUNG Fung, Jackson, as the settlor, established an irrevocable discretionary family trust, namely The Jackson Trust. The current Protector of The Jackson Trust is CHEUNG Tung. On 26 February 2014, Jacksonville, one of the Selling Shareholders, was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The Jackson Trust.

By way of a deed of gift dated 28 February 2014, CHEUNG Fung, Jackson transferred the beneficial ownership of his entire shareholding of our Company to Orangefield in its capacity as trustee of The Jackson Trust, which Shares shall be registered in the name of Jacksonville. Accordingly, the trust assets of The Jackson Trust comprise a 20% beneficial interest in our Company.

The Jackson Trust is a discretionary trust, of which the family members of CHEUNG Fung, Jackson are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. CHEUNG Fung, Jackson has signed a letter of wishes, contents of which Orangefield may but is not obliged to consider. The letter of wishes sets out only the following: (1) Orangefield is given absolute discretion to handle the trust assets for the benefit of the beneficiaries and is not required to consult any other person including CHEUNG Fung, Jackson; and (2) CHEUNG Fung, Jackson's wishes as to the distribution of the trust assets. As at the Latest Practicable Date, no indication has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The Jackson Trust attributable to each of the beneficiaries thereof is not ascertainable.

According to the terms of the relevant deed of settlement, the trustee shall not at any time and in any manner seek, directly or indirectly, any advice, direction or instruction from the settlor in connection with the trust assets or the management, disposition or investment thereof, or act upon any advice, direction or instruction which might nevertheless be proffered by the settlor.

OUR HISTORY AND REORGANISATION

CHEUNG Fung, Jackson has further unconditionally and irrevocably undertaken to our Company, the Sole Sponsor and the Hong Kong Stock Exchange that (i) he, as settlor of The Jackson Trust, shall not, and shall procure the Protector(s) of The Jackson Trust shall not, dissolve, terminate The Jackson Trust nor replace the trustee of The Jackson Trust until the disposal of all interests held by The Jackson Trust in our Company to independent third parties; and (ii) CHEUNG Fung, Jackson shall not be a Protector of the Jackson Trust. CHEUNG Fung, Jackson, Jacksonville and Orangefield, as trustee of The Jackson Trust have provided further undertakings in relation to voting rights in our Company. Please refer to the paragraphs headed "Voting rights in our Company" in this section below for further details.

The Cheung's Family Trust

Pursuant to a deed of settlement dated 26 February 2014, CHEUNG Tung, as the settlor, established an irrevocable discretionary family trust, namely The Cheung's Family Trust. The current Protector of The Cheung's Family Trust is CHEUNG Tung. On 26 February 2014, Wing Yiu Investments Limited was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The Cheung's Family Trust.

By way of a deed of gift dated 28 February 2014, CHEUNG Tung transferred the beneficial ownership of his entire shareholding of Sinomax Enterprises to Orangefield in its capacity as trustee of The Cheung's Family Trust, which shares shall be registered in the name of Wing Yiu Investments Limited. Accordingly, the trust assets of The Cheung's Family Trust comprise a 16.67% beneficial interest in Sinomax Enterprises.

The Cheung's Family Trust is a discretionary trust, of which CHEUNG Tung and his family members are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. As at the Latest Practicable Date, no instruction has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The Cheung's Family Trust attributable to each of the beneficiaries thereof is not ascertainable.

The James' Family Trust

Pursuant to a deed of settlement dated 26 February 2014, CHEUNG Shui Ying, as the settlor, established an irrevocable discretionary family trust, namely The James' Family Trust. The current Protector of The James' Family Trust is CHEUNG Shui Ying. On 26 February 2014, The James' Family Holding Limited was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The James' Family Trust.

By way of a deed of gift dated 28 February 2014, CHEUNG Shui Ying transferred the beneficial ownership of her entire shareholding of Sinomax Enterprises to Orangefield in its capacity as trustee of The James' Family Trust, which shares shall be registered in the name of The James' Family Holding Limited. Accordingly, the trust assets of The James' Family Trust comprise a 16.67% beneficial interest in Sinomax Enterprises.

The James' Family Trust is a discretionary trust, of which CHEUNG Shui Ying and her family members are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. As at the Latest Practicable Date, no instruction has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The James' Family Trust attributable to each of the beneficiaries thereof is not ascertainable.

OUR HISTORY AND REORGANISATION

The Feng Chen's Family Trust

Pursuant to a deed of settlement dated 26 February 2014, CHEN Feng, as the settlor, established a revocable discretionary family trust, namely The Feng Chen's Family Trust. The current Protector of The Feng Chen's Family Trust is CHEN Feng. On 26 February 2014, Venture Win Holdings Limited was incorporated in the BVI and is beneficially owned by Orangefield as trustee of The Feng Chen's Family Trust.

By way of a deed of gift dated 28 February 2014, CHEN Feng transferred the beneficial ownership of his entire shareholding of Sinomax Enterprises to Orangefield in its capacity as trustee of The Feng Chen's Family Trust, which shares shall be registered in the name of Venture Win Holdings Limited. Accordingly, the trust assets of The Feng Chen's Family Trust comprise a 16.67% beneficial interest in Sinomax Enterprises.

The Feng Chen's Family Trust is a discretionary trust, of which CHEN Feng and his family members are discretionary beneficiaries who have not been, and will not be, fixed an entitlement to the trust assets until Orangefield makes distribution to them. As at the Latest Practicable Date, no instruction has been given to Orangefield to distribute the trust assets. Accordingly, the percentage interest in The Feng Chen's Family Trust attributable to each of the beneficiaries thereof is not ascertainable.

Voting rights in our Company

As disclosed above, each of LIN Han Li and CHEUNG Fung, Jackson has respectively transferred his interest in our Company to The Lin's Family Trust and The Jackson Trust, and registered under the name of Summer Wealth and Jacksonville, respectively. None of the Former Management is a beneficiary of any of the family trusts above and upon establishment of the respective family trusts, none of the Former Management has any control or influence over our Company (as a settlor or otherwise). Immediately following the Capitalisation Issue, all interest in our Company held by Summer Wealth and Jacksonville (being altogether 600,000,000 Shares) will be sold to the public pursuant to the International Offering. Each of (i) the Former Management, (ii) Summer Wealth, (iii) Jacksonville and (iv) Orangefield (in its capacity as trustee of The Lin's Family Trust and The Jackson Trust) has unconditionally and irrevocably undertaken to our Company, the Sole Sponsor and the Hong Kong Stock Exchange that, to the extent applicable, (1) before the Global Offering, he/it will not exercise the voting rights of any Shares directly or indirectly attributable to any of the Former Management, The Lin's Family Trust or The Jackson Trust, (2) he/it will dispose of all Shares held directly or indirectly by the Former Management, The Lin's Family Trust and The Jackson Trust in the Global Offering; and (3) after the Global Offering, he/it shall not directly or indirectly acquire, participate or hold any rights, interests or Shares in our Company. Hence, the above arrangement shall not apply with respect to voting rights of Shares not attributable directly or indirectly to any of the Former Management, The Lin's Family Trust or The Jackson Trust.

Our Company shall disclose in the notices of all its future Shareholders' meetings the number of Shares directly or indirectly attributable to any of The Lin's Family Trust, The Jackson Trust and/or the Former Management, the voting rights of which shall not be exercised pursuant to the relevant undertakings. In addition, the Company shall confirm in the results announcements of all its future Shareholders' meetings that none of The Lin's Family Trust, The Jackson Trust and the Former Management has exercised such voting rights. The Company shall comply with this disclosure requirement as long as any Share is directly or indirectly attributable to any of The Lin's Family Trust, The Jackson Trust and/or the Former Management. Save and except for the above arrangements, all other Shareholders shall be entitled to vote in our Company's future Shareholders' meetings and all Shareholders' resolutions shall be voted by other Shareholders according to their respective shareholdings, unless the Listing Rules require otherwise.

OUR HISTORY AND REORGANISATION

(7) Shareholders' agreement

On 4 March 2014, Chi Fan Holding Limited, Wing Yiu Investments Limited, The James' Family Holding Limited, Venture Win Holdings Limited, each being a shareholder of Sinomax Enterprises, and Sinomax Enterprises entered into a shareholders' agreement in relation to the management of Sinomax Enterprises. The major terms of the shareholders' agreement are as follows:

- Term: The shareholders' agreement shall continue in full force and effect until (a) the liquidation of Sinomax Enterprises, (b) in respect of the shareholders, on the day when it no longer holds any Sinomax Enterprises shares, or (c) all parties agree to terminate the shareholders' agreement.
- Board of Directors: There shall be four directors, each shareholder shall be entitled to nominate one director to the board.
- Board Approval: The directors are not required to vote unanimously at any meeting of the board of directors. There are matters which require approval by over 50% or over two-thirds of the directors attending any board meeting to approve.
- Shareholders' Approval: All reserved matters shall be approved by 3/4 of the votes cast by shareholders attending the relevant general meeting.
- Others:
- Each director shall agree to enter into the Deed of Non-competition prior to their appointment as a director of Sinomax Enterprises.
 - All shareholders of Sinomax Enterprises shall have the first right to purchase or subscribe for any share proposed to be issued by Sinomax Enterprises on a pro rata basis.
 - If any shareholder intends to dispose of its shareholdings in Sinomax Enterprises, all other shareholders shall have the first right of refusal to purchase such disposal shares on a pro rata basis.
 - In the event a deadlock situation arises, any shareholder (the "**Notice Issuer**") may issue a deadlock notice to any one or more other shareholders (the "**Notice Recipient**") offering to purchase the entire shareholding of the Notice Recipient in Sinomax Enterprises based on the net assets value of Sinomax Enterprises. Any Notice Recipient who refuses to sell its shares in Sinomax Enterprises to the Notice Issuer shall purchase the entire shareholding of the Notice Issuer in Sinomax Enterprises based on the net assets value of Sinomax Enterprises on a pro rata basis and the Notice Issuer must sell such Sinomax Enterprise shares.

OUR HISTORY AND REORGANISATION

The current directors of Sinomax Enterprises are LAM Chi Fan, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng, being nominated by Chi Fan Holding Limited, Wing Yiu Investments Limited, The James' Family Holding Limited and Venture Win Holdings Limited, respectively.

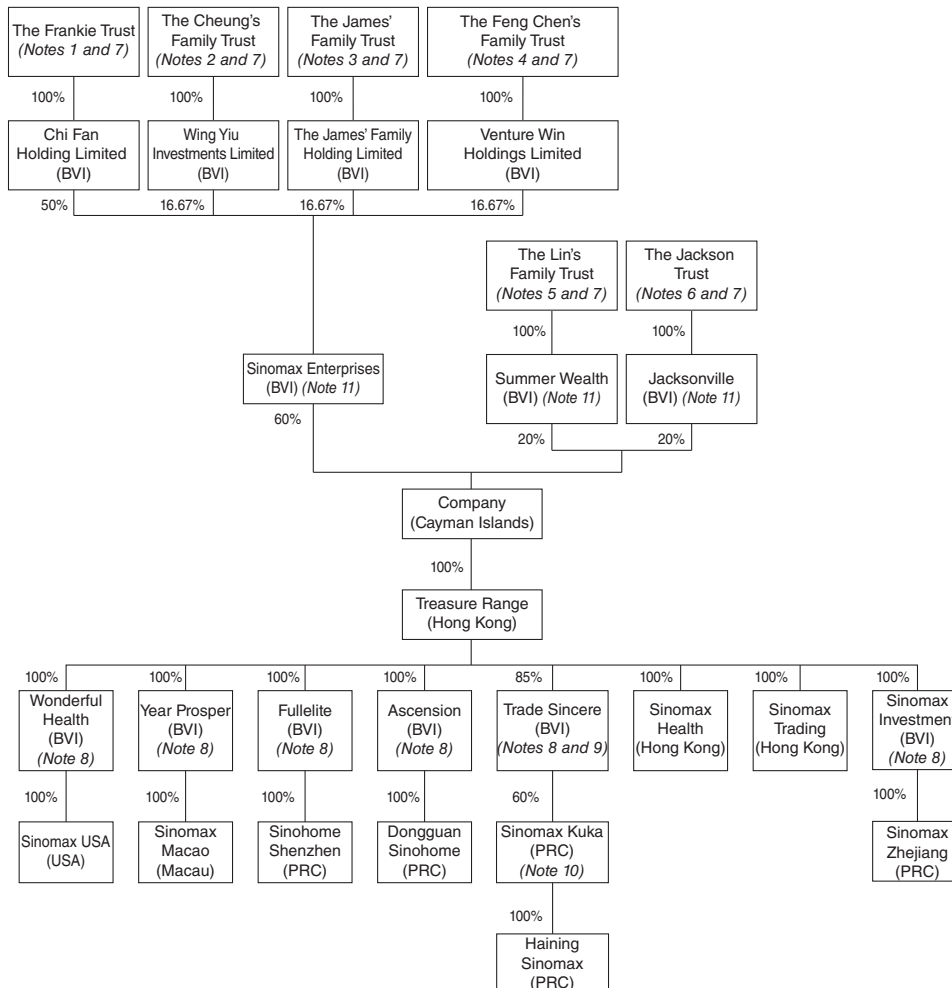
Approvals and registration

Our PRC legal adviser has confirmed that, with respect to the Reorganisation, all necessary approvals, consents and permits have been obtained and all necessary filings and registrations have been completed in the PRC.

We have obtained approval from the Macau Trade and Investment Promotion Institute ("IPIM") on 29 May 2014 as to the ownership structure of Sinomax Macau after the completion of the Reorganisation. We are currently seeking approval from the IPIM as to the ownership structure of the Company after the Capitalisation Issue and the Global Offering, which approval is expected to be obtained by July 2014. Our Macau legal adviser has confirmed that the IPIM approval proceedings are routine and administrative in nature and, should all documents and information requested by IPIM be provided to its satisfaction, it does not anticipate any legal obstacle in obtaining the said approval.

Post-Reorganisation corporate structure

The following chart sets out the corporate structure of our Group immediately after the completion of the Reorganisation, but before the completion of the Global Offering and the Capitalisation Issue:



OUR HISTORY AND REORGANISATION

Notes:

1. The Frankie Trust is a discretionary family trust established by LAM Chi Fan as settlor and Orangefield acting as the trustee. The beneficiaries of The Frankie Trust are LAM Chi Fan and his family members.
2. The Cheung's Family Trust is a discretionary family trust established by CHEUNG Tung as settlor and Orangefield acting as the trustee. The beneficiaries of The Cheung's Family Trust are CHEUNG Tung and his family members.
3. The James' Family Trust is a discretionary family trust established by CHEUNG Shui Ying as settlor and Orangefield acting as the trustee. The beneficiaries of The James' Family Trust are CHEUNG Shui Ying and her family members.
4. The Feng Chen's Family Trust is a discretionary family trust established by CHEN Feng as settlor and Orangefield acting as the trustee. The beneficiaries of The Feng Chen's Family Trust are CHEN Feng and his family members. CHEN Feng, our executive Director, is the cousin of LIN Han Li's spouse.
5. The Lin's Family Trust is a discretionary family trust established by LIN Han Li as settlor and Orangefield acting as the trustee. The beneficiaries of The Lin's Family Trust are the family members of LIN Han Li. Orangefield, in its capacity as trustee of The Lin's Family Trust, has unconditionally and irrevocably undertaken to the Company, the Sole Sponsor and the Hong Kong Stock Exchange that it shall not exercise the voting rights of any Shares directly or indirectly attributable to any of the Former Management, The Lin's Family Trust or The Jackson Trust now or in the future.
6. The Jackson Trust is a discretionary family trust established by CHEUNG Fung, Jackson as settlor and Orangefield acting as the trustee. The beneficiaries of The Jackson Trust are the family members of CHEUNG Fung, Jackson. Orangefield, in its capacity as trustee of The Jackson Trust, has unconditionally and irrevocably undertaken to the Company, the Sole Sponsor and the Hong Kong Stock Exchange that it shall not exercise the voting rights of any Shares directly or indirectly attributable to any of the Former Management, The Lin's Family Trust or The Jackson Trust now or in the future.
7. LAM Chi Fan is the nephew of LIN Han Li, the uncle of CHEUNG Fung, Jackson and CHEUNG Tung, the brother-in-law of CHEUNG Shui Ying. LAM Chi Fan and CHEUNG Tung are our executive Directors. LIN Han Li is the father of LAM Fei Man, our executive Director.
8. An investment holding company holding interest in the relevant Group company.
9. The remaining 15% shareholding of Trade Sincere is held by QIAN Hong Xiang. QIAN Hong Xiang, being a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax, and a substantial shareholder of Trade Sincere, is a connected person.
10. The remaining 40% equity interests in Sinomax Kuka is held by Gu Jia Household. Being a substantial shareholder of Sinomax Kuka, Gu Jia Household is a connected person. Gu Jia Household is also a customer of our polyurethane foam sales segment.
11. None of Sinomax Enterprises, Summer Wealth and Jacksonville has any outstanding option, warrant or convertibles.

Capitalisation Issue and sale of the Sale Shares by the Selling Shareholders

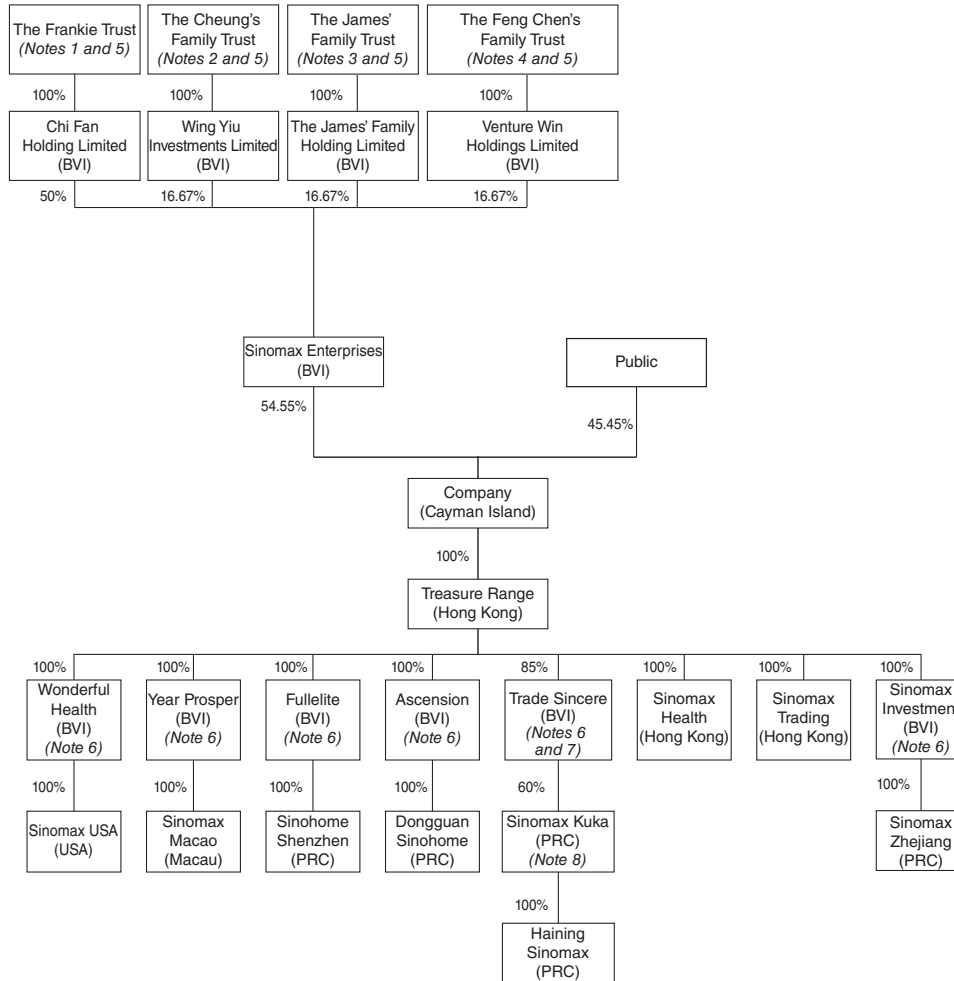
For details of the Capitalisation Issue, please refer to the section headed "Appendix IV Statutory and General Information – A. Further information about our Company and the subsidiaries of our Group – 3. Resolution in writing of our Shareholders" in this Prospectus.

Immediately following the Capitalisation Issue, the Selling Shareholders shall offer altogether 600,000,000 Sale Shares to the public pursuant to the International Offering. For details of the sale of the Sale Shares by the Selling Shareholders, please refer to the section headed "Structure of the Global Offering" in this Prospectus.

OUR HISTORY AND REORGANISATION

Corporate structure upon completion of the Global Offering, the Capitalisation Issue and the sale of the Sale Shares by the Selling Shareholders

Immediately following the completion of the Global Offering, the Capitalisation Issue and the sale of the Sale Shares by the Selling Shareholders (without taking into account any Share which may be issued pursuant to the exercise of (i) the Over-allotment Option, (ii) options granted pursuant to the Pre-IPO Share Option Scheme and (iii) options which may be granted pursuant to the Post-IPO Share Option Scheme), our corporate structure will be as follows, with the controlling shareholders of the Group being Sinomax Enterprises, LAM Chi Fan, CHEUNG Tung, CHEUNG Shui Ying and CHEN Feng:



Notes:

1. The Frankie Trust is a discretionary family trust established by LAM Chi Fan as settlor and Orangefield acting as the trustee. The beneficiaries of The Frankie Trust are LAM Chi Fan and his family members.
2. The Cheung's Family Trust is a discretionary family trust established by CHEUNG Tung as settlor and Orangefield acting as the trustee. The beneficiaries of The Cheung's Family Trust are CHEUNG Tung and his family members.
3. The James' Family Trust is a discretionary family trust established by CHEUNG Shui Ying as settlor and Orangefield acting as the trustee. The beneficiaries of The James' Family Trust are CHEUNG Shui Ying and her family members.
4. The Feng Chen's Family Trust is a discretionary family trust established by CHEN Feng as settlor and Orangefield acting as the trustee. The beneficiaries of The Feng Chen's Family Trust are CHEN Feng and his family members. CHEN Feng, our executive Director, is the cousin of LIN Han Li's spouse.

OUR HISTORY AND REORGANISATION

5. LAM Chi Fan is the nephew of LIN Han Li, the uncle of CHEUNG Fung, Jackson and CHEUNG Tung, the brother-in-law of CHEUNG Shui Ying. LAM Chi Fan and CHEUNG Tung are our executive Directors. LIN Han Li is the father of LAM Fei Man, our executive Director.
6. An investment holding company holding interest in the relevant Group company.
7. The remaining 15% shareholding of Trade Sincere is held by QIAN Hong Xiang. QIAN Hong Xiang, being a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax, and a substantial shareholder of Trade Sincere is a connected person.
8. The remaining 40% equity interests in Sinomax Kuka is held by Gu Jia Household. Being a substantial shareholder of Sinomax Kuka, Gu Jia Household is a connected person. Gu Jia Household is also a customer of our polyurethane foam sales segment.

PRC LEGAL IMPLICATIONS ON THE REORGANISATION

M&A Rules

On 8 August 2006, the Rules on Acquisition of Domestic Enterprises by Foreign Investors were promulgated and became effective on 8 September 2006, and were revised on 22 June 2009 (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”). Under the M&A Rules, an offshore special purpose vehicle established for listing purposes and controlled, directly or indirectly, by PRC companies or individuals shall be required to obtain approval from the China Securities Regulatory Commission prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

The Listing is the overseas listing of an offshore company established and controlled by non-PRC resident because prior to the establishment of the various discretionary trusts, each of our then ultimate shareholders are not PRC individuals. In addition, our PRC subsidiaries have been foreign invested enterprises or enterprises invested by foreign invested enterprises since they were established rather than being acquired as domestic enterprises by foreign investors. Therefore, the Listing is not subject to the M&A Rules.

Circular 75 Foreign Exchange Registration

According to Circular 75, a PRC domestic resident legal person or a PRC domestic resident natural person is required to go through the foreign exchange registration with the local foreign exchange bureau when the PRC domestic resident legal person or natural person establishes or takes control of an offshore special purpose vehicle. Such PRC domestic resident legal person or natural person shall also go through the foreign exchange change registration when injecting its/his/her enterprise assets or interests in the PRC into the offshore special purpose company, or when using the offshore special purpose company for overseas equity financing after injection of domestic assets or equity. Under Circular 75, “Domestic resident natural person” refers to a natural person holding the PRC resident identity card or passport or other lawful identity documents, or a natural person without lawful PRC resident identity document habitually residing in the PRC due to economic interests.

Prior to the establishment of the various discretionary trusts, each of our then ultimate shareholders were not PRC residents under Circular 75 and were not subject to the requirement of foreign exchange registration stipulated in Circular 75.

OVERVIEW

We are a leading marketer, manufacturer and distributor of quality visco-elastic pillows, mattress toppers and mattresses in the US, Hong Kong and the PRC. We were the second largest supplier of mainstream visco-elastic health and wellness products in the US, and were ranked first in both Hong Kong and the PRC retail markets of visco-elastic health and wellness products, each in terms of 2013 retail sales value, according to Frost & Sullivan. Our flagship brand “**SINOMAX**” has been awarded the status of “Hong Kong Top Brand – Pillow category” by the Hong Kong Brand Development Council yearly since 2006.

Our quality visco-elastic products provide better spinal support and comfort than traditional products such as innerspring mattresses and feather pillows, because our visco-elastic material is temperature sensitive, has a high density and contours to the body more naturally to provide better spinal alignment, according to Frost & Sullivan. The benefits of our visco-elastic mattress toppers and mattresses have been well recognised as evidenced by the official endorsement from the Chiropractic Doctors’ Association of Hong Kong. Our visco-elastic, conventional polyether and high resilience foams have been certified by CertiPUR-US, assuring that our foams meet the international standards with respect to physical performance, indoor emissions and environmental stewardship.

We adopt a multi-faceted channel distribution approach to disseminate our visco-elastic products. In Hong Kong and the PRC, we mainly sell our products under our flagship brand “SINOMAX” through a self-operated retail network comprising retail shops and concession counters. As at 31 March 2014, our self-operated SINOMAX retail network comprised 278 POS, of which 39 were located in Hong Kong and 239 were located in the PRC. We also sell our “SINOMAX” branded products through third-party distributors, direct sales to corporates and other customers and online sales. As at 31 March 2014, our SINOMAX retail network operated by third-party distributors comprised 188 POS located in the PRC and four POS located in Macau.

Internationally, we sell our visco-elastic products primarily to leading retailers in the US which resell our products to consumers through their own retail networks spanning across the US. As at 31 March 2014, our products were offered at over 6,000 POS in the US via these retailers. We own a portfolio of brands targeted at different consumer groups and sales channels. Our products are sold under brands owned by us or licensed to us, or to third-parties for which we manufacture products to be sold under their brands. With our track record of providing quality products and our dedicated services through our subsidiary in the US, we have established long-standing business relationships with our key retailer customers. Our efforts earned us supplier awards from two of these US leading retailers during the Track Record Period.

As a separate business line, we also sell polyurethane foams under our “Tung Ah” (東亞) brand in the PRC. Our key customers include sofa manufacturers, the majority of which are located in the vicinity of our factories. We were ranked first in terms of 2013 sales value of polyurethane foam manufacturers in the PRC, according to Frost & Sullivan.

Adopting a vertically integrated business model, we believe we are able to collaborate on new innovations, maintain uniform standards of quality and coordinate responses to changes in market demand. We put great emphasis on product design. As at 31 March 2014, we had a research and development team of 54 members which had, over the years, taken initiatives to innovate and deliver to our customers an array of products adapted to diverse consumer needs. Our visco-elastic pillows, mattress toppers and mattresses are manufactured in our three factories located at Dongguan, Jiashan and Haining in the PRC. These factories have a total designed annual production capacity of 75,113.0 tonnes of foam as at 31 December 2013.

BUSINESS

Our total revenue increased from approximately HK\$1,778.4 million for the year ended 31 December 2011 to approximately HK\$2,369.5 million for the year ended 31 December 2013, representing a CAGR of approximately 15.4%. For the year ended 31 December 2013, our revenue was approximately HK\$2,369.5 million, representing an increase of approximately 20.2% from HK\$1,971.5 million for the year ended 31 December 2012. Further details of our financial performance are set out in the section headed “Financial Information” in this Prospectus.

The following table sets forth a breakdown of our revenue by operating segments during the Track Record Period:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Export sales	877,118	49.3	1,019,902	51.7	1,254,223	52.9
Retail and corporate sales	304,206	17.1	296,623	15.0	284,057	12.0
Polyurethane foam sales	597,119	33.6	654,970	33.3	831,259	35.1
Total	1,778,443	100	1,971,495	100	2,369,539	100

COMPETITIVE STRENGTHS

We believe that our success to date and future growth potential is and will be attributable to our competitive strengths as set out below:

We own a broad range of established brands domestically and internationally

We own a portfolio of established brands that are targeted at a wide range of consumer groups and markets, enabling us to satisfy consumers with different preferences and needs. In particular, we believe we have built our flagship brand “SINOMAX” to represent quality visco-elastic products, associated with the notions of health, relaxation and comfort.

Our “SINOMAX” brand has, since its launch in 2001, been recognised as providing quality visco-elastic products focused at middle to high end segment of the markets in Hong Kong and the PRC. Our “SINOMAX” brand was ranked first in terms of 2013 retail sales value of visco-elastic health and wellness products in both Hong Kong and the PRC, according to Frost & Sullivan, and has been the subject of a number of awards over the years, such as “Hong Kong Top Brand – Pillow Category” awarded by the Hong Kong Brand Development Council yearly since 2006. Building on our established flagship brand “SINOMAX”, we introduced in the past years new products and designs applying visco-elastic material to further increase our market share, and through collaborations with a well-known licensed brand to penetrate into different consumer groups.

In respect of the international markets, our “ComforZen” and “Dream Serenity” brands target at the mainstream visco-elastic health and wellness product market in the US via wholesale clubs and retailers whereas our licensed brands, such as “Sharper Image”, “Awaken by Joan Lunden” and “HoMedics”, are focused at a higher product end. Despite the relatively short history in selling our products under these brands, our established relationships with the leading retailers in the US have provided us a solid channel to distribute our own and licensed branded products in the US.

We believe that our multi-brand approach and brand recognition continue to differentiate us from our competitors. Please refer to the section headed “Business – Products and Brands – Our brands” in this Prospectus for further details.

BUSINESS

We offer a comprehensive product portfolio supported by our strong research and development capabilities on both foam and product design

We put great emphasis on product research and development. As at 31 March 2014, our research and development team comprised a total of 47 product design and development staff focused on developing new products incorporating the use of visco-elastic material for our customers' well-being, and a total of seven foam development staff dedicated to improving existing or developing new visco-elastic material or other polyurethane foams. During the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014, we developed 100, 106, 137 and 50 new products and product modifications¹, and 56, 54, 44 and 11 new foam specifications, respectively. Examples of our products include PureFoam that adds a soy-based ingredient which has a natural smell; PureGel, a technology incorporating a soft layer of cool gel on top of visco-elastic pillows to provide a cooling effect; and 4D Wisdom pillow which is multi-dimensional catering to different sleeping positions. Our visco-elastic products may incorporate a variety of materials such as anions, charcoal, aloe vera to provide different aromas or effects. In addition, over the years, we have expanded the applications of visco-elastic material to a wide variety of products including bath products, automobile accessories and massage chairs.

Our research and development capabilities were attained through our accumulated industry experience, product knowledge and innovation. We believe we possess know-how that is difficult for competitors to replicate. QIAN Hong Xiang, one of our senior management, has nearly 20 years of experience in the foam industry and has participated on behalf of Sinomax Kuka in the drafting of various national standards for foams in the PRC. To further enhance our product design capabilities, we have retained the services of certain well known product designers to lead our product design and development team to develop more innovative products to track global consumer market trends. Please refer to the section headed "Business – Product Research and Development" in this Prospectus for further details.

Our comprehensive product portfolio supported by market-oriented research and development capabilities allows us to target different consumer segments and expand our customer base. In addition, it enables us to promptly adjust our product offering in response to market conditions, and to provide a "one-stop" shopping experience to consumers reinforcing customer loyalty. We believe that our comprehensive product portfolio, supported by research and development capabilities, differentiates us from our competitors.

Our vertically integrated business model enables us to offer quality products

We believe our success is built on our vertically integrated business model which enables us to offer quality visco-elastic products and to develop a wide range of quality health and wellness products to cater to different consumer demands.

We control the most critical elements of the value chain from raw material procurement, design, production and marketing to sales through our extensive retail network. All of our visco-elastic pillows, mattress toppers and mattresses are manufactured in our own factories under strict quality control procedures. We attribute our ability to maintain the quality of our products in part to our scalable operation which strengthens our bargaining power to source and maintain stable supply of quality raw materials. Apart from the tight control over raw materials sourcing, our quality control, research and development teams work closely to improve visco-elastic material specifications and develop new

Note 1 New products and product modifications include newly applied technologies and innovations, newly designed products, redesigned products and partially redesigned and modified products and product components.

BUSINESS

product designs, whilst maintaining uniform standards of quality control throughout the production process. Our “SINOMAX” branded mattresses and mattress toppers are endorsed by the Chiropractic Doctors’ Association of Hong Kong. Our mattresses have been recognised by the Hong Kong Consumer Council as top quality, in terms of, among others, lumbar support, durability and comfort. Our visco-elastic, conventional polyether and high resilience foams are certified by CertiPUR-US, assuring that our foams meet the international standards with respect to physical performance, indoor emissions and environmental stewardship. Please refer to the section headed “Business – Awards, Accreditations and Certifications” in this Prospectus for details.

We believe that our vertical integration, in particular with our quality control and research and development capabilities, allows us to coordinate rapid responses to changes in market demand, efficiently collaborate on new innovations whilst maintaining uniform standards of product quality and serves as the backbone for our future growth.

We have an extensive and international sales and distribution network

Our extensive and international sales and distribution network enables us to reach a diverse consumer base.

In Hong Kong, the PRC and Macau, we sell our visco-elastic products primarily under our flagship brand “SINOMAX” through a far-reaching network of self-operated retail shops and concession counters and third-party distributors. As at 31 March 2014, our “SINOMAX” products were sold nationwide, at 39 POS located in Hong Kong, 427 POS located in over 20 provinces or municipalities or autonomous regions in the PRC and four POS located in Macau. Our POS are primarily located in leading department stores and popular shopping centres. We believe an extensive POS network at prime locations gives us greater control over our interaction with customers, facilitates communication of concepts, styles and values embodied in our product collection and allows us to respond to customers expectations in a more effective and timely manner.

Internationally, we sell a majority of our products to leading retailers in the US which resell our products to consumers through their own retail networks spanning across the US. As at 31 March 2014, our products were offered at over 6,000 POS in the US, through these retailers. We also export our products to other countries including Germany and Japan.

Our other distribution channels are also important as they supplement our network to make our products readily available to customers worldwide. These other distribution channels, including internet shopping websites and home shopping television networks as well as direct sales to large corporates, enable us to further promote the awareness and trial of our brand to targeted customers. Please refer to the section headed “Business – Our Sales Channels” in this Prospectus for details.

We believe the extensive domestic and international reach of our distribution network is difficult for our competitors to replicate, providing us with a significant competitive advantage and minimising our reliance on any single sales channel.

Our leading market positions are well-positioned to capture growth opportunities

We are a leading marketer, manufacturer and distributor of visco-elastic products with prominent international market positions. We were the second largest supplier of mainstream visco-elastic health and wellness products in the US, and were ranked first in both Hong Kong and the PRC retail markets of visco-elastic health and wellness products, each in terms of 2013 retail sales value, according to Frost & Sullivan.

BUSINESS

With our leading market positions, we believe we are well-positioned to benefit from the market growth in the coming years and maintain our leading status, in particular, in the Chinese market with highly attractive growth amidst the increasing demand for quality products and rising awareness of a healthy lifestyle. According to Frost & Sullivan, the US, Hong Kong and the PRC visco-elastic health and wellness product markets are expected to experience long-term growth, driven by factors such as increasing health consciousness and rising consumer purchasing power. Demand for visco-elastic health and wellness products in the US, Hong Kong and the PRC increased at a CAGR of approximately 8.8%, 10.7% and 25.9%, respectively, from 2008 to 2013; and is projected to rise further at a CAGR of approximately 8.5%, 12.8% and 19.6%, respectively, from 2013 to 2018 as indicated in the Frost & Sullivan Report.

Although the Chinese visco-elastic health and wellness product market is fragmented, we believe we have been leading this industry and have been at the forefront in setting the industry standard and trends in this fast growing market. We participated in the drafting of the regulations for industry standards in the PRC and have, from time to time, provided sponsorships and organised public and charity events that promote visco-elastic health and wellness products which we believe have helped promote our brand image and maintain our competitiveness in the industry. Our understanding and knowledge gained from our decade of retail sales experience and relationship with local distributors have also given us an advantage to maintain our leading market position in the PRC.

We have a dedicated and experienced management team with proven track record of delivering sustainable growth and profitability

Our management team has shown a loyal, continued commitment and dedication to our Company. The members of our management team have been with our Group, on average, for approximately 10 years. Our Directors and senior management are passionate about what we do, and have overseen the successful expansion of our business and the growth of our brands. Their strong industry knowledge has enabled us to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preference, and capture market opportunities. Our Chairman and co-founder, LAM Chi Fan, has over 20 years of experience in the foam industry. CHEUNG Tung, our President and an executive Director, has deployed strategies for continued future growth of our businesses. CHEN Feng, our executive Director, has established our US business, and built our relationships with leading retailers in the US. Please refer to the section headed “Directors and Senior Management” in this Prospectus for further details.

We believe that our Group has and will continue to benefit from the experience and business acumen that our management team possesses and we are confident of its ability to make meaningful contribution to the advancement of our business.

STRATEGIES

Our principal objectives are to maintain and strengthen our position as a globally recognised marketer, manufacturer and distributor of visco-elastic health and wellness products. We aim to strengthen our leading position through the following strategies:

Continue to strengthen our flagship brand recognition

We believe successful branding is essential to our success and that our flagship brand “SINOMAX” has gained recognition and penetration in Hong Kong and the PRC as a result of our brand management and marketing and promotional activities. We intend to continue our brand management efforts to (i) further enhance the brand recognition and overall image of our “SINOMAX” brand amongst consumers; (ii) reinforce the association between our products and the notions of health, relaxation and comfort; and (iii) capture the fast growing visco-elastic health and wellness product markets in Hong Kong and the PRC in the coming years.

BUSINESS

We plan to focus our marketing programmes on further improving brand recognition and reputation, and customer loyalty. In particular, we plan to:

- intensify our marketing efforts through implementing a multi-faceted marketing strategy, involving traditional advertising channels such as print and television media, as well as on-line advertising and social media coverage across the Pearl River Delta in the near future;
- strengthen our brand image by opening “Sinomax Life Stores” which display a comprehensive range of our products, enabling our customers to understand and experience our products in an atmosphere embodying our unique philosophy;
- intensify our brand promotion campaigns across Hong Kong and the PRC such as organising product roadshows and sponsoring public and charity events relating to health and wellness; and
- explore opportunities to collaborate with other third-party brands which we consider to be of quality and to have potential for development and which have a product portfolio that complement our existing brand portfolio.

Aside from enhancing exposure of our flagship brand “SINOMAX”, we also plan to intensify our promotion of the health benefits of visco-elastic health and wellness products. We believe effectively promoting the benefits of visco-elastic products to spinal support and comfort against traditional products such as innerspring mattresses and feather pillows will enlarge the overall market size of this market and thus benefiting our business.

Continue to expand our distribution network and diversify our sales channels

We intend to strengthen our leading market position and broaden our clientele by increasing market penetration through expanding our existing distribution network and sales channels. In particular, we intend to:

- expand our retail sales network in Hong Kong and the PRC for “SINOMAX” branded products through opening over 10 “Sinomax Life Stores” in the PRC and Hong Kong in 2014 and opening new POS by partnering with distributors in areas where we currently have no presence;
- expand e-commerce sales channels to promote and distribute our products which we believe will enhance our distribution and promotional channel to cover our existing and potential customers worldwide and attract them to visit our POS; and
- explore opportunities with other established department stores and bedding and furniture retailers in the US, or through more diversified distribution channels, such as television shopping and e-commerce, to further strengthen our leading status in the mainstream visco-elastic health and wellness products in the US and raise consumer awareness.

BUSINESS

Continue to expand and diversify our product portfolio to capture market opportunities and meet consumer preferences

We believe that our ability to upgrade existing products and to develop new ones in anticipation of consumer needs and market demand is essential to our long term success. To this end, we will continue to leverage on our research and development capabilities and develop commercially successful products in our target markets. In particular, we will continue to:

- apply our expertise and experience in visco-elastic material for new applications, selectively expand into complementary product segments by leveraging upon our brand loyalty and distribution network while maintaining our strength in existing products;
- invest in our product research and development capabilities including hiring talented individuals to enhance the quality of our visco-elastic material or other polyurethane foams, and the product design or innovations to satisfy the evolving preferences and demands of consumers;
- maintain a workplace that is conducive to creativity and innovation by taking part in more international design events, competitions and trade shows; and
- maintain close dialogue amongst our marketing team, research and development team and our frontline sales staff so that their direct observations on consumer behaviour and preference can be immediately integrated in new product development efforts.

Encourage repeat customer purchases and increase customer spending

We believe that increasing repeat customer purchases and customer spending will generate higher levels of profit for our Group. We target to achieve this objective through:

- introducing a wider variety of products to reinforce the image of health, comfort and relaxation associated with our flagship brand “SINOMAX” through our store settings;
- optimising our product mix to promote products which match the spending profiles of consumers in the locality of the POS;
- hiring experienced sales personnel and intensifying training to our sales staff to further improve the quality of our service in stores, so as to enhance our customers’ shopping experience and encourage repeat customer purchases;
- actively building our customer database and further enhancing our customer loyalty programme tailor-made to our customers in various markets, in particular, e-membership programmes through social media in the PRC;
- encouraging spending by enhancing membership benefits and organising more marketing campaigns to promote new products; and
- upgrading our database to analyse members’ preferences to aid us in formulating more effective marketing strategies.

Pursue appropriate strategic acquisitions and business opportunities

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

We will consider a range of factors in assessing acquisition targets, including (i) reputation of such company in the industry; (ii) its brand portfolio and product offering; (iii) distribution channels and POS coverage; (iv) location of production facilities; and (v) historical financial performance. Generally, we will look at the overall synergy effect that the proposed acquisition can offer.

We believe suitable acquisitions and business opportunities will further strengthen our value chain, and allow us to build our know-how regarding different distribution channels, including local distributors and other channels in regions where we are not yet well penetrated. It will also help us expand our sources of key raw materials, gain experience and expertise in developing new products, gather market intelligence on latest consumer trends and provide us with the appropriate platform to expand into different product categories in the future. We believe that, as we have extensive experience in managing multiple brands, we can continue to grow our business through acquisitions and other collaboration opportunities.

Further enhance our vertically integrated business model to improve our operating efficiency

Our vertical integration allows us to coordinate rapid responses to changes in market demand, efficiently collaborate on new innovations, maintain uniform standards of product quality and serves as the backbone for our future growth. To this end, we aim to realise additional synergies throughout our business model and take advantage of economies of scale in terms of sourcing and production in mass volumes. We intend to further enhance our model through:

- upgrading and acquiring machinery, and expanding our production facilities and warehouses at Dongguan and Jiashan to further enhance our operational efficiency and expand our production capacity to accommodate the increasing needs arising from our expanding business; and
- acquiring or setting up production facilities in the US. We consider that by setting up production facilities in the US, we can provide products which are made in the US to capture different market segments and also shorten the lead time from production to delivery and thus better serve our customers. We have yet to identify any target facilities to acquire or target locations to set up such production facilities.

BUSINESS

PRODUCTS AND BRANDS

Our products

The following table sets forth a breakdown of our revenue by product categories during the Track Record Period:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Pillows	284,815	16.0	343,616	17.4	431,987	18.2
Mattress toppers	519,641	29.2	585,105	29.7	691,707	29.2
Mattresses	247,389	13.9	244,150	12.4	278,434	11.8
Other products						
<i>(Note)</i>	129,479	7.3	143,654	7.3	136,152	5.7
Polyurethane foams	597,119	33.6	654,970	33.2	831,259	35.1
Total	1,778,443	100	1,971,495	100	2,369,539	100

Note: Includes cushions, travel accessories, bathroom products made of visco-elastic material and other healthcare accessories such as massage chair, etc.

Pillows

We offer pillows of different densities and shapes to provide unique neck protection and reliable support for every user. In addition, we offer special series pillows that incorporate materials such as anions, charcoal and aloe vera, etc. to cater to different needs.



Examples of our pillows with special features include PureFoam, that adds a soy-based ingredient which has a natural smell; PureGel, which incorporates a soft layer of cool gel on top of the visco-elastic pillows; and 4D Wisdom pillow which is multi-dimensional catering to different sleeping positions. Our visco-elastic pillows relieve pressure and adjust to provide optimal support to the head, neck and shoulders.

According to Frost & Sullivan, the 2013 retail unit price range of our pillows in the US was approximately US\$15 to US\$30. The 2013 retail unit price range of our pillows in Hong Kong and the PRC was approximately HK\$400 to HK\$2,200 and RMB150 to RMB3,300, respectively.

Mattress toppers

We offer different series of mattress toppers such as organic and anion mattress toppers. Our visco-elastic mattress toppers evenly distribute body weight and offset body pressure, providing an extra cushioned layer to any existing mattress. Our Directors believe that by offering mattress toppers, consumers can experience the benefits of visco-elastic products at a relatively lower cost compared to visco-elastic mattresses, thereby enlarging our customer base.



According to Frost & Sullivan, the 2013 retail unit price range of our mattress topper in the US was approximately US\$60 to US\$150. The 2013 retail unit price range of our mattress topper in Hong Kong and the PRC was approximately HK\$1,500 to HK\$4,000 and RMB1,500 to RMB4,600, respectively.

Mattresses

We offer mattresses of different densities and various features such as waterproofness and anti-bacterial additives. Our mattresses incorporate our visco-elastic materials on the top layer, which conform to body contour according to body weight and temperature. Conventional polyether foam is filled at the base for body support and protection. Examples of our mattresses with special features include the “magic” series, the mattresses of which have different firmness on their upper and lower sides and are divided into several “blocks” allowing personalised firmness at different areas of the mattress.

According to Frost & Sullivan, the 2013 retail unit price range of our mattresses in the US was approximately US\$300 to US\$600. The 2013 retail unit price range of our mattresses in Hong Kong and the PRC was approximately HK\$2,600 to HK\$25,000 and RMB4,000 to RMB20,000, respectively.



Other products

We offer a variety of other products that complement our main bedding products to enrich our product varieties. We are committed to provide around-the-clock comfort to our customers by expanding the use of visco-elastic materials to on-the-go items such as cushions, travel accessories and bathroom products. We also offer accessory products such as massage chairs, children furniture, desks and chairs.



Polyurethane foams

We offer quality polyurethane foams tailored to customers' needs and requirements including conventional polyether foams, high resilience foams and visco-elastic foams, which are usually used as upholstery foams for furniture.

Product life

The product life of our pillows, mattress toppers and mattresses is two, four and seven years, respectively, under normal usage.

Our brands

The following table sets forth a breakdown of our revenue generated from our own and licensed brands during the Track Record Period:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
<i>Own brands</i>						
SINOMAX ⁽¹⁾	302,949	62.1	315,892	51.5	283,405	31.9
ComforZen	182,759	37.4	281,851	46.0	167,319	18.9
Dream Serenity/ Dream Essentials ⁽²⁾	–	–	111	0.0	385,390	43.4
SPA Supreme	2,304	0.5	4,067	0.7	2,616	0.3
<i>Licensed brands</i> ⁽³⁾	–	–	11,431	1.8	48,540	5.5
Total	488,012	100	613,352	100	887,270	100

Notes:

- (1) Includes products sold collaboratively under "SINOMAX" brand and a well-known licensed brand.
- (2) We ceased using the "Dream Essentials" brand since October 2013, which is replaced by the "Dream Serenity" brand.
- (3) Licensed brands means those licensed brands under export sales segment, including Sharper Image, Awaken by Joan Lunden and HoMedics.

BUSINESS

To maximise the penetration of our products and diversify our consumer audience, we adopt a multi-brand strategy targeting at specific consumer groups.

We first launched our flagship brand “SINOMAX” in Hong Kong in 2001, targeting at middle to high end retail markets. In a short span of just over 10 years, we have succeeded in elevating our status to a leading brand in the visco-elastic health and wellness products arena, and have received awards witnessing our recognition in Hong Kong and the PRC. Please refer to the section headed “Business – Awards, Accreditations and Certifications” in this Prospectus for details.

As an initiative to increase our brand profile, we began to manufacture and sell during the Track Record Period through various channels in Hong Kong, the PRC and Macau “SINOMAX” branded products in collaboration with a well-known licensed brand.

In respect of our export business, leveraging on our experience in manufacturing under third-party brands, we launched our own brand “ComforZen” in 2009, which is targeted at middle to high end of the US mainstream market. Further, we also began selling our products under well-known brands licensed to us, including “Sharper Image” in 2012, “Awaken by Joan Lunden” and “HoMedics” in 2013 and our own brand, “Dream Serenity”, in 2013.

Since our establishment, we have been supplying our polyurethane foams to furniture manufacturers in the PRC under our “Tung Ah” (東亞) brand.

BUSINESS

As at the Latest Practicable Date, our brand portfolio targeting at our export customers and various retail consumer markets comprises the following:

Brands	Products	Focus consumer markets and sales channels	Target geographic locations	Year of establishing/ acquiring/ obtaining the licence for the brand
<i>Own brands</i>				
SINOMAX 	Pillows Mattress toppers Mattresses Other products	Middle to high end retail markets; via retail shops, concession counters, third-party distributors, corporate sales and others	Hong Kong, the PRC and Macau	2001
ComforZen 	Pillows Mattress toppers Other products	Middle to high end of US mainstream market with a focus on quality; via wholesale clubs	North America	2009
Dream Serenity 	Pillows Mattress toppers	Low to middle end of US mainstream market; via mass merchants	North America	2013
SPA Supreme 	Pillows Mattress toppers Mattresses Other products	Low end market; via online and furniture wholesalers	Hong Kong	2006

Note 1 As at the Latest Practicable Date, our Group has applied for registration of this trademark, the registration of which has not yet been granted.

BUSINESS

Brands	Products	Focus consumer markets and sales channels	Target geographic locations	Year of establishing/ acquiring/ obtaining the licence for the brand
<i>Licensed brands</i>				
Sharper Image 	Pillows Mattress toppers Mattresses Other products	Middle to high end of the US mainstream markets with a focus on specialty and comfort products; via department stores, specialty stores, wholesale clubs and e-channel	North America	2011
Awaken by Joan Lunden 	Pillows Mattress toppers	Middle to high end of the US mainstream markets with a focus on celebrity-endorsed products; via department stores and television shopping	North America	2013
HoMedics  	Pillows Mattress toppers Mattresses Other products	Middle to high end of the US mainstream markets with a focus on therapeutic and travel-related products; via department stores, specialty stores and wholesale clubs	North America	2013
A third-party brand (collaboratively with our "SINOMAX" brand)	Pillows Mattress toppers Mattresses Other products	Middle to high end markets; via SINOMAX retail shops and concession counters	PRC Hong Kong and Macau	2013 2012

Please refer to the sections headed "Business – Intellectual Property" and "Appendix IV – Statutory and General Information – B. Further information about the business of our Company – 2. Intellectual property rights" in this Prospectus for details regarding trademarks registered and applied to register by us and the trademarks licensed to us.

BUSINESS

Key terms of our license agreements

With respect to our licensed brands, we enter into license agreements with the respective licensors, typically with the key terms set out below:

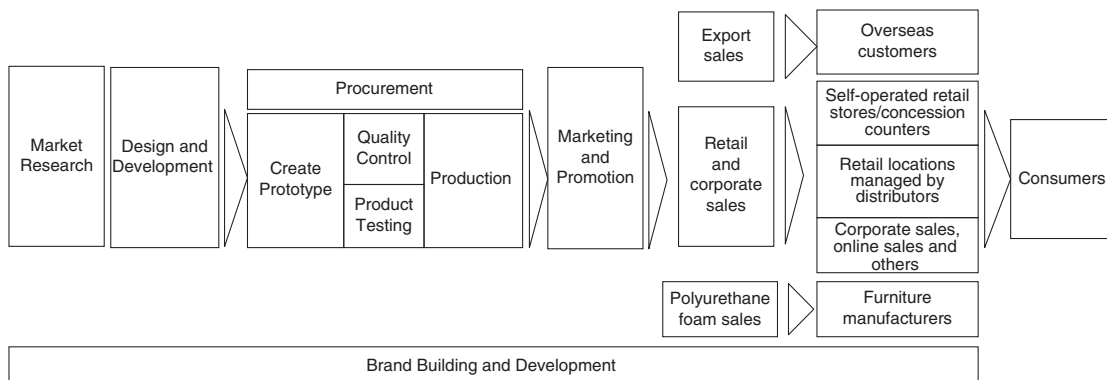
- Term:* Ranging from approximately 18 months to five years.
- Fees:* Royalties of a fixed percentage of the proceeds received in respect of sales of products under the licensed brands, generally ranging from 2.0% to 7.5%, subject to a minimum annual royalty payment.
- Costs allocation:* Our Group is responsible for product manufacturing, and bears the relevant costs related to product design, manufacturing, marketing and distribution, as applicable.
- Termination:* The licensor usually reserves the right to terminate our agreement if we, among other things, fail to pay the minimum royalties.
- Others:* The license is usually non-exclusive, non-transferrable, non-assignable and with a territory limitation.

OUR SALES CHANNELS

We adopt a multi-faceted channel dissemination approach for our products so as to maximise the penetration of our brands and products into a more extensive consumer audience. Our sales channels can be largely divided as follows:

- (a) Export sales – wholesales of our products under our own, licensed or third-party brands to overseas customers;
- (b) Retail and corporate sales – sales of our products primarily under our flagship brand “SINOMAX” through self-operated retail network, third-party distributors, direct sales to corporates and other customers and e-commerce sales channel; and
- (c) Polyurethane foam sales – wholesales of polyurethane foams to furniture manufacturers under our “Tung Ah” (東亞) brand.

The following diagram illustrates our business process:



BUSINESS

The following table sets forth a breakdown of our revenue by sales channels during the Track Record Period:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Export sales	877,118	49.3	1,019,902	51.7	1,254,223	52.9
Retail and corporate sales	304,206	17.1	296,623	15.0	284,057	12.0
Polyurethane foam sales	597,119	33.6	654,970	33.3	831,259	35.1
Total	1,778,443	100	1,971,495	100	2,369,539	100

Export sales

The following table shows the breakdown of our revenue generated from our export sales segment during the Track Record Period:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Own brand sales	183,807	21.0	305,297	29.9	554,674	44.2
Licensed brand sales	–	–	11,431	1.1	48,540	3.9
Third-party brand sales	693,311	79.0	703,174	69.0	651,009	51.9
Total	877,118	100	1,019,902	100	1,254,223	100

Since the establishment of our US sales office in 2005 and under the leadership of CHEN Feng, our executive Director, we have developed an in-depth knowledge and solid network in the US mainstream visco-elastic health and wellness product market. The initial phase of our export sales business predominantly focused on the production of visco-elastic products under third-party brands pursuant to our customers' design, packaging specifications and other requirements.

With our track record of producing quality products, accumulation of know-how and relationships with our customers, we were entrusted with providing value-added services and began working closely with our customers, mostly leading retailers in the US, to develop and design new products under their own brands for reselling to consumers through their own retail networks spanning across the US. In 2009, we successfully launched our own brand "ComforZen" in the US. We have further expanded our brand portfolio during the Track Record Period by adding a few own and licensed brands, covering different targeted markets and customers, and distribution channels. All of our branded products (both own and licensed brands) have been sold on a wholesale basis to leading retailers in the US. Please refer to the section headed "Business – Products and Brands – Our brands" in this Prospectus for details of our brand portfolio in North America. As at 31 March 2014, our products (including products under our own, licensed and third-party brands) were offered at over 6,000 POS in the US, via these retailers. To further our product reach, we commenced the sale of other products through e-commerce platforms in 2012 and the sale of our products to US consumers in 2013 through television shopping network.

BUSINESS

The following table shows the number of our retailer customers in the US at the dates indicated:

	For the year ended/ as at 31 December			For the three months ended/ as at 31 March
	2011	2012	2013	2014
Addition during the year/period	6	22	5	1
Terminated during the year/period (<i>Note</i>)	–	6	5	–
Total number of retailer customers as at the end of the year/period	38	54	54	55

Note: It is counted as termination if a retailer customer does not place an order with us for a period of 24 consecutive months.

During the course of our business development, we have built a solid and long-standing relationship on average over six years with our key retailer customers in the US, which are leading local retailers. Our efforts earned us supplier awards from two of these US leading retailers during the Track Record Period. As at 31 March 2014, we had an aggregate of 55 retailer customers, of which 21 were customers of our own or licensed brand sales.

During the Track Record Period, our sales to one of our third-party brand sales customers involved a sourcing company (acting on behalf of such customer) who was responsible for the coordination of the whole supply chain process, from placing orders with us to final checks before delivery, and from logistics arrangements to after-sales services. Despite the involvement of such sourcing company, we have been in direct contact with and received orders directly from the relevant customer and have provided them with value-added services, including product design, which we believe can help build up and maintain relationships and customer loyalty with such customer. We have not entered into any long term contract with such sourcing company, and we pay them commissions based on a certain percentage of our sales to the customer on whose behalf they act. Our Directors confirmed that such sourcing company is an independent third party. During the Track Record Period, we paid to such sourcing company commissions of HK\$53,000, HK\$2,001,000 and HK\$5,302,000 respectively.

Apart from the North American market, we also sell our products to other international markets including Germany and Japan. These sales are mainly made through Sinomax Macao.

We do not enter into any long-term sales agreements with any of our customers from our own or licensed brand sales or our third-party brand sales. All of their purchases are made on an order-by-order basis. Our sales arrangements with the customers vary depending on the requirement of the customers and the types of products being sold. For replenishment programmes of certain products, we may receive projected purchases information from the customers on a regular basis. These indications or projected purchase figures do not constitute purchase obligations and are subject to actual purchase orders being issued by our customers.

BUSINESS

Our Directors believe that our relationships with our export customers also enable us to gain access to the latest industry knowledge in technology and consumer trends in international markets. This endows us with the ability to undertake ongoing improvement in our design and quality such that our products remain in line with international quality standards, specifications and requirements.

Pricing policy

We implement a cost-plus pricing policy in respect of our own or licensed brand sales and our third-party brand sales. Price quotations for orders are negotiated on an order-by-order basis and are generally valid for approximately three months. In determining our product prices, we usually take into account various factors such as production costs (including the costs of our raw materials), production cycle, transportation costs, product types and specification, market price, and general economic conditions.

Credit policy

We generally provide to our export customers credit periods ranging from 30 days to 60 days, with the exception of one of our key customers to whom we provided a 105-day credit period. During the Track Record Period, the credit period we provided to such customer was 60 days until May 2013, when we extended its credit period to 105 days in order for us to qualify for the receivables discounting programme offered by a commercial bank for suppliers of such customer pursuant to which we can sell the receivables from such customer more favourably than before.

Further details of the receivables discounting programme are set out in the table below:

Duration: The programme has no fixed duration and could be terminated by either party upon 30 days' written notice.

Details: Our receivables processed using the relevant commercial bank's computerised settlement system is available for purchase by the commercial bank at a discount calculated based on the prevailing market interest rates. The commercial bank may opt to accept our offer to sell our receivables and deposit the proceeds at the time. If it does not purchase our receivables, the payment will be processed at the end of the credit period. Our Directors confirm that since joining the receivables discounting programme and up to the Latest Practicable Date, the commercial bank has not rejected our offers to sell our receivables pursuant to the receivables discounting programme.

There are no guaranteed or minimum or maximum purchases to be made by the commercial bank under the programme.

Payment from our export customers is usually settled by letters of credit, wire transfer, cheques, etc.

After sales service and sales return policy

We sell our products to our export customers on a wholesale basis and we are not responsible for the operation of their retail outlets. Our export customers are responsible for the sale of the products they have purchased from us (including both of our own or licensed branded products and third-party branded products) and are not generally allowed to return those products unless there are quality defects. Nonetheless, we may provide certain of our key export customers a discount of generally 2% to 5% on the purchase price as allowance for possible return of products from their own customers. We do not, however, get refunds from these export customers even if the actual amount of returned goods from their respective end-customers is less than the amount of the allowance. To ensure customer satisfaction of product quality, as at 31 March 2014 we had a team of 28 personnel based in our US office, maintaining regular communications with each of our export customers such that any feedback can be channelled back to us in a timely manner. We also operate a customer hotline in the US as a channel to receive direct consumers' feedback on our products.

We also maintain product liability insurance to cover product liability claims. During the Track Record Period, we did not encounter any instances of material sales return as a result of quality defects, product recalls or defective product claims from our export customers.

Retail and corporate sales

In Hong Kong, the PRC and Macau, we sell our products mainly under our flagship brand "SINOMAX" through (i) our own retail shops and self-operated concession counters in leading department stores, (ii) third-party distributors, and (iii) direct sales to corporates and other customers. We also sell "SINOMAX" and "SPA Supreme" branded products through online sales and other channels.

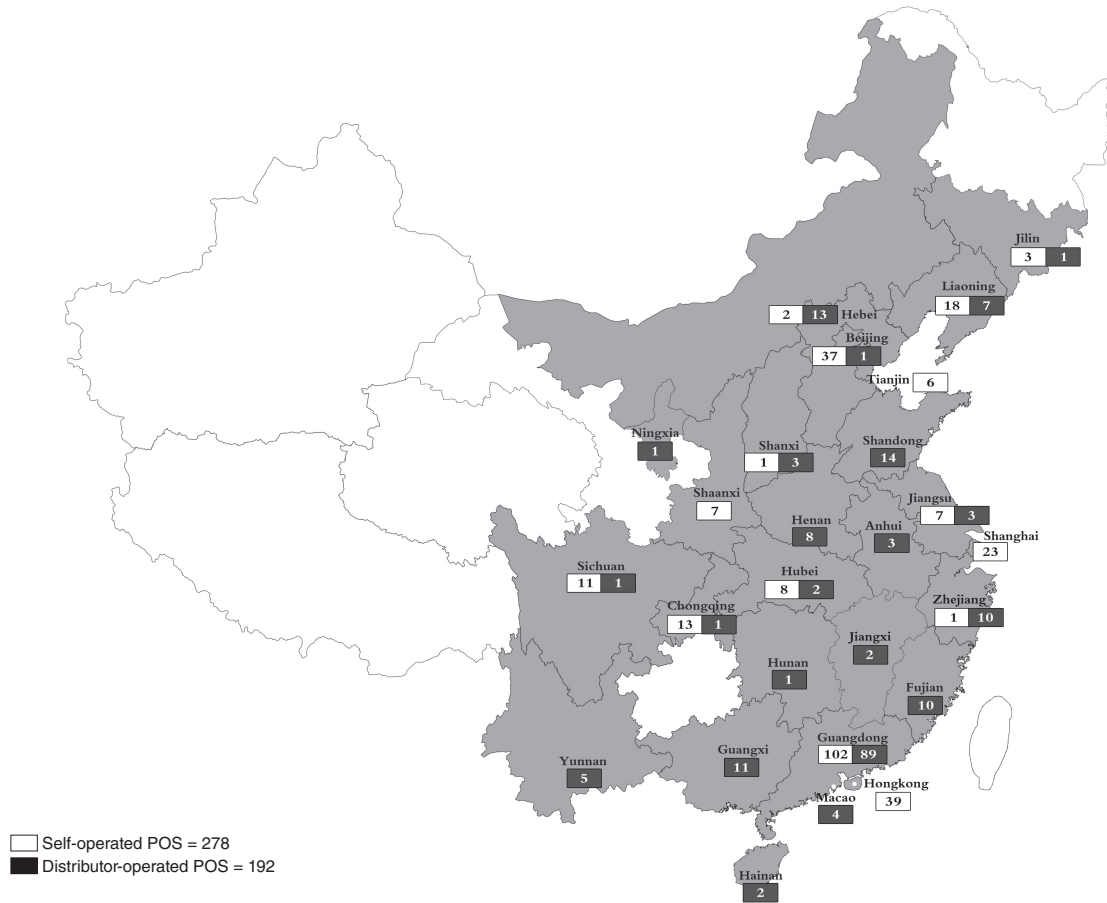
BUSINESS

Our POS are located in Hong Kong, Macau and over 20 provinces or municipalities or autonomous regions in the PRC. The following table shows the number of our self-operated and distributor-operated POS at the dates indicated:

		As at 31 December				As at 31 March		
		2011	Net change during the year	2012	Net change during the year	2013	Net change during the three months ended 31 March 2014	2014
Self-operated								
Self-operated retail shops	Hong Kong	10	(1)	9	3	12	–	12
	PRC	–	–	–	4	4	1	5
Self-operated concession counters	Hong Kong	26	(1)	25	3	28	(1)	27
	PRC	155	59	214	20	234	–	234
Subtotal		191	57	248	30	278	–	278
Distributor- operated								
POS operated by our distributors	PRC	135	48	183	23	206	(18)	188
	Macau	3	–	3	1	4	–	4
Subtotal		138	48	186	24	210	(18)	192
Total		329	105	434	54	488	(18)	470

BUSINESS

The following map illustrates the locations of our self-operated POS and POS operated by our distributors as at 31 March 2014:



The following table shows the breakdown of our revenue generated from our retail and corporate sales segment for the years indicated:

	For the year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Self-operated retail shops	22,276	7.3	24,784	8.4	35,733	12.6
Self-operated concession counters	147,227	48.4	161,637	54.5	175,534	61.8
Third-Party distributors	45,602	15.0	53,889	18.2	45,000	15.8
Direct sales to corporate and other customers ⁽¹⁾	80,016	26.3	49,266	16.6	12,740	4.5
Other channels ⁽²⁾	9,085	3.0	7,047	2.3	15,050	5.3
	304,206	100	296,623	100	284,057	100

Notes:

- (1) "Other customers" means one customer in Australia during the Track Record Period which may on-sell our products in its retail shops in Australia.
- (2) "Other channels" means internet sales and sales under SPA Supreme.

BUSINESS

Self-operated retail shops

As at 31 March 2014, we operated 12 and five SINOMAX retail shops in Hong Kong and the PRC, respectively, which are located in major shopping centres. All self-operated retail shops are “Sinomax Life Stores” where a comprehensive selection of health and wellness products under our flagship brand “SINOMAX” are displayed in an atmosphere embodying our unique philosophy of relaxation, health and comfort. We plan to open over 10 “Sinomax Life Stores” in the PRC and Hong Kong in 2014. Please refer to the section headed “Business – Strategies” in this Prospectus for more details.

We believe that our most effective tool in reaching out to end-user customers is our ability to stimulate their desired lifestyle by showcasing a range of visco-elastic health and wellness products which they are welcomed to experience.

We have direct control over all sale proceeds received in connection with each sale transacted at our own retail locations and are responsible for bearing all operating costs which include monthly rent, staff salary and commissions, management fees, utility charges, insurance expenses, etc.

During the Track Record Period, there were no instances of material disputes with any of the landlords regarding the premises within which we operated our own retail stores or in relation to the terms of any lease agreements.

Self-operated concession counters

In addition to gaining publicity for our products through our own retail locations, we also operate concession counters in leading department stores to increase exposure of our brands and provide us with convenient access to prime shopping districts with heavy pedestrian traffic.

As at 31 March 2014, we operated 27 and 234 “SINOMAX” concession counters located in well-known department stores in Hong Kong and the PRC, respectively.

With these department stores, we enter into a concessionaire agreement, typically with the key terms set out below:

<i>Term:</i>	Normally one to two years.
<i>Fees:</i>	Concession fees of a fixed percentage of all proceeds received in respect of our sales, generally ranging from 20% to 40%, with a minimum amount.
<i>Operational control:</i>	We operate our concession counters independently. All our counters are staffed with and operated by our own employees and we also determine the selection and pricing of products, as well as the manner in which our products are marketed and displayed.
<i>Termination:</i>	The department store usually reserves the right to terminate the concessionaire agreement if we, among other things, fail to pay the minimum concession fees.

In contrast with our self-operated retail locations, we do not retain direct control over the sales proceeds received in connection with the sales transacted at our self-operated concession counters. Instead, all proceeds are collected by the grantor of the concessionaire arrangement at the outset, subject to deductions of concession fee before being disbursed to us on a periodic basis typically ranging from 30 to 120 days.

BUSINESS

We have strong working relationships with the key department stores in which we occupy concession space, which is evidenced by over nine years of relationship on average with the key department stores in Hong Kong and with the longest relationship spanning 11 years as at 31 December 2013.

To ensure that our portfolio of concession counters is in line with our overall business development plan and strategies, we monitor and assess our sales performance at each concession counter. In doing so, we also consider the renewal and closing of our existing concession counters from time to time.

During the Track Record Period, there were no instances of material disputes with any of the grantors of our concessionaire arrangements in relation to the terms of their respective concessionaire agreements and the amount of sales proceeds, nor did we experience any material default in collecting net sales proceeds from the department stores.

Third-party distributors

To benefit from local market knowledge and expertise and to expand our network at minimal costs into areas where we do not have presence, we also sell our “SINOMAX” branded products via third-party distributors in the PRC and Macau. As at 31 March 2014, we had 85 distributors which operated 188 POS in the PRC and one distributor which operated four POS in Macau.

We select our distributors based on factors such as the coverage of their distribution networks, their financial ability, sales experience and credibility in order to ensure they can maintain the image of our brand.

Our relationship with our distributors is governed by our standard distribution agreement with the following key terms:

<i>Term:</i>	One year.
<i>Retail price:</i>	On-sale price of our products at each distributor-operated POS is recommended by us on a uniform basis to avoid potential price competition, with price adjustments proposed during the term of the distribution agreement which distributors may follow.
<i>Operational control:</i>	Our distributors are required to operate the POS on their own according to our standards and consistent with the perception of our brand. The store design and storefront presentation should follow our specifications, policies and guidelines.
<i>Exclusivity:</i>	Each distributor is granted an exclusive distribution right in respect of a designated geographic area in which their sales are restricted so as to avoid competition amongst different distributors. There is no restriction in the agreement in relation to the sales of products in other brands.
<i>Termination:</i>	Each of our distributors is required to meet minimum annual sales targets agreed upon, failing which will give us the right to terminate their distributorship.

BUSINESS

We also offer an incentive scheme pursuant to which we distribute rebates to our distributors in the form of our products at each year end. The volume of rebates offered is incremental and determined with reference to progressive minimum sales thresholds. The volume of rebates offered to each distributor may vary depending on a number of factors including the length of our business relationship and their past performance in terms of sales volume. For the year ended 31 December 2011, 2012 and 2013, the amount of rebates distributed to our distributors was equivalent to approximately HK\$620,000, HK\$902,000 and HK\$93,000, respectively.

Products are purchased from us and paid in full by our distributors as buyer on an order-by-order basis, pursuant to the terms of the distribution agreement. Generally, there is no product return policy. Our sales persons visit the POS of our distributors on a regular basis to ensure that our pricing and other guidelines are complied with. As our policy is to prevent stock accumulation, we monitor the sales and inventory levels of our distributors by these regular visits and also by reviewing the amount of orders placed by them.

During the Track Record Period, distributorships were voluntarily terminated mainly due to less than satisfactory sales performance. We did not buy back any of their inventory, except for an insignificant amount from one distributor whose distribution agreement was not renewed upon expiry because we decided to set up our own POS in that area. On that occasion, we bought back the remaining inventory at a discount from such distributor. The following table illustrates the movement of the number of distributors during the Track Record Period and during the three months ended 31 March 2014:

	For the year ended/ as at 31 December			For the three months ended/ as at 31 March
	2011	2012	2013	2014
Addition(s) during the year/period	20	28	18	1
Termination(s) during the year/period	10	4	20	10
Total number of distributors as at the end of the year/period	72	96	94	85

During the Track Record Period, there were no instances of material disputes with, or non-compliance with key terms of our distribution agreement by, any of our distributors or in relation to the terms of their respective distribution agreements.

Our Directors confirm that the Group has not been involved in any bribery or kick-back activities during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, all of our distributors were independent third parties. We intend to further utilise the distributorship model to expand our retail footprint in the PRC, particularly in cities where we currently have no presence.

Corporate and other customers

In addition to our retail network, during the Track Record Period, we sold our "SINOMAX" branded products directly to corporates in Hong Kong and the PRC, which may then use our products as corporate gifts or in connection with their loyalty redemption programmes. We sell to selected corporates with extensive customer reach to further build up and strengthen our brand image. We do not enter into any long-term agreement with any of our corporate and other customers. Their purchases are made on an order-by-order basis.

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We also sold our “SINOMAX” branded products to one customer in Australia during the Track Record Period, pursuant to which it may on-sell our products in its retail shops in Australia.

Other channels

Internet sales

As part of our efforts to raise our profile and to fortify our retail sales, we have also, since 2012, maintained an online sales profile on a third-party operated website that targets at consumers in the PRC. To enhance our product reach, we plan to commence the operation of our self-operated website where a wide variety of our products will be offered to PRC customers when the necessary legal and regulatory formalities have been complied with.

Sales under SPA Supreme brand

In 2009, we began selling products targeted at lower end market under our other brand “SPA Supreme” on a wholesale basis to furniture stores in Hong Kong. In 2012, we introduced the “SPA Supreme” brand onto an online discount-shopping platform operated by an independent third party, to expand our product reach.

Pricing policy

We implement a uniform retail pricing policy across all of our self-operated retail shops and concession counters. We also encourage our distributors to adopt our uniform recommended price in their POS in order to maintain a consistent brand image and avoid price competition. The retail prices of our products are determined by reference to our costs of production, market demand and purchasing power of target customers. Retail prices are generally reviewed every half year. With respect to corporate and other customers, prices are negotiated on an order-by-order basis.

Products are sold to our distributors at a wholesale price that is usually at a discount to the standard retail price. We sell to each of the distributors within the PRC at a uniform wholesale price. Such pricing policies are agreed with us upon entering into the distribution agreements.

Credit terms

For our third-party distributors, we do not normally grant any credit terms to them and require cash-before-delivery. Sales are typically settled by bank transfers.

For our corporate customers, we usually grant a credit term of 30 to 60 days, and sales are typically settled by cheques.

After sales service and sales return policy

In addition to ensuring the quality of our products, we place strong emphasis on the after sales services we offer to our end customers.

Our “SINOMAX” branded products typically bear one to three-year warranties, with some mattresses of higher value bearing a 10-year warranty. Each product sold under our “SINOMAX” brand comes with a warranty card, under which the detailed terms and coverage of the respective warranty are specified. Generally, we exchange the products for our customers if there are any product related defects. We also have set up a hotline which our customers can call to make enquiries and receive responses from our customer service staff. Our Directors consider that the warranty expenses were minimal during the Track Record Period.

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During the Track Record Period, we did not encounter any instances of material product recalls or defective product claims from customers.

Polyurethane foam sales

As a separate line of business, we supply quality polyurethane foams tailored to customers' needs and requirements under our "Tung Ah" (東亞) brand. We were, in terms of 2013 sales value, the largest polyurethane foam manufacturer in China, according to Frost & Sullivan. Our polyurethane foams can be broadly classified into three categories, namely, conventional polyether foam, high resilience foam and visco-elastic foam. Our foams supplied are commonly used as upholstery foams in furniture such as sofas.

Customers of our polyurethane foam sales segment mainly comprise sofa manufacturers, such as Natuzzi (China) Limited, HTL Furniture (China) Co. Limited, Zuo You Furniture (Shenzhen) Co., Ltd and Gu Jia Household. As polyurethane foams are bulky and expensive to transport, sofa manufacturers usually source foam (which is one of the key raw materials) from nearby suppliers. Therefore, a majority of our polyurethane foam customers are located in the vicinity of our production facilities.

Our production facilities and strong research and development capability enable us to offer quality polyurethane foams. Our polyurethane foams meet the UK BS5852 and CA 117 Standard, the internationally recognised non-ignition standards for exports to Europe and North America, respectively, and our foams have also been certified by CertiPUR-US.

We typically enter into framework agreements with our polyurethane foam customers, setting out the key terms of our sales arrangement, such as terms of delivery and settlement, amongst others. Each sale is concluded by customers placing purchase orders from time to time in accordance with their needs and requirements. Given the wide variety of polyurethane foams we offer, and the geographical constraints as to transportation of bulky polyurethane foams, we have built stable and long-standing relationships with most of our foam customers. As at the Latest Practicable Date, our key polyurethane foam customers had been our customers for an average of over eight years.

One of our key polyurethane foam customers, Gu Jia Household, is a 40% minority owner of Sinomax Kuka, one of our Group companies and thus a connected person of our Group. Gu Jia Household is a leading PRC-based upholstered sofa manufacturer, which sells its products domestically through its retail stores and also exports to countries around the world. Please refer to the section headed "Connected Transactions" in this Prospectus for details of our sales arrangement with Gu Jia Household.

Pricing and credit policy

Prices for orders are negotiated on an order-by-order basis with each polyurethane foam customer based on a cost-plus pricing policy. We typically extend a credit period of 30 to 90 days to our foam customers. Payment is usually settled by cheques and bank transfers. During the Track Record Period, we did not encounter any instances of material claims from our polyurethane foam customers.

OUR CUSTOMERS

For the years ended 31 December 2011, 2012, and 2013, the aggregate sales to our five largest customers amounted to approximately HK\$730.8 million, HK\$797.3 million and HK\$1,107.0 million, representing approximately 41.1%, 40.4% and 46.7%, respectively, of our total revenue. In respect of the same periods, our largest customer was a leading retailer in the US from our export sales segment with which we have approximately eight years of relationship, and our sales to such customer accounted for approximately 20.6%,

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25.0% and 28.9% of our total revenue, respectively. Our second largest customer was Gu Jia Household from our polyurethane foam sales segment, a connected person of our Company with which we have approximately eight years of relationship, and sales to whom accounted for approximately 7.4%, 6.4% and 5.7% of our total revenue, respectively, for the years ended 31 December 2011, 2012 and 2013. Our third largest customer for the years ended 31 December 2011, 2012 and 2013 was another leading retailer in the US, a retailer in the US and another leading retailer in the US, respectively, from our export sales segment. We have approximately six years, five years and three years of relationship, respectively, with our third largest customer for the years ended 31 December 2011, 2012 and 2013, sales to which accounted for approximately 5.5%, 3.6% and 4.6% of our total revenue, respectively. Sales to each of the other five largest customers, all being customers from our export sales segment except one from our retail and corporate sales segment, accounted for less than 5% of our total revenue on an annual basis during the Track Record Period. We do not enter into any long term agreements with these customers. We had a business relationship of approximately five years on average with our top five customers during the Track Record Period.

To the best of our Directors' knowledge, as at the Latest Practicable Date, we were not aware of any information or arrangement which would lead to cessation or termination of our relationships with any of our top five customers. Save as disclosed above, none of our Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our share capital) had any interest in any of our five largest customers during the Track Record Period.

MARKETING AND PROMOTION

Our marketing strategy is to increase consumer awareness of the benefits of our visco-elastic health and wellness products and to further associate our brand name with the notions of health, relaxation and comfort. We position our products as quality, functional and unique products and adopt a multi-faceted marketing strategy to target specific consumer segments which include:

Advertisement and engagement of product spokespersons. We engage third-party consultants to design and organise advertising campaigns to convey our brand image and product information to a wide spectrum of customers. In Hong Kong and the PRC, we primarily focus on advertising through a variety of media, including popular television broadcasters and magazine advertisements. We have engaged well-known celebrities who have a healthy image to act as our product spokespersons. Internationally, we place our advertisements in magazines and newspapers. Recently, we have launched marketing activities on popular websites and renowned social networks in Hong Kong and the PRC. We believe that such advertising will serve as a popular and cost-effective way to penetrate into untapped consumer audience, in particular the younger generation, and as a tool to increase our brand exposure and influence on consumer purchase decisions.

Trade shows and exhibitions. Aside from maximising the appeal of our products through creative display methods, we regularly promote ourselves at global trade fairs and exhibitions. On a semi-annual basis, and to support our international sales, we exhibit our products at trade fairs and exhibitions such as the "New York Home Fashions Market", showcasing a variety of products including our pillows, mattress toppers, mattresses and other related health care products. During the Track Record Period, we have also attended "Franchising & Licensing Asia" in Singapore, "China Import and Export Fair" (中國進出口商品交易會) in Guangzhou, "Style Hong Kong Show" (香港時尚購物展) in various PRC cities, "Ambiente Frankfurt (Houseware Section)" in Germany and "Lifestyle Expo in Warsaw" in Poland. As such events are well-attended by a full spectrum of retail customers as well as wholesalers, they allow us to interact with our existing and potential customers to better understand their needs and draw inspiration from their experiences.

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Brand promotion events and sponsorship. We periodically host specific product launch events or themed campaigns at shopping centres, which usually coincide with popular festivities such as Mother's Day, Father's Day, National Day and Christmas. Since 2012, we participated in the "Pillow Fight" (枕住撐你一枕頭大戰) promotional programme to celebrate the International Pillow Fight Day and we conduct roadshow annually to celebrate the World Sleep Day. We also sponsor public events to promote our brand, including the 15th Anniversary of Make-A-Wish Hong Kong (願望成真基金) in 2013, the "Golf Tournament" (「兒童脊科基金」慈善高爾夫球邀請賽) organised by the Children Chiropractic Foundation in 2012 and 2013, Sowers Action Challenging 12 Hours Charity Marathon (苗圃挑戰12小時) in 2012 and 2013 and various other charity events. We believe our initiatives have been well-received by consumers and are effective in increasing consumer awareness of our Group and our brands.

Sinomax Life Stores. As of 31 March 2014, we operated 12 and five Sinomax Life Stores in Hong Kong and the PRC, respectively, and we plan to open over 10 "Sinomax Life Stores" in the PRC and Hong Kong in 2014. These Sinomax Life Stores provide customers with a comprehensive selection of our health and wellness products, and are intended to serve as a platform for us to display and demonstrate our newly developed products. We believe that our most effective tool in reaching out to end-user customers is our ability to stimulate their desired lifestyle by showcasing a range of visco-elastic health and wellness products which they are welcomed to experience. Our sales persons, equipped with the relevant knowledge, are also able to introduce to our customers the characteristics and features of our products designed to enhance their quality of life, facilitating an emotional appeal.

Customer loyalty programmes. In Hong Kong, we operate a customer loyalty programme whereby customers who spend beyond a pre-defined spending threshold are enrolled to such programme which gives customers special discounts for future purchases of our products. Based on the information supplied to us by customers who have registered pursuant to such loyalty programmes, we tailor and conduct our marketing directly to them to address their needs and preferences.

For the years ended 31 December 2011, 2012, and 2013, our advertising and marketing expenditure amounted to approximately HK\$24.4 million, HK\$22.3 million and HK\$34.4 million, respectively, which accounted for approximately 12.5%, 10.5% and 12.2% of our total selling and distribution expenses during the same periods.

PRODUCT RESEARCH AND DEVELOPMENT

Product development is critical to our continued success in the visco-elastic health and wellness product market.

As at 31 March 2014, we had 54 full-time employees dedicated to research and development, with an average of more than five years working with us. Our research and development efforts comprise: (i) 47 product design and development staff developing new visco-elastic products, that is, our pillows, mattresses, mattress toppers and other related healthcare accessories and (ii) seven foam development staff advancing our technology and quality of our polyurethane foams.

Our product design and development

Our product design team focuses on the development of our visco-elastic products. To this end, we adopt a regimented approach in our product development process.

Our product development process is market-oriented. Through our close ties with the US retailers and end customers via our retail network in Hong Kong and the PRC, and through conducting consumer surveys and field studies, we have first-hand access to the

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latest industry information. We value input from our customers who play an important role in our product development process, and have established transparent communication channels to ensure that any feedback on our products is timely relayed to us.

Our research and development process follows an internal protocol, which lays out key performance indicators for our staff to strive for, and we strive to develop a minimum of 45 new products annually. At the outset, an initial development plan is prepared and reviewed by our product designers and research and development personnel and, following incorporation of the appropriate improvements suggested, a final development plan is generated and approved by the research and development manager. Relying on this plan, a test series development proposal is devised before a trial production phase is initiated. Sample products are tested and refined before commencement of commercial production.

Only following rounds of vetting will a product enter the mass manufacturing phase and be formally launched onto the market. From the testing phase to the final release of a new product, our quality control team closely monitors the production process to ensure that all quality and health and safety standards are met.

To further enhance our design and development capabilities, we have retained the services of Mr. Alan MANDLE as our chief designer on pillows, mattress toppers and mattresses. In 2013, to promote the creative applications of visco-elastic materials, we employed Mr. Alan YIP (葉智榮) as our chief designer on other health and wellness products. Mr. Alan YIP, an internationally renowned product designer, will continue to create a workplace that is conducive to creativity and innovation.

We developed 100, 106, 137 and 50 new products and product modifications¹, and 56, 54, 44 and 11 new foam specifications for the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014, respectively. As at the Latest Practicable Date, we owned, amongst others, 19 patents in relation to products in the PRC.

For the years ended 31 December 2011, 2012 and 2013, our research expenses were approximately HK\$3.6 million, HK\$4.2 million and HK\$5.8 million, respectively, representing approximately 1.3%, 1.4% and 1.4% of total selling and distribution costs and administrative expenses during the same periods. We seek to continuously improve the quality, function and design of our products in order to best serve different customers.

Our visco-elastic material or other polyurethane foams development

Polyurethane foams, in particular visco-elastic material, are core components of our products. The formulae used for production of our foams have a direct impact on the characteristics of any derivative products. Therefore, in order to achieve the product features introduced in our product development plans, our seven foam development staff at the research centre at our production facility, together with the staff at each factory responsible for production of foams, work closely to develop suitable adaptations to the characteristics of different foams by varying their chemical composition and thus, their density and viscosity. Our research and development team greatly benefits from the experience of Mr. QIAN Hong Xiang, a member of our senior management and a member of the Standardisation Administration of the People's Republic of China and China Plastics Processing Industry Association, amongst others, who is an expert in foam research and development. Please refer to the section headed "Directors and Senior Management" in this Prospectus for details of his industry experience. Our formulae and know-how and our ability in producing polyurethane foams with a range of characteristics to satisfy different customers and product requirements serves as our backbone for continuous product development and innovation.

Note 1 New products and product modifications include newly applied technologies and innovations, newly designed products, redesigned products and partially redesigned and modified products and product components.

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To ensure that we keep abreast of international developments in connection with visco-elastic technologies and polyurethane foam production, we maintain close contacts with our suppliers of PPG and TDI and receive latest market updates from them from time to time.

PROCUREMENT

Raw materials and other procurements

Our principal raw materials are PPG and TDI, which are the key components of our visco-elastic pillows, mattress toppers, mattresses and other products. To ensure the stability and consistency of our product quality, we conduct batch tests on all raw materials received to identify and eliminate any raw materials that do not meet our quality specifications before they enter our storage facilities. Please refer to the section headed “Business – Quality Control – Pre-manufacturing” in this Prospectus for details on how we detect quality defects in our raw materials.

In order to avoid any disproportionate accumulation of raw materials such as PPG and TDI, and to minimise the risk of wastage, the quantity of raw materials purchased each time is determined in accordance with our expected sales volume and by reference to our ERP system, where information of our purchase orders accepted is stored. During the Track Record Period, we did not experience any material shortage of raw materials.

We have not entered into any hedging instruments with respect to raw materials procurement during the Track Record Period. Price of raw materials is fixed at the time of concluding the respective purchase orders. Since we have established stable purchasing relationships with multiple suppliers, we usually receive periodic market price quotation updates from our suppliers, allowing us to better determine our procurement schedule in response to changing market prices. When market prices of raw materials are lower, subject to costs of inventory, we may procure a larger quantity, limited to a maximum inventory level of no more than 2.5 months of consumption requirements. Generally, we have an inventory level of approximately 1.5 months of consumption requirements. As we adopt a cost-plus pricing policy in respect to our export sales, retail and corporate sales and polyurethane sales, we also communicate closely with our sales departments such that increases in raw material prices can be effectively reflected in the selling prices of our products.

In addition to the procurement of raw materials for the production of visco-elastic and other polyurethane foams in our three factories, we also source various non-visco-elastic products from third parties, including massage chairs, desks and chairs, which we sell under our “SINOMAX” or “SPA Supreme” brands. We do not depend on any single third-party supplier and have not entered into any long-term agreement with any of them. Such third-party suppliers, whom we have chosen based on their reputation, experience and product quality, manufacture these products according to our standards and specifications. Our purchases of these products amounted to HK\$0.8 million, HK\$3.1 million and HK\$7.7 million, for the years ended 31 December 2011, 2012 and 2013, respectively.

Our Group’s total purchases for the years ended 31 December 2011, 2012 and 2013 amounted to approximately HK\$1,242.7 million, HK\$1,428.4 million and HK\$1,532.0 million, respectively. Total purchases of chemicals accounted for approximately 69.9%, 77.1% and 77.3% of our total raw material purchases, for the years ended 31 December 2011, 2012 and 2013, respectively. We do not enter into any hedging arrangements to reduce our exposure to fluctuations in the cost of these raw materials, but we price our products using cost-plus pricing so that we normally pass the change in raw materials and other production costs to our customers. Our Directors consider that we have monitored and managed the level of raw material costs effectively as our raw materials costs to revenue ratios during the years ended 31 December 2011, 2012 and 2013 were relatively stable and ranged from 61.5% to 64.6%. Please refer to the section headed “Financial Information – Quantitative and qualitative information about market risks – Commodity price risk” in this Prospectus for details regarding our measures to manage fluctuations of raw material prices and our related sensitivity analysis.

Suppliers

We are able to secure a stable raw materials supply and procure raw materials at competitive market prices as our good trade reputation, large production scale and long-term relationships with our suppliers make us one of their preferred business counterparties.

We source a majority of our key raw materials from a number of global leading oil companies such as CNOOC and Shell Petrochemicals Company Limited (a joint venture between Shell and China National Offshore Oil Corporation), Mitsui & Co., Ltd and SKC Co., Ltd. to ensure top-quality supply of raw materials. Our key raw materials are mainly purchased in the PRC. In selecting our suppliers, we consider a number of factors including (i) product quality; (ii) price; (iii) costs and quality control safeguards; (iv) inventory management capabilities; (v) ability to deliver raw materials in a timely manner; and (vi) customer service quality. All materials provided by our suppliers must meet our internal quality standards and the standards set by the relevant government authorities and our customers and must be in compliance with applicable laws. We may return materials that do not meet such standards.

We enter into framework supply agreements annually with two of our suppliers during the Track Record Period, setting out key operative terms such as discount policies upon bulk purchases and terms of delivery, amongst others. Each purchase is concluded by placing purchase orders, pursuant to the terms of the framework supply agreements. As at the Latest Practicable Date, our key suppliers have had a business relationship with us on an average of over 13 years.

For the years ended 31 December 2011, 2012 and 2013, the aggregate purchases from our five largest suppliers amounted to approximately HK\$465.6 million, HK\$581.0 million and HK\$711.4 million, respectively, representing approximately 37.5%, 40.7% and 46.4%, respectively, of our total purchases of raw materials. Our five largest suppliers during the Track Record Period consist of five global crude oil companies supplying us PPG and TDI, with whom we have on average over 13 years of business relationship. Our largest supplier for the years ended 31 December 2011, 2012 and 2013 was CNOOC and Shell Petrochemicals Company Limited, SKC Co., Ltd and Mitsui & Co., Ltd, respectively. Total purchases from the largest supplier over the same periods amounted to HK\$130.7 million, HK\$133.7 million and HK\$209.5 million, representing approximately 10.5%, 9.4% and 13.7% of the total purchases, respectively. Most of our purchases are settled in US\$ or RMB, depending on whether the finished goods are to be sold internationally or domestically. Our suppliers provide credit terms ranging from 30 to 60 days. None of our Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our share capital) had any interest in any of our five largest suppliers during the Track Record Period.

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PRODUCTION

Factory facilities

To ensure the quality of our products, we manufacture all of our visco-elastic pillows, mattress toppers and mattresses, as well as our “Tung Ah” (東亞) brand polyurethane foams in our own factories. We operate three factories located in Dongguan, Jiashan and Haining in the PRC which together occupy an aggregate area of over 233,000 square metres⁽¹⁾, including production facilities, warehouses, office and employees’ dormitories.

Note (1): The aggregate area comprises the GFA of our owned property, less the Leased area of the area of our owned property leased out, together with the Leased area of relevant property leased by us.

Our production lines operate in accordance with our expected sales volumes. As at the Latest Practicable Date, we owned five foaming machines, our key production equipment, which had a useful life of approximately 10 years. During the Track Record Period, we did not experience any material disruption to our business operations as a result of the malfunctioning of any our production equipment.

The following table sets forth data regarding the designed annual capacity and the utilisation rate of our factory facilities during the Track Record Period:

Factory	For the year ended 31 December					
	2011		2012		2013	
	Capacity ⁽²⁾ (Tonnes of foam)	Utilisation Rate ⁽¹⁾ (%)	Capacity ⁽²⁾ (Tonnes of foam)	Utilisation Rate ⁽¹⁾ (%)	Capacity ⁽²⁾ (Tonnes of foam)	Utilisation Rate ⁽¹⁾ (%)
Dongguan	31,560.0	70.3 ⁽⁴⁾	31,560.0	81.4	31,560.0	89.9
Jiashan	15,780.0	76.4	24,985.0 ⁽³⁾	72.5	31,560.0	79.1
Haining	11,993.0	82.5	11,993.0	81.7	11,993.0	98.0
Total	59,333.0	74.4	68,538.0	78.2	75,113.0	86.7

Notes:

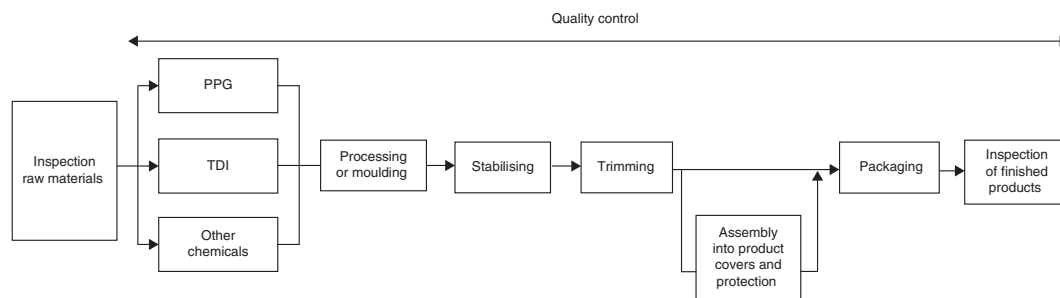
- (1) We calculate utilisation rate by dividing the actual production volume by the designed production capacity.
- (2) Our production lines operate in accordance with our expected sales volumes. Production at Dongguan and Jiashan usually operate eight hours a day, 26 days a month, and production at Haining operates six hours a day.
- (3) The increase in production capacity from 2011 to 2012 at our Jiashan factory is attributable to the commencement of production of a foaming machine in June 2012.
- (4) The increase in the overall utilisation rate during the Track Record Period is due to the increase in production of our visco-elastic products and polyurethane foams which is consistent with the increase in sales of our Group during the Track Record Period. The lower utilisation rate of our Dongguan factory in 2011 resulted from the shift of some of its production to our Jiashan factory during the same year.

Production process

The production process of polyurethane and visco-elastic foams involves four key stages: (i) mixing of chemicals; (ii) processing or moulding of the solidified product; (iii) stabilising of the solidified product; and (iv) trimming and assembly. Please refer to the section headed “Business – Quality Control” in this Prospectus for details regarding our quality assurance and control procedures applicable in respect of our production processes.

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Set forth below is a diagram of our production process from raw material sourcing to delivery:



Once PPG, TDI and other key chemicals are mixed together, solidified product, being the visco-elastic material or other polyurethane foams, is produced as a result of chemical reaction. This solidified product is then processed or moulded into the required shape and left to stabilise for up to approximately 48 hours. Time spent on other stages of the production process depends on the production batch size and can be as short as one day, therefore the shortest production lead time is approximately three days.

Whereas a portion of our polyurethane foams are subsequently sold to furniture manufacturers in block or other specified form, the majority of our products are trimmed into smaller sizes and inserted into product covers and protectors for delivery to our customers.

Different formulae may be applied in the mixing process so as to produce foam of different features, enabling us to adapt the characteristics of our products to our customers' needs.

Quality control

We believe that we have developed an effective quality control system, which is evidenced by our receipt of ISO 9001:2008 and ISO 14001:2004. This represents an international consensus on good management practices, for the quality management system and environment management system in our production facilities. Visco-elastic foams, conventional polyether foams and high resilience foams produced by us are certified by CertiPUR-US, verifying that our foams have low volatile organic compound (**VOC**) emission and are free from ozone-depleting chlorofluorocarbons (**CFCs**). We also impose selection criteria on our raw materials suppliers in order to maintain a stable and high quality supply of raw materials.

Our quality control team comprised 69 members as at 31 March 2014, the senior members of which have joined our Group for more than seven years. The quality control team is responsible for formulating and implementing systematic quality control policies and procedures integrated into our manufacturing processes to maximise the overall quality consistency of our products. In addition, they are also responsible for carrying out sample checks and inspections to identify quality defects and blemishes.

Quality control measures are undertaken via sampling at various stages of our production process, namely, prior to the commencement of production, during the production process and during the product packaging process, in accordance with the ANSI/ASQZ1.4-2008 standard as described below.

Pre-manufacturing

Samples are taken from each batch of raw materials received from our suppliers and inspected at the time of delivery to ensure that they correspond to their specifications. We keep a contemporaneous record of our inspection procedure and only raw materials that pass our quality control procedures enter our inventory records and storage facilities. Those that fail are weeded out and reported to our procurement department who then liaises with our suppliers for replacement.

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Manufacturing

During the manufacturing process, sample inspections are conducted at regular intervals in accordance with the ANSI/ASQZ1.4-2008 standard. Any defects identified during our inspections are modified or rectified. Such incidents are communicated to the appropriate production line manager and contemporaneously recorded in a standard form report.

Where serious defects are found in our products, for example, as a result of the malfunctioning of our machinery or material defects in our raw materials, they are investigated immediately.

Post-manufacturing

Once all products are packed, a final inspection takes place before they enter into our warehouses and are registered into our finished product inventory system.

In accordance with the ANSI/ASQZ1.4-2008 standard, between 5% to 10% of each batch of our products are sample tested with strict criteria in compliance with national safety and health regulations and, in some cases, production specifications provided by our customers. All test results must be recorded in a final inspection report.

Quality issues identified are reported to the appropriate production line manager and recorded in a standard form report. Where serious quality defects are found, additional assessments and laboratory tests are carried out and a report prepared for submission to our general manager proposing appropriate recommendations and solutions. We were not subject to material product warranty, recall or other product related claims during the Track Record Period.

Inventory and Logistics

We strive to minimise excess levels of raw materials, work-in-progress and finished goods in our inventory while maintaining our ability to fulfil demands from our customers.

The level of raw materials that we maintain depends on a number of factors, including our anticipated stock turnover, production lead time, sales forecast, expansion plans and market demand and supply of raw materials. Please refer to the section headed “Financial Information – Inventories” in this Prospectus for details of our inventories. Our raw materials are stored at our factories, whereas our finished products are stored at our warehouses in the US, Hong Kong and the PRC before being despatched to our POS or customers.

As regards our logistics arrangements, we engage reputable third-party logistics services providers to deliver our products. Our products are usually delivered by road to our customers in the PRC and Hong Kong or maritime transportation to our overseas customers. During the Track Record Period, we did not experience any material loss in the delivery of our products and also did not experience any material delays or adverse effects due to the actions of any logistics services providers.

Our production process is further supported by the ERP system which allows us to more accurately and efficiently plan our production, improve inventory management, reduce logistical bottlenecks and enhance our overall operational efficiency. Our entire production process, from the acceptance of purchase orders to the procurement of raw materials, production and delivery of our final products, are maintained and monitored through our ERP system. The sales data provided by the ERP system also assists our sales and marketing department in analysing sales trends of our products, which in turn assist our management in the formulation of suitable business plans to capture market opportunities.

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AWARDS, ACCREDITATIONS AND CERTIFICATIONS

The following table sets out a list of the key awards, accreditations and certifications received by our Group:

Year	Nature	Award/Accreditation/ Certification	Awarding body
2010 – 2013	Visco-elastic foam	CertiPUR-US Certification	Alliance for Flexible Polyurethane Foam
2011 – 2013	Conventional polyether foam, high resilience foam		
2002 – 2014	Production facilities at Dongguan	ISO9001:2008 (Quality management system certification)	International Organisation for Standardisation
2011 – 2014	Production facilities at Jiashan		
2012 – 2014	Production facilities at Haining		
2011 – 2014	Production facilities at Jiashan	ISO14001:2004 (Environmental management system certification)	International Organisation for Standardisation
2012 – 2014	Production facilities at Dongguan and Haining		
2013	General	Class AA enterprise in the category of “Consignees and Consigners of Imported and Exported Goods”	Huangpu Customs of the People’s Republic of China (中華人民共和國黃埔海關)
2013	General	Quality Tourism Services accreditation (「優質旅遊服務」計劃認可)	Hong Kong Tourism Board

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Year	Nature	Award/Accreditation/ Certification	Awarding body
2013	General	Chinese Credible Enterprise Certificate (中國信譽企業認證)	Assessment Committee for Credible Enterprise of China Accreditation (中國信譽企業認證評審委員會)
2013	General	Enterprise of Good Conduct – AAAA Level of Standardisation (AAAA 級標準化良好行為企業)	WTO/TBT Notification, Consultation and Research Centre of Guangdong Province (廣東省WTO/TBT通報諮詢研究中心)
2007 – 2014	Mattresses	Official Endorsement of the SINOMAX Memory Foam Mattress Topper and Mattress Series	Chiropractic Doctor's Association of Hong Kong (香港執業脊醫協會)
2011 – 2014	Mattress toppers		
2006 – 2014	Pillows	Hong Kong Top Brand (香港名牌)	Hong Kong Brand Development Council (香港品牌發展局)
2012	Bedroom products	Most Popular Bedroom Brand Selected by Medical Professionals (最受醫護人員歡迎健康寢室用品品牌大獎)	Hong Kong Health Care Federation (香港醫護學會)
2012	General	Supplier Award of Excellence	A US leading retailer
2012	General	Achievement in Sales & Profit Growth Award	A US leading wholesale club
2011	General	Class A enterprise (A級管理企業) in the category of “Consignees and Consigners of Imported and Exported Goods”	Huangpu Customs of the People's Republic of China (中華人民共和國黃埔海關)
2011	General	Award for exceptional gains in supply chain management	A US leading retailer

COMPETITION**Export sales segment**

A major part of our export sales revenue was generated from sales in the US. According to Frost & Sullivan, we compete in the mainstream health and wellness product market, which is highly concentrated with only a handful of well-established players, and that our Company had a market share of approximately 30.2% in 2013. We believe that our competitive position in the US mainstream health and wellness product market is based on the following principal factors:

- product quality and safety;
- strong research and development capabilities that allow creative innovations and the maximisation of product availability satisfying the rapidly changing customer trends;
- large-scale production capacity as US retailers typically order in huge quantities; and
- other customer services such as US-based sales and marketing personnel.

Retail and corporate sales segment

According to Frost & Sullivan, the Hong Kong visco-elastic health and wellness product market remains highly concentrated due to relatively high entry barriers, and our Company was the largest retailer of visco-elastic health and wellness products in Hong Kong in 2013 in terms of retail sales value with a market share of approximately 41.9%. On the other hand, the PRC visco-elastic health and wellness product market is highly fragmented with a large number of market players, where we occupied a market share of approximately 4.4% in 2013, being the largest brand of visco-elastic health and wellness products in the PRC in terms of sales value, according to Frost & Sullivan. We believe our competitive position in the PRC visco-elastic health and wellness product market is based on the following principal factors:

- brand recognition and marketing capabilities;
- customer services including quality of products, and “one-stop” shopping experience;
- well-established distribution network; and
- the general public awareness of the health benefits of visco-elastic products that set us apart from traditional products such as innerspring mattresses and feather pillows.

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Polyurethane foam sales segment

The PRC polyurethane foam market is very fragmented with numerous players, according to Frost & Sullivan, and we were the largest manufacturer of polyurethane foams in the PRC in terms of sales value in 2013, capturing a market share of approximately 5.9%. We believe that our competitive position in the PRC polyurethane foam market is based on the following principal factors:

- quality products and technical foam specifications that are stable and durable for furniture manufacturing;
- location of production facilities as foams are bulky to transport;
- stable relationship with customers; and
- scale of production that is usually associated with lower costs due to economies of scale and healthy cash flow to support a typically longer credit period with customers.

Please refer to the section headed “Industry Overview” in this Prospectus for further details of the state of competition in our industry.

INSURANCE

Our Directors consider our insurance coverage to be customary for businesses of our size and type and in line with the standard commercial practice in the jurisdictions where we have operations. Our Directors believe that such coverage is adequate and in line with industry norm.

We maintain different types of insurance policies to cover our operations, including property-related, employee medical, credit and product liability. We review our insurance policies from time to time for adequacy and the breadth of coverage.

The total insurance expenses were approximately HK\$12.4 million, HK\$17.5 million and HK\$28.8 million for the year ended 31 December 2011, 2012 and 2013, respectively.

INTELLECTUAL PROPERTY

Our intellectual property rights, especially those associated with our brands, are of fundamental importance to our business.

We undertake a pro-active approach to manage our intellectual property portfolio. In addition to seeking and maintaining proper registration of our trademarks and patents, we closely monitor and collect information on counterfeit products from various sources, including our customers and suppliers. We take legal action where necessary and closely cooperate with local authorities to enforce our intellectual property rights. We also enter into confidentiality agreements with employees who have access to our formulae and know-how.

As at the Latest Practicable Date, the intellectual property rights that are material to our business included 64 registered trademarks regarding the brands we use in our products, 19 registered patents regarding certain elements of our design and function of our products and five domain names. We are in the process of applying for the registration of 10 trademarks in Hong Kong, the US and the PRC. A trademark in Vietnam is in the process of being transferred to us. After consulting with the relevant registration agents, our Directors confirm that there is no legal obstacle for the transfer of the said Vietnam trademark to our Group. Further details of our intellectual property are set out in the section headed “Appendix IV – Statutory and General Information – B. Further information about the business of our Company – 2. Intellectual property rights” in this Prospectus.

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Our Directors confirm that there has not been any material infringement of our trademarks or designs as at the Latest Practicable Date. We received objection to our application for registration of the “Dream Essentials” trademark in the US as a similar trademark has been registered by another company under different product categories. In light of such and to prevent any potential disputes, we have ceased to manufacture products under such brand since October 2013. Since (i) we only began selling our products under the “Dream Essentials” brand in 2012 and (ii) the retailer customer, to which we sold our “Dream Essentials” branded products, has continued to procure other branded products from us, namely the “Dream Serenity” brand, our Directors are of the view that ceasing to use such brand will not cause a material impact to our business. However, if there is any infringement of our trademarks or designs in the future, our image and profitability may be adversely affected and we may take legal action against third parties in respect of infringement of our intellectual property rights. Please refer to the section headed “Risk Factors – Risks relating to our business and industry” in this Prospectus for details of the risks associated with our intellectual property rights.

PROPERTIES

Owned Properties

As at Latest Practicable Date, we owned one property located in Jiashan, Zhejiang province in the PRC, with a total site area of approximately 277,057.6 square metres, part of which is used as our production factory, while the other parts are leased to third parties for production, office and other business operation purposes, for terms between 24 months to 20 years. As at the Latest Practicable Date, we have obtained proper title certificates for the owned property.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, since as of 31 December 2013, the carrying amount of our property interest was less than 15% of our consolidated total assets.

Leased Properties

We lease our production facilities and office in Dongguan and Haining from our connected parties for terms of approximately 24 months, respectively. Please refer to the section headed “Connected Transactions” in this Prospectus for further details. As at Latest Practicable Date, apart from the properties in Dongguan and Haining leased from our connected parties, we also leased from independent third parties six, 21, 17 and one properties in the US, PRC, Hong Kong and Macau, respectively, primarily as offices, warehouse and retail stores. Their Leased areas range from approximately 23.1 square metres to 310.76 square metres for leased retail stores, and approximately 83.45 square metres to 5,109.62 square metres for other leased properties. The term of our leases ranges from 24 months to 36 months for retail stores and from 12 months to 115 months for office, staff quarters, storage, production and canteen uses and other premises for ancillary uses.

The aggregate rental expenses to connected parties for the years ended 31 December 2011, 2012 and 2013 were approximately HK\$5.6 million, HK\$6.3 million and HK\$8.8 million, respectively.

For our leased properties in the PRC, as at Latest Practicable Date, certain landlords had not obtained proper building ownership certificates for four of such leased properties. These properties had a total Leased area of approximately 2,158 square metres,

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representing approximately 1.48% of the aggregate Leased area of all of our leased properties. These buildings are used for warehouse, staff quarters or retail purposes. We are of the view that each of the leased properties with title defects is individually and collectively not crucial to the business and operation of our Group as all of these leased properties we occupy can, if necessary, be easily replaced by other comparable alternative premises without incurring substantial expense or time and we do not expect that there would be any material adverse effect on our business or financial condition.

For details of our material leased properties, please refer to the section headed “Appendix IV – Statutory and General Information – B. Further information about the business of our Company – 3. Our property interests” in this Prospectus. As at the Latest Practicable Date, where necessary and required, all of these leases are duly registered, legally binding and enforceable, save as disclosed in the sections headed “Business – Properties – Leased Properties” and “Business – Legal and compliance – Non-compliance incidents during the Track Record Period” in this Prospectus. Our PRC legal advisers confirmed that the validity of these leases is not affected by the failure to complete the lease filing.

EMPLOYEES

As at 31 March 2014, we had 2,869 permanent employees of which 28, 139, 2,697 and five are located in our offices and factories in the US, Hong Kong, the PRC and Macau, respectively. The following table sets out a breakdown of our employees by function as at 31 March 2014:

Team/division	Number of employees
Management	53
Sales and marketing	860
Manufacturing/warehouse/logistics	1,587
Research and development	54
Quality control	69
Administration/finance/human resources	246
Total	2,869

We enter into labour contracts with all of our permanent employees. In accordance with our Group’s policy, all of our employees are entitled to fringe benefits including housing and travel allowances depending on their grade and ranking within the Group. We also maintain medical insurance for the benefit of our employees.

We conduct induction training for all of our 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.

To encourage our employees to perform and maximise their contribution to our business, we also operate an employee incentive scheme pursuant to which rewards take the form of promotions, salary raises and monetary bonuses.

During the Track Record Period, we did not experience any strikes or have any labour disputes with our employees which had a material effect on our business.

ENVIRONMENTAL AND SAFETY MATTERS**Environmental Compliance**

In conducting our business, we seek to minimise the adverse effects of our operations on the environment. In addition, in order to comply with the applicable environmental protection laws, we have established an environmental management system in our operations in accordance with ISO 14001:2004 international standards and obtained ISO 14001 certification. We assign separate resources to update our environment management system and maintain our ISO 14001 certification in order to reduce our risks related to environmental issues.

We are required to comply with a number of PRC environmental protection laws in connection with water pollutants, air pollutants, solid waste pollutants, as well as any noise pollution generated from our manufacturing operations. These laws subject us to, amongst other things, environmental impact assessments, registration requirements relating to the quality and quantity of our pollutants discharged and reporting requirements on precautions or internal control measures taken to alleviate the impact of our pollutants on the environment. By the same token, we may also be subject to charges and fees imposed by reference to the quantity of emissions or pollutants discharged in connection with our productions. Please refer to section headed “Regulations” in this Prospectus for details.

We eliminate air pollution caused by our production lines through a centralised facility which purifies the air from the pollutants produced in the course of our manufacturing operations. Our Directors confirm that our production lines do not create any pollution in excess of permitted limits under PRC laws and regulations.

Our production is supervised by the relevant PRC environmental protection authority. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the section headed “Business – Legal and Compliance”, we were in compliance with the applicable PRC laws and regulations on environmental laws and were not subject to any fines or legal action resulting from incidents of non-compliance with any applicable PRC environmental regulations, nor were there any threatened or pending action by any PRC environmental regulatory authority.

Labour Safety Matters

We are subject to safety regulations of the US, Hong Kong and the PRC and other relevant jurisdictions where we carry on our business. Please refer to the section headed “Regulations” in this Prospectus for details.

In order to ensure the safety of our employees, we implement operational procedures and safety standards for our manufacturing process in the PRC. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. In particular, for employees whose positions involve exposure to hazardous raw materials, we have special safety policies in place and closely monitor the usage of such raw materials in our manufacturing process. We also carry out equipment maintenance on a regular basis to ensure their safe operation. Our Directors believe that we have substantially complied with applicable safety regulations of the PRC and other relevant jurisdictions where we conduct our business and during the Track Record Period, there were no work-safety related accidents or complaints which had materially and adversely affected our operations. We will continue our efforts in ensuring the safety of our employees and compliance with relevant regulations.

For the years ended 31 December 2011, 2012, and 2013, we incurred expenses in respect of environmental and work-safety compliance matters of approximately HK\$1.7 million, HK\$2.1 million and HK\$2.7 million, respectively.

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RISK MANAGEMENT

We are committed to establish sound corporate governance, as well as effective risk management system, in order to manage our risk exposures so as to solidify the foundation of our sustainable, steady and healthy corporate development.

We have developed a specific risk management approach to identify, assess and manage risks. Please refer to the section headed “Risk Factors” in this Prospectus for details of the risks identified, including operational risks, market risks and other risks. Our risk management initiatives undertaken to mitigate some of the selected principal risks are set out below:

Risk Description	Risk Mitigation
<i>Operational risks:</i>	
Protection of our brands and know-how	<ul style="list-style-type: none">• Continue to recruit staff that fit our organisation, and to train and develop our staff with a full understanding of our Sinomax experience• Register our intellectual property rights in a timely manner• Enter into confidentiality agreements with employees who have access to our formulae and know-how• Adopt stringent quality control procedures to ensure product quality• Conduct customer surveys regularly in Hong Kong and the PRC• Hire third-party internet consultant to keep track of intellectual property rights infringement activities, if any
Unforeseen natural disasters, fire hazards, health and safety issues and other factors beyond our control	<ul style="list-style-type: none">• Comprehensive insurance coverage for properties and businesses• Professional certified premises and staff• Policies and procedures on handling waste and any hazardous materials• Robust crisis management process, on-going risk assessment exercises, regular health consultations, equipment upgrades, etc.

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Risk Description	Risk Mitigation
<i>Market risks:</i>	
Foreign currency fluctuations	<ul style="list-style-type: none">• Strive to reduce balance sheet currency exposure by matching the assets and liabilities to be denominated in the same currency
Price fluctuations of raw materials	<ul style="list-style-type: none">• Maintain close communication with our raw materials suppliers to monitor the price levels• Determine on a timely basis whether corresponding adjustments can be made to pass on price increases of raw materials to customers
<i>Taxation risks:</i>	
Transfer pricing exposures	<ul style="list-style-type: none">• Commencing from December 2013, we have designated our executive Director and Chief Financial Officer, LAM Kam Cheung to oversee the review of transfer pricing exposure• Commencing from December 2013, we closely monitor our transfer pricing exposure by reviewing the reasonableness of the price in each transaction between our Group companies and related companies; comparing such transaction pricings against those with independent third parties; and assessing the potential impact to us. Prior to that, we had assessed transfer pricing exposure on an annual basis• In January 2014, we engaged PricewaterhouseCoopers as our tax adviser to, amongst others, advise us on the tax laws and regulations on transfer pricing, and review our transfer pricing policies as to compliance with the tax laws and regulations of relevant jurisdictions

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Risk Description	Risk Mitigation
Compliance with all tax rules and regulations in all jurisdictions	<ul style="list-style-type: none">• Commencing in December 2013, we increased the frequency of preparing tax calculations from an annual basis to a monthly basis and such calculations shall be reviewed by the supervisor or manager of the relevant accounts department• Commencing in December 2013, we increased the frequency of reviewing overall tax provisions on group basis from an annual basis to a quarterly basis• Since January 2014, we engaged PricewaterhouseCoopers as our tax adviser to:<ul style="list-style-type: none">(i) review and advise on compliance with tax laws and regulations in the US, Hong Kong, Macau and the PRC;(ii) subject to the Directors' primary responsibility to provide correct and complete information for the profits tax computation, prepare and submit to the tax authorities the profits tax return and supporting computation of our Group in respect of Hong Kong, the PRC and US taxes;(iii) correspond with the tax authorities in order to assist our Company to reach an agreement on its liability to profits tax;(iv) assist our Company to file objections against any incorrect assessments;

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Risk Description

Risk Mitigation

- (v) while training has been provided by PricewaterhouseCoopers to the Company on tax compliance in US, Hong Kong and the PRC before the Global Offering, continue to provide training on updates to the tax rules and regulations in these jurisdictions semi-annually; and
- (vi) advise on, amongst others, the design of the operation flow and transactions structure of the relevant subsidiaries in relation to the Group's relevant export sales to improve tax efficiency and reinforce full compliance with relevant tax laws.
- Commencing in December 2013, we designated our executive Director and Chief Financial Officer, LAM Kam Cheung to, with the assistance of our tax adviser, oversee the reviews of tax calculations and overall tax provisions of our Group in the US, Hong Kong and the PRC. For details of experience and qualification of LAM Kam Cheung, please refer to the section headed "Directors and senior management" of this Prospectus. Since October 2013, we have also designated Bart Bishop, the financial controller of Sinomax USA who had over 10 years of experience as controller and consulting controller, to make relevant tax filings, with the assistance of a California tax expert, with the California tax authority for so long as we maintain inventories in California, USA
- We have engaged and will continue to engage external tax representatives or consultants to handle correspondence and communications with relevant tax authorities

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Risk Description

Risk Mitigation

- We have engaged and will continue to engage external auditors to assess whether tax provisions are required to be made in accordance with the relevant accounting policies and tax rules and regulations
- We have engaged internal control consultants to review tax filing procedures and report to the Audit Committee on any deficiency identified

Please refer to the section headed “Financial Information – Quantitative and Qualitative Information About Market Risks” in this Prospectus for details of market risks and our approach to mitigate.

LEGAL AND COMPLIANCE

Legal proceedings

As at the Latest Practicable Date, based on the legal opinions respectively provided by our US, Hong Kong, PRC and Macau legal advisers and to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries which could have a material adverse effect on our financial conditions or results of operations.

Regulatory matters

Based on the legal opinions respectively provided by our Hong Kong, PRC and Macau legal advisers and having made due enquiry with our US legal adviser, our Directors confirm that all members of our Group have obtained and currently maintain all necessary permits and licences which are material to our Group’s production and sales activities conducted in the US, Hong Kong, the PRC and Macau and have complied with all applicable laws and regulations in relation thereto in all material respects in the relevant jurisdictions.

Further, there were no prosecutions made against our Group nor findings notified to us by any regulatory authority in the jurisdictions in which we operate of any material non-compliance with any rule, regulation or law to which our business is subject during the Track Record Period up to the Latest Practicable Date.

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Non-compliance incidents during the Track Record Period

The following sets forth our Group's incidents of non-compliance which, as at the Latest Practicable Date, are either in the process of being resolved or are not matters of a material nature.

Non-compliance incident and reason	Potential maximum fines/penalties on and other financial losses to our Group	Remedial actions to rectify the non-compliance	Risk exposure and latest status
<p>(1) Before October 2013, we did not contribute in full social insurance and housing provident fund contributions. We estimate the outstanding social insurance and housing provident fund contributions during the Track Record Period amount to approximately RMB1.08 million (equivalent to approximately HK\$1.40 million) and RMB6.77 million (equivalent to approximately HK\$8.79 million), respectively. At the relevant time, human resources managers of our subsidiaries were responsible for the administration of the Group's PRC employee social insurance and housing provident funds but they were not familiar with the relevant requirements.</p>	<p>According to the relevant PRC laws and regulations:</p> <p>(i) with respect to social insurance, the relevant social insurance authorities may order our Group to pay the outstanding amounts within the prescribed time period with a late charge at the daily rate of 0.05% on the outstanding contributions, and they may impose a maximum fine or penalty equivalent to three times of the outstanding amounts if such payment is not made within the prescribed time period.</p> <p>The maximum amount of late charges which may potentially be imposed on the Group as a result of non-compliance with the requirements of social insurance contributions is estimated to be less than RMB1.0 million (equivalent to approximately HK\$1.3 million) up to the Latest Practicable Date.</p> <p>(ii) with respect to housing provident fund, the relevant housing provident fund authorities may order our Group to pay the outstanding amounts of the housing provident fund within the prescribed time period, if we still fail to do so, the relevant housing provident fund authorities may apply to the court for the enforcement of the unpaid amounts. Other than the outstanding amounts of the housing provident fund, there are no additional late charges as provided in the Regulation on the Administration of Housing Provident Fund (住房公積金管理條例).</p>	<p>As of the Latest Practicable Date, we have not received any notification from the relevant authorities alleging that we had not fully contributed to the social insurance and/or housing provident fund and demanding payment of the same before a stipulated deadline. In the event that we receive requests from the relevant authorities, we intend to immediately pay the outstanding social insurance and housing provident funds and/or any late payment, charges and/or penalties imposed by the relevant authorities accordingly.</p> <p>We have arranged payment of social insurance and housing provident fund contributions relating to the salaries paid to the employees in accordance with the relevant PRC laws and regulations since October 2013 and established an enforceable written policy for social insurance and housing provident fund contribution.</p> <p>We have also designated an internal audit officer, Dong Guangyong (董光勇), who is a certified internal auditor and has over 10 years' experience in relation to internal audit to enforce the written policy and avoiding future non-compliance.</p> <p>Besides, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance with the social insurance or housing provident fund contribution regulations.</p>	<p>We have also obtained confirmations from the relevant local social insurance and housing provident fund authorities for all of our PRC subsidiaries that: (i) no administrative penalty has been imposed; and/or (ii) the amount of social insurance and housing provident funds paid for the aforesaid companies are in compliance with the respective laws and regulations in relation to the social insurance and housing provident funds.</p> <p>Based on the above reasons, our PRC legal advisers are of the view that the risk that the relevant social insurance and housing fund authorities demand the unpaid social insurance and housing provident funds from us is low. As such, no provision has been made by us for this non-compliance incident.</p> <p>We are advised by our PRC legal advisers that the relevant local social insurance authorities and housing provident fund authorities mentioned above are competent to give such confirmations and it is unlikely that such confirmations will be challenged or revoked by higher level authorities.</p>

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Non-compliance incident and reason	Potential maximum fines/penalties on and other financial losses to our Group	Remedial actions to rectify the non-compliance	Risk exposure and latest status
<p>(2) Before December 2013, Sinomax Kuka and Sinomax Zhejiang did not obtain the required waste disposal certificates due to the fact that the local environmental protection authorities did not strictly enforce the relevant national laws and regulations in practice. At the relevant time, the administration manager of the relevant subsidiaries was responsible for handling this matter but was not familiar with the relevant national laws and regulations.</p>	<p>According to the relevant PRC laws and regulations, the relevant authority may require us to apply for the waste disposal certificates within a prescribed time period and cease the disposal of waste before obtaining such certificates.</p>	<p>We have engaged an independent waste treatment company to handle waste water for Sinomax Zhejiang since 2004.</p> <p>Sinomax Kuka and Sinomax Zhejiang have obtained the waste disposal certificates on 18 December 2013 and 1 January 2014 respectively.</p> <p>We have also designated an internal audit officer, Dong Guangyong (董光勇), who is a certified internal auditor and has over 10 years' experience in relation to internal audit to enforce the written policy with an aim to preventing future non-compliance.</p> <p>Besides, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance with the waste disposal regulations.</p>	<p>We have also obtained confirmations from the relevant environmental protection authorities, responsibilities of which include waste disposal, that Sinomax Kuka and Sinomax Zhejiang have not been subject to administrative penalties.</p> <p>Based on the above, our PRC legal advisers are of the view that the risk for Sinomax Kuka and Sinomax Zhejiang being penalised is low.</p> <p>We are advised by our PRC legal advisers that the relevant local environmental protection authorities are competent to confirm our Group has not been subject to administrative penalty and it is unlikely that such confirmations will be challenged or revoked by higher level authorities.</p>

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Non-compliance incident and reason	Potential maximum fines/penalties on and other financial losses to our Group	Remedial actions to rectify the non-compliance	Risk exposure and latest status
<p>(3) The landlords of certain properties for business operation leased by our subsidiaries in the PRC have not completed the lease filing with relevant housing administration due to uncooperative landlords.</p>	<p>According to the Administrative Measures for Commodity Housing Tenancy which came into effect as of 1 February 2011, the parties to a lease must file the lease with the competent housing administration within 30 days after establishment of the lease. Failing to do so, the parties may be requested by the housing administration to rectify the situation and fined for no more than RMB10,000 (equivalent to approximately HK\$12,987) if the parties fail to rectify within the specified time limit.</p> <p>As at 31 December 2013, the number of our PRC unregistered leases is nine, being approximately 17.7% of the total number of leases for the Group at the relevant time. As at the Latest Practicable Date, the number of our PRC unregistered leases is nine, being approximately 17.3% of the total number of leases for the Group. The total maximum fine which may potentially be imposed on the Group by the relevant authorities is estimated to be RMB90,000 (equivalent to approximately HK\$116,883) as at 31 December 2013 and RMB90,000 (equivalent to approximately HK\$116,883) as at the Latest Practicable Date.</p> <p>As at the Latest Practicable Date, we had not received any notification from the relevant authorities that we had failed to make the necessary filings.</p>	<p>We have been in discussions with the relevant landlords, and will use our commercially reasonable efforts, with the aim of filing the relevant lease agreements. In case certain of these lease agreements cannot be filed upon expiry of the specified time limit for rectification, we may consider terminating the agreements or re-negotiating with our landlords for the filing of the agreements as part of the renewal terms or consider not renewing the agreements if the landlords remain uncooperative.</p> <p>According to our PRC legal advisers, to complete the filing, we need cooperation from the landlords. Going forward, when renewing our tenancies or entering into new tenancies in the PRC, we will consider all the relevant factors and circumstances including the willingness as may be demonstrated by the landlords to provide assistance in filing the tenancy agreements before we commit to any definitive agreement.</p> <p>According to our PRC legal advisers, there are no material legal impediments to our rectifying this non-compliance, although such rectification depends upon our landlords' cooperation.</p>	<p>Our PRC legal advisers confirmed that our PRC subsidiaries may be fined by the housing administration for failing to complete the lease filing, but the validity of the lease will not be affected and our PRC subsidiaries shall continue to have the right to use such leased properties in accordance with relevant leases.</p> <p>As the maximum fine is RMB10,000 (equivalent to approximately HK\$12,987) per unregistered lease, no provision has been made by us for this non-compliance incident.</p>

In addition, we did not file the relevant tax returns during the Track Record Period in respect of inventories maintained in the State of California, United States. Please refer to the section headed "Financial Information – Description of selected income statement line items – Taxation" in this Prospectus for details.

Our Directors and the Sole Sponsor are of the views that, based on the internal control measures implemented by the Company as disclosed under the section "Key internal control measures implemented by us" on page 162 to page 164 in this Prospectus in connection with the incidents of non-compliance disclosed above, the Company's enhanced internal control measures are adequate and effective; the suitability of the Directors are compliant with Listing Rules 3.08 and 3.09; and the Company is suitable for listing under Listing Rule 8.04.

Non-compliance incident of our predecessor companies

Set out below is one incident of non-compliance by our predecessor companies and the Former Management which took place before the Track Record Period:

Background

Dongguan Donglian (a predecessor company) was principally engaged in the manufacture of massage chairs for export sales. DG Polyurethane (a predecessor company) was principally engaged in the manufacture of foams using, amongst others, TDI and PPG which were then exported or sold domestically. Under the then applicable PRC laws, TDI and PPG were bonded goods, which were allowed to be imported tax-free if the end-products manufactured with such imported goods were subsequently exported. If such raw materials were used for manufacture of goods for domestic sales, then they would be subject to import tax duties and value-added tax. DG Polyurethane, as the importer of bonded goods, and Dongguan Donglian, as the purchaser of foams manufactured with bonded goods, were responsible for filing customs declarations with the PRC Customs Department at the time the bonded goods were imported, received and delivered, where appropriate.

In 2008, Dongguan Donglian and DG Polyurethane, and the Former Management at the relevant time responsible for overall management, supervising purchasing and logistics functions, and sales of foams in the PRC, and two customs filing staff of Dongguan Donglian and DG Polyurethane were found guilty by Guangdong Province Higher People's Court, upholding the first-instance judgment issued in 2007 by the Guangzhou City Intermediate People's Court of Guangdong Province (collectively the "**Courts**") for smuggling of common goods (the "**Incident**") during the period from February 2004 to February 2006. According to the judgments issued by the Courts, it was found that, amongst others,

- the amount of foams actually consumed by Dongguan Donglian was smaller than that declared with and submitted to the PRC Customs Department;
- certain sales of uncut semi-finished foams (which generally utilise a smaller amount of bonded goods per unit when compared with that of finished foams) were declared to the PRC Customs Department as sales of finished foams which were cut to customers' order;
- certain of the delivery notes of the bonded foams manufactured by DG Polyurethane were not supported by actual transactions;
- certain of the foams manufactured with the bonded goods (which were allowed to be imported tax-free if the end-products manufactured with such imported goods were subsequently exported) were sold domestically by DG Polyurethane without settlement of import tax duties; and
- certain import quota of bonded goods were found to have been sold to third parties by DG Polyurethane.

As a result, Dongguan Donglian and DG Polyurethane were ordered to pay fines of approximately RMB4.5 million and total evaded duties of approximately RMB7.4 million. The evaded duties of approximately RMB7.4 million were fully settled by Dongguan Donglian and DG Polyurethane by way of bank transfers in 2006 and 2008. The fines of approximately RMB4.5 million were fully settled by Dongguan Donglian and DG Polyurethane in April 2014. The Former Management and the two employees were also sentenced to imprisonment for terms ranging from two and a half years to 12 years. Sinomax Holding and certain entities that were engaged in other businesses unrelated to our Group's current business

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(collectively, “**Non-Group Entities**”) were also involved in the Incident and found guilty by the Courts for smuggling of common goods. As Sinomax Holding was deemed as the ultimate investment holding company of the Non-Group Entities at the relevant time and the Non-Group Entities had ceased their operations after the Incident and before the Track Record Period, hence they are not relevant to our Group’s current business. To the best knowledge of our Directors, save and except for the Former Management and two customs filing staff of Dongguan Donglian and DG Polyurethane, no other director, management or staff of our Predecessor Companies was prosecuted or otherwise subject to disciplinary action for the Incident. Our Directors confirmed that save and except for the evaded duties of RMB7.4 million, there were no other kinds or forms of gains to our Former Management. Each of our Directors confirmed that none of them received any personal benefits from the Incident and that none of them had been subject to disciplinary action relating to the Incident. The Former Management are also co-founders of our Group and are relatives of four of our executive Directors, namely LAM Chi Fan, CHEUNG Tung, CHEN Feng and LAM Fei Man.

After reviewing the records of our predecessor companies, our Directors are of the view that the Incident had occurred mainly due to:

- the lack of understanding of the relevant PRC customs regulation;
- failure of the Former Management to ensure strict compliance with the customs reporting requirements;
- deficiencies in the then customs duty reporting and raw material inventory management systems of Dongguan Donglian and DG Polyurethane, in particular, the staff of DG Polyurethane, when making customs filings, did not reconcile data of the bonded goods with the records of the warehouses and the finance department, and reported to the relevant PRC customs department based on the estimated consumption amount as opposed to the actual consumption amount;
- the duty-free bonded goods were stored in the same area of the warehouse with other goods;
- timing difference between the date of issuance of delivery notes and the actual delivery date;
- insufficient training to the customs filing staff of DG Polyurethane; and
- lack of communication with the relevant PRC customs department.

Although the current executive Directors (except LAM Fei Man) were already working for our Group during the time of the Incident, each of them confirmed that he/she was neither involved in the Incident nor aware of the Incident at the relevant time because the Incident was mainly related to the purchase and logistics functions, and domestic sales of foams segment, of our predecessor companies but he/she was not involved in these operations at the relevant time. Despite that LAM Chi Fan was a director of Dongguan Donglian and DG Polyurethane at the relevant time, he was responsible for sales and marketing of the export sales business but not involved in the daily operation involving customs duty reporting as it was supervised by one of the Former Management and matters relating to customs filings, being regarded as merely administrative, had never been discussed at the board meetings of Dongguan Donglian and DG Polyurethane during the relevant time. LAM Chi Fan also confirmed that he was not a subject of investigation.

After the Incident, our Group has undergone a group reorganisation pursuant to which Dongguan Sinohome became the manufacturing arm of our Group and has since then been responsible for, amongst others, the imports of raw materials and hence the making of

relevant customs filings. At the same time, the Former Management have ceased to be involved in the management of our business since 2006 and resigned from the board of certain Group companies between 2007 and 2008 and of our holding company (i.e. Sinomax Enterprises) in 2008. They remained as directors of certain subsidiaries of our Group (including Wonderful Health, Sinomax Kuka, Sinomax USA and/or Sinohome Shenzhen) until their respective resignations between 2010 and 2013. Although one of the Former Management was employed, after serving his sentence, as vice-president of Sinomax Enterprises and its subsidiaries from June 2011 to May 2013, responsible for providing technical advice on the production process, and as the assistant to the President of Sinomax Health and Dongguan Sinohome from May 2013 to August 2013, the Former Management confirmed that they will not be involved in the business of our Group going forward as two of them have already retired and the other will focus on managing the property investments of his family members in the future. In addition, each of LIN Han Li and CHEUNG Fung, Jackson has transferred his interest in our Company to The Lin's Family Trust and The Jackson Trust, and registered under the name of Summer Wealth and Jacksonville, respectively. Immediately following the Capitalisation Issue, all interest in our Company held by Summer Wealth and Jacksonville (being altogether 600,000,000 Shares) will be offered for sale to the public pursuant to the International Offering. For details of the sale of the Sale Shares by the Selling Shareholders, please refer to the section headed "Structure of the Global Offering" in this Prospectus. Each of (i) the Former Management, (ii) Summer Wealth, (iii) Jacksonville and (iv) Orangefield (in its capacity as trustee of The Lin's Family Trust and The Jackson Trust) has unconditionally and irrevocably undertaken to our Company, the Sole Sponsor and the Hong Kong Stock Exchange that, to the extent applicable, (1) before the Global Offering, he/it will not exercise the voting rights of any Shares directly or indirectly attributable to any of the Former Management, The Lin's Family Trust or The Jackson Trust, (2) he/it will dispose of all Shares held directly or indirectly by the Former Management, The Lin's Family Trust and The Jackson Trust in the Global Offering; and (3) after the Global Offering, he/it shall not directly or indirectly acquire, participate or hold any rights, interests or shares in our Company. Please refer to the section headed "Our History and Reorganisation – Reorganisation and Corporate Structure – (6) Formation of family trusts" for further details. Dongguan Donglian and DG Polyurethane were not transferred to our Group pursuant to the Reorganisation, the reasons therefor are set out in the section headed "Our History and Reorganisation – Reorganisation and Corporate Structure – Excluded Companies" in this Prospectus. Our PRC legal advisers confirmed that as the Incident took place more than eight years ago involving companies that are not members of our Group, none of our Company or our subsidiaries would be liable for any legal liability in connection with the Incident.

Preventive measures adopted

Further, our Group has taken the following steps to address the deficiencies in our internal control system to prevent similar instances from recurring:

(i) Tightening the reporting procedures in making customs filings

After the Incident, we have employed a customs filing supervisor (who has passed the national examination on customs filings and with over 10 years of relevant experience) to oversee the filing process to ensure that proper filing procedures would be carried out in accordance with our internal procedures and we have provided training to the customs filings team to keep them abreast of the regulations and practices in this area. We have also tightened the reporting procedures to minimise any mistakes or inaccuracies in the information being filed with the PRC Customs Department. Before making any customs filing, the relevant staff is required to report to the finance manager and reconcile the information against the accounting records to ensure that the information filed with the PRC Customs Department is consistent with that of the actual amount of raw material inventory maintained at our warehouse and other internal records regarding the actual consumption of raw materials.

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(ii) Enhancing communications with the PRC Customs Department

After the Incident, we have taken proactive steps to enhance communications with the PRC Customs Department, including inviting officials to regularly inspect our factories and warehouse in Dongguan to ensure we are in strict compliance with the customs regulations.

(iii) Enhancing our inventory system

In order to further enhance the internal control system, we adopted the ERP system to improve our inventory management in 2008, which enables us to segregate the raw materials used for manufacturing exported goods (which are exempted from import duties) and that for domestic goods (which are subject to import duties) through:

- using different coding systems for raw materials designated for export and domestic retail businesses throughout the whole manufacturing process starting from the purchase of raw materials;
- storing the raw materials for export and domestic retail businesses in different areas of the warehouse with visible signs to indicate their different uses; and
- physically labelling and packaging the respective raw materials and finished goods differently to prevent confusions.

(iv) Filing of actual consumption of raw materials

The customs regulations at the time of the Incident required an enterprise to declare the quantity of raw materials for export purposes prior to the actual production and no subsequent amendments could be made afterwards, even if the actual consumption amount was different from the declared amount. The PRC Customs Department currently allows adjustments to be made to the information originally declared after actual production commences. As such, our customs duties officers will, upon making customs filings, continue to monitor and keep track of the amount of raw material actually used during the production process and upon verifying such data with our finance department as discussed in paragraph (i) above, amend our filings with the PRC Customs Department as and when necessary. Measures taken to keep track of the amount of raw material actually used during the production process include weighing the finished goods upon production and before exporting, amongst others.

Certification of Class A enterprise and Class AA enterprise by PRC Customs Department

With the implementation of the above preventive measures and after passing the stringent vetting procedure of the PRC Customs Department in May 2011, Dongguan Sinohome has obtained a Class A enterprise in the category of “Consignees and Consigners of Imported and Exported Goods” under The Measures of the Customs of the People’s Republic of China on the Classified Management of Enterprises (中華人民共和國海關企業分類管理辦法), evidencing, amongst others, that Dongguan Sinohome (i) has not violated the provisions on customs supervision and control for one year, (ii) has an error rate of below 5% with respect to import and export declaration; (iii) has a sound accounting system, and true and complete business records; and (iv) has taken initiatives in cooperation with customs administration, timely conducted various customs formalities and filings, and provided true, complete and valid documents and certificates to the PRC Customs Department. In October 2013, Dongguan Sinohome obtained a Class AA enterprise status which stipulates more stringent requirements than those for a Class A enterprise, including amongst others, (i) an error rate of below 3% with respect to import and export declaration in the previous year, and (ii) compliance with all requirements in relation to customs management, enterprise operation management and trade safety.

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Our Directors and the Sole Sponsor are of the view that, based on the internal control measures implemented by the Company as disclosed under the section “Key internal control measures implemented by us” below in connection with the non-compliance incident of our predecessor companies disclosed above and also that the relevant sentencing and fines have been served and paid, the Company’s enhanced internal control measures are adequate and effective; the suitability of the Directors are compliant with Listing Rules 3.08 and 3.09; and the Company is suitable for listing under Listing Rule 8.04.

Key internal control measures implemented by us

Our Directors have taken further steps to improve our corporate governance procedures and our internal control system with the purpose of ensuring that we have proper checks and balances in place at both the Board and management levels to minimise the likelihood that compliance issues will arise in the future.

As is commonly the case, in preparation for the Listing, we have engaged an external internal control advisory firm to carry out a review according to the agreed scope, which covers (i) entity-level controls and business process controls over financial closing and reporting, sales, purchases, inventory, treasury, and general information technology controls; and (ii) a report to our Company on factual findings and recommendations for improvements of internal controls over the abovementioned processes and procedures.

The external advisory firm’s key findings and recommendations for improvements of internal controls over the abovementioned processes and procedures are related to, amongst others, (i) the formalisation of certain policies and procedures for the above mentioned processes and procedures; and (ii) the establishment and implementation of independent review and/or approval of purchases, transactions relating to inventory, and financial closing and reporting. Subsequently, the same external advisory firm was also engaged to perform a follow-up review of the action plans, which were designed and implemented by our management, in remediating the findings. The results of the follow-up review conducted revealed that all of the management action plans have been implemented by our Company as at Latest Practicable Date, and there was no further material finding from this follow-up review.

Set out below are some additional measures we have taken, or will adopt after Listing to further strengthen our corporate governance and internal control system:

- We are committed to ensuring that the Board has a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. In this connection, we have appointed two additional independent non-executive Directors beyond the minimum requirement under the Listing Rules for a term of three years after Listing. With a total of five independent non-executive Directors, we believe we will be able to draw on their diversified experience with respect to compliance with applicable legal, regulatory and financial reporting requirements, enhancement of corporate governance and their past experience as directors of listed companies. All of our independent non-executive Directors are members of our Audit Committee and Corporate Governance Committee. Details of the background and experience of our independent non-executive Directors are set out in the section headed “Directors and senior management”.
- In August 2009, we set up an internal audit team headed by Dong Guangyong (董光勇), who has obtained an undergraduate degree in accounting, passed the intermediate level of the Accounting Professional Technician Qualification Examination and is a Certified Internal Auditor. Mr. Dong has over 10 years’

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working experience in relation to internal audit. Directly reporting to the Audit Committee and Corporate Governance Committee after Listing, the internal audit team is responsible for evaluating the compliance of our Group's internal control and corporate governance system and monitoring whether major decisions of our Company have been reviewed, discussed and approved by our Board and/or the senior management of our Company. The internal audit team has rights to attend meetings of our Board and/or our senior management and has access to the records of and agreements entered into by our Group. The internal audit team will report the issues, and internal controls and corporate governance deficiencies identified directly to the Audit Committee and Corporate Governance Committee, where appropriate, on a semi-annual basis. The independent non-executive Directors will, during the meeting of the Audit Committee and Corporate Governance Committee, where appropriate, discuss and consider the report from the internal audit team and decide, with the advice from external consultants, if required, whether additional internal control and corporate governance measures should be adopted and whether the major decisions of our Group have been made after due consideration and discussion amongst our Directors and/or the senior management of our Company independently and not being influenced by other persons.

- Upon Listing, each of our Directors shall declare annually that each of them shall act independently and that despite his/her relationship with other Directors (if applicable), his/her decisions will be made based on his/her own judgment, and not being influenced by other persons in making each major decision of our Company during board meetings of our Company going forward.
- In April 2014, we engaged an independent internal control adviser for a term of three years after Listing, who will perform annual review on our Company's internal controls policies and procedures (including our internal control measures on compliance with the applicable customs regulations), and make recommendations on the control deficiencies identified during the review. The scope of review will include, among others, compliance functions, tax reporting and management, anti-fraud management procedures, legal and regulatory compliance, and the measures adopted for ensuring the independent judgment of the Board.
- We have engaged independent tax representatives in the US since 2010 to assist on the tax returns submission process and in Hong Kong since 2007 to handle the correspondence between the Group and the Inland Revenue Department. To enhance compliance with the respective tax rules and regulations in the relevant jurisdictions, we have also engaged PricewaterhouseCoopers since January 2014 as our tax adviser, amongst others, to review and advise on compliance with tax law and regulations in US, Hong Kong and the PRC.
- Commencing in July 2012, we implemented internal control measures to prevent the occurrence of bribery or kick-back activities during the procurement and distribution process. For instance, before any purchase from suppliers, the procurement department will collect quotations from at least three suppliers and evaluates them accordingly to, amongst others, price, quality and terms of delivery. For material purchases over RMB100,000, a purchase comparison schedule is also prepared to compare the quotations, which will be reviewed and approved by the chief purchasing manager. In addition, the cost of each material is recorded in the ERP system, which can only be revised by the chief purchasing manager and procurement review staff when there is a price change from suppliers. Each member of our sales teams is required, on the date of commencement of the respective employment contract, to undertake not to

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receive any kickbacks or bribes, violating such may result in an immediate termination of the employment contract. Each member of the sales teams has also been required to declare their integrity through an annual declaration since September 2013. We have also included any form of bribery activities as a termination event in our distribution agreements, and have provided in the distribution agreements the relevant contacts of our Directors or senior management should there be any complaints regarding any form of bribery activities.

- After Listing, our Company will make an annual declaration in its annual report on its compliance with the internal control and corporate governance system. Also, the Audit Committee and Corporate Governance Committee shall, after Listing, disclose any material findings of the internal audit team and/or independent internal control adviser in the interim and annual reports of our Group, in respect of internal control weaknesses and/or other matters, where appropriate.
- On 23 May 2014, we engaged Somerley Capital Limited as our compliance adviser for a term of three years after Listing who will advise us on, among others, the compliance with the Listing Rules and other laws, rules and regulations.
- Our Directors and senior management of our Group attended a training session in September 2013 or November 2013 conducted by our Hong Kong legal advisers on the responsibilities and duties of Directors, the Listing Rules and other rules, laws and regulations. We will continue to provide training to our Directors and employees from time to time but in any event no less than once a year, to keep them abreast of the changes to applicable laws and regulations.
- Our Corporate Governance Committee, which was established on 4 March 2014, is mainly responsible for monitoring compliance with the corporate governance code and other internal guidelines on corporate governance by members of our Group.
- Our Audit Committee, which was established on 4 March 2014, is mainly responsible for monitoring the status of regulatory compliance of our Group as a whole and at the subsidiary level, advising on and overseeing the implementation of any necessary measures.
- In September 2013, and as supplemented by a supplemental agreement signed in December 2013, we engaged King & Wood Mallesons to, amongst others, provide recommendations, review any updates of the applicable laws and regulations relevant to our business and production in the PRC or in case of material change in the scope of our business and production, ensure proper documentation and compliance with such requirements in a timely manner, and assist in enhancing our Group's internal control measures in the future if necessary.

Based on the above, our Directors consider that our internal control policy should be sufficient for the purpose of ensuring ongoing material compliance with the relevant laws and regulations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be issued or allotted pursuant to the exercise of the Over-allotment Option or options granted pursuant to the Share Option Schemes), Sinomax Enterprises, one of our Controlling Shareholders will own 54.55% of the total issued share capital of our Company. The other Controlling Shareholders, namely LAM Chi Fan, CHEUNG Tung, CHEN Feng and CHEUNG Shui Ying are the settlors of The Frankie Trust, The Cheung's Family Trust, The Feng Chen's Family Trust and The James' Family Trust respectively. The trust assets of The Frankie Trust, The Cheung's Family Trust, The Feng Chen's Family Trust and The James' Family Trust comprise a 50%, 16.67%, 16.67% and 16.67% beneficial interest, respectively, in Sinomax Enterprises. Please refer to the section headed "Our History and Reorganisation" for details regarding the background of our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the Global Offering.

(i) Financial independence

Our Group has established and maintained independent internal control and accounting systems, accounting and finance departments, independent treasury function for cash receipts and payments, and independent access to third-party financing.

During the Track Record Period, our Controlling Shareholders and certain of their respective associates, among others, had provided guarantees to banks in respect of the Group's bank borrowings.

As at the Latest Practicable Date, our Group has obtained written consents in principle from the creditor banks that such guarantees and mortgages will be released if Listing occurs so that all such guarantees and mortgages will be released immediately upon Listing. Such consents mean that our Group can have independent access to third-party financing and is able to obtain bank loans without reliance on our Controlling Shareholders.

Under the circumstances, our Directors believe that our Group is capable of carrying on our business without financial reliance on our Controlling Shareholders.

(ii) Operational independence

Despite the fact that we will have certain continuing connected transactions by leasing certain properties and obtaining an exclusive licence to use certain trademarks from Dongguan Donglian, a company indirectly wholly-owned by Sinomax Enterprises, particulars of which are set out in the section headed "Connected Transactions – Continuing Connected Transactions" in this Prospectus, having considered that (i) we have established our own organisational structure which comprises individual departments, each with specific areas of responsibilities; (ii) our Group has not shared our operational resources, such as customers, marketing, sales and general administration resources with the Controlling Shareholders and/or their respective associates; (iii) our Group may lease properties at other locations for our factories and office premises in substitution for and/or in addition to the said properties leased from Dongguan Donglian, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(iii) Management independence

As at the Latest Practicable Date, no executive Director has overlapping roles or responsibilities in any business other than our business nor has any business which competes or is likely to compete, either directly or indirectly, with our business.

Each of our Directors is aware of his or her fiduciary duties as a director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum.

UNDERTAKING OF SINOMAX ENTERPRISES

Sinomax Enterprises and an independent third party (the “**Proposed JV Partner**”) entered into an investment cooperation agreement on 8 December 2010, supplemented by two supplemental agreements dated 18 March 2011 and 17 September 2012, respectively (collectively, the “**Investment Cooperation Agreement**”), under which Sinomax Enterprises agreed to, by itself, through its holding company or associated company, establish a Sino-foreign equity joint venture enterprise (the “**Proposed JV Company**”) with the Proposed JV Partner in Chengdu, PRC which shall engage in the manufacture and sales of pure foams and foams for furniture manufacturers. The Proposed JV Partner is a furniture manufacturer based in China which engages in the manufacturing of, amongst others, household furniture, office furniture, hotel furniture and mattresses. The reason for entering into the Investment Cooperation Agreement was a result of the recognition of the quality foams produced by the Group and the potentially high demand for such foams by the Proposed JV Partner.

The Investment Cooperation Agreement provides the following key terms for the Proposed JV Company:

<i>Term:</i>	No specific expiry date.
<i>Total registered capital:</i>	RMB45 million. Sinomax Enterprises shall contribute 55% of such registered capital, being RMB24.75 million (equivalent to approximately HK\$32.14 million), and the Proposed JV Partner shall contribute the remaining 45%.
<i>Board of directors:</i>	The board of directors shall be the highest authority comprising six directors. Each of Sinomax Enterprises and the Proposed JV Partner shall be entitled to nominate three directors to the board of directors.
<i>General manager:</i>	The general manager shall be appointed by Sinomax Enterprises. The general manager shall be responsible for the manufacturing, daily operation and overall decision making of the Proposed JV Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

*Obligations of the Proposed
JV Partner:*

The Proposed JV Partner shall be responsible for searching for appropriate production facilities and to rent or purchase the same in the name of the Proposed JV Company. The Proposed JV Partner is also responsible for supervising procurement, production and sales.

*Obligations of Sinomax
Enterprises:*

Sinomax Enterprises shall be responsible for providing staff training, technical support to the Proposed JV Company in relation to manufacturing. Sinomax Enterprises will also grant a royalty-free, non-exclusive license to the Proposed JV Company to use the technology and formulae in the production of foams. The intellectual property rights of all further developments and improvements on such technology and formulae shall belong to Sinomax Enterprises.

Subsequently on 4 March 2014, Sinomax Enterprises executed a deed of undertaking in favour of our Group whereby Sinomax Enterprises granted a right but not obligation to our Company that our Group be designated as the foreign party to establish the Proposed JV Company upon the establishment of the Proposed JV Company in accordance with the Investment Cooperation Agreement. Subject to the Deed of Non-competition (as defined in the paragraph headed “Non-competition undertakings” below), we may choose whether or not to exercise the right granted by Sinomax Enterprises. Due to the fact that neither parties to the Investment Cooperation Agreement has securely obtained a piece of land for the construction of the production facilities and offices for the Proposed JV Company, as at the Latest Practicable Date, the Proposed JV Company has not been established. Our Company has not contributed any capital to the establishment of the Proposed JV Company nor has our Company incurred any cost or liability in relation or pursuant to the Investment Cooperation Agreement. We will ensure that all requirements under Chapters 14 and/or 14A (as the case may be) of the Listing Rules will be complied with in a timely manner as and when necessary.

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders and the existing directors of Sinomax Enterprises (the “**Undertaking Parties**”) has confirmed that neither he/she/it nor any of his/her/its associates is currently interested, involved or engaged, or is likely to be interested, involved or engaged, directly or indirectly, in business which competes or is likely to compete, directly or indirectly, with our Group’s business (as disclosed in this Prospectus) and would require disclosure under Rule 8.10 of the Listing Rules.

The Undertaking Parties have entered into a deed of non-competition (the “**Deed of Non-competition**”) in favour of our Company to the effect that from the Listing Date, none of the Undertaking Parties will, and procure that none of his/her/its close associates shall, except through our Group or with prior written consent of our Company, (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group as disclosed in this Prospectus (the “**Restricted Business**”) in any province/state/city (as the case may be) where products of any member of our Group are exported to or sold at, or province/state/city (as the case may be) where our Group has POS in, either at present or in the future (the “**Restricted Territory**”) save for the holding by the Undertaking Parties and/or his/her/its close associates of not more than in aggregate 5% shareholding interests in any listed company

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

of which the Undertaking Parties and their respective close associates are not entitled to participate in the management; and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of any of our Group's business activities in the Restricted Territory including, but not limited to, solicitation of our Group's customers, suppliers or personnel of any member of our Group.

The Undertaking Parties have also undertaken with us that with effect from the Listing Date, if any new business opportunity relating to the Restricted Business in the Restricted Territory (the "**Business Opportunity**") is made available to him/her/it or his/her/its close associates, he/she/it shall direct to us any such Business Opportunity by serving a written notice which shall include all information together with any documents possessed by him/her/it or his/her/its close associates in respect of the Business Opportunity to enable us to evaluate the merit of the Business Opportunity and provide us with all reasonable assistance as requested by us to enable our Group to secure the Business Opportunity. None of the Undertaking Parties shall be allowed to, and shall procure his/her/its close associates (other than members of the Group) not to, pursue the Business Opportunity even if we decide not to pursue such Business Opportunity.

The Deed of Non-competition also provides, amongst other things, that:

- (i) the Undertaking Parties undertake to provide to us all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and
- (ii) if required by us, the Undertaking Parties undertake to make a statement in the annual report of our Company confirming compliance by him/her/it and his/her/its close associates with the terms of the Deed of Non-competition after the Listing Date.

The Undertaking Parties undertake to procure each future director of Sinomax Enterprises to enter into a deed of non-competition in the form substantially the same as the Deed of Non-competition. It has also been stipulated in the shareholders' agreement dated 4 March 2014 and entered into between Chi Fan Holding Limited, Wing Yiu Investments Limited, The James' Family Holding Limited, Venture Win Holdings Limited and Sinomax Enterprises relating to the management of Sinomax Enterprises that no director shall be appointed to the board of directors of Sinomax Enterprises or be registered in the register of directors of Sinomax Enterprises without entering into such deed of non-competition.

The Deed of Non-competition will cease to have effect on the Undertaking Parties (i) if the Shares cease to be listed on the Hong Kong Stock Exchange; or (ii) if none of the Undertaking Parties or his/her/its close associates are in aggregate interested (directly or indirectly) in 30% or more of the entire issued share capital of our Company; or (iii) (in the case of future directors of Sinomax Enterprises only) upon the expiry of two years from the date such Undertaking Parties cease to act as directors of Sinomax Enterprises. Based on all necessary information so undertaken to be provided by the Undertaking Parties pursuant to the terms of the Deed of Non-competition for the enforcement of the undertakings contained therein, our independent non-executive Directors will review, at least on an annual basis, compliance with the Deed of Non-competition by the Undertaking Parties. We will disclose all decisions, if any, on matters reviewed by our independent non-executive Directors relating to the enforcement of the Deed of Non-competition undertaking in our annual report, in addition to complying with the applicable disclosure requirements under the Listing Rules. In particular, if the Business Opportunity is turned down by our Company under the Deed of Non-competition, all such rejections and the relevant basis will be included in our annual report. Any decision relating to the exercise of any of our rights under the Deed of Non-competition undertaking shall be made by our independent non-executive Directors. If we decide to exercise any of our rights granted under the Deed of Non-competition undertaking, we will comply with the applicable requirements under the Listing Rules.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with our connected persons which will continue following the Listing and which will constitute continuing connected transactions within the meaning of the Amended Listing Rules (the “**Continuing Connected Transactions**”).

Changes will be made to the Listing Rules in relation to connected transactions and the Amended Listing Rules shall become effective on 1 July 2014. Our disclosure in this section headed “Connected Transactions” is made with reference to the Amended Listing Rules and we have adopted the new definitions in relation to connected transactions in the Amended Listing Rules throughout this Prospectus. All of our continuing connected transactions shall be subject to the requirements of the Amended Listing Rules from 1 July 2014.

(A) Continuing Connected Transactions exempt from reporting, annual review, announcement and shareholders’ approval requirements

Trademark licensing by Dongguan Donglian to Sinomax Macao

Background

Dongguan Donglian, a connected person, was the registered owner of two trademarks, namely “**SINOMAX** (registration number 1892009)” and “**SINOMAX** (registration number 1892010)”, both registered in India (the “**India Trademarks**”), and is the registered owner of a trademark “**SINOMAX** (registration number 162196)” registered in the Vietnam (the “**Vietnam Trademark**”, together with the India Trademarks, the “**Trademarks**”). In anticipation of the Global Offering, Dongguan Donglian has filed applications at our request to transfer the Trademarks to Sinomax Macao at the consideration of US\$10 on 16 September 2013. After consulting the relevant registration agents, our Directors confirm that there is no legal obstacle for the transfer of the Trademarks to our Group.

Dongguan Donglian entered into a trademark licensing agreement (the “**Trademark Licensing Agreement**”) with Sinomax Macao on 2 December 2013 at nil consideration for a term of three years from the date of signing of the Trademark Licensing Agreement subject to automatic early termination on the date when the transfer of the respective Trademarks to Sinomax Macao is completed and Sinomax Macao is registered as the owner of all Trademarks. The transfer of the India Trademarks was completed in January 2014. It is expected that the transfer of the Vietnam Trademark will be completed by July 2014.

The Trademark Licensing Agreement is renewable for three years at the option of our Group. Should there be any renewal of the term of the Trademark Licensing Agreement, we will ensure compliance with all relevant requirements under Chapter 14A of the Amended Listing Rules.

Pursuant to the Trademark Licensing Agreement, we have the exclusive right to use, sub-licence and permit our subsidiaries to use the Trademarks in connection with our business. Dongguan Donglian undertakes to duly maintain the registration and complete the transfer of the Trademarks and undertakes not to licence, allow or permit any third-party that is not a subsidiary of the Company to use the Trademarks.

In the event of any demand, action or claim against us by any third-party arising from the use of any Trademarks in accordance with the terms of the Trademark Licensing Agreement, Dongguan Donglian shall pursuant to the Trademark Licensing Agreement indemnify and keep our Group harmless from and against all liabilities,

CONNECTED TRANSACTIONS

losses, damages, costs, charges and expenses sustained or incurred by us in connection therewith. We have undertaken to inform Dongguan Donglian of any misappropriation or infringement of the Trademarks of which we become aware, and in the event Dongguan Donglian takes legal action against such misappropriation or infringement, we will provide reasonable assistance to Dongguan Donglian upon request.

The Trademark Licensing Agreement was entered into by Dongguan Donglian and our Group in the ordinary and usual course of business of our Group on terms favourable to our Group, and are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

Relationship

Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of our Controlling Shareholders. Dongguan Donglian is therefore an associate of Sinomax Enterprises and a connected person of our Company under Rule 14A.07(4) of the Amended Listing Rules.

Listing Rules Implications

As the licensing of the Trademarks involves nil consideration, the transactions under the Trademark Licensing Agreement will be exempted from reporting, annual review, announcement and shareholders' approval requirements under Chapter 14A of the Amended Listing Rules.

Lease Agreement between Haining Sinomax and Zhejiang Puruimei Industry Co., Ltd.* (浙江普瑞美實業有限公司) (“Zhejiang Puruimei”)

Background

During the Track Record Period, Zhejiang Puruimei leased certain property to Haining Sinomax, an indirect non-wholly owned subsidiary of the Company, as office premises in Haining, PRC. On 24 December 2012, Haining Sinomax, as tenant, entered into a lease agreement with Zhejiang Puruimei, as landlord, for the lease of Office No. 101-105, Block 1, No. 99, Qi Chao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, PRC at an annual rental of RMB10,800 (equivalent to approximately HK\$14,026) for a term of two years.

Relationship

Zhejiang Puruimei is indirectly wholly-owned by QIAN Hong Xiang, who is a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax and a substantial shareholder of Trade Sincere. Zhejiang Puruimei is therefore an associate of QIAN Hong Xiang and a connected person of the Company under Rule 14A.07(4) of the Amended Listing Rules.

Listing Rules Implications

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the transaction under the said lease agreement as set out above are on an annual basis less than 0.1%, by virtue of Rule 14A.76(1)(a) of the Amended Listing Rules, such transaction constitute a Continuing Connected Transaction exempt from reporting, annual review, announcement and shareholders' approval requirements under Chapter 14A of the Amended Listing Rules.

CONNECTED TRANSACTIONS

(B) Continuing Connected Transaction exempt from shareholders' approval requirements

Lease Agreements between Dongguan Sinohome and Dongguan Donglian

Background

During the Track Record Period, Dongguan Donglian leased certain properties in Dongguan, PRC to Dongguan Sinohome as factories and employee's dormitories. On 1 January 2009, Dongguan Sinohome, as tenant, entered into a lease agreement and a supplemental lease agreement with Dongguan Donglian, as landlord, for the lease of No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, PRC at a monthly rent of RMB264,549.60 (equivalent to approximately HK\$343,570.91) and dormitories in Sinomax Industrial Park, Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, PRC at a monthly rent of RMB61,449.00 (equivalent to approximately HK\$79,803.90), respectively, for a term of 10 years. The said lease agreement and supplemental agreement were terminated and a new lease agreement in respect of the properties rented pursuant to the previous lease agreement and supplemental lease agreement was entered into between Dongguan Sinohome and Dongguan Donglian on 28 December 2012 for a term of six years, under which the monthly rental was increased to RMB465,706.80 (equivalent to approximately HK\$604,814.03) (the "**2012 Dongguan Lease Agreement**").

Relationship

Dongguan Donglian is indirectly wholly-owned by Sinomax Enterprises, one of our Controlling Shareholders. Dongguan Donglian is therefore an associate of Sinomax Enterprises and a connected person of our Company under Rule 14A.07(4) of the Amended Listing Rules.

Historical Transaction Amounts

For the years ended 31 December 2011, 2012 and 2013, the aggregate amounts of rent paid by our Group to Dongguan Donglian for the leasing of the properties listed above amounted to approximately RMB3.91 million, RMB3.91 million and RMB5.81 million respectively (equivalent to approximately HK\$4.71 million[#], HK\$4.81 million[#] and HK\$7.27 million[#] respectively).

Future Lease Arrangement

In anticipation of the Global Offering and due to an increase in Leased area leased by our Group, Dongguan Donglian as landlord, entered into a lease agreement with Dongguan Sinohome as tenant on 2 December 2013, for the lease of No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, PRC for use as factories and employee's dormitories (the "**2013 Dongguan Lease Agreement**") to replace the 2012 Dongguan Lease Agreement. Increased Leased area is required as our Group requires more warehouse space.

CONNECTED TRANSACTIONS

The details of the terms of the 2013 Dongguan Lease Agreement are as follows:

Location	Connected Person (Landlord)	Subsidiary of the Company involved (Tenant)	Date of lease agreement	Term	Leased area	Monthly rental (RMB)
No. 1 Dajieling Road, Shahu Village, Tang Xia Town, Dongguan, Guangdong Province, China	Dongguan Donglian	Dongguan Sinohome	2 December 2013	2 December 2013 to 31 December 2015	63,220.08 sq.m.	695,420.88 (equivalent to approximately HK\$903,144.00)

The 2013 Dongguan Lease Agreement is renewable for three years at the option of our Group. Should there be any renewal of the term of the 2013 Dongguan Lease Agreement, we will ensure compliance with all the relevant requirements under Chapter 14A of the Amended Listing Rules.

Under the 2013 Dongguan Lease Agreement, our Group has the first right of refusal to purchase the subject property in case Dongguan Donglian intends to sell the subject property.

For the reasons for the exclusion of Dongguan Donglian from our Group, please refer to the section headed “Our History and Reorganisation – Reorganisation and Corporate Structure” in this Prospectus.

Proposed Annual Caps on Future Transaction Amounts

It is expected that the maximum annual amount of rent payable by our Group under the 2013 Dongguan Lease Agreement for each of the financial years ending 31 December 2014 and 2015 shall not exceed the proposed caps of RMB8.50 million (equivalent to approximately HK\$11.04 million). Our Directors have considered the amount of rent stated in the 2013 Dongguan Lease Agreement in arriving at the above proposed caps of rental payable.

Our independent property valuer and consultant, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, having reviewed the 2013 Dongguan Lease Agreement, conducted market research on the leasing markets in Dongguan and collected rental evidence of comparable properties in the locality as well as similar locations in Dongguan, has confirmed that the amounts payable under the 2013 Dongguan Lease Agreement reflect the then prevailing market rates for properties of a similar status in similar locations.

Our Directors, having reviewed the 2013 Dongguan Lease Agreement and considered the opinion from our independent property valuer and consultant, have confirmed that (i) the terms and conditions of the 2013 Dongguan Lease Agreement are fair and reasonable to the parties thereto and are entered into on normal commercial terms; and (ii) the amounts payable thereunder reflect the then prevailing market rates for properties of a similar status in similar locations.

Listing Rules Implications

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the aggregate transactions under the 2013 Dongguan Lease Agreement as set out above are on an annual basis more than 0.1% but less than 5%, by virtue of Rule

CONNECTED TRANSACTIONS

14A.76(2)(a) of the Amended Listing Rules, such transactions constitute Continuing Connected Transactions exempt from shareholders' approval requirement but are subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Amended Listing Rules.

Lease Agreement between Sinomax Kuka and Zhejiang Puruimei

Background

During the Track Record Period, Zhejiang Puruimei leased certain property to Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company, as factories, warehouses and employee dormitories in Haining, PRC. On 1 September 2006, Sinomax Kuka, as tenant, entered into a lease agreement with Zhejiang Puruimei, as landlord, for the lease of buildings on the land at No. 99, Qi Chao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, PRC at a monthly rental of RMB62,025.00 (equivalent to approximately HK\$80,551.95) for a term of five years. The said lease agreement expired on 31 August 2011 and a new lease agreement was entered into between Zhejiang Puruimei and Sinomax Kuka on 31 December 2011 for a term of three years, under which the Leased area increased from 7,020 square metres to 11,500 square metres and the monthly rental increased to RMB103,186 (equivalent to approximately HK\$134,007.79).

Relationship

Zhejiang Puruimei is indirectly wholly-owned by QIAN Hong Xiang, who is a director of our subsidiaries namely Trade Sincere, Sinomax Kuka and Haining Sinomax and a substantial shareholder of Trade Sincere. Zhejiang Puruimei is therefore an associate of QIAN Hong Xiang and a connected person of our Company under Rule 14A.07(4) of the Amended Listing Rules.

Historical Transaction Amounts

For the years ended 31 December 2011, 2012 and 2013, the aggregate amounts of rent paid by our Group to Zhejiang Puruimei for the leasing of the properties listed above amounted to approximately RMB0.74 million, RMB1.24 million and RMB1.24 million respectively (equivalent to approximately HK\$0.90 million, HK\$1.52 million and HK\$1.55 million respectively). The increase in the aggregate rent paid by our Group to Zhejiang Puruimei for the leasing of the property above from the year ended 31 December 2011 to the year ended 31 December 2012 was due to an increase in Leased area of the property leased.

Future Lease Arrangement

In anticipation of the Global Offering, Zhejiang Puruimei as landlord entered into a lease agreement with Sinomax Kuka as tenant on 2 December 2013, for the lease of the property below for use as factories, warehouses, office premises and employee dormitories in Haining (the "**Haining Lease Agreement**"). Pursuant to the Haining Lease Agreement, Zhejiang Puruimei shall (i) lease to Sinomax Kuka buildings with Leased area of 25,863 square metres for use as factories, warehouses, office premises and employee dormitories; and (ii) construct and lease to Sinomax Kuka a new industrial building with Leased area of approximately 20,000 square metres (the "**New Haining Property**"). As at the Latest Practicable Date, the New Haining Property is still under construction. The parties shall enter into a supplemental lease agreement and comply with Chapter 14A of the Amended Listing Rules upon completion of the interior fitting out of the New Haining Property, under which the Leased area and the rental for the New Haining Property will be agreed. It is expected that construction of the New Haining Property will be completed by June 2014 which will be followed by the fitting out work.

CONNECTED TRANSACTIONS

The details of the terms of the Haining Lease Agreement are as follows:

Location	Connected Person (Landlord)	Subsidiary of the Company involved (Tenant)	Date of lease agreement	Term	Leased area	Monthly rental
(RMB)						
No. 99, Qi Chao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, China	Zhejiang Puruimei	Sinomax Kuka	2 December 2013	1 January 2014 to 31 December 2015	18,863 sq.m. (Additional site area 7,000 sq.m.)	236,850 (including management fee) (equivalent to approximately HK\$307,597.40)

The Haining Lease Agreement is renewable for three years at the option of our Group. Should there be any renewal of the terms of the Haining Lease Agreement, we will ensure compliance with all the relevant requirements under Chapter 14A of the Amended Listing Rules.

Proposed Annual Caps on Future Transaction Amounts

It is expected that the maximum annual rent payable by our Group under the Haining Lease Agreement for each of the financial years ending 31 December 2014 and 2015 shall not exceed the proposed cap of RMB2.85 million (equivalent to approximately HK\$3.70 million), not taking into account the additional floor space to be rented in respect of the New Haining Property. Our Directors have considered the relevant rental amount (including management fee) stated in the Haining Lease Agreement in arriving at the above proposed caps of rental payable.

The independent property valuer and consultant, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, having reviewed the Haining Lease Agreement, conducted market research on the leasing markets in Haining and collected rental evidence of comparable properties in the locality as well as similar locations in Haining, has confirmed that the rental (excluding management fee) payable under the Haining Lease Agreement reflect the then prevailing market rates for properties of a similar status in similar locations.

Our Directors having reviewed the Haining Lease Agreement and considered the opinion from our independent property valuer and consultant, have confirmed that (i) their terms and conditions are fair and reasonable to the parties thereto and are entered into on normal commercial terms; and (ii) the amounts payable thereunder reflect the then prevailing market rates for properties of a similar status in similar locations.

Listing Rules Implications

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the transaction under the Haining Lease Agreement as set out above are on an annual basis more than 0.1% but less than 5%, by virtue of Rule 14A.76(2)(a) of the Amended Listing Rules, such transactions constitute Continuing Connected Transactions exempt from shareholders' approval requirements but are subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Amended Listing Rules.

CONNECTED TRANSACTIONS

Sale of Foams by Dongguan Sinohome to Huizhou City Huiyang Weijian Household Products Factory* (惠州市惠陽偉建家庭用品製品廠) (“Huiyang Weijian”)

Background

Since 2008, Dongguan Sinohome, an indirect wholly-owned subsidiary of the Company, has been selling polyurethane foams to Huiyang Weijian. Huiyang Weijian is a manufacturer of polyurethane foam household products in China. The products are mainly exported to overseas markets. The major line of products includes visco-elastic and high resilience foam pillows, foam mattress and topper, cushion, floor chair and sofa.

Huiyang Weijian is engaged in a business which competes with the Group. However, by entering into transactions with Huiyang Weijian, whereby our Group sells polyurethane foams to Huiyang Weijian, the Directors believe the competition arising from these transactions is indirect. The reason being, the polyurethane foams sold to Huiyang Weijian are foams (usually the edges or corners of a full size polyurethane foam) that remain after cutting to produce products such as pillows or mattresses etc., in other words, surplus/scrap materials. Our Group consumes part of our surplus/scrap materials to produce other products but there are still a lot of surplus/scrap materials after our own consumption that are of no use. Our Group's options are to either discard the surplus/scrap materials or sell the surplus/scrap materials to generate more revenue. As such, our Group has sold our surplus/scrap materials to Huiyang Weijian and other third-party customers. Whilst Huiyang Weijian is a manufacturer of products of which our surplus/scrap materials are one of their raw materials, the sale of our surplus/scrap materials to Huiyang Weijian greatly reduces the space occupied by our surplus/scrap materials, hence reducing storage costs, and at the same time increasing our Group's revenue.

No written agreement was entered into prior to the signing of the Weijian Foam S&P Agreement (as defined in the sub-paragraph below headed “Future Sales” in this section). Instead, Huiyang Weijian and the sales department of Dongguan Sinohome would communicate from time to time as to the type and quantity of surplus/scrap materials available for sale by Dongguan Sinohome to Huiyang Weijian, and verbally agree upon the price, type and amount of foams to be purchased by Huiyang Weijian.

Relationship

Huiyang Weijian is indirectly held as to 100% by CHEUNG Wan. CHEUNG Wan is the niece of LAM Chi Fan and the cousin of CHEUNG Tung, our executive Directors. Huiyang Weijian is therefore an associate of each of LAM Chi Fan and CHEUNG Tung and a connected person of our Company under Rule 14A.07(4) of the Amended Listing Rules.

Historical Transaction Amounts

For the years ended 31 December 2011, 2012 and 2013, the aggregate consideration paid by Huiyang Weijian to Dongguan Sinohome for the purchase of foams amounted to approximately RMB3.10 million, RMB4.55 million and RMB3.38 million respectively (equivalent to approximately HK\$4.03 million, HK\$5.91 million and HK\$4.39 million respectively).

Future Sales

It is expected that our Group will continue to sell polyurethane foams to Huiyang Weijian after Listing. In anticipation of the Global Offering, Dongguan Sinohome entered into a framework sale and purchase agreement with Huiyang Weijian on 2

CONNECTED TRANSACTIONS

December 2013 (the “**Weijian Foam S&P Agreement**”), pursuant to which our Group will sell and Huiyang Weijian will purchase polyurethane foams for a term commencing from signing of the Weijian Foam S&P Agreement and ending on 31 December 2015. The price, type, amount and specification of foams to be purchased depend on the purchase orders to be issued by Huiyang Weijian to Dongguan Sinohome from time to time, provided that the price of polyurethane foams shall be at terms no more favourable than that offered to other third-party purchasers by our Group.

Proposed Annual Caps on Future Sale

It is expected that the maximum amount of purchases (excluding all applicable tax) payable by Huiyang Weijian to Dongguan Sinohome under the Weijian Foam S&P Agreement for each of the years ending 31 December 2014 and 2015 will not exceed RMB5.00 million and RMB5.00 million, respectively (equivalent to approximately HK\$6.49 million and HK\$6.49 million respectively). The proposed annual caps are determined after taking into consideration (i) the historical purchases made by Huiyang Weijian for the years ended 31 December 2011, 2012 and 2013; (ii) the anticipated demands that may be derived from the possible future business growth of Huiyang Weijian; and (iii) the expected increase in price of polyurethane foams.

Our Directors, having reviewed the Weijian Foam S&P Agreement and taking into consideration the fact that the price of the foams sold to Huiyang Weijian shall be at terms no more favourable than that offered to other third-party purchasers by our Group, consider that the transactions under the Weijian Foam S&P Agreement have been and will be entered into in the ordinary and usual course of business and on normal commercial terms and that the terms of the Weijian Foam S&P Agreement and the annual caps set out above are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Listing Rules Implications

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the transactions under the Weijian Foam S&P Agreement as set out above are on an annual basis more than 0.1% but less than 5%, by virtue of Rule 14A.76(2)(a) of the Amended Listing Rules, such transactions constitute Continuing Connected Transactions exempt from shareholders' approval requirements but are subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Amended Listing Rules.

(C) Non-exempt Continuing Connected Transaction

Sale of Foams by Haining Sinomax to Gu Jia Household

Background

During the Track Record Period, Haining Sinomax, an indirect non-wholly owned subsidiary of the Company, sold polyurethane foams to Gu Jia Household pursuant to a procurement agreement dated 31 December 2012 (the “**2012 Gu Jia Procurement Agreement**”).

Haining Sinomax was established in the PRC on 27 December 2012. Prior to its establishment, our Group sold polyurethane foams to Gu Jia Household and Zhejiang Gu Jia Craft and Sofa Production Co., Ltd* (浙江顧家工藝沙發製造有限公司) (“**Gu Jia Craft**”), a fellow subsidiary of Gu Jia Household, through Sinomax Kuka, which is the sole shareholder of Haining Sinomax. For further details, please refer to “Discontinued Related Party Transactions – Sale of foams by Sinomax Kuka to Gu Jia Household and Gu Jia Craft” in this section.

CONNECTED TRANSACTIONS

Gu Jia Craft and Gu Jia Household are both principally engaged in manufacturing sofa and furniture.

Relationship

Gu Jia Household holds 40% equity interest in Sinomax Kuka, which is an indirect non-wholly owned subsidiary of the Company. As a substantial shareholder of a subsidiary of the Company, Gu Jia Household is a connected person of our Company under Rule 14A.07(1) of the Amended Listing Rules.

Gu Jia Craft, a fellow subsidiary of Gu Jia Household, is an associate of Gu Jia Household, hence a connected person of our Company under Rule 14A.07(4) of the Amended Listing Rules.

Historical Transaction Amounts

For the years ended 31 December 2011 and 2012, the aggregate consideration paid by Gu Jia Household and Gu Jia Craft to Sinomax Kuka for the purchase of polyurethane foams amounted to approximately RMB108.73 million and RMB101.99 million respectively (equivalent to approximately HK\$141.21 million and HK\$132.46 million respectively). The aggregate quantity of polyurethane foams purchased by Gu Jia Household and Gu Jia Craft for the years ended 31 December 2011 and 2012 amounted to approximately 5.87 million kg and 5.76 million kg respectively.

For the year ended 31 December 2013, the aggregate consideration paid by Gu Jia Household to Sinomax Kuka and Haining Sinomax for the purchase of polyurethane foams amounted to approximately RMB107.76 million (equivalent to approximately HK\$139.95 million). The quantity of polyurethane foams purchased by Gu Jia Household for the year ended 31 December 2013 amounted to approximately 6.36 million kg.

Future Sales

It is expected that our Group will continue to sell polyurethane foams to Gu Jia Household after Listing. In anticipation of the Global Offering, Haining Sinomax and Gu Jia Household terminated the 2012 Gu Jia Procurement Agreement and entered into a new procurement agreement on 2 December 2013 (the “**2013 Gu Jia Procurement Agreement**”), pursuant to which our Group will sell and Gu Jia Household will purchase polyurethane foams for a term commencing from signing of the 2013 Gu Jia Procurement Agreement to 31 December 2014. The price, type, amount and specification of polyurethane foams to be purchased depend on the purchase orders issued by Gu Jia Household to Haining Sinomax from time to time, provided that the price of polyurethane foams shall be with reference to market price and at terms no more favourable than that offered to other third-party purchasers by our Group.

Proposed Annual Caps on Future Sale

It is expected that the maximum amount of purchases (excluding all applicable tax) payable by Gu Jia Household to Haining Sinomax under the 2013 Gu Jia Procurement Agreement for the financial year ending 31 December 2014 will not exceed RMB140 million (equivalent to approximately HK\$181.82 million). The quantity of polyurethane foams expected to be purchased by Gu Jia Household for the year ending 31 December 2014 amounts to 8.24 million kg. Such estimates are in consideration of (i) the historical purchases made by Gu Jia Household for the years ended 31 December 2011, 2012 and 2013; (ii) the anticipated demands that may be derived from the possible future business growth of Gu Jia Household; and (iii) our

CONNECTED TRANSACTIONS

Directors envisage that there will be an increase in the demands from Gu Jia Household as (1) The Gu Jia Group has recently established a new factory in Hangzhou, which is only approximately 20 kilometres from the Group's factory in Zhejiang. Trial production has already commenced in the said new factory; and (2) The Gu Jia Group has run trial production of mattresses for more than a year and is ready for large-scale production. Through its established POS, it is expected that the sale of mattresses will increase rapidly in the future and hence the demands for our polyurethane foams.

Our Directors, having reviewed the 2013 Gu Jia Procurement Agreement and taking into consideration (i) the market price of the types of polyurethane foams provided by our Group under the 2013 Gu Jia Procurement Agreement; (ii) the substantial quantity of polyurethane foams previously purchased by Gu Jia Household and Gu Jia Craft and expected to be ordered by Gu Jia Household; and (iii) substantial reduction in our Group's marketing costs and sales expenses in relation to foam sales when dealing with Gu Jia Household, consider that the transactions under the 2013 Gu Jia Procurement Agreement have been and will be entered into in the ordinary and usual course of business and on normal commercial terms and that the terms of the 2013 Gu Jia Procurement Agreement and the annual caps set out above are fair and reasonable and in the interests of our Shareholders as a whole.

Listing Rules Implications

As the applicable percentage ratios under Chapter 14 of the Listing Rules for the transactions under the 2013 Gu Jia Procurement Agreement as set out above are on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, such transactions constitute non-exempt Continuing Connected Transactions of our Group under the Amended Listing Rules.

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As:

- (a) the applicable percentage ratios under Chapter 14 of the Listing Rules for the each of the transactions under (1) the 2013 Dongguan Lease Agreement; (2) the Haining Lease Agreement; and (3) the Weijian Foam S&P Agreement as set out above are on an annual basis more than 0.1% but less than 5%, by virtue of Rule 14A.76(2)(a) of the Amended Listing Rules, such transactions constitute Continuing Connected Transactions exempt from shareholders' approval requirements but are subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Amended Listing Rules; and
- (b) the applicable percentage ratios under Chapter 14 of the Listing Rules for the transactions under the 2013 Gu Jia Procurement Agreement as set out above are on an annual basis more than 5% and the annual consideration is more than HK\$10,000,000, such transactions constitute non-exempt Continuing Connected Transactions under the Amended Listing Rules.

Our Directors (including the independent non-executive Directors) have confirmed that the Continuing Connected Transactions set out in paragraphs (a) and (b) above (collectively, the "**Non-Exempt Continuing Connected Transactions**") have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, and are fair and reasonable to our Group and in the interests of our Group and our Shareholders as a whole. Our Directors have further confirmed that the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions are fair and reasonable and are in the interests of our Shareholders as a whole.

CONNECTED TRANSACTIONS

The Non-Exempt Continuing Connected Transactions are expected to continue on a recurring basis after the Listing, which have been entered into prior to the Listing Date and have been fully disclosed in this Prospectus and potential investors will participate in the Global Offering on the basis of such disclosure, our Directors consider that it would be impractical, and would add unnecessary administrative costs and workload to the Company, to make disclosure of each of the Non-Exempt Continuing Connected Transactions in compliance with the announcement requirements in Rule 14A.35 and for the transaction under the 2013 Gu Jia Procurement Agreement, to comply with the Shareholders' approval requirements in Rule 14A.36 of the Amended Listing Rules.

Accordingly, our Group has applied for, and has received from, the Hong Kong Stock Exchange, a waiver from strict compliance with the announcement and Shareholders' approval requirements relating to continuing connected transactions set out in Chapter 14A of the Amended Listing Rules for, where applicable, each of the Non-exempt Continuing Connected Transactions.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor having (i) reviewed the relevant information and historical figures prepared and provided by our Company relating to the Non-Exempt Continuing Connected Transactions, and (ii) conducted due diligence by discussing such transactions with the Company and its advisers, including its independent property valuer who confirmed that the rental payable on each of the 2013 Dongguan Lease Agreement and the Haining Lease Agreement is fair and reasonable with reference to the then prevailing rates, is of the view that the entering into of the Non-Exempt Continuing Connected Transactions have been and will be in the ordinary and usual course of business of our Group, the Non-Exempt Continuing Connected Transactions including the respective proposed annual caps were entered into on normal commercial terms, and the terms of the Non-Exempt Continuing Connected Transactions including the respective proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DISCONTINUED RELATED PARTY TRANSACTIONS

Our Group entered into certain related party transactions with its related parties during the Track Record Period ("**Related Party Transactions**"). Details of the Related Party Transactions are set out in Note 40 of the Accountants' Report of the Company in Appendix I to this Prospectus.

Save and except for the Continuing Connected Transactions which are expected to continue after the Listing, all other Related Party Transactions have been discontinued as at the Latest Practicable Date.

Details of the material Related Party Transactions are as follows:

Sale of foams by Sinomax Kuka to Gu Jia Household and Gu Jia Craft

For a description of the relationship between Gu Jia Household and Gu Jia Craft, respectively, and our Group, please refer to "Continuing Connected Transactions – (C) Non-exempt Continuing Connected Transactions – Sale of Foams by Haining Sinomax to Gu Jia Household – Relationship" in this section. As previously disclosed, Gu Jia Household and Gu Jia Craft are principally engaged in manufacturing sofas and furniture.

On 1 January 2010, Sinomax Kuka, an indirect non-wholly owned subsidiary of the Company, entered into two procurement agreements with Gu Jia Household and Gu Jia Craft respectively, pursuant to which Sinomax Kuka sold polyurethane foams to Gu Jia Household and Gu Jia Craft respectively for a term of one year. On the expiry of the said term, Sinomax Kuka and Gu Jia Household entered into a new procurement agreement on 31 December 2010 and 1 January 2012 respectively, each for a term of one year.

CONNECTED TRANSACTIONS

For the years ended 31 December 2011, 2012 and 2013, the aggregate consideration paid by Gu Jia Household and Gu Jia Craft to Sinomax Kuka for the purchase of polyurethane foams amounted to approximately RMB108.73 million, RMB101.99 million and RMB107.76 million respectively (equivalent to approximately HK\$141.21 million, HK\$132.46 million and HK\$139.95 million respectively). The polyurethane foams was sold to Gu Jia Household based on a cost-plus pricing. The sale of foams to Gu Jia Craft was gradually taken up by Gu Jia Household in 2010 and our Group has not sold foams to Gu Jia Craft since 2011. The taking up of business of Gu Jia Craft by Gu Jia Household was the business decision of the Gu Jia group. On 27 December 2012, Haining Sinomax, a direct wholly-owned subsidiary of Sinomax Kuka, was established in the PRC. On 31 December 2012, Haining Sinomax, replacing Sinomax Kuka, entered into a procurement agreement with Gu Jia Household. Sinomax Kuka ceased to have business relationship with Gu Jia Household in February 2013.

The business of Gu Jia Craft and Gu Jia Household was not injected into the Group as they are controlled by independent third parties. Gu Jia Craft and Gu Jia Household are engaged in different business from the Group and therefore the Directors and the Sole Sponsor are of the view that the two related companies would not compete with the Group.

For details of the transaction between Haining Sinomax and Gu Jia Household, please refer to “Continuing Connected Transactions – (C) Non-exempt Continuing Connected Transactions – Sale of Foams by Haining Sinomax to Gu Jia Household” in this section.

Purchase of hardware by Dongguan Sinohome from Dongguan Xisheng Furniture Co., Ltd.* (東莞喜聖傢俱有限公司) (“Dongguan Xisheng”)

Dongguan Xisheng is a wholly-owned foreign enterprise indirectly held as to (i) 50% by Sinofoam Limited, a company held as to 30% by CHEUNG Shui Ying, 30% by our Chairman and executive Director, LAM Chi Fan, 20% by our executive Director, LAM Fei Man and 10% by our executive Director, CHEN Feng; and (ii) the remaining 50% by an independent third party, hence a connected person of our Company. Dongguan Xisheng is principally engaged in manufacturing hardware for furniture.

On 1 March 2011, Dongguan Sinohome, an indirect wholly-owned subsidiary of the Company, entered into a master procurement agreement with Dongguan Xisheng, pursuant to which Dongguan Sinohome shall purchase hardware from Dongguan Xisheng for a term commencing from 1 March 2011 to 1 March 2014. The type and amount of hardware to be purchased were set out in purchase orders issued by Dongguan Sinohome with prices agreed by the parties prior to placing the orders, based on a cost-plus pricing.

For the years ended 31 December 2011, 2012 and 2013, the aggregate consideration paid by Dongguan Sinohome to Dongguan Xisheng for the purchase of hardware amounted to approximately RMB7.18 million, RMB1.43 million and RMB3.26 million respectively (equivalent to approximately HK\$9.32 million, HK\$1.85 million and HK\$4.24 million respectively).

In the past, our Group manufactured low-end massage chairs for customers under third-party brands, the profit margin of which was low. As a result of a change of strategies, our Group has ceased to manufacture low-end massage chairs so that our Group is currently not required to purchase hardware from Dongguan Xisheng which are used for the production of low-end massage chairs.

The business of Dongguan Xisheng was not injected into the Group as it is controlled by independent third parties and is engaged in a different business from the Group. On this basis, the Directors and the Sole Sponsor are of the view that Dongguan Xisheng would not compete with the Group.

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Purchase of embroidery products by Dongguan Sinohome from Beilan Computer Embroidery (Shenzhen) Co., Ltd.* (北蘭電腦繡花(深圳)有限公司) (“Beilan (Shenzhen)”)

Beilan (Shenzhen) is indirectly held as to 33.33% by NG Wai Tung and the remaining 66.67% by independent third parties. NG Wai Tung is the sister-in-law of CHEUNG Tung, our executive Director, hence a connected person of our Company. Beilan (Shenzhen) is principally engaged in manufacturing embroidery products.

On 1 March 2011, Dongguan Sinohome, an indirect wholly-owned subsidiary of the Company, entered into a master procurement agreement with Beilan (Shenzhen), pursuant to which Dongguan Sinohome shall purchase embroidery products from Beilan (Shenzhen) for a term commencing from 1 March 2011 to 1 March 2014. The type and amount of embroidery products procured were set out in purchase orders issued by Dongguan Sinohome with the prices, being the prevailing market prices, agreed by the parties prior to making such orders. The embroidery products were used on our Group’s products, such as mattress toppers and pillow covers.

For the years ended 31 December 2011, 2012 and 2013, the aggregate consideration paid by Dongguan Sinohome to Beilan (Shenzhen) for the purchase of embroidery products amounted to approximately RMB0.57 million, RMB0.83 million and RMB0.19 million respectively (equivalent to approximately HK\$0.74 million, HK\$1.07 million and HK\$0.24 million respectively).

Our Group has discontinued purchasing embroidery products from Beilan (Shenzhen) since March 2013 as the Group has commenced purchasing from other independent suppliers who supply embroidery products to our Group at prices and quality comparable to those offered by Beilan (Shenzhen).

The business of Beilan (Shenzhen) was not injected in the Group as it is controlled by independent third parties and is engaged in a different business from the Group. On this basis, the Directors and the Sole Sponsor are of the view that Beilan (Shenzhen) would not compete with the Group.

Sale of products by Sinomax Macao to Sinomax Europe GMBH

Sinomax Europe GMBH is directly wholly-owned by Sinomax Enterprises, one of our Controlling Shareholders. In 2011, Sinomax Europe GMBH was incorporated for the purpose of distributing products, mainly massage chairs, produced by our Group to the European market and the products were purchased from Sinomax Macao, a Group company.

Sinomax Macao had sold products to Sinomax Europe GMBH since 2011. No written agreement was entered into between the parties for the sale and purchase of products of our Group. Products were sold to Sinomax Europe GMBH based on cost-plus pricing. For the years ended 31 December 2011, 2012 and 2013, the aggregate sales by Sinomax Macao to Sinomax Europe GMBH amounted to approximately HK\$4.85 million, HK\$4.13 million and HK\$4.44 million respectively.

In the past, our Group manufactured low-end massage chairs for customers under third-party brands, the profit margin of which was low. As a result of a change of strategies, our Group has ceased to manufacture low-end massage chairs. As the major purpose of the incorporation of Sinomax Europe GMBH was to distribute products, mainly low-end massage chairs produced by the Group, Sinomax Enterprises intends to dispose Sinomax Europe GMBH to independent third parties or dissolve it in the near future. Our Group has discontinued selling products to Sinomax Europe GMBH since September 2013 and our business (in relation to products other than low-end massage chairs) in the European market is now handled by other companies in our Group.

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In view of the above, Sinomax Europe GMBH has not been included in our Group and our Directors and the Sole Sponsor are of the view that there is no concern of competition between Sinomax Europe GMBH and our Group.

Purchase of inventories (i.e. foam and chemicals) by Sinomax Zhejiang from Shinuo Polyurethane (Shanghai) Co., Ltd.* (施諾聚氨酯(上海)有限公司) (“Shinuo Polyurethane (Shanghai)”)

Shinuo Polyurethane (Shanghai) is a company indirectly controlled by our Controlling Shareholders, namely LAM Chi Fan, CHEUNG Tung, CHEN Feng and Sinomax Enterprises. Prior to the end of 2010, Shinuo Polyurethane (Shanghai) was principally engaged in foam manufacturing. Production of foams ceased by the end of 2010 and Shinuo Polyurethane (Shanghai) became a trading company distributing foams produced by Sinomax Zhejiang until August 2013, when all of the former's business was suspended. The directors of Shinuo Polyurethane (Shanghai) confirmed that they intend to deregister Shinuo Polyurethane (Shanghai).

Since 2010, the Directors have considered that Sinomax Zhejiang, being a subsidiary of our Group, has sufficient additional production capacity to satisfy orders from the then customers not just of its own but also orders from customers of Shinuo Polyurethane (Shanghai). To streamline the businesses of our Group and for easier management, Shinuo Polyurethane (Shanghai) decided to cease its production activities and sold all its inventories (i.e. chemicals and foams) to Sinomax Zhejiang at cost. The transactions ceased when all the inventories were sold out to Sinomax Zhejiang in 2011. No written agreement was entered into between the parties for sale and purchase of inventories. For the year ended 31 December 2011, the aggregate consideration paid by Sinomax Zhejiang to Shinuo Polyurethane (Shanghai) for the purchase of inventories amounted to approximately RMB3.06 million (equivalent to approximately HK\$3.68 million[#]).

Shinuo Polyurethane (Shanghai) ceased its production by the end of 2010 and it became a distributor of products manufactured by Sinomax Zhejiang until August 2013. Customers of Shinuo Polyurethane (Shanghai) have then been handled by Sinomax Zhejiang directly. Since then, the business of Shinuo Polyurethane (Shanghai) has suspended and is not expected to resume, and as such, the business of Shinuo Polyurethane (Shanghai) was not injected to the Group and the Directors and the Sole Sponsor are of the view that Shinuo Polyurethane (Shanghai) would not compete with the Group.

Sale of foams by Sinomax Zhejiang to Shinuo Polyurethane (Shanghai)

Sinomax Zhejiang sold foams through Shinuo Polyurethane (Shanghai) to certain of the latter's customers since 2010. The selling price was based on a cost-plus basis. No written agreement was entered into between the parties for the sale and purchase of foam. For the years ended 31 December 2011, 2012 and 2013, the aggregate sales by Sinomax Zhejiang to Shinuo Polyurethane (Shanghai) of foams amounted to approximately RMB40.54 million, RMB36.79 million and RMB13.80 million respectively (equivalent to approximately HK\$48.76 million[#], HK\$45.23 million[#] and HK\$17.23 million[#] respectively).

Our Group has discontinued selling foams through Shinuo Polyurethane (Shanghai) since August 2013 as Sinomax Zhejiang has been receiving orders directly from the former's customers since August 2013. The directors of Shinuo Polyurethane (Shanghai) confirmed that they intend to deregister Shinuo Polyurethane (Shanghai).

Purchase of inventories (i.e. foams) by Sinomax Zhejiang from Sinomax Polyurethane (Shanghai) Co., Ltd.* (聖諾盟聚氨酯(上海)有限公司) (“Sinomax Polyurethane (Shanghai)”)

Sinomax Polyurethane (Shanghai) is a company indirectly controlled by our Controlling Shareholders, namely LAM Chi Fan, CHEUNG Tung, CHEN Feng and Sinomax Enterprises. Prior to the end of 2010, Sinomax Polyurethane (Shanghai) was principally engaged in foam

CONNECTED TRANSACTIONS

manufacturing. Production of foams ceased by the end of 2010 and Sinomax Polyurethane (Shanghai) became a trading company distributing foams produced by Sinomax Zhejiang until August 2013, when all of the former's business was suspended. The directors of Sinomax Polyurethane (Shanghai) confirmed that they intend to deregister Sinomax Polyurethane (Shanghai).

Since 2010, the Directors have considered that Sinomax Zhejiang, being a subsidiary of our Group, has sufficient additional production capacity to satisfy orders from customers not just of its own but also orders from customers of Sinomax Polyurethane (Shanghai). To streamline the businesses of our Group and for easier management, Sinomax Polyurethane (Shanghai) decided to cease its production activities and sold all its inventories (i.e. foams) to Sinomax Zhejiang at cost. The transactions ceased when all the inventories were sold out to Sinomax Zhejiang in 2011. No written agreement was entered into between the parties for sale and purchase of inventories. For the year ended 31 December 2011, the aggregate consideration paid by Sinomax Zhejiang to Sinomax Polyurethane (Shanghai) for the purchase of inventories amounted to approximately RMB18.60 million (equivalent to approximately HK\$25.98 million[#]).

Sinomax Polyurethane (Shanghai) ceased its production by the end of 2010 and it became a distributor of products manufactured by Sinomax Zhejiang until August 2013. Customers of Sinomax Polyurethane (Shanghai) have then been handled by Sinomax Zhejiang directly. Since then, the business of Sinomax Polyurethane (Shanghai) has suspended and is not expected to resume, and as such, the business of Sinomax Polyurethane (Shanghai) was not injected to the Group and the Directors and the Sole Sponsor are of the view that Sinomax Polyurethane (Shanghai) would not compete with the Group.

Sale of foam by Sinomax Zhejiang to Sinomax Polyurethane (Shanghai)

Sinomax Zhejiang had sold foams through Sinomax Polyurethane (Shanghai) to certain customers since 2009. The selling price was set on a cost-plus basis. No written agreement was entered into between the parties for sale and purchase of foams. For the years ended 31 December 2011, 2012 and 2013, the aggregate sales by Sinomax Zhejiang to Sinomax Polyurethane (Shanghai) for foams amounted to approximately RMB34.33 million, RMB41.49 million and RMB27.20 million respectively (equivalent to approximately HK\$41.29 million[#], HK\$50.99 million[#] and HK\$34.01 million[#] respectively).

Our Group has discontinued selling foams through Sinomax Polyurethane (Shanghai) since August 2013 as Sinomax Zhejiang has obtained orders directly from the former's customers since August 2013. The directors of Sinomax Polyurethane (Shanghai) confirmed that they intend to deregister Sinomax Polyurethane (Shanghai).

Sale of foams by Sinomax Zhejiang to Jiashan Yisheng Polyurethane Products Limited* (嘉善怡聖聚氨酯製品有限公司) (“Jiashan Yisheng”)

Prior to its deregistration in January 2013, Jiashan Yisheng was a company controlled by our Controlling Shareholders, namely LAM Chi Fan, CHEUNG Tung, CHEN Feng and Sinomax Enterprises. Jiashan Yisheng was principally engaged in distributing foam products produced by Sinomax Zhejiang.

Sinomax Zhejiang had sold foams to Jiashan Yisheng for distribution since 2010. The selling price was set on a cost-plus basis. For the years ended 31 December 2011, 2012 and 2013, the aggregate consideration paid by Jiashan Yisheng to Sinomax Zhejiang for the purchase of foams amounted to approximately RMB27.76 million, RMB22.94 million and nil respectively (equivalent to approximately HK\$33.38 million[#], HK\$28.20 million[#] and nil respectively).

CONNECTED TRANSACTIONS

For streamlining our Group's businesses and for easier management, our Directors decided that Sinomax Zhejiang, being a subsidiary of our Group, would take orders from Jiashan Yisheng's customer directly. As such, our Group discontinued selling foams to Jiashan Yisheng since the end of 2012. Jiashan Yisheng was later deregistered in January 2013. In view of the above, Jiashan Yisheng has not been included in our Group and our Directors and the Sole Sponsor are of the view that there is no concern of competition between Jiashan Yisheng and our Group.

General

Our Directors confirmed that all the above Related Party Transactions were conducted under normal commercial terms. Therefore, our Group's risk and tax exposure from its sales and purchase transactions with the above related parties are the same as its normal business with independent third parties.

Our Directors also confirm that there were no sale and buy-back arrangements between the Group and any of the above related parties.

Our Directors are of the view that the cessation of the above Related Party Transactions does not have any material adverse impact on our Group's operation going forward on the following basis:

<u>Related Party Transaction</u>	<u>Basis of no material adverse impact</u>
Sale of foams by Sinomax Kuka to Gu Jia Household and Gu Jia Craft	Haining Sinomax will become the transaction party with Gu Jia Household and the relevant transactions will continue after Listing
Purchase of hardware by Dongguan Sinohome from Dongguan Xisheng	As our Group has ceased its production of low-end massage chairs, our Group no longer requires the hardware supplied by Dongguan Xisheng, which was for the purpose for manufacturing of low-end massage chair
Purchase of embroidery products by Dongguan Sinohome from Beilan (Shenzhen)	Our Group has sourced from other independent suppliers who supply embroidery products to our Group at prices and quality comparable to those offered by Beilan (Shenzhen)
Sale of products by Sinomax Macao to Sinomax Europe GMBH	The Group ceased to produce low-end massage chairs for customers. The Group's business (in relation to products other than low-end massage chairs) in the European market is now handled by other companies in our Group
Purchase of inventories (i.e. foam and chemicals) by Sinomax Zhejiang from Shinuo Polyurethane (Shanghai) and sale of foam by Sinomax Zhejiang to Shinuo Polyurethane (Shanghai)	Customers of Shinuo Polyurethane (Shanghai) have been handled by Sinomax Zhejiang directly since the cessation of transactions

CONNECTED TRANSACTIONS

<u>Related Party Transaction</u>	<u>Basis of no material adverse impact</u>
Purchase of inventories (i.e. foams) by Sinomax Zhejiang from Sinomax Polyurethane (Shanghai) and sale of foam by Sinomax Zhejiang to Sinomax Polyurethane (Shanghai)	Customers of Sinomax Polyurethane (Shanghai) have been handled by Sinomax Zhejiang directly since the cessation of transactions
Sale of foams by Sinomax Zhejiang to Jiashan Yisheng	Customers of Jiashan Yisheng have been handled by Sinomax Zhejiang directly since the cessation of transactions

Note: Figures marked “#” in this section are based on the exchange rates used by our Company in the preparation of the relevant financial information, without using the exchange rates set out in the section headed “Information about this Prospectus and the Global Offering – Exchange Rate Conversion” in this Prospectus.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board consists of 10 Directors, five of whom are executive Directors and five are independent non-executive Directors.

Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth certain information regarding our Directors:

Name	Age	Position	Roles and Responsibilities	Date of Appointment as Director	Date of Joining our Group	Relationship with other Directors, or senior management
LAM Chi Fan (林志凡)	55	Chairman of the Board and Executive Director	Formulation of overall business strategies, overall management of the Group and business planning, Chairman of the Nomination Committee and member of the Remuneration Committee	5 June 2012	19 January 2000	Uncle of CHEUNG Tung; father of LAM Sze Chiu; and cousin of LAM Fei Man
CHEUNG Tung (張棟)	38	President and Executive Director	Overall management and daily operations of the Group	5 June 2012	21 July 2003	Nephew of LAM Chi Fan and LAM Fei Man; and cousin of LAM Sze Chiu
CHEN Feng (陳楓)	50	Executive Director	Overall management of the export business and product development	5 June 2012	19 January 2000	Cousin of LAM Fei Man's mother
LAM Kam Cheung (林錦祥)	46	Executive Director, Chief Financial Officer and Company Secretary	Financial management of our Group	5 June 2012	31 May 2004	N/A
LAM Fei Man (林斐雯)	39	Executive Director	Managing purchasing operations of our Group	5 June 2012	19 January 2000 (Note)	Cousin of LAM Chi Fan; daughter of CHEN Feng's cousin; and aunt of CHEUNG Tung

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Roles and Responsibilities	Date of Appointment as Director	Date of Joining our Group	Relationship with other Directors, or senior management
WONG Chi Keung (王志強)	47	Independent Non-Executive Director	Chairman of the Audit Committee and Corporate Governance Committee and member of the Nomination Committee	4 March 2014	4 March 2014	N/A
Professor LAM Sing Kwong Simon (林誠光教授)	55	Independent Non-Executive Director	Chairman of the Remuneration Committee and member of the Audit Committee, Nomination Committee and Corporate Governance Committee	4 March 2014	4 March 2014	N/A
FAN Chun Wah Andrew (范駿華)	35	Independent Non-Executive Director	Member of the Audit Committee, Corporate Governance Committee and Remuneration Committee	4 March 2014	4 March 2014	N/A
ZHANG HWO Jie (張傑)	51	Independent Non-Executive Director	Member of the Audit Committee and the Corporate Governance Committee	4 March 2014	4 March 2014	N/A
WU Tak Lung (吳德龍)	49	Independent Non-Executive Director	Member of the Audit Committee and the Corporate Governance Committee	4 March 2014	4 March 2014	N/A

Note: LAM Fei Man worked as the assistant administration manager for Sinomax Holding, a predecessor company of Sinomax Enterprises, until January 2003 and she rejoined our Group in February 2006.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

LAM Chi Fan (林志凡), aged 55, is a co-founder of our Group, the Chairman of the Board, an executive Director, the Chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Lam was appointed to our Board in June 2012 and is responsible for formulation of overall business strategies and management of the Group and business planning. He is also the directors of almost all of the subsidiaries of our Group except Sinohome Shenzhen, Haining Sinomax and Dongguan Sinohome. Mr. Lam has over 20 years' experience in the polyurethane foam business. Prior to founding our Group on 19 January 2000, he worked as a director of Luen Tai Component Limited, a company incorporated in Hong Kong engaged in the sales of foam products, from March 1991 to July 1996. He was appointed as a member of the 13th Chinese People's Political Consultative Conference Jiashan, Zhejiang Province Committee (中國人民政治協商會議浙江省嘉善縣第十三屆委員會特邀委員) in February 2012, executive vice president of the Dongguan City Tang Xia Association of Enterprises with Foreign Investment (東莞市塘廈外商投資企業協會常務副會長) in January 2013, vice president of the Shau Kei Wan District of the Scout Association of Hong Kong (香港童軍總會筲箕灣區副會長) in August 2012 and in September 2013 and affiliated supervisor of the Huangpu Customs of the People's Republic of China (中華人民共和國黃埔海關辦事處特邀監督員) in April 2014. Mr. Lam is the uncle of CHEUNG Tung, President and an executive Director; the father of LAM Sze Chiu, a senior management member of our Group; and cousin of LAM Fei Man, an executive Director. He is also a director of Sinomax Enterprises, one of our Controlling Shareholders.

CHEUNG Tung (張棟), aged 38, is the President and an executive Director. Mr. Cheung joined our Group on 21 July 2003 as Chairman Assistant, responsible for handling the information technology infrastructure of our Group and was appointed to our Board in June 2012. He is currently responsible for the overall management and daily operations of our Group. He is also the directors of almost all of the subsidiaries of our Group except Haining Sinomax and Dongguan Sinohome. Prior to joining our Group, Mr. Cheung assisted in setting up C&T Solutions Limited, a company incorporated in Hong Kong engaged in providing information technology services, in March 2000. Mr. Cheung obtained a master of business administration jointly issued by Northwestern University, the US, and the Hong Kong University of Science and Technology in June 2013 after completing the Kellogg-HKUST Executive MBA Program. He also received a bachelor's degree in computer engineering from the Hong Kong University of Science and Technology in November 1999. Mr. Cheung is a nephew of LAM Chi Fan, the Chairman of the Board and an executive Director; nephew of LAM Fei Man, an executive Director; and cousin of LAM Sze Chiu, a senior management member of our Group. He is also a director of Sinomax Enterprises, one of our Controlling Shareholders.

CHEN Feng (陳楓), aged 50, is an executive Director. Mr. Chen was appointed to our Board in June 2012 and is responsible for the overall management of the export sales business and product development of our Group. In addition, he is also the key executive in mapping the sales and marketing strategies in the US through Sinomax USA. He is also a director of the following subsidiaries of our Group: Year Prosper, Sinomax Health, Fullelite, Wonderful Health, Sinomax USA, Sinomax Investment and Sinomax Zhejiang. Mr. Chen joined our Group on 19 January 2000 as the Export Sales Manager of our Group and became the Vice President of our Group in 2007. He assisted in setting up Sinomax USA, our wholly-owned subsidiary engaging in export sales in the US and has been the President and a director of Sinomax USA since its establishment in 2005. Mr. Chen received a master of science degree in industrial engineering from Louisiana State University in Baton Rouge, US, in May 1992 and a bachelor of engineering degree in safety engineering (安全工程) from 北京經濟學院, now known as Capital University of Economics and Business (首都經濟貿易大學), in Beijing, PRC, in July 1985. Mr. Chen is a cousin of the mother of LAM Fei Man, an executive Director. He is also a director of Sinomax Enterprises, one of our Controlling Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

LAM Kam Cheung (林錦祥), aged 46, is our executive Director, our Chief Financial Officer and our Company Secretary. Mr. Lam joined our Group on 31 May 2004 as the Financial Controller and was appointed to our Board in June 2012 and as Chief Financial Officer in August 2013. He is responsible for the financial management of our Group. Mr. Lam has over 20 years' experience in accounting and auditing. Prior to joining our Group, he was an executive director and company secretary of Yeebo (International Holdings) Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0259), from October 1995 to May 2004. Mr. Lam received a bachelor's degree in business administration from the Chinese University of Hong Kong in December 1989. He has been a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants since February 1993 and September 1992, respectively.

LAM Fei Man (林斐雯), aged 39, is an executive Director. She manages our Group's purchasing operations. She is also a director of almost all of the subsidiaries of our Group except Haining Sinomax, Dongguan Sinohome, Sinomax USA and Sinomax Zhejiang. Ms. Lam joined our Group on 19 January 2000 and worked as the assistant administration manager for Sinomax Holding, a predecessor company of Sinomax Enterprises, until January 2003 and she rejoined our Group in February 2006 as Purchasing Manager, and was appointed as an executive Director in June 2012. Ms. Lam has over 15 years' experience in purchasing and logistics, including working as a merchandiser for Capital 88 Incorporation Limited, a company in Hong Kong engaged in general trading, from June 2003 to January 2006. She received an advanced diploma in business management from the School of Continuing Education of Hong Kong Baptist University in April 2013. Ms. Lam is the cousin of LAM Chi Fan, Chairman of the Board and an executive Director; the daughter of a cousin of CHEN Feng, an executive Director; and aunt of CHEUNG Tung, President and an executive Director.

Independent Non-executive Directors

WONG Chi Keung (王志強), aged 47, is an independent non-executive Director of our Group, the Chairman of the Audit Committee and Corporate Governance Committee and a member of the Nomination Committee. Mr. Wong was appointed to our Board on 4 March 2014. Mr. Wong is currently the chief financial officer of Win Hanverky Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3322). Mr. Wong's work experience also includes serving as chief financial officer for Besunyen Holdings Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0926) from September 2011 to September 2013 and China Dongxiang (Group) Co., Ltd. (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3818) from May 2007 to April 2010. Between June 2002 to June 2006, Mr. Wong worked at various operating entities of China Netcom Group, including serving as a senior finance manager of China Netcom Group Corporation (Hong Kong) Limited (a company previously listed on the Main Board of the Hong Kong Stock Exchange, former stock code: 0906, and subsequently merged with China Unicom (Hong Kong) Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0762)). Between July 1989 to December 1999, Mr. Wong was employed by PricewaterhouseCoopers, an international public accounting firm, in Hong Kong and lastly as an audit manager. Mr. Wong received a bachelor degree in business administration from the Chinese University of Hong Kong in December 1989 and a master degree in business administration from the Australian Graduate School of Management, jointly issued by the University of New South Wales and the University of Sydney in April 2002. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants since November 1997 and February 1993, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Professor LAM Sing Kwong Simon (林誠光教授), aged 55, is an independent non-executive Director of our Group, the Chairman of the Remuneration Committee and a member of the Audit Committee, the Nomination Committee and the Corporate Governance Committee. Professor Lam was appointed to our Board on 4 March 2014. Professor Lam joined the University of Hong Kong as full-time teaching staff in September 1989 and is currently the Professor of Management at the Faculty of Business and Economics at the University of Hong Kong. He has published a number of academic papers and case analysis in the topics of corporate strategies, organisation development and operations management. Professor Lam is an independent non-executive director of Overseas Chinese Town (Asia) Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3366) and an independent non-executive director of Jin Cai Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1250). Prior to joining the University of Hong Kong, Professor Lam worked as regional support manager for the Canadian Imperial Bank of Commerce from 1987 to 1989. Professor Lam received a doctorate degree in commerce from the Australian National University in April 1996.

FAN Chun Wah Andrew (范駿華), aged 35, is an independent non-executive Director of our Group and a member of the Audit Committee, the Corporate Governance Committee and the Remuneration Committee. Mr. Fan was appointed to our Board on 4 March 2014. Currently, Mr. Fan is a certified public accountant practising under the name of C.W. Fan & Co. Limited. He was an independent non-executive director of Far East Holdings International Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0036) until February 2012 and an independent non-executive director of CIG Yangtze Ports PLC (a company listed on Growth Enterprise Market of the Hong Kong Stock Exchange, stock code: 8233) until March 2014. He is currently an independent non-executive director of Milan Station Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1150), Chuang's China Investments Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0298) and LT Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0112). Mr. Fan was invited to be a member of the 10th and 11th Chinese People's Political Consultative Conference Zhejiang Committee* (中國人民政治協商會議浙江省第十屆及第十一屆委員會) in January 2008 and in January 2013, respectively. He was also a member of the 4th and 5th Chinese People's Political Consultative Conference Shenzhen Committee* (中國人民政治協商會議第四屆及第五屆深圳市委員會). Mr. Fan received a bachelor degree in business administration in accounting and finance from the University of Hong Kong in December 1999 and a bachelor degree in laws from the University of London in August 2007, completed by long distance study. Mr. Fan is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants since August 2011 and January 2003, respectively.

ZHANG HWO Jie (張傑), aged 51, is an independent non-executive Director of our Group and a member of the Audit Committee and the Corporate Governance Committee. Mr. Zhang was appointed to our Board on 4 March 2014. Mr. Zhang is currently the chairman of EVA Precision Industrial Holdings Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 838). Mr. Zhang has more than 20 years of experience in marketing, strategic planning and corporate management in manufacturing industry and was granted with the "Young Industrialist Award of Hong Kong" by the Federation of Hong Kong Industries in December 2008. He is also an honorary chairman of The Hong Kong Metals Manufacturers Association since 2012, an honorary president of Hong Kong Mould and Product Technology Association since 2013, the vice president of Hong Kong Young Industrialists Council since 2013 and the chairman of automobile components committee of the Chinese Manufacturers' Association of Hong Kong since 2012.

DIRECTORS AND SENIOR MANAGEMENT

WU Tak Lung (吳德龍), aged 49, is an independent non-executive Director of our Group and a member of the Audit Committee and the Corporate Governance Committee. Mr. Wu was appointed to our Board on 4 March 2014. Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants and the Hong Kong Securities Institute. Mr. Wu is also a fellow member of the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries. Mr. Wu was awarded the bachelor degree of business administration in accounting by the Hong Kong Baptist College (now the Hong Kong Baptist University) in December 1993 and the master degree of business administration jointly by the University of Manchester and the University of Wales in February 2001. Mr. Wu had worked in Deloitte Touche Tohmatsu, an international accounting firm, for five years and was then employed by several companies in Hong Kong as head of corporate finance and/or executive director. Mr. Wu had over 10 years of experience in the corporate finance field and held a Type 6 license (Advising on corporate finance) until 2012. Mr. Wu currently serves as an independent non-executive director of Aupu Group Holding Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 0477), Beijing Media Corporation Limited (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1000), Valuetronics Holdings Limited (a company listed on Singapore Stock Exchange), First Tractor Company Limited (a company listed on both the Main Board of the Hong Kong Stock Exchange, stock code: 0038, and the Shanghai Stock Exchange) and China Machinery Engineering Corporation* (中國機械設備工程股份有限公司) (a company listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1829). During the past three years, Mr. Wu served as an independent non-executive director of China Water Industry Group Limited, Neo-Neon Holdings Limited, Apollo Solar Energy Technology Holdings Limited (now known as “Hanergy Solar Group Limited” and formerly known as “RBI Holdings Limited”) and iMerchants Limited (now known as “Chinese Energy Holdings Limited”), all of which are companies listed on the Hong Kong Stock Exchange.

Save as disclosed above and in the section headed “Appendix IV – Statutory and General Information – C. Further Information about Directors and Substantial Shareholders” in this Prospectus, as of the Latest Practicable Date, each of our Directors (i) did not hold any other positions in our Company or other members of our Group; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders; and (iii) did not hold any other directorships in listed public companies in the past three years. Save as disclosed in the sections headed “Appendix IV – Statutory and General Information – C. Further Information about Directors and Substantial Shareholders” and “Appendix IV – Statutory and General Information – D. Pre-IPO Share Option Scheme” in this Prospectus, each of our Directors does not have any interest or short position in the Shares and underlying Shares (within the meaning of Part XV of the SFO). Please also refer to the section headed “Appendix IV – Statutory and General Information – C. Further Information about Directors and Substantial Shareholders” for particulars of Directors’ service agreements and Directors’ remuneration.

Save as disclosed above, each of our Directors has confirmed that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of our Shareholders and there is no other information in relation to his/her appointment which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information concerning our other senior management members:

Name	Age	Position	Key Role	Date of Appointment to Position	Year of Joining our Group	Relationship with Directors, or other senior management
LAM Sze Chiu (林仕超)	31	Marketing Director	Developing and communicating marketing strategies and coordinating marketing functions of our Group	10 June 2012	2007	Son of LAM Chi Fan and cousin of CHEUNG Tung
QIAN Hong Xiang* (錢洪祥)	50	General Manager of Sinomax Kuka	Supervision of daily operation and management of Sinomax Kuka	29 December 2005	2000	N/A
LIN Feng* (林峰)	37	General Manager of Sinohome Shenzhen	Supervision of daily operation and management of Sinohome Shenzhen	10 June 2012	2003	N/A
YUE Wai Fun (余慧芬)	39	General Manager of Sinomax Health	Supervision of daily operation and management of Sinomax Health	10 June 2012	2004	N/A
CHEN Xiao Hua* (陳小華)	52	General Manager of Sinomax Zhejiang	Supervising of daily operation and management of Sinomax Zhejiang	1 October 2013	2013	N/A

If there is any inconsistency between the Chinese names and the English translations marked with “*”, the Chinese names shall prevail.

DIRECTORS AND SENIOR MANAGEMENT

LAM Sze Chiu (林仕超), aged 31, is the Marketing Director of our Group, responsible for developing and communicating marketing strategies and coordinating marketing functions of our Group. Mr. Lam joined our Group in 2007 and has been working as the marketing director of our Group since 2012. Mr. Lam received a bachelor of arts degree with honours from York University in Toronto, Canada, in June 2006. Mr. Lam is the son of LAM Chi Fan, the Chairman of the Board and an executive Director, and cousin of CHEUNG Tung, President and an executive Director.

QIAN Hong Xiang* (錢洪祥), aged 50, was appointed as the General Manager of Sinomax Kuka in December 2005. Mr. Qian is responsible for supervision of daily operation and management of Sinomax Kuka. Mr. Qian joined our Group in 2000 and worked as general manager and chief of foam research. Prior to joining the Group, Mr. Qian worked at Tung Ah (China Holdings) Limited, a company engaged in the chemical and plastic business, as factory manager and researcher in foams from 1993 to 2000. Mr. Qian has nearly 20 years' experience in foam production and research and has participated in formulating more than five national standards. Mr. Qian was invited as a member of the Standardisation Administration of the People's Republic of China (中國國家標準化管理委員會) until April 2018 and an expert in foaming plastics of the China Plastics Processing Industry Association (中國塑料加工工業協會) with tenure between November 2005 to September 2017. He was also presented the National Science & Technology Progress Award (third class)* (科學技術進步三等獎) by the China Light Industry Council* (中國輕工業聯合會) in March 2008, the China Standards Innovation Contribution Award* (中國標準創新貢獻獎) jointly by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗檢疫總局) and the Standardisation Administration of the People's Republic of China (中國國家標準化管理委員會) in December 2009. He was also awarded Outstanding Worker of the Plastic Industry in the PRC* (中國塑料行業先進工作者) by the China Plastics Processing Industry Association (中國塑料加工工業協會) in May 2009, and Good Citizen* (十佳新居民) between 2011 and 2012 in January 2013, Model Worker of Haining* (海寧市勞動模範) between 2008 and 2012 in April 2013 and Outstanding Entrepreneur of 2011* (2011年度優秀企業家) in March 2012 by the Jiaying People's Government (嘉興市人民政府).

LIN Feng* (林峰), aged 37, was appointed as the General Manager of Sinohome Shenzhen in June 2012. Mr. Lin is responsible for supervision of daily operation and management of Sinohome Shenzhen. Mr. Lin joined our Group in 2003, and he received a diploma in applied computing (計算機應用) from 中央廣播電視大學, now known as the Open University of China (國家開放大學), in October 2005.

YUE Wai Fun (余慧芬), aged 39, was appointed as the General Manager of Sinomax Health in June 2012. Ms. Yue is responsible for supervision of daily operation and management of Sinomax Health. Ms. Yue joined our Group in 2004 and has worked as Marketing Manager and Brand & Marketing Manager before Ms. Yue was appointed as General Manager of Sinomax Health in June 2012. Ms. Yue received a bachelor of social science degree from the Chinese University of Hong Kong in May 1996.

CHEN Xiao Hua* (陳小華), aged 52, joined our Group in 2013 when he was appointed as the General Manager of Sinomax Zhejiang in October 2013. Mr. Chen is responsible for supervision of daily operation and management of Sinomax Zhejiang. Prior to joining our Group, Mr. Chen was the General Manager of Sinomax Polyurethane (Shanghai) Co., Ltd.* (聖諾盟聚氨酯(上海)有限公司), a company indirectly controlled by our Controlling Shareholders and a company engaged in foam manufacturing, from 2002 to 2013. Mr. Chen has more than 20 years of experience in foam production and research. Mr. Chen completed a business administration course for company executives from the Zhejiang University* (浙江大學) in November 2006.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

We have established the following committees in our Board of Directors: an Audit Committee, a Nomination Committee, a Remuneration Committee and a Corporate Governance Committee. The committees operate in accordance with the terms of reference established by our Board of Directors.

Audit Committee

We established an Audit Committee on 4 March 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of five members being WONG Chi Keung, Professor LAM Sing Kwong Simon, FAN Chun Wah Andrew, ZHANG HWO Jie and WU Tak Lung. The Chairman of the Audit Committee is WONG Chi Keung, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities assigned by our Board.

Nomination Committee

We established a Nomination Committee on 4 March 2014 with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members being LAM Chi Fan, Professor LAM Sing Kwong Simon and WONG Chi Keung. The Chairman of the Nomination Committee is LAM Chi Fan.

The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size, diversity and composition of the Board of Directors, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

Remuneration Committee

We established a Remuneration Committee on 4 March 2014 with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members being Professor LAM Sing Kwong Simon, LAM Chi Fan and FAN Chun Wah Andrew. The Chairman of the Remuneration Committee is Professor LAM Sing Kwong Simon.

The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all executive Directors and senior management and making recommendation to the Board on the remuneration of non-executive Directors; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance Committee

We established a Corporate Governance Committee on 4 March 2014 with written terms of reference in compliance with paragraph D3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The Corporate Governance Committee consists of five members being WONG Chi Keung, Professor LAM Sing Kwong Simon, FAN Chun Wah Andrew, ZHANG HWO Jie and WU Tak Lung. The Chairman of the Corporate Governance Committee is WONG Chi Keung.

The primary duties of the Corporate Governance Committee include, but are not limited to (i) developing and reviewing our Company's policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring our Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing our Company's compliance with Appendix 14 to the Listing Rules.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our Company's contribution to the pension schemes on their behalf. We determine the salaries of our Directors based on each Director's qualification, position and seniority.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) to our Directors for the year ended 31 December 2011, 2012 and 2013 were approximately HK\$4,396,000, HK\$4,695,000 and HK\$5,975,000, respectively.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes), to our five highest paid individuals for the year ended 31 December 2011, 2012 and 2013 were approximately HK\$6,493,000, HK\$6,390,000 and HK\$7,159,000, respectively. Such individuals included two Directors and three employees in 2011, one Director and four employees in 2012 and two Directors and three employees in 2013.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2011, 2012 and 2013. Further, none of our Directors have waived any remuneration during the same period.

Under the arrangements currently in force, we estimate the aggregate amount of remuneration of our Directors (including salaries, allowances, and other benefits and contributions to pension schemes but excluding discretionary bonuses) for the year ending 31 December 2014 to be approximately HK\$9.0 million.

DIRECTORS AND SENIOR MANAGEMENT

Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme

The Company has conditionally adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme whereby certain selected participants (including without limitation the executive and independent non-executive Directors, senior management and other employees of the Group) were or may be granted options to acquire Shares. The principal terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are summarised in the sections headed “D. Pre-IPO Share Option Scheme” and “E. Post-IPO Share Option Scheme” in Appendix IV to this Prospectus.

COMPLIANCE ADVISER

We have appointed Somerley Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that disclosed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this Prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date three years after Listing and such appointment may be extended by mutual agreement based on our Directors’ review of the corporate governance status of our Group at that time.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Share which may be issued or allotted pursuant to the exercise of (i) the Over-allotment Option, (ii) options granted pursuant to the Pre-IPO Share Option Scheme and (iii) options which may be granted under the Post-IPO Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Statutory and General Information – C. Further Information about Directors and Substantial Shareholders – (d) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations” in Appendix IV to this Prospectus, the following persons are expected to have interest and/or short positions in the Shares or underlying shares of our Company which would be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Long Positions

The Company

Name of Substantial Shareholder	Capacity/Nature of interest	Number and class of securities	Percentage of interest in our Company
Sinomax Enterprises <i>(Note 1)</i>	Beneficial interest	900,000,000 Ordinary Shares	54.55%
Chi Fan Holding Limited <i>(Note 2)</i>	Interest of a controlled corporation	900,000,000 Ordinary Shares	54.55%
Orangefield <i>(Note 3)</i>	Trustee of various trusts	900,000,000 Ordinary Shares	54.55%

Other member of our Group

Name of Substantial Shareholder	Member of our Group	Capacity/nature of interest	Number and class of securities	Approximate percentage of interest
QIAN Hong Xiang	Trade Sincere	Beneficial interest	15 Ordinary shares	15%
Gu Jia Household	Sinomax Kuka	Beneficial interest	N/A	40%

Notes:

- (1) 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 by The Frankie Trust, The Cheung’s Family Trust, The James’ Family Trust and The Feng Chen’s Family Trust, respectively.

SUBSTANTIAL SHAREHOLDERS

- (2) These Shares belong to Sinomax Enterprises, which is legally owned as to 50% by Chi Fan Holding Limited.

- (3) 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 James' Family Trust are CHEUNG Shui Ying and her family members. The beneficiaries of The Cheung's Family Trust are CHEUNG Tung and his family members. The beneficiaries of The Feng Chen's Family Trust are CHEN Feng and his family members.

Save as disclosed in this Prospectus, we are not aware of any other person who will, immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Share which may be issued or allotted pursuant to the exercise of (i) the Over-allotment Option, (ii) options granted pursuant to the Pre-IPO Share Option Scheme and (iii) options which may be granted under the Post-IPO Share Option Scheme), have an interest or short position in our Shares or underlying shares of our Company which would be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any of our subsidiaries. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

Authorised share capital:	HK\$
<u>10,000,000,000</u> Shares	<u>1,000,000,000</u>

Our Company's issued share capital immediately following the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:	HK\$
50,000 Shares in issue as of the date of this Prospectus	5,000
1,499,950,000 Shares to be issued under the Capitalisation Issue	149,995,000
<u>150,000,000</u> Shares to be issued under the Global Offering	<u>15,000,000</u>
<u>1,650,000,000</u> Total	<u>165,000,000</u>

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank *pari passu* for all dividends or other distributions declared, made or paid after the date of this Prospectus.

SHARE OPTION SCHEMES

We have adopted the Share Option Schemes. The principal terms of the Share Option Schemes are summarised in Appendix IV to this Prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering; and
- the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

SHARE CAPITAL

This mandate will expire at the earlier of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law to be held; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, see "Appendix IV – Statutory and General Information – A. Further information about our Company and the subsidiaries of our Group – 3. Resolution in writing of our Shareholders" in this Prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Capitalisation Issue and the Global Offering.

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Appendix IV – Statutory and General Information – A. Further information about our Company and the subsidiaries of our Group – 6. Repurchase by our Company of our own securities" of this Prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law to be held; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

For further details of this repurchase mandate, see "Appendix IV – Statutory and General Information – A. Further information about our Company and the subsidiaries of our Group – 6. Repurchase by our Company of our own securities" in this Prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and our results of operation together with our audited consolidated financial statements as at and for the years ended 31 December 2011, 2012 and 2013 and the accompanying notes included in the Accountants' Report set out in Appendix I to this Prospectus. The consolidated financial statements have been prepared in accordance with HKFRSs. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the section headed "Risk Factors" in this Prospectus.

OVERVIEW

We are a leading marketer, manufacturer and distributor of quality visco-elastic pillows, mattress toppers and mattresses in the US, Hong Kong and the PRC. We believe our visco-elastic products provide better spinal support and comfort than traditional products such as innerspring mattresses and feather pillows, because our visco-elastic material is temperature sensitive, has a high density and contours to the body more naturally to provide better spinal alignment. We were the second largest supplier of mainstream visco-elastic health and wellness products in the US, and were ranked first in Hong Kong and the PRC retail markets of visco-elastic health and wellness products, each in terms of 2013 retail sales value, according to Frost & Sullivan. Leveraging on over a decade of experience in the Hong Kong and PRC visco-elastic products markets, we believe that we have established leading market positions and a broad presence in Hong Kong and the PRC.

We manage our business through three operating segments:

- *Export sales:* We sell our 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.
- *Retail and corporate sales:* We sell our products under our "SINOMAX" brand through our retail network comprising stand-alone retail shops and concession counters in department stores in Hong Kong, the PRC and Macau. We also conduct direct sales to corporates and other customers in Hong Kong and the PRC, and maintain online sales.
- *Polyurethane foam sales:* We supply quality polyurethane foam on a wholesale basis to furniture manufacturers in the PRC under our "Tung Ah" (東亞) brand. This polyurethane foam is tailored to our customers' specific needs and requirements and is generally used by them in manufacturing furniture such as sofas.

For further information about our business and operations, please refer to the section headed "Business" in this Prospectus.

FINANCIAL INFORMATION

The following table sets forth our consolidated revenue and net profit for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Revenue			
Export sales	877,118	1,019,902	1,254,223
Retail and corporate sales	304,206	296,623	284,057
Polyurethane foam sales	597,119	654,970	831,259
Total	1,778,443	1,971,495	2,369,539
Profit for the year	94,623	115,676	145,033

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION

Our results of operation have been, and will continue to be, affected by many factors, some of which are beyond our control. This section sets out certain key factors that we believe have affected our results of operation during the Track Record Period and could affect our results of operation in the future.

Macroeconomic effects on consumer spending patterns

The demand for our products in the US, Hong Kong and the PRC is sensitive to changes in prevailing macroeconomic conditions, especially those affecting the real estate markets, and the resulting changes in disposable income and consumer spending in these regions.

A significant portion of our revenue from export sales is currently derived from sales to the US. The US has experienced a slow but steady economic growth in recent years, achieving a CAGR for nominal GDP of 2.6% from 2008 to 2013 based on forecast data from the International Monetary Fund. According to the US Department of Commerce and Frost & Sullivan, per capita personal income in the US grew at a CAGR of approximately 1.4% from 2008 to 2013. According to Frost & Sullivan, following the financial crisis outbreak in 2008 and 2009, the visco-elastic health and wellness product market in the US gradually recovered and grew with a CAGR of 12.3% from 2010 to 2013 in terms of retail sales value, and the market share of visco-elastic health and wellness products in the total health and wellness product market increased to 35.3% in 2013 compared to 32.6% in 2008.

Hong Kong has experienced stable economic growth in recent years, achieving a CAGR for nominal GDP of approximately 4.9% from 2008 to 2013 based on forecast data from the International Monetary Fund. According to Census and Statistics Department of Hong Kong and Frost & Sullivan, per capita personal income in Hong Kong grew at a CAGR of approximately 3.7% from 2008 to 2013. According to Frost & Sullivan, total retail sales of visco-elastic health and wellness products in Hong Kong grew with a CAGR of 10.7% from 2008 to 2013, and the market share of visco-elastic health and wellness products in the total health and wellness product market increased to 24.0% in 2013 from 21.1% in 2008.

FINANCIAL INFORMATION

The PRC has experienced considerable economic growth in recent years, achieving a CAGR for nominal GDP of approximately 12.6% from 2008 to 2013 based on data from the National Bureau of Statistics of China. According to the same source, per capita annual disposable income of urban households in the PRC, whose occupants make up the primary end consumers of our products, grew at a CAGR of approximately 11.3% from 2008 to 2013. According to Frost & Sullivan, the value of visco-elastic health and wellness products in the PRC grew with a CAGR of 25.9% from 2008 to 2013, and the market share of visco-elastic health and wellness products in the total health and wellness product market increased to 17.8% in 2013 from 12.6% in 2008.

The polyurethane foam market in the PRC is also affected by demand in the furniture industry, which is driven in part by the PRC property market. According to Frost & Sullivan, the PRC polyurethane foam market grew with a CAGR of 7.4% from 2008 to 2013. In 2011, the PRC property market experienced an overall slowdown, leading to a drop of the polyurethane foam market in terms of market value in that year.

We expect that our results of operations will continue to be significantly affected by changes in economic conditions and corresponding changes in disposable income and consumer spending in our core markets of the US, Hong Kong and regionally significant cities in the PRC.

Consumer awareness and preferences

Our business focuses on health and wellness products made with our visco-elastic material, and we are vulnerable to shifting consumer tastes and demands. Our visco-elastic materials compete with a number of different types of alternative products with similar functionality, including standard innerspring, water or air-supported materials. Our growth and future success will depend, in part, upon our ability to enhance our existing products and to develop and market new products on a timely basis that respond to customer needs and achieve market acceptance. We may not be successful in developing or marketing enhanced or new products, and such products may not be accepted by the market.

A number of trends relevant to the health and wellness industry, such as an increasing consumer appreciation for the health benefits of pressure-relieving materials and changing attitudes towards leading healthy lifestyles, have and may continue to affect purchases of our products. The duration and extent of these preferences and trends, however, is unknown and we cannot assure you that we will continue to benefit from positive consumption patterns and trends in the future, nor can we assure you of our continued ability to recognise and respond to adverse changes or new trends.

Brand recognition and loyalty

We currently sell our products under several brands. Our flagship “SINOMAX” brand is the most important contributor to our success to date. Our “SINOMAX” brand has been awarded the status of a “Hong Kong Top Brand – Pillow category” by the Hong Kong Brand Development Council yearly since 2006. We aim to solidify our leading position in the visco-elastic health and wellness industry by maintaining our competitive advantages, in particular, by enhancing our “SINOMAX” brand recognition and loyalty through our marketing and promotion and determination to offer quality products to consumers, in order to differentiate ourselves from our competitors. We believe that the comprehensiveness and quality product portfolio has enabled us to cultivate and accelerate brand loyalty among our customers.

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We have devoted our marketing and promotion efforts and implemented various strategies to improve our brand recognition and loyalty, including placing advertisements through various media channels, TV shows and exhibitions, setting up “Sinomax Life Stores” and implementing customer loyalty programmes. We may increase our expenditures in advertising and marketing to further strengthen our brand and market position. If we are not able to maintain and continue to enhance the market perception and consumer acceptance of our “SINOMAX” brand, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Business relationships, retention of contracts and new business wins

Our revenue and cash flows are affected by our ability to retain existing business and generate new business from existing and new customers.

Sales to our top five customers accounted for approximately 41.1%, 40.4% and 46.7% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively, with one customer in our export sales segment accounting for approximately 20.6%, 25.0% and 28.9% of our total revenue during the same periods. We generally do not enter into any long-term sales agreements with our customers. Purchase orders are negotiated on an order-by-order basis. These agreements are generally on a non-exclusive basis and contain no minimum purchase obligations. The terms on which we retain business directly affects our results. While product quality and price are key factors affecting our relationship with our customers, other factors such as our performance track record, including on-time service delivery, value-added services provided and operational efficiency will also have an impact. The overall quality of the relationship between us and our major customers is important for business retention and generation, and it can be leveraged upon to increase account profitability.

In connection with new business wins or the expiration of contractual agreements, we are typically invited to tender for a new contract with the customer, or we negotiate a new agreement with the customer. Because of the generally flexible nature of these contractual arrangements, additional business depends largely on the ongoing relationships with existing and potential customers. The factors that influence the terms on which we retain business, and thereby affect our results, are the same factors that influence the terms on which we win new business. The retention of our key customer base gives us a strong platform from which to win new business. Consequently, our customer relationships are key factors influencing our operating results.

We are also highly focused on ensuring profitability by account and product, more than a simple focus on sales volume. This focus has informed our efforts to win business from new and existing customers, but can in the short-term lead periodically to customer losses, with a consequential negative effect on revenue.

Seasonality

Our business and operating results are subject to seasonal fluctuations. We generally record higher sales in fall and winter and during holiday periods or festive seasons. For example, in the US market we typically experience higher sales in our export sales during Thanksgiving and Christmas as they are the traditional peak sales season in the US. In the Hong Kong and PRC markets, we typically experience higher sales in our retail and corporate sales during the Chinese New Year and New Year. We generally record lower sales in February as an increase in sales during Christmas and PRC holiday period leads to a drop in sales immediately after. Also, manufacturing companies in PRC will generally shut down during the PRC holiday period, resulting in lower sales from our polyurethane foam sales segment. As a result, comparisons of sales and operating results and changes in working capital over interim periods are not necessarily meaningful and cannot be relied on as indicators of our performance.

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CRITICAL ACCOUNTING POLICIES

This discussion and analysis of our financial condition and results of operation is based on our audited consolidated financial statements included in the Accountants' Report set out in Appendix I to this Prospectus. Our consolidated financial statements have been prepared in accordance with HKFRSs and with the significant accounting policies set out in Note 4 of the accompanying notes. Accounting methods, assumptions and estimates that underlie the preparation of the financial statements affect our financial condition and results of operation as reported. Such assumptions and estimates are made based on historical experience and various other assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may differ under different assumptions or conditions. We have not experienced any material deviation between our management's estimates and actual results and we have not changed the accounting policies over these estimates during the Track Record Period. Our management currently does not expect any changes in our accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our financial statements.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Estimated allowance for trade receivables is determined based on the evaluation of collectability of these receivables and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables. In making such judgments, management evaluates, among other factors, the current creditworthiness and the past collection history for each customer and the current market conditions. If the present value of the actual future cash flows were less than expected, allowance may be required.

For further details regarding our trade receivables, please see Note 25 to the Accountants' Report in Appendix I to this Prospectus.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Management regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When management identifies items of inventories that have a realisable value that is lower than its carrying amount, management estimates the amount of write-down of inventories as allowance for inventories.

For further details regarding our inventories, please see Note 24 to the Accountants' Report in Appendix I to this Prospectus.

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Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. As at each of the balance sheet dates during the Track Record Period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the financial information, the assets and liabilities of our foreign operations are translated into our presentation currency (i.e. HK\$) using exchange rates prevailing as at each of the balance sheet dates during the Track Record Period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

In relation to a partial disposal of a subsidiary that does not result in our Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year during the Track Record Period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed as at each of the balance sheet dates during the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the year during the Track Record Period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which we expect, as at each of the balance sheet dates during the Track Record Period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the goods;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to us; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to us and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Specifically, revenues of our operating segments are recognised as follows:

Export sales – revenue is recognised when our products have been delivered and title has passed or based on the corresponding shipping term.

Retail and corporate sales – for retail sales conducted by self-operated POS, revenue is recognised when the concession counters or our retail stores have received payments and passed the goods to customers. For sales to distributors, corporates and other customers and online sales, revenue is recognised when our products have been delivered and title has passed.

Polyurethane foam sales – revenue is recognised when our products have been delivered and title has passed.

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Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year during the Track Record Period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with our accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

REORGANISATION AND BASIS OF PRESENTATION

Prior to the Reorganisation, the companies now comprising our Group were ultimately controlled by six Individual Shareholders. Except for Trade Sincere and its subsidiaries, namely Sinomax Kuka and Haining Sinomax, the companies now comprising our Group were beneficially and wholly owned by the Individual Shareholders collectively. Sinomax Kuka was a 60% (100% prior to 28 July 2011) owned subsidiary of Trade Sincere, Trade Sincere was owned by a company beneficially owned by the Individual Shareholders collectively and a non-controlling shareholder as to 85% and 15% (51% and 9% prior to 28 July 2011 with another shareholder holding 40%) equity interests, respectively. Sinomax Kuka established Haining Sinomax as its wholly owned subsidiary in December 2012.

In preparation for the Listing, the companies now comprising our Group underwent the Reorganisation. On 31 July 2013, the Reorganisation was completed by interspersing our Company and its wholly owned subsidiary, namely Treasure Range, between the Individual Shareholders and the remaining companies now comprising the Group. Part of the Reorganisation also involved business combinations under common control and these combinations are accounted for under merger accounting.

The consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows which include the results and cash flows of the companies now comprising our Group for the Track Record Period have been prepared as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of establishment/incorporation where this is a shorter period, and taking into account the changes of the equity interests in Trade Sincere and Sinomax Kuka during the year ended 31 December 2011 as mentioned above.

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The consolidated statements of financial position as at 31 December 2011 and 2012 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the respective date of establishment/incorporation of the relevant entity.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

Revenues represent the value of goods sold, less returns, discounts and sales related taxes. The table below sets forth the revenue breakdown by segment for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Export sales	877,118	49.3	1,019,902	51.7	1,254,223	52.9
Retail and corporate sales	304,206	17.1	296,623	15.0	284,057	12.0
Polyurethane foam sales	597,119	33.6	654,970	33.3	831,259	35.1
	<u>1,778,443</u>	<u>100.0</u>	<u>1,971,495</u>	<u>100.0</u>	<u>2,369,539</u>	<u>100.0</u>

There were no inter-segment sales during the Track Record Period.

The table below sets forth the revenue breakdown by geographic location for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
The US	722,618	906,765	1,143,165
Hong Kong	107,927	138,494	118,364
The PRC	793,056	807,424	986,202
Macau	4,883	5,581	9,958
Europe	79,967	62,766	56,613
Other American countries ⁽¹⁾	17,829	9,435	10,703
Other Asian countries ⁽²⁾	48,175	33,646	41,872
Others ⁽³⁾	3,988	7,384	2,662
	<u>1,778,443</u>	<u>1,971,495</u>	<u>2,369,539</u>

Notes:

- (1) Other American countries include Costa Rica, Brazil, Columbia and others.
- (2) Other Asian countries include Japan, Thailand and others.
- (3) Others include Australia, New Zealand and others.

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Export sales

We generated a significant portion of our revenue from our export sales segment, especially from our sales to the US. Our export sales largely depend on our quality business relationships with our major US customers and our capacity to develop our products regionally, which enable us to bring to the market products attuned to the tastes and preferences of consumers in the US, as well as to the prevailing economic conditions in the US.

The table below sets forth the revenue breakdown by brand of our export sales for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Own brand sales	183,807	21.0	305,297	29.9	554,674	44.2
Licensed brand sales	–	–	11,431	1.1	48,540	3.9
Third-party brand sales	693,311	79.0	703,174	69.0	651,009	51.9
	877,118	100.0	1,019,902	100.0	1,254,223	100.0

We adopt a multi-brand strategy targeting at specific consumer groups. We derived a significant portion of our revenue from export sales through sales of our products under third-party brands during the Track Record Period. Our own brand sales and licensed brand sales increased significantly during the Track Record Period. The increase in revenue contributed by our own brands in 2012 was primarily attributable to the success in promoting our “ComforZen” branded products in the US. The increase in revenue contributed by our own brands in 2013 as compared to that in 2012 was primarily due to the increased sales of our own “Dream Serenity” branded products in the US. The increase in revenue contributed by sales of licensed brands in 2012 was primarily because we managed to introduce “Sharper Image” branded products into one of our US customers. The increase in revenue contributed by our licensed brands in 2013 as compared to that in 2012 was primarily due to the launch and sales of our products under the licensed brand “HoMedics” in 2013.

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Retail and corporate sales

In our retail and corporate sales segment, we sell our products to (i) end customers at retail prices through our self-operated POS, which mainly comprise self-operated retail shops and concession counters; (ii) third-party distributors at a discount to retail prices; (iii) corporate and other customers at a price negotiated on an order-by-order basis; and (iv) online sales platforms. The table below sets forth the revenue breakdown of our retail and corporate sales by sales channel for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Self-operated retail shops	22,276	7.3	24,784	8.4	35,733	12.6
Self-operated concession counters	147,227	48.4	161,637	54.5	175,534	61.8
Third-party distributors	45,602	15.0	53,889	18.2	45,000	15.8
Direct sales to corporate and other customers ⁽¹⁾	80,016	26.3	49,266	16.6	12,740	4.5
Other channels ⁽²⁾	9,085	3.0	7,047	2.4	15,050	5.3
	304,206	100.0	296,623	100.0	284,057	100.0

Notes:

- (1) Includes sales of HK\$63.1 million and HK\$39.3 million in 2011 and 2012, respectively, for one-off bulk purchases by our largest corporate customers in those years. There was no such one-off bulk purchases in 2013.
- (2) Other channels include online sales.

During the Track Record Period, sales from our self-operated concession counters were the primary contributors to the retail and corporate sales segment. The total number of our self-operated concession counters in Hong Kong and the PRC was 181, 239 and 262 as at 31 December 2011, 2012 and 2013, respectively. Excluding the impact of the bulk purchases by our largest corporate customers in 2011 and 2012, the year-to-year increases in our retail and corporate sales during the years ended 31 December 2011 to 2013 were primarily due to the increased number of self-operated concession counters in the PRC and the significant increase in sales from our self-operated retail shops after we launched Sinomax Life Stores in Hong Kong and the PRC.

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The table below sets forth the breakdown of our revenue per average POS for the periods indicated:

	For the year ended 31 December								
	2011			2012			2013		
	Revenue ⁽¹⁾	Average POS ⁽²⁾	Revenue/ Average POS	Revenue	Average POS ⁽²⁾	Revenue/ Average POS	Revenue	Average POS ⁽²⁾	Revenue/ Average POS ⁽³⁾
	HK\$'000		HK\$'000	HK\$'000		HK\$'000	HK\$'000		HK\$'000
Self operated retail shops	22,276	9.5	2,345	24,784	9.5	2,609	34,766	9.5	3,660
Self operated concession counters	147,227	158.5	929	161,637	210.0	770	175,534	250.5	701
Total	169,503	168.0	1,009	186,421	219.5	849	210,300	260.0	809

Notes:

- (1) Revenue from third-party distributors, direct sales and other channels have been excluded in the calculation of revenue per average POS as (a) the opening of POS operated by third-party distributors is not under our control and (b) direct sales and sales from other channels were not conducted over our POS. The revenues generated from our direct sales to corporate and other customers and other channels were not associated with sales at our self-operated POS.
- (2) Average POS equals, for each respective period, the sum of the number of POS at the end of the previous period and at the end of the current period, divided by two.
- (3) We had a net opening of seven self-operated retail shops in 2013. However, we opened four self-operated retail shops in the PRC and two self-operated retail shops in Hong Kong during the fourth quarter of 2013, which generated a total revenue of HK\$967,000 in 2013. We excluded such retail shops in calculating the revenue per average POS in 2013 because these retail shops operated for less than three months in 2013 and their total revenue accounted for less than 3% of the total revenue from our self-operated retail shops for the same year. We did not make any such adjustments in 2011 and 2012.

Revenue per average POS from our self-operated retail shops increased by 11.3% from HK\$2.3 million in 2011 to HK\$2.6 million in 2012 and further increased by 40.3% (as adjusted above) to HK\$3.7 million in 2013. This increasing trend mainly reflected the shift in our product mix towards high-value products, such as massage chairs and mattresses, in 2012 and 2013 which have higher retail prices.

Revenue per average POS from our self-operated concession counters in both Hong Kong and the PRC decreased by 17.1% from HK\$929,000 in 2011 to HK\$770,000 in 2012, and further decreased to HK\$701,000 in 2013. The decreases in revenue per average POS mainly reflected our significant increase of self-operated concession counters in the PRC over the Track Record Period, which was driven by our intention to increase the market awareness and penetration of our products in the PRC. The expansion of self-operated concession counters in the PRC involved minimal fixed costs and helped increase our overall retail sales. However, lower revenue per average POS for newly opened concession counters in the PRC is generally expected due to the ramp-up period and lower customer awareness during the initial setup stage of the relevant concession counters.

Polyurethane foam sales

Our polyurethane foam sales depend on the ongoing business relationships with our existing customers, the development of potential customers, consumer health awareness and consumer demand for high quality furniture and home accessories in the PRC market. Our polyurethane foam segment, customers of which are located in the PRC, experienced increasing sales during the Track Record Period.

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Cost of sales, gross profit and gross profit margin

Cost of sales primarily consists of costs associated with the production of our products, including cost of raw materials, direct labour costs and production overhead costs. The following table sets forth a breakdown of our cost of sales by component for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Cost of raw materials consumed	1,149,070	83.1	1,212,121	80.5	1,480,868	84.7
Direct labour cost incurred	54,782	4.0	63,904	4.2	83,576	4.8
Production overhead and others incurred	171,933	12.4	214,279	14.2	228,342	13.0
Changes in inventories of finished goods, work in progress and inventory allowance	6,916	0.5	16,432	1.1	(43,874)	(2.5)
Cost of sales	1,382,701	100.0	1,506,736	100.0	1,748,912	100.0

	Year ended 31 December		
	2011	2012	2013
Gross profit (HK\$'000)	395,742	464,759	620,627
Gross profit margin (%)	22.3%	23.6%	26.2%

Our cost of raw materials consumed increased during the Track Record Period as our sales increased. Our primary raw materials are chemicals, namely PPG and TDI, which are petroleum-based products whose prices are positively correlated to the price of crude oil and demand and supply of PPG and TDI in international markets. The price of oil has been volatile in recent years and as a result, the prices of PPG and TDI have experienced fluctuations during the Track Record Period. Please refer to the section headed "Industry Overview" in this Prospectus for details regarding the price fluctuation of PPG and TDI. To mitigate the influence of raw materials purchase price on our gross profits and gross profit margins, we have established a cost-plus pricing policy to account for fluctuations in the cost of raw materials. Please refer to "– Quantitative and Qualitative Information about Market Risks – Commodity Price Risk" in this section for more details.

Our gross profit margins increased from 22.3% in 2011 to 23.6% in 2012 and to 26.2% in 2013. The year-to-year increases were primarily due to the increases in the sales of our own brand products, especially our "Dream Serenity" branded products, which had a higher profit margin than that of our products under licensed brands or third-party brands.

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Other income

Other income primarily consists of interest income, rental income, income from scrap polyurethane foam sales and government subsidies. The following table sets forth a breakdown of our other income by component for the periods indicated.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest income	1,306	3,218	1,884
Rental income	3,911	4,982	3,898
Scrap sales ⁽¹⁾	16,670	19,124	19,573
Government subsidy	12	102	1,400
Others	1,588	1,794	1,127
	<u>23,487</u>	<u>29,220</u>	<u>27,882</u>

Note:

(1) The corresponding cost of scrap inventories is inseparable from cost of sales.

Rental income primarily consists of the income from leasing part of our production facilities in Jiashan to third-parties. We do not intend to hold these properties as investment properties and these arrangements are temporary in nature.

Scrap sales primarily consist of income from the sales of scrap materials produced as a by-product in the production process.

During the year ended 31 December 2013, we received a one-off government subsidy of approximately HK\$1.4 million for setting up a new subsidiary in the PRC, and investing in such new subsidiary by using earnings of our Group.

For the years ended 31 December 2011, 2012 and 2013, our other income was HK\$23.5 million, HK\$29.2 million and HK\$27.9 million, respectively, representing 1.3%, 1.5% and 1.2% of our total revenue for these years.

Other gains and losses

Other gains and losses primarily consist of changes in financial assets or liabilities at fair value through profit or loss, allowances or reversals of allowances for doubtful debts, gains or losses and write-offs on disposal of property, plant and equipment and net exchange gains or losses.

We recorded net other gains of HK\$10.7 million for the year ended 31 December 2011, net other losses of HK\$13.6 million for the year ended 31 December 2012 and net other losses of HK\$5.5 million for the year ended 31 December 2013.

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Selling and distribution costs

Selling and distribution costs primarily consist of concession and rental expenses, staff costs and commission fees, advertising and marketing expenses, transportation costs and other expenses. Concession and rental expenses include operating lease rentals in respect of retail stores and concession fees incurred on department store counters.

The following table sets forth a breakdown of our selling and distribution costs by component for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Concession and rental expenses	54,605	28.0	55,796	26.2	63,329	22.6
Staff costs and commission fees	37,623	19.3	50,681	23.8	71,732	25.5
Advertising and marketing expenses	24,433	12.5	22,296	10.5	34,351	12.2
Transportation costs	28,731	14.7	34,245	16.0	42,869	15.3
Compensation expenses	6,693	3.4	3,201	1.5	146	0.1
Travelling and accommodation	4,301	2.2	5,029	2.4	10,267	3.7
Declaration fee	3,416	1.7	2,093	1.0	2,066	0.7
Decoration expense	2,453	1.3	4,680	2.2	5,849	2.0
Entertainment expenses	2,808	1.4	2,255	1.0	2,937	1.0
Other expenses ^(Note)	30,256	15.5	32,888	15.4	47,204	16.9
	<u>195,319</u>	<u>100.0</u>	<u>213,164</u>	<u>100.0</u>	<u>280,750</u>	<u>100.0</u>

Note: Other expenses mainly represent depreciation charges, exhibition expenses, insurance expenses, packing expenses and documentation expenses.

During the Track Record Period, we provided certain discounts on the purchase price to our key export customers as allowance for defective products, which were deducted from our revenue for the respective year. Defective products generally involve products with damaged packaging. For further details of such arrangements, please refer to "Business – Our Sales Channels – Export Sales – After sales service and sales return policy". For some other customers, instead of providing a discount on purchase price upfront, we compensated those customers for defective products and recorded compensation expenses in our financial statements. As a percentage of the total revenue for the respective year, compensation expenses accounted for less than 0.5% of our total revenue during the Track Record Period.

For the years ended 31 December 2011, 2012 and 2013, selling and distribution costs were HK\$195.3 million, HK\$213.2 million and HK\$280.8 million, respectively, representing 11.0%, 10.8% and 11.8% of our total revenue for these years.

Administrative expenses

Administrative expenses primarily consist of salary for administrative staff (other than those involved in the production process), directors' emoluments, depreciation and amortisation, welfare and other benefits for all employees (including production staff) and legal and professional fees. Salary for administrative staff includes wages, bonus and travelling expenses. Welfare and other benefits expenses include dormitory costs, training costs and other miscellaneous expenses.

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The following table sets forth a breakdown of our administrative expenses by component for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	38,294	43.5	42,679	48.3	60,740	48.8
Depreciation and amortisation	8,207	9.3	8,159	9.2	7,831	6.3
Directors' emolument	4,396	5.0	4,693	5.3	5,975	4.8
Entertainment expense	2,265	2.6	1,946	2.2	3,766	3.0
Bank charges	2,877	3.3	3,665	4.2	3,474	2.8
Legal and professional fees	4,791	5.4	3,381	3.8	6,899	5.6
Rental expenses	4,898	5.6	6,049	6.8	8,637	6.9
Office expenses	8,128	9.2	3,354	3.8	5,067	4.1
Motor expenses	1,708	1.9	1,559	1.8	2,668	2.1
Other expenses ⁽¹⁾	12,534	14.2	12,908	14.6	19,441	15.6
	<u>88,098</u>	<u>100.0</u>	<u>88,393</u>	<u>100.0</u>	<u>124,498</u>	<u>100.0</u>

Note:

- (1) Other expenses include travelling expenses, repair and maintenance expenses, insurance and miscellaneous expenses.

For the years ended 31 December 2011, 2012 and 2013, we incurred administrative expenses amounting to HK\$88.1 million, HK\$88.4 million and HK\$124.5 million, respectively, representing 5.0%, 4.5% and 5.3% of our total revenues for these years.

Other expenses increased to HK\$19.4 million for the year ended 31 December 2013 from HK\$12.9 million for the same period in 2012, primarily due to an increase in travelling expenses of our administrative staff as we opened more concession counters in the PRC in 2013.

Finance costs

Finance costs primarily consist of interest expense on bank borrowings and interest on amounts due to shareholders.

The following table sets forth a breakdown of our finance costs by component for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	6,261	7,091	5,979
Interest on amounts due to shareholders	900	900	900
	<u>7,161</u>	<u>7,991</u>	<u>6,879</u>

For the years ended 31 December 2011, 2012 and 2013, we incurred finance costs amounting to HK\$7.2 million, HK\$8.0 million and HK\$6.9 million, respectively, representing 0.4%, 0.4% and 0.3% of our total revenue for these years.

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Other expenses

Other expenses primarily consist of research and development expenses, tax-related potential penalty and/or interest and expenses from the Listing.

For the years ended 31 December 2011, 2012 and 2013, other expenses amounted to HK\$19.1 million, HK\$16.1 million and HK\$41.3 million, respectively, representing 1.1%, 0.8% and 1.7% of our total revenue for these years.

Profit before taxation

For the years ended 31 December 2011, 2012 and 2013, our profit before taxation amounted to approximately HK\$120.2 million, HK\$154.7 million and HK\$189.6 million, respectively, representing 6.8%, 7.8% and 8.0% of our total revenues for these years.

The following is a breakdown of segment profit for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Segment Profit			
Export sales	178,237	177,291	264,653
Retail and corporate sales	71,180	81,876	52,123
Polyurethane foam sales	53,126	87,566	111,354
	<u>302,543</u>	<u>346,733</u>	<u>428,130</u>
Unallocated other income	23,487	27,327	26,212
Unallocated costs and expenses	<u>(205,800)</u>	<u>(219,384)</u>	<u>(264,764)</u>
Profit before taxation	<u><u>120,230</u></u>	<u><u>154,676</u></u>	<u><u>189,578</u></u>

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 any specific segment. Unallocated costs and expenses mainly represent unallocated costs of goods sold (representing manufacturing overhead attributable to manufacturing process undertaken in Dongguan Sinohome and Sinomax Zhejiang and allowance made for inventories), unallocated selling and distribution costs, corporate and headquarter expenses and other expenses.

The following table sets out a breakdown of segment profit margin for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	%	%	%
Segment profit margin⁽¹⁾			
Export sales	20.3	17.4	21.1
Retail and corporate sales	23.4	27.6	18.3
Polyurethane foam sales	8.9	13.4	13.4

Note:

- (1) Segment profit margin is equal to the segment profit divided by segment revenue. There were no inter-segment sales during the Track Record Period.

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Segment profit margin for our export sales decreased to 17.4% in 2012 as compared to 20.3% in 2011, primarily due to the shift in our product mix towards pillows, which on average have a lower gross profit margin than our other products. Segment profit margin for our export sales increased to 21.1% in 2013, primarily due to the increased sales of our products under our own brand “Dream Serenity”, which had a higher profit margin.

Our largest corporate customer in 2011 and 2012 made bulk purchases from us, with sales amounting to HK\$63.1 million in 2011 and HK\$39.3 million in 2012. Such bulk purchases did not require any associated concession and rental expenses and were affected with minimal staff costs. Excluding the effect of such bulk purchases in 2011 and 2012, our profit margin from the retail and corporate sales segment for 2011 and 2012 would have been 19.1% and 23.6%, respectively. This increase in adjusted segment profit margin between 2011 and 2012 mainly reflected increases in retail prices of some of our products sold in the PRC starting the second half of 2011 and continuing into 2012. The segment profit margin for this segment decreased to 18.3% in 2013, primarily due to an increase in staff cost and promotion expenses as we opened more concession counters in 2013 to increase our business exposure in the PRC.

Segment profit margin for our polyurethane foam sales increased from 8.9% in 2011 to 13.4% in 2012, primarily because we secured several large orders with higher profit margins from our existing customers. Segment profit margin for our polyurethane foam sales remained stable at 13.4% in 2013.

Taxation

We generate a substantial portion of our revenue in Hong Kong, the PRC, Macau and the U.S. In determining our tax exposure in different jurisdictions, we conduct an analysis of the extent of our business and operations in such jurisdictions.

We recorded income tax expenses of HK\$25.6 million, HK\$39.0 million, and HK\$44.5 million for the years ended 31 December 2011, 2012 and 2013, respectively. The effective tax rate for the same periods were approximately 21.3%, 25.2% and 23.5%.

Principally as a result of the provisions made in respect of potential tax exposure relating to the Hong Kong IRD tax audit noted below, our taxation payable has increased over the Track Record Period from HK\$78.1 million as at 31 December 2011 to HK\$102.6 million as at 31 December 2013. For further details regarding our income taxes, please see Note 14 to the Accountants’ Report as set out in Appendix I to this Prospectus.

PRC taxes

Under the new PRC Enterprise Income Tax Law (“**EIT Law**”) (中華人民共和國企業所得稅法), promulgated by the National People’s Congress on 16 March 2007, effective 1 January 2008, the PRC adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises). Saved as disclosed below, our operating subsidiaries in the PRC were subject to a statutory tax rate of 25% during the Track Record Period.

Sinohome Shenzhen is situated in a special economic zone and qualified under the old law for preferential EIT rate of 15%. As a transitional policy pursuant to GuoFa 2007 No. 39, the tax rate progressively increased from 18% in year 2008 to 20%, 22%, 24%, 25% and 25% in years 2009, 2010, 2011, 2012 and 2013, respectively.

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Sinomax Zhejiang and Sinomax Kuka are entitled to tax exemptions for two years commencing from their first profit making year and thereafter entitled to a 50% relief from EIT for the next three years (“**Tax Holiday**”). GuoFa [2007] No. 39 allowed the subsidiary which has already started to enjoy the Tax Holiday to continue to enjoy the remaining period of the Tax Holiday until 2012. Hence, the applicable EIT rate for that subsidiary in years 2010 and 2011, in which a 50% relief from EIT was available, was 12.5%; and was increased to 25% in year 2012 and thereafter. For the subsidiary that did not commence its Tax Holiday before the effective date of the EIT Law (i.e. 1 January 2008), it is deemed to have started to enjoy the Tax Holiday from 1 January 2008. As a result, the applicable EIT rate for this subsidiary in years 2011 and 2012 was 12.5%, and was increased to 25% in year 2013 and thereafter.

The aggregate PRC enterprise income tax expenses for the years ended 31 December 2011, 2012 and 2013 amounted to HK\$50.5 million, whereas the total payment of PRC enterprise income taxes amounted to HK\$39.1 million over the same periods. The difference of HK\$11.4 million mainly represented timing differences between when PRC enterprise income tax expenses were accrued and the actual payment of such taxes. As at 31 December 2013, our taxes payable for PRC enterprise income tax were approximately HK\$14.9 million and we have settled approximately HK\$10.7 million of such taxes payable as at 31 January 2014, representing approximately 71.8% of the total taxes payable for PRC enterprise income tax accrued as at 31 December 2013. Our PRC subsidiaries have obtained confirmations from the applicable local tax bureaus confirming that, amongst others, these PRC subsidiaries were in compliance with the relevant tax laws and regulations and our Directors also confirmed that none of the PRC subsidiaries has been challenged by the PRC tax bureau regarding its compliance status during the Track Record Period and up to the Latest Practicable Date.

Transfer Pricing

During the Track Record Period, two of our PRC subsidiaries (the “**Relevant PRC Subsidiaries**”) had been selling products to our other subsidiaries in Hong Kong and Macau at prices with reference to our cost of production and other factors (“**cost plus basis**”). During the Track Record Period, the Relevant PRC Subsidiaries had engaged tax agents to prepare or assist in preparing transfer pricing reports relating to the intra-group sales at this cost plus basis and submitted those reports to the applicable tax authorities in accordance with the PRC regulations.

Earlier this year, our Directors performed a further analysis on the net profit margins of the Relevant PRC Subsidiaries by comparing them against those of comparable companies. Having considered the result of the aforesaid analysis, for the purpose of analysing the potential exposure for taxation of transfer pricing, we interviewed the vice-secretary (副局長) of the appropriate tax bureau for one of the Relevant PRC Subsidiaries and confirmed that, amongst others, since the tax bureau did not receive any questions or requests for investigations from the anti-tax avoidance department in respect of the transfer pricing reports submitted by the Relevant PRC Subsidiary to such tax bureau for the past years, the transfer pricing analysis provided by the Relevant PRC Subsidiary could be deemed reasonable. Our PRC legal adviser confirmed that such tax bureau was the competent authority to provide the above confirmations and that the vice-secretary had the authority to make such confirmation on behalf the tax bureau. On this basis, we did not make any provisions for PRC transfer pricing arrangements for such Relevant PRC Subsidiary. In addition, based on the result of the aforesaid analysis, it was noted that the profit margin percentage of the other Relevant PRC Subsidiary was higher than that of the median of the comparable companies, which was generally accepted by the PRC tax authorities as having satisfied the arm’s length principle. Consequently, our Directors considered that no further work would be required to analyse the exposure for taxation of transfer pricing of such other Relevant PRC Subsidiary. Notwithstanding the foregoing,

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having considered that the statute of limitations for transfer pricing matters in the PRC is 10 years during which period the relevant tax authority has the power to issue queries on our transfer pricing arrangements, our Controlling Shareholders entered into the deed of indemnity to indemnify us for all costs, losses and/or expenses for any taxation we incur after the Listing with respect to transfer pricing matters that arose prior to the Listing. For details of the deed of indemnity, please refer to the section headed “Statutory and General Information – F. Other information – 1. Estate duty, tax and other indemnity” as set out in Appendix IV to this Prospectus.

During the Track Record Period, we purchased certain raw materials from outside of the PRC through Sinomax Macao, as our Directors considered that it was more flexible for the Group to purchase and settle such raw material purchases in foreign currency through a company incorporated outside of the PRC due to PRC foreign exchange restrictions. The raw materials purchased by Sinomax Macao were resold to our relevant PRC subsidiaries based on the cost charged to Sinomax Macao. Our Directors confirmed that imported raw materials purchased by us were generally made through Sinomax Macao during the Track Record Period. Under Macau law (Decree-Law no. 58/99/M), Sinomax Macao was exempted from Macau Complementary Tax as it satisfied the relevant conditions as specified in the law, one of which being that it did not sell its products to any Macau resident company during the Track Record Period. As such, the sales of raw materials to the PRC subsidiaries at cost would not result in material transfer pricing exposure to Sinomax Macao or our PRC subsidiaries.

Apart from selling finished products directly to third-party export customers, Sinomax Macao also sells them to Sinomax USA. The selling prices of the products which were sold to Sinomax USA by Sinomax Macao during the Track Record Period were determined based on a cost-plus basis, taking into account the profit margins of companies comparable to Sinomax USA as a reference to the reasonableness of the profit margin required by Sinomax USA. During the Track Record Period, we assessed the overall net profit margin of Sinomax USA over the Track Record Period to confirm that it was within a reasonable range. Our Directors confirmed that the above mentioned arrangement had not been challenged by the relevant US tax authorities during the Track Record Period and up to the Latest Practicable Date.

United States income taxes

Sinomax USA is subject to the following US income taxes namely (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.

Sinomax USA maintained inventory in the State of California, United States during the Track Record Period. As Sinomax USA is a company incorporated in the State of Delaware and had minimal presence in California, with no employees or fixed assets in the state, the accounting manager who was responsible for tax filings of Sinomax USA (who resigned in 2012) was not aware during his employment that merely maintaining inventories in a warehouse operated by a third-party logistics services provider in California would attract California taxes. Accordingly, Sinomax USA has not historically filed any California tax returns nor has it paid any California taxes. However, during the course of preparing for the Listing, Sinomax USA engaged a tax attorney, The Law Office of Williams & Associates, PC, to evaluate whether its operations in California would be subject to taxes in California. The Law Office of Williams & Associates, PC, advised that Sinomax USA's storage of its inventory through a third-party logistics services provider constitutes sufficient nexus with California to attract California taxes.

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Based on the advice of The Law Office of Williams & Associates, PC, Sinomax USA forthwith applied for and was preliminarily accepted into the California tax authorities' Voluntary Disclosure Program ("VDP") on 22 November 2013. As advised by The Law Office of Williams & Associates, PC, taking into consideration the time for processing its application at the California Franchise Tax Board, formal acceptance of Sinomax USA to the VDP is expected to be granted by the California tax authorities within several months and since Sinomax USA has already been preliminarily accepted into VDP, no obstacle is anticipated in the acceptance process. The Law Office of Williams & Associates, PC, also confirmed that (i) by participating in the California tax authority's VDP, Sinomax USA was assured a limited period of compliance requirements and a variety of penalties were waived; and (ii) since Sinomax USA has been preliminarily accepted into the VDP and that it has or will file the late tax returns together with any tax, interest and penalties due, that are required under the applicable California laws before the deadline under the VDP, Sinomax USA is qualified for the waiver of certain penalties arising for its late filing/payment. Pursuant to the applicable California tax laws, Sinomax USA is only subject to payment of the unpaid taxes, interest and monetary penalties (if any) as a result of its late filing of tax returns in California and there is no provision contained therein which would result in a material adverse impact on Sinomax USA, such as confiscation of the inventories maintained by Sinomax USA in the relevant warehouses in California or imprisonment of its directors. Since October 2013 we have designated Bart Bishop, our financial controller at Sinomax USA, to make the relevant tax filings for Sinomax USA. Mr. Bishop will make relevant California tax filings with the California tax authority with the assistance of a California tax expert so as to ensure the proper completion of the filing. Please also refer to section headed "Business – Risk Management" for the details of our enhanced internal controls to help ensure the compliance of tax filing matters.

On 10 March 2014, Sinomax USA filed its State of California tax returns for the calendar years of 2010, 2011 and 2012 and paid all tax liabilities with a total amount of US\$165,713 (equivalent to approximately HK\$1,287,590) calculated as due under such tax returns on the same day. Sinomax USA anticipates a refund from the California tax authority for an overpayment of penalties which were paid in an abundance of caution, but that should be abated under the VDP. Similarly, there may be a refund for an overpayment of interest. We estimate that our maximum California tax exposure amount to be US\$228,000 (equivalent to approximately HK\$1,771,560) for the year ended 31 December 2013 which includes potential tax penalties and interest of US\$4,686 (equivalent to approximately HK\$36,410). Such amount has been fully provided for in our financial statements and is immaterial to our profit before taxation for the same period. Our Directors confirmed that the provisions we made were sufficient to cover our California tax liabilities. As such, the California tax exposure and the final settlement of such tax payment should not have any material impact on us now or in the future. As of the Latest Practicable Date, we have not been audited by the California tax authorities nor have we received any tax demand notice from the California tax authorities. Sinomax USA's tax accountants are preparing the appropriate tax returns for years 2008, 2009 and 2013 which are not yet due under the VDP but are anticipated to be completed within the next few months and well within the time frame required under the VDP. Sinomax USA communicated this to the California tax authority on 10 March 2014 and the California tax authority agreed this was acceptable.

In addition, Sinomax USA maintained inventory in the State of South Carolina in 2013 and the year 2013 tax return was required to be filed by 17 March 2014. Sinomax USA has filed an extension and will file its 2013 tax return with the South Carolina tax authority by September 2014, the extended deadline.

Separately, CMCD LLC, the current tax representative of Sinomax USA, which has assisted Sinomax USA to file Texas state tax returns and federal tax returns for 2011 and 2012, confirmed that the required Texas tax returns for 2011 and 2012 were timely filed with the tax authority for the state of Texas and that the required federal tax returns for 2011 and 2012 were timely filed with the federal tax authorities. The Directors confirmed that Sinomax USA has timely filed the extensions for the Texas and federal tax returns for 2013 with the applicable tax authorities.

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Our Directors have confirmed that save as disclosed above, Sinomax USA is not subject to any material breach of US tax law.

Hong Kong taxes

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the Track Record Period. Our subsidiaries in Hong Kong, namely Sinomax Health and Sinomax Trading were subject to 16.5% Profits Tax during the Track Record Period.

The IRD is currently conducting a tax audit on certain of our subsidiaries. The IRD has issued estimated profits tax assessments of approximately HK\$14,100,000, HK\$24,000,000 and HK\$26,725,000 to us 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. We have lodged objections with the IRD against the assessments on the basis that a substantial portion of the relevant subsidiaries' trading business was undertaken outside Hong Kong, in particular, export sales to our overseas customers through our subsidiaries in Macau and the U.S. The sales representatives of our Macau and U.S. subsidiaries generally negotiated and concluded individual purchase orders with overseas customers. The Macau and U.S. subsidiaries then would place purchase orders to the fellow subsidiaries outside Hong Kong for those overseas customers. During this process, no formal purchase contract was executed for such purchases within our Group in Hong Kong.

Our Directors confirmed that we generally signed sales contracts with, and received purchase orders from, our overseas customers through our subsidiaries located in respective jurisdictions (e.g. USA, Macau). Our Directors further confirmed that an offshore vehicle would provide us more flexibility in receiving accounts receivable from our export customers as the PRC foreign exchange authorities had imposed restrictions on transfers of foreign exchange to a PRC incorporated company.

As a result, taking into consideration of relevant laws, the sales and purchase process and the advice of our Hong Kong tax representative, we concluded that we have reasonable grounds to pursue an offshore claim for Hong Kong Profits Tax purposes, for the majority of our profits. However, the success of the offshore claim is subject to the satisfactory review by the IRD of the sample offshore transaction documents submitted, and any further documents and information that may be requested by the IRD. 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 our subsidiaries concerned for the years of assessment 2006/07 and 2007/08, respectively.

We have provided various information and supporting documents to address enquiries raised by the IRD and to defend our tax position (i.e. the offshore claim in relation to certain of our 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 as at the Latest Practicable Date. The latest correspondence from the IRD is an enquiry letter dated 29 January 2014 in response to the previous submissions made by us. The enquiry letter requests further information from us and we have submitted relevant requested information to the IRD on 8 May 2014. We have also appointed a tax representative during the Track Record Period to assist us in handling the tax audit currently undertaken by the IRD. Our Directors understand, based on the advice and experience of our tax representative, that the IRD will not indicate any timing as to when the tax audit will be completed and which years of assessment will be covered by the relevant tax audit at this stage.

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Although our Directors consider that there are reasonable grounds to support the offshore trading status for US sales of the relevant subsidiaries, taking into consideration of the progress of submission of the requested documents to the IRD, overall status of the tax audit up to the Latest Practicable Date and the advice from our tax representative, we have made a tax provision on the profits attributable to the relevant sales for the years of assessment from 2005/06 to 2013/14 assuming that those transactions are all taxable under Hong Kong profits tax, and have provided the estimated potential penalty and interest if such transactions are deemed to be taxable under Hong Kong profits tax. Having considered all relevant circumstances, our Directors believe that we have made adequate provisions, in an aggregate amount of HK\$119.3 million in respect of the years of assessment from 2005/06 to 2013/14 (or an aggregate amount of HK\$34.3 million in respect of the Track Record Period), for Hong Kong profits tax and related potential penalty and/or interest for the tax audit as at 31 December 2013. Please see Note 14 of the Accountants' Report as set out in Appendix I for further details. Our Directors are committed to expedite completion of the current tax audit in order to resolve the uncertainties of the tax exposure of the business proceeds in the past. In addition, our Directors have appointed PricewaterhouseCoopers as tax adviser to advise on, amongst others, the design of the operation flow and transactions structure of the relevant subsidiaries in relation to the Group's relevant export sales to improve the tax efficiency and reinforce full compliance with relevant tax laws.

Other tax information

Save as disclosed above, our Directors have confirmed that we have filed relevant tax filings with tax authorities in all jurisdictions where we have generated revenue in a timely manner.

Our Directors are of the view that after taking into consideration the advice provided by our tax representatives and/or California tax expert, and after discussion with our Reporting Accountants, the provisions made in respect of IRD tax audit and United States income taxes were sufficient.

Our Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company to provide indemnities on a joint and several basis in respect of any and all tax liabilities together with all reasonable costs (including all legal costs), expenses or other liabilities which might be payable by any member of our Group. Please see "Statutory and General Information – F. Other Information" in Appendix IV attached to this Prospectus.

Further, as (i) the tax matters as disclosed above do not involve fraud and/or dishonesty, (ii) our Directors have taken steps to rectify the relevant non-compliance and enhanced internal control measures adopted as set out in the section headed "Business – Risk Management" and (iii) the Controlling Shareholders have entered into the deed of indemnity as stated above, the Sole Sponsor is of the view that such matters do not affect our Directors' suitability to act as directors of a listed issuer.

We have not been subject to any income tax in the BVI.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

The following table sets forth certain income and expense items from our consolidated statements of profit or loss and other comprehensive income and the percentage of revenue of such items for the periods indicated:

	Year ended 31 December					
	2011	% of revenue	2012	% of revenue	2013	% of revenue
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Revenue	1,778,443	100.0	1,971,495	100.0	2,369,539	100.0
Cost of sales	(1,382,701)	(77.7)	(1,506,736)	(76.4)	(1,748,912)	(73.8)
Gross profit	395,742	22.3	464,759	23.6	620,627	26.2
Other income	23,487	1.3	29,220	1.5	27,882	1.2
Other gains and losses	10,709	0.6	(13,627)	(0.7)	(5,497)	(0.2)
Selling and distribution costs	(195,319)	(11.0)	(213,164)	(10.8)	(280,750)	(11.8)
Administrative expenses	(88,098)	(5.0)	(88,393)	(4.5)	(124,498)	(5.3)
Finance costs	(7,161)	(0.4)	(7,991)	(0.4)	(6,879)	(0.3)
Other expenses	(19,130)	(1.1)	(16,128)	(0.8)	(41,307)	(1.7)
Profit before taxation	120,230	6.8	154,676	7.8	189,578	8.0
Income tax expenses	(25,607)	(1.4)	(39,000)	(2.0)	(44,545)	(1.9)
Profit for the year	<u>94,623</u>	<u>5.3</u>	<u>115,676</u>	<u>5.9</u>	<u>145,033</u>	<u>6.1</u>

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenues

Revenues increased by 20.2% from HK\$1,971.5 million for the year ended 31 December 2012 to HK\$2,369.5 million for the year ended 31 December 2013.

Revenues from our export sales increased by 23.0% from HK\$1,019.9 million for the year ended 31 December 2012 to HK\$1,254.2 million for the year ended 31 December 2013, primarily due to increased orders from our US customers, reflecting the increased sales of our own brand products in North America. In particular, for the year ended 31 December 2013, we successfully launched our “Dream Serenity” brand and, together with our “Dream Essentials” brand, which together provided revenues of HK\$385.4 million in the North American market.

Revenues from our retail and corporate sales decreased by 4.2% from HK\$296.6 million for the year ended 31 December 2012 to HK\$284.1 million for the year ended 31 December 2013. In the year ended 31 December 2012, one of our largest corporate customers placed one-off bulk purchase orders with us with a total sales amount of approximately HK\$39.3 million. After adjusting for such bulk purchases, our revenue from this segment grew by 10.4%, primarily due to the increased number of self-operated concession counters in the PRC and the significant increase in sales from our self-operated retail shops after we launched Sinomax Life Stores in Hong Kong and the PRC. Our self-operated POS in Hong Kong and the PRC increased from 248 as at 31 December 2012 to 278 as at 31 December 2013.

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Revenues from polyurethane foam sales increased by 26.9% from HK\$655.0 million for the year ended 31 December 2012 to HK\$831.3 million for the year ended 31 December 2013. This increase was driven by increased consumer spending and demand for high-end furniture and home accessories made of quality polyurethane foam in the PRC. In addition, we secured several new customers in the PRC.

Cost of sales

Cost of sales was HK\$1,748.9 million for the year ended 31 December 2013 compared to HK\$1,506.7 million for the year ended 31 December 2012, with cost of sales as a percentage of revenue dropping to 73.8% for the year ended 31 December 2013 from 76.4% for the year ended 31 December 2012. Cost of sales increased in line with increased sales; however, this increase was partially offset by a decrease in market price of TDI. The average domestic market price of TDI in 2013 decreased by 5.9% as compared to that of in 2012.

Gross profit and gross profit margin

As a result of the foregoing factors, our gross profit increased by 33.5% from HK\$464.8 million for the year ended 31 December 2012 to HK\$620.6 million for the year ended 31 December 2013. Our gross profit margin increased from 23.6% for the year ended 31 December 2012 to 26.2% for the year ended 31 December 2013, mainly reflecting increased sales of own brand products which had a higher profit margin.

Other income

Other income decreased by 4.5% from HK\$29.2 million for the year ended 31 December 2012 to HK\$27.9 million for the year ended 31 December 2013, primarily due to a decrease in rental income of HK\$1.1 million as a result of the termination of certain rental agreements in 2013 and a decrease in interest income of HK\$1.3 million in line with the decreased average balance of structured bank deposits for the same year. Other income represented 1.5% and 1.2% of our total revenues for the year ended 31 December 2012 and 2013, respectively.

Other gains and losses

We recorded net other losses of HK\$5.5 million for the year ended 31 December 2013 compared with net other losses of HK\$13.6 million for the year ended 31 December 2012. The decrease in net other losses we recorded for the year ended 31 December 2013 was primarily due to net exchange gains of HK\$1.6 million as a result of the appreciation of Renminbi against Hong Kong dollar and US dollar during the year and decreased provisions for impairment loss of doubtful debts in 2013.

Selling and distribution costs

Selling and distribution costs increased by 31.7% from HK\$213.2 million for the year ended 31 December 2012 to HK\$280.8 million for the year ended 31 December 2013, primarily as a result of an increase in rental expenses and headcount in line with the increase in our self-operated POS and an increase in advertising and marketing expenses to promote our products. Selling and distribution costs represented 11.8% of our total revenues for the year ended 31 December 2013, as compared to 10.8% of our total revenues for the year ended 31 December 2012.

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Administrative expenses

Administrative expenses increased by 40.8% from HK\$88.4 million for the year ended 31 December 2012 to HK\$124.5 million for the year ended 31 December 2013, primarily due to an increase in staff costs by approximately HK\$18.1 million as a result of an increase in administrative headcount from 277 as at 31 December 2012 to 304 as at 31 December 2013 and a general increase in the salaries of our administrative employees. Administrative expenses represented 5.3% of our total revenue for the year ended 31 December 2013, as compared to 4.5% of our total revenue for the year ended 31 December 2012.

Finance costs

Finance costs decreased to HK\$6.9 million for the year ended 31 December 2013 as compared with HK\$8.0 million for the year ended 31 December 2012. Their decrease was primarily attributable to a decrease in 2013 of bank loans denominated in Renminbi for which charged relatively higher interest rates.

Other expenses

Other expenses increased to HK\$41.3 million for the year ended 31 December 2013 from HK\$16.1 million for the year ended 31 December 2012. The increase was primarily attributable to expenses incurred for the year ended 31 December 2013 in connection with the Listing.

Profit before taxation

As a result of the foregoing, profit before taxation increased by 22.6% from HK\$154.7 million for the year ended 31 December 2012 to HK\$189.6 million for the year ended 31 December 2013.

Income tax expenses

Income tax expenses increased by 14.2% from HK\$39.0 million for the year ended 31 December 2012 to HK\$44.5 million for the year ended 31 December 2013, primarily due to the increase profit before tax. Our effective income tax rate for each of those periods remained relatively stable at 25.2% and 23.5%, respectively.

Profit for the year

As a result of the foregoing, net profit increased by 25.4% from HK\$115.7 million for the year ended 31 December 2012 to HK\$145.0 million for the year ended 31 December 2013. Our net profit margin increased from 5.9% for the year ended 31 December 2012 to 6.1% for the year ended 31 December 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenues

Revenues increased by 10.9% from HK\$1,778.4 million for the year ended 31 December 2011 to HK\$1,971.5 million for the year ended 31 December 2012.

Revenues from our export sales increased by 16.3% from HK\$877.1 million for the year ended 31 December 2011 to HK\$1,019.9 million for the year ended 31 December 2012. This strong performance was primarily driven by the success in promoting our “ComforZen” branded products in the US. We worked with a major US customer in the latter half of 2012 to promote “ComforZen” branded products and achieved a great success with a full year sales increase of 54% compared with the year ended 31 December 2011. The increased US consumer spending and demand for our products as a result of the improved economic conditions in the US in 2012 also contributed to our increased sales.

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Revenues from our retail and corporate sales remained relatively stable at HK\$304.2 million for the year ended 31 December 2011 and at HK\$296.6 million for the year ended 31 December 2012. We entered into bulk purchase agreements with our largest corporate customers for the respective year in 2011 and 2012, with sales amounts of HK\$63.1 million and HK\$39.3 million respectively. After adjusting for these bulk purchases, our retail and corporate sales grew by 6.7% in 2012, primarily due to an increase in the number of our self-operated concession counters in the PRC and the launch of “SINOMAX Life Stores” in Hong Kong. SINOMAX Life Stores provide and promote new and a wider range of products to suit market demand. The number of our self-operated concession counters in the PRC increased from 155 in 2011 to 214 in 2012.

Revenues from polyurethane foam sales increased by 9.7% from HK\$597.1 million for the year ended 31 December 2011 to HK\$655.0 million for the year ended 31 December 2012, primarily because we secured several new customers in the PRC, despite the overall slowdown in PRC property market in the latter half of 2011 which resulted in the slowdown of the furniture manufacturing industry.

Cost of sales

Cost of sales was HK\$1,506.7 million for the year ended 31 December 2012 compared to HK\$1,382.7 million for the year ended 31 December 2011, in line with our increased sales and with cost of sales as a percentage of revenue remaining relatively stable at 76.4% and 77.7%, respectively. The average domestic market price of TDI increased by 13.7% for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011, while the average domestic market price of PPG decreased by 17.3% for the same period.

Gross profit and gross profit margin

As a result of the foregoing factors, our gross profit increased by HK\$69.1 million, or 17.4%, to HK\$464.8 million for the year ended 31 December 2012 as compared to HK\$395.7 million for the year ended 31 December 2011. Our gross profit margin increased from 22.3% to 23.6% for the years ended 31 December 2011 and 2012.

Other income

Other income increased from HK\$23.5 million for the year ended 31 December 2011 to HK\$29.2 million for the year ended 31 December 2012, primarily due to our increased production volume and sales of related scrap materials produced as by-products, both of which were in line with our increased sales and business growth. Other income represented 1.5% of our total revenues for the year ended 31 December 2012, as compared to 1.3% of our total revenues for the year ended 31 December 2011.

Other gains and losses

We recorded net other losses of HK\$13.6 million for the year ended 31 December 2012 as compared to net other gains of HK\$10.7 million for the year ended 31 December 2011. The net other losses we recorded in 2012 were primarily due to a net exchange loss of HK\$4.6 million created from the translation of assets and liabilities and settlement of transactions denominated in foreign currencies. The net other gains we recorded in 2011 were primarily due to net exchange gains of HK\$6.3 million created from the translation of assets and liabilities and settlement of transactions denominated in foreign currencies.

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Selling and distribution costs

Selling and distribution costs increased by 9.1% from HK\$195.3 million for the year ended 31 December 2011 to HK\$213.2 million for the year ended 31 December 2012, primarily due to the increase in staff costs as we paid staff relocation allowances after we relocated our retail team from Dongguan to Shenzhen. As a percentage of our total revenue, selling and distribution costs remained stable at 11.0% and 10.8% for the years ended 31 December 2011 and 2012, respectively.

Administrative expenses

Administrative expenses remained relatively stable at HK\$88.1 million for the year ended 31 December 2011 and at HK\$88.4 million for the year ended 31 December 2012, with administrative expenses as a percentage of total revenue decreasing to 4.5% for the year ended 31 December 2012 as compared to 5.0% for the year ended 31 December 2011. This was primarily due to decreases in office expenses and in legal and professional fees of HK\$4.7 million and HK\$1.4 million, respectively, offset by increases in staff costs and in rental expenses of HK\$4.4 million and HK\$1.2 million, respectively, in 2012. We incurred higher office expenses during 2011 as we transitioned to our new office premises in Dongguan.

Finance costs

Finance costs increased by 11.6% to HK\$8.0 million for the year ended 31 December 2012 as compared with HK\$7.2 million for the year ended 31 December 2011. This increase was primarily attributable to an increase in average bank loans during the year ended 31 December 2012.

Other expenses

Other expenses decreased by 15.7% to HK\$16.1 million for the year ended 31 December 2012 as compared with HK\$19.1 million for the year ended 31 December 2011. This decrease was primarily attributable to the decreased provision for potential penalty and/or interest that may be imposed by the IRD. Please see Note 14 of the Accountants' Report attached to Appendix I for further details.

Profit before taxation

As a result of the foregoing, profit before taxation increased by 28.7% from HK\$120.2 million for the year ended 31 December 2011 to HK\$154.7 million for the year ended 31 December 2012.

Income tax expenses

Income tax expenses increased by 52.3% from HK\$25.6 million for the year ended 31 December 2011 to HK\$39.0 million for the year ended 31 December 2012, primarily due to our increased profits. Our effective income tax rate for each of these periods was 21.3% and 25.2%, respectively. The increase in our effective income tax rate was primarily due to the absence of one-off write off of accounts receivable of HK\$40.6 million which was previously provided for and was deductible for taxation purposes in 2011. Please refer to section headed "Trade, Bills and Other Receivables" for details.

Profit for the year

As a result of the foregoing, our net profit increased by 22.2% from HK\$94.6 million for the year ended 31 December 2011 to HK\$115.7 million for the year ended 31 December 2012.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through cash flows from operating activities, bank borrowings and financial support by our related parties.

Going forward, we believe our liquidity requirements will be satisfied using a combination of cash generated from operating activities and proceeds from the Global Offering. We will use part of the proceeds from the Global Offering to finance our future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business.

It is our policy to monitor regularly our liquidity requirements and compliance with our loan requirements (if any) to ensure that we maintain sufficient cash resources and adequate debt or equity financing. We have not experienced and do not expect to experience any difficulties in meeting our obligations as they become due.

We had net cash generated from operating activities amounting to HK\$155.3 million, HK\$139.4 million and HK\$124.2 million, for the years ended 31 December 2011, 2012 and 2013, respectively.

The following table is a condensed summary of our consolidated statements of cash flow for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Net cash generated from operating activities	155,267	139,367	124,227
Net cash (used in)/generated from investing activities	(124,465)	(52,125)	16,002
Net cash generated from/(used in) financing activities	9,536	(70,249)	(146,027)
Net increase/(decrease) in cash and cash equivalents held	40,338	16,993	(5,798)
Cash and cash equivalents at the beginning of the year	108,755	151,305	168,253
Cash and cash equivalents at the end of the year	151,305	168,523	165,248

Cash Flow generated from Operating Activities

Net cash generated from operating activities was HK\$124.2 million for the year ended 31 December 2013 whereas cash generated from operations was HK\$162.2 million. For the year ended 31 December 2013, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of HK\$213.6 million. The HK\$51.4 million net decrease in working capital usage was mainly due to an increase in trade and other receivables of HK\$101.0 million as a result of the increased credit export

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sales and foam sales, which were in line with increased sales in these segments in 2013, and an increase in inventories of HK\$53.4 million reflecting our business growth as well as increased purchases of raw materials in anticipation of increased sales in 2014, respectively. This was partially offset by an increase in bills, trade and other payables and amounts due to related companies of HK\$74.5 million and HK\$33.6 million, respectively, as a result of our increased purchase of raw materials in line with our increased production for the same period and in anticipation of increased sales in 2014. In addition, our net cash generated from operating activities included payments of Hong Kong profit tax of HK\$7.2 million, PRC enterprise income taxes of HK\$23.0 million and US income taxes of HK\$7.8 million.

Net cash generated from operating activities was HK\$139.4 million for the year ended 31 December 2012. For the year ended 31 December 2012, we had an operating profit before changes in working capital but after adjustments for non-cash expenses and income of HK\$200.6 million. The HK\$45.8 million net increase in working capital was mainly due to an increase in inventories and trade and other receivables of HK\$22.3 million and HK\$86.1 million, respectively, which was in line with our increased scale of production and sales, and a decrease in amounts due to related parties of HK\$11.5 million resulting from our repayment to such parties, partially offset by an increase in trade, bills and other payables of HK\$47.5 million. In addition, our net cash generated from operating activities included payments of Hong Kong profit taxes of HK\$3.3 million, PRC enterprise income taxes of HK\$6.3 million and US income taxes of HK\$5.9 million.

Net cash generated from operating activities was HK\$155.3 million for the year ended 31 December 2011. For the year ended 31 December 2011, we had operating cash flows before changes in working capital but after adjustments for non-cash expenses and income of HK\$137.4 million. The HK\$32.6 million net decrease in working capital was mainly due to a decrease in inventories and trade and other receivables of HK\$72.3 million and HK\$19.0 million, respectively, and an increase in amounts due to related parties of HK\$29.4 million, partially offset by a decrease in trade, bills and other payables of HK\$69.1 million. In addition, our net cash generated from operating activities included payments of Hong Kong profit taxes of HK\$0.5 million, PRC enterprise income taxes of HK\$9.8 million and US income taxes of HK\$4.4 million.

Cash Flow (used in) generated from Investing Activities

For the year ended 31 December 2013, our net cash generated from investing activities was HK\$16.0 million, which was primarily due to repayments from related parties of HK\$65.4 million, partially offset by purchases of property, plant and equipment of HK\$22.2 million, deposits paid for acquisition of property, plant and equipment of HK\$17.4 million and net placement of pledged bank deposits of HK\$10.4 million.

For the year ended 31 December 2012, our net cash used in investing activities was HK\$52.1 million, which was primarily due to purchase of property, plant and equipment of HK\$38.7 million, advances to related parties of HK\$23.4 million and a deposit paid for acquisition of property, plant and equipment of HK\$12.2 million, partially offset by net withdrawal of structured bank deposits of HK\$15.8 million.

For the year ended 31 December 2011, our net cash used in investing activities was HK\$124.5 million, which was primarily due to purchase of property, plant and equipment of HK\$50.4 million, advances to related parties of HK\$52.8 million and net placement of structured bank deposits of HK\$22.8 million, partially offset by net withdrawal of pledged bank deposits of HK\$4.7 million.

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Cash Flow generated from (used in) Financing Activities

For the year ended 31 December 2013, we had net cash used in financing activities of HK\$146.0 million, which was primarily due to repayments of bank borrowings and to related parties of HK\$510.1 million and HK\$110.2 million, respectively, partially offset by new bank borrowings raised of HK\$480.0 million.

For the year ended 31 December 2012, we had net cash used in financing activities of HK\$70.2 million, which was primarily due to repayments of bank borrowings and to related parties of HK\$503.7 million and HK\$38.9 million, respectively, offset by new bank borrowings raised of HK\$478.8 million.

For the year ended 31 December 2011, we had net cash generated from financing activities of HK\$9.5 million, which was primarily due to new bank borrowings raised of HK\$398.4 million and advances from related parties of HK\$9.7 million, partially offset by repayments of bank borrowings of HK\$371.9 million and dividends paid of HK\$28.3 million.

CERTAIN FINANCIAL RATIOS

	As at 31 December		
	2011	2012	2013
Current ratio ⁽¹⁾	109.6%	128.4%	132.9%
Quick ratio ⁽²⁾	75.6%	93.1%	91.9%
Gearing ratio ⁽³⁾	59.5%	39.9%	28.3%
Debt to equity ratio ⁽⁴⁾	17.8%	4.7%	N/A
	Year ended 31 December		
	2011	2012	2013
Return on assets ⁽⁵⁾	8.4%	9.4%	10.7%
Return on equity ⁽⁶⁾	29.7%	27.4%	27.5%

Notes:

- (1) Current ratio is equal to the current assets divided by the current liabilities.
- (2) Quick ratio is equal to the current assets less inventories and divided by the 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. There was no net debt as at 31 December 2013.
- (5) Return on assets represents the profit for the year as a percentage of average total assets. Average total assets equals total assets at the beginning of the year plus total assets at the end of the year, divided by two.
- (6) Return on equity represents the profit for the year as a percentage of the average total equity. Average total equity equals total equity at the beginning of the year plus total equity at the end of the year, divided by two.

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The current ratio improved between 2011 and 2013. The increases were primarily due to an increase in inventories and trade and other receivables which were in line with our increased sales during the same periods.

The increases in quick ratio in 2012 and 2013 as compared to 2011 were primarily due to the increased amounts due from related parties and ending balance in cash of each year as a result of our profit generated in the relevant years.

The decreases in gearing ratio between 2011 and 2013 were primarily because we retained a significant portion of our earnings to support our future business growth, which resulted in a greater increase in equity than of interest-bearing borrowings.

The decreases in debt to equity ratio in 2012 were primarily due to our increased cash position at the end of each year. We had no net debt in 2013.

The return on assets improved for the years ended 31 December 2012 and 2013, primarily due to our increased net profit.

The decrease in return on equity for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011 was primarily because we retained a significant portion of our earnings to support our business growth in 2012 while having paid a dividend of HK\$14.4 million in 2011. The return on equity remained stable for the years ended 31 December 2012 and 2013. Our profit increased by 25.4% between 2012 and 2013, while our average total equity increased by only 25.1% over the same periods because we declared a dividend of HK\$60.0 million in 2013.

CAPITAL EXPENDITURES

Our capital expenditures in 2011 were approximately HK\$53.7 million, primarily related to the construction of new production facilities in Jiashan, Zhejiang Province as part of our expansion plan. Our capital expenditures in 2012 were approximately HK\$43.1 million, primarily related to the construction of production facilities and the purchase of a new machinery for foaming. Our capital expenditures for the year ended 31 December 2013 were approximately HK\$34.4 million, primarily related to the purchase of new machinery to automate and improve our production efficiency and operating costs.

Our Directors confirm that our planned capital expenditures for 2014 and 2015 are approximately HK\$77.5 million, primarily for acquiring or setting up production facilities in the PRC and the US, and the construction of production and warehousing facilities. We plan to finance our capital expenditures with a combination of internally generated cash flow from operating activities and proceeds from the Global Offering.

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WORKING CAPITAL

The table below sets forth our current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Current assets				
Prepaid lease payments	586	592	608	602
Inventories	273,148	279,681	346,037	393,546
Trade and other receivables	333,637	410,373	508,519	499,908
Bills receivables	31,953	12,412	14,809	14,128
Amounts due from related parties	26,762	99,248	31,532	–
Bank balances and cash	151,305	168,523	165,248	110,439
Pledged bank deposits	5,266	4,320	14,916	15,709
Structured bank deposits	58,896	43,119	40,452	40,048
Financial asset at fair value through profit or loss (“FVTPL”)	–	87	–	–
Tax recoverables	–	–	–	5,936
	881,553	1,018,355	1,122,121	1,080,316
Current liabilities				
Trade and other payables	251,601	290,056	328,538	356,806
Bills payables	60,583	70,547	113,547	76,130
Bank borrowings	211,731	191,248	162,532	242,602
Taxation payable	78,098	88,598	102,557	90,104
Financial liability at FVTPL	931	–	–	–
Amounts due to related parties	201,507	152,704	77,302	–
Dividend payable	–	–	60,000	–
	804,451	793,153	844,476	765,642
Net current assets	77,102	225,202	277,645	314,674

As at 30 April 2014, we had net current assets of HK\$314.7 million as compared to our net current assets of HK\$277.6 million as at 31 December 2013. The change was a result of (1) an increase in inventories due to stocking up of finished goods in anticipation of the increased sales to our US customers and corporate customers, (2) the settlement of amount due to related parties and (3) the payment of interim dividend which was declared in September 2013, partially offset by an increase in trade payables and bank borrowings as we purchased more raw materials to meet the anticipated sales. As at 31 December 2013, we had net current assets of HK\$277.6 million as compared to our net current assets of HK\$225.2 million as at 31 December 2012 and HK\$77.1 million as at 31 December 2011, primarily due to increases in trade and other receivables and in inventories which were in line with our increased sales.

Our Directors are of the opinion that, taking into consideration of the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, we have sufficient working capital for our working capital requirements for at least the next twelve months commencing from the date of this Prospectus.

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INVENTORY

During the Track Record Period, inventory was one of the principal components of our current assets. Inventories are stated at the lower of cost and net realisable value and the value of our inventories accounted for approximately 31.0%, 27.5% and 30.8% of our total current assets as at 31 December 2011, 2012 and 2013. We regularly review our inventory levels in order to identify slow-moving and obsolete inventories. When we identify items of inventories which have a realisable value that is lower than its carrying amount, we estimate the amount of write-down of inventories as allowance for inventories. If the realisable value of our inventories becomes much lower than its carrying amount subsequently, additional allowance may be required.

The following table is a summary of our balance of inventories as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Raw materials	73,278	87,220	110,657
Work in progress	30,179	32,696	50,438
Finished goods	169,691	159,765	184,942
Total	273,148	279,681	346,037

Our inventories increased by 23.7% from HK\$279.7 million as at 31 December 2012 to HK\$346.0 million as at 31 December 2013, primarily due to the growth of our business (including export sales and retail POS expansion) as well as increased purchases of raw materials in anticipation of the increased sales in 2014. Our overall revenues grew by 20.2% in 2013 and we opened a net of 30 new self-operated POS during the year.

Although we recorded an increase in revenue for the year ended 31 December 2012, our inventories remained relatively stable at HK\$279.7 million as at 31 December 2012 compared to inventory of HK\$273.1 million as at 31 December 2011, reflecting our efforts in management of our inventory levels.

As at 30 April 2014, HK\$282.8 million, or 81.7%, of our inventories as at 31 December 2013 were sold.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
Average inventory turnover days	81	67	65

Note: Average inventory turnover days for the years ended 31 December 2011, 2012 and 2013 are equal to the average of the starting and ending inventory balances of the year divided by cost of sales of the relevant year and multiplied by 365 days.

Average inventory turnover days decreased for the year ended 31 December 2012 because of our inventory management efforts. Average inventory turnover days remained relatively stable between 2012 and 2013.

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TRADE, BILLS AND OTHER RECEIVABLES

Trade and bills receivables

The table below sets forth a breakdown of our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	294,900	381,856	473,589
Less: Allowance for doubtful debts	(17,715)	(25,648)	(32,133)
Trade receivables, net	277,185	356,208	441,456
Bills receivables	31,953	12,412	14,809
Total trade and bills receivables	309,138	368,620	456,265
Average trade and bills receivables turnover days ⁽¹⁾	61	63	64

Note:

- (1) Average trade and bills receivable turnover days for the years ended 31 December 2011, 2012 and 2013 are equal to the average of the starting and ending trade and bills receivable divided by revenue of the relevant year and multiplied by 365 days.

Our trade and bills receivables are derived from the sale of our products. Our retail sales are made through our retail network comprising stand-alone retail shops and concession counters in department stores. We also sell the health and household products directly to overseas wholesalers and retailers and polyurethane foam to furniture manufacturers in the PRC. Sales at self-operated retail shops and sales through retailers in the PRC are transacted either by cash or credit cards. For sales made at concession counters, the department stores collect cash from the ultimate customers and then pay the balance (after deducting the concessionaire commission) to us. The credit period granted to department stores ranges from 30 days to 120 days. For sales to wholesalers, retailers and other manufacturers, we generally allow a credit period ranging from seven to 90 days. For sales to wholesalers, retailers and other manufacturers, before accepting any new customer, we will internally assess the potential customer's credit quality and defines the credit limits based on results from investigation of historical credit records of these customers.

The year-to-year increases in trade and bills receivables as at 31 December 2011, 2012 and 2013 were primarily attributable to the increased credit export sales and foam sales, which were in line with our increased sales in these segments. In particular, our export sales, which are primarily based on credit, grew by 16.3% in 2012 and 23.0% in 2013. Average trade and bills receivables turnover days were 61 days, 63 days and 64 days for 2011, 2012 and 2013, respectively, and are well within our general credit period.

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The table below sets forth an ageing analysis of trade receivables (net of allowance for doubtful debts) and bills receivables presented based on the revenue recognition date as at the dates indicated:

	As at 31 December					
	2011		2012		2013	
	Trade	Bills	Trade	Bills	Trade	Bills
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	143,534	10,719	120,558	7,033	214,339	3,534
31 to 60 days	81,402	8,378	100,261	496	129,914	5,557
61 to 90 days	27,816	978	84,244	924	64,755	4,197
91 to 180 days	23,448	11,878	33,530	3,959	19,809	1,385
181 to 365 days	985	–	17,615	–	5,380	136
Over 365 days	–	–	–	–	7,259	–
	<u>277,185</u>	<u>31,953</u>	<u>356,208</u>	<u>12,412</u>	<u>441,456</u>	<u>14,809</u>

Our management closely monitors the credit quality of trade receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no history of default. Our management considers the default rate of bills receivables to be low based on past experience.

The year-to-year increases in our trade and bills receivables outstanding within 90 days were primarily due to our increased credit sales. Our trade and bills receivables outstanding within 90 days represented 92.6% of our total trade and bills receivable as at 31 December 2013 as compared to 85.0% of our total trade and bills receivable as at 31 December 2012. Our trade receivables outstanding over 90 days increased from HK\$24.4 million as at 31 December 2011 to HK\$51.1 million as at 31 December 2012. The increase was primarily due to increased sales at concession counters in department stores to which we generally grant longer credit terms. Our trade receivables outstanding over 90 days decreased to HK\$32.4 million as at 31 December 2013 as compared to HK\$51.1 million as at 31 December 2012. Our trade receivables outstanding over 180 days of HK\$12.6 million as at 31 December 2013 mainly represented overdue payments from two of our customers as a result of an unsettled dispute with them. As at 30 April 2014, we have received 93.2% of the trade receivables outstanding as at 31 December 2013.

We monitor trade receivables collection and ageing, including closely monitoring all outstanding debts and reviewing our debtors' credit standings continuously to ensure that we are able to recover all debts which are outstanding and due. Customers we assign poor credit ratings to are monitored closely with follow ups made. If a customer does not settle its outstanding receivables, there are a number of internal measures and courses of action that we can take, including but not limited to, revising and suspending credit limits and revising terms and conditions of collection, failing which we will issue a formal written reminder, and following which we will cease all transactions with the customer and instruct lawyers to institute legal action where and if necessary. Our sales general managers and other sales staff will also help monitor the development of our customers' projects and communicate with our customers to reach a repayment schedule. Starting from September 2013, all new credit terms granted to customers have required approvals from the President, Chief Financial Officer and general managers.

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Included in our trade receivables balances are debtors with aggregate carrying amounts of HK\$109.0 million, HK\$238.5 million and HK\$124.6 million that were past due as at 31 December 2011, 31 December 2012 and 31 December 2013, respectively, for which we did not provide for impairment loss after we assessed the credit history of the relevant customers and subsequent settlement of the relevant receivables. We do not hold any collateral over these balances. The management considers the default rate of these trade receivables to be low based on past experience as we seldom encounter default with these customers.

The table below sets forth the movement in our allowance for doubtful debts for the periods indicated.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of the year	61,468	17,715	25,648
Impairment loss recognised	12,853	12,347	7,350
Reversal of impairment loss recognised	(18,214)	(2,264)	(280)
Bad debt written off	(40,554)	(1,986)	(761)
Exchange adjustments	2,162	(164)	176
	<u>17,715</u>	<u>25,648</u>	<u>32,133</u>
Balance at end of the year	<u>17,715</u>	<u>25,648</u>	<u>32,133</u>

Our provision policy for doubtful debts is based on the ongoing evaluation of collectability and ageing analysis of the outstanding receivables and on management's judgment in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We wrote off accounts receivable of HK\$40.6 million in 2011 which were owed by one of our ex-customers and we only managed to recover part of the outstanding balance after we had taken legal actions. We had previously provided in full for the relevant accounts receivable from such customer.

The amount of allowance for doubtful debts of trade receivables increased by 44.8% to HK\$25.6 million as at 31 December 2012 as compared to HK\$17.7 million as at 31 December 2011, primarily because we made full provisions for the outstanding accounts receivable from two of our customers amounting to HK\$12.3 million, with whom we have not settled disputes. The amount of allowance for doubtful debts of trade receivables increased by 25.3% to HK\$32.1 million as at 31 December 2013 from HK\$25.6 million as at 31 December 2012 primarily due to an increase in credit sales.

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Other receivables

Our other receivables primarily consist of prepayments for purchase of raw materials and operating expenses, other taxes recoverable and other receivables.

The table below sets forth our other receivables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Prepayments for purchase of raw materials and operating expenses	32,837	28,748	35,286
Other taxes recoverable	15,153	15,340	17,518
Others	8,462	10,077	14,259
	56,452	54,165	67,063

A substantial portion of our other receivables was related to our prepayment for purchase of raw materials, as such, our other receivables changed in line with our changes in inventory level.

STRUCTURED BANK DEPOSITS

Structured bank deposits represent bank deposits with interest rates linked to certain benchmarks, such as market interest rates and foreign exchange rates. Interest rates of these structured deposits vary depending on the movement of market interest rates and foreign exchange rates at the respective maturity dates and those features constitute embedded derivatives. In general, we are able to achieve a higher interest rate through placements of structured bank deposits as compared to normal bank deposits and we intend to continue to place structured deposits with reputable commercial banks as a conservative way to enhance the return to our temporary surplus cash.

TRADE, BILLS AND OTHER PAYABLES

Trade and bills payables

The table below sets forth a breakdown of our trade and bills payables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade payables	157,826	192,291	196,518
Bills payables	60,583	70,547	113,547
	218,409	262,838	310,065
Average trade and bills payables turnover days ⁽¹⁾	65	58	60

Note:

- (1) Average trade and bills payables turnover days for the years ended 31 December 2011, 2012 and 2013 are equal to the average of the starting and ending trade and bills payables divided by cost of sales of the relevant year and multiplied by 365 days.

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Our trade and bills payables represent amounts payable in connection with the purchase of materials necessary for our production and other raw materials from various suppliers. Our suppliers typically grant us credit terms ranging from 30 to 60 days.

The increase in trade and bills payables as at 31 December 2012 as compared to 31 December 2011 was primarily due to our increased purchase of raw materials in the latter half of 2012 in anticipation of increased sales to our customers in 2013. Our trade and bills payables increased by 18.0% as at 31 December 2013 as compared to 31 December 2012, primarily due to our increased purchase of raw materials in line with our increased production for the same period and in anticipation of the increased sales in 2014.

Average trade and bills payables turnover days remained relatively stable in 2012 and 2013. Average trade and bills payables turnover days decreased from 65 days in 2011 to 58 days in 2012 as we, primarily due to our decreased purchase of raw materials in 2011 as we consumed our inventories that existed as at 31 December 2010.

The following is an ageing analysis of trade and bills payables as at the dates indicated:

	As at 31 December					
	2011		2012		2013	
	Trade	Bills	Trade	Bills	Trade	Bills
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	102,216	19,924	140,228	22,482	136,604	38,342
31 to 60 days	32,066	30,731	37,112	27,677	52,118	44,422
61 to 90 days	9,939	8,155	2,979	15,088	3,020	10,438
91 to 180 days	1,243	1,773	6,602	5,300	1,438	20,345
Over 180 days	12,362	–	5,370	–	3,338	–
	157,826	60,583	192,291	70,547	196,518	113,547

As at 30 April 2014, we have settled HK\$296.0 million, or 95.5%, of the trade and bills payable outstanding as at 31 December 2013.

Other payables

The table below sets forth our other payables and accruals as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Deposits received from customers	11,449	14,985	11,763
Accrued expenses/provision for expenses ⁽¹⁾	51,635	56,140	81,139
Accrued listing expenses	–	–	7,354
Other taxes payable	12,554	15,504	18,622
Retentions payable	4,962	165	–
Amount due to a non-controlling shareholder of a subsidiary ⁽²⁾	6,543	6,543	6,543
Others	6,632	4,428	6,599
	93,775	97,765	132,020

FINANCIAL INFORMATION

Notes:

- (1) Accrued expenses/provision for expenses mainly include accruals in relating to staff salary and bonus and accruals for the transportation fee.
- (2) The amount is unsecured, interest-free and repayable on demand.

Our other payables increased from HK\$93.8 million as at 31 December 2011 to HK\$97.8 million as at 31 December 2012, primarily due to the increases in deposits received from customers and accrued expenses and provision for expenses, offset by a decrease in retention payable. Our other payables increased from HK\$97.8 million as at 31 December 2012 to HK\$132.0 million as at 31 December 2013 primarily due to an increase in accrued expenses, relating to salary and listing expenses. The increase in accrued salary expenses were in line with the increased number of staff.

RELATED PARTY TRANSACTIONS

Amounts due from/to related parties

The description that follows relates to amounts historically due from/to related parties.

Amounts due to related companies The following table sets forth our amounts due to related companies as at the dates indicated:

	Nature of business	Relationship	As at 31 December		
			2011	2012	2013
			HK\$'000	HK\$'000	HK\$'000
Sinomax Enterprises	Non-trade	(i)	118,357	86,970	3,188
DG Polyurethane	Non-trade	(ii)	2,113	1,745	2,919
Sino Century Development Limited	Non-trade	(iii)	9,445	9,445	–
Sinomax Holding	Non-trade	(iv)	21,119	14,171	–
Sinomax Polyurethane (Shanghai)	Trade	(iii)	34,072	22,592	39,062
Shinuo Polyurethane (Shanghai)	Trade	(iii)	–	–	17,133
			185,106	134,923	62,302

Notes:

- (i) Immediate holding company
- (ii) Fellow subsidiary
- (iii) Companies controlled by the Individual Shareholders (as defined in Note 2 to the Accountants' Report attached to Appendix I in this Prospectus) collectively
- (iv) Companies controlled by certain Individual Shareholders

FINANCIAL INFORMATION

For non-trade balances, the amounts are unsecured, interest-free and repayable on demand. The balances were created as a result of current account transfers with the relevant related companies. For trade balances, the amounts due to Shinuo Polyurethane (Shanghai) mainly represents trade deposits. The amount due to Sinomax Polyurethane (Shanghai) as at 31 December 2013 were aged over 365 days. Please refer to the section headed "Connected Transactions" for further details.

Our Directors have confirmed that as at the Latest Practicable Date, we have settled all amounts due to related companies of a non-trade nature.

Amounts due from related companies The following table sets forth our amounts due from related companies as at the dates indicated:

	Nature of business	Relationship	As at 31 December		
			2011	2012	2013
			HK\$'000	HK\$'000	HK\$'000
Sinomax Enterprises	Non-trade	(i)	57,554	79,655	15,621
Dongguan Donglian	Non-trade	(ii)	13,615	13,885	15,778
Sinomax Europe GmbH	Trade	(ii)	4,821	4,252	–
Yisheng (Jiashan)	Trade	(iii)	3,229	–	–
Shinuo Polyurethane (Shanghai)	Trade	(iii)	2,301	–	–
			81,520	97,792	31,399

Notes:

- (i) Immediate holding company
- (ii) Fellow subsidiaries
- (iii) Companies controlled by the Individual Shareholders collectively
- (iv) Companies controlled by certain Individual Shareholders

For non-trade balances, the amounts are unsecured, interest-free and repayable on demand. The balances were created as a result of current account transfers with the relevant related companies. For trade balances, the amounts are unsecured and interest-free and aged within 90 days from the dates indicated. The balances were created as a result of trade transactions with the relevant related companies. Please refer to the section headed "Connected Transactions" for details.

Our Directors have confirmed that as at the Latest Practicable Date, our related parties have settled all amounts due to us of a non-trade nature.

FINANCIAL INFORMATION

Amounts due to shareholders The following table sets forth our amounts due to shareholders as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest bearing at 6% per annum			
Mr. Lam Chi Fan*	4,500	4,500	4,500
Mr. Lin Han Li	3,000	3,000	3,000
Mr. Cheung Fung, Jackson	1,500	1,500	1,500
Mr. Cheung Tung*	4,500	4,500	4,500
Mr. Chen Feng*	1,500	1,500	1,500
	15,000	15,000	15,000
Non-interest bearing			
Mr. Lin Han Li	193	194	–
Mr. Cheung Fung, Jackson	245	–	–
Mr. Cheung Tung*	–	1,624	–
Mr. Chen Feng*	963	963	–
	1,401	2,781	–
Total amounts due to shareholders	16,401	17,781	15,000

* A director of the Company

The amounts due to shareholders are non-trade in nature, unsecured, and repayable on demand. Out of the above amounts, HK\$15,000,000 is interest bearing at a rate of 6% per annum during the Track Record Period and the remaining balances are interest-free.

Our Directors have confirmed that as at the Latest Practicable Date, we have settled all amounts due to shareholders.

Amounts due from shareholders The following table sets forth our amounts due from shareholders as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
LAM Chi Fan*	181	211	44
CHEUNG Fung, Jackson	–	1,017	82
CHEUNG Tung*	2,524	228	–
CHEN Feng*	–	–	7
	2,705	1,456	133
	2,705	1,456	133

* A director of the Company

The amounts due from shareholders are non-trade in nature, unsecured, interest-free and repayable on demand.

Our Directors have confirmed that as at the Latest Practicable Date, our shareholders have settled all amounts due to us.

FINANCIAL INFORMATION

With respect to the related parties transactions set out in our consolidated financial statements included in the Accountants' Report set out in Appendix I to this Prospectus, our Directors confirm that these transactions were conducted on normal commercial terms. After reviewing relevant information and historical figures relating to the related parties transactions prepared and provided by our Company and comparing the transaction terms against those with independent third parties, the Sole Sponsor considered that the related parties transactions were conducted on normal commercial terms. For a further discussion of related party transactions, see Notes 27 and 40 to the Accountants' Report in Appendix I to this Prospectus.

INDEBTEDNESS

Borrowings

The following table sets forth our indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings – secured	7,387	4,238	–	–
Bank Borrowings – unsecured	208,565	187,010	162,532	242,602
Subtotal	215,952	191,248	162,532	242,602
Amounts due to related companies	185,106	134,923	62,302	–
Amounts due to shareholders	16,401	17,781	15,000	–
Subtotal	201,507	152,704	77,302	–
Total	417,459	343,952	239,834	242,602

The following table sets forth the ranges of effective interest rates on our borrowings as at the dates indicated:

	As at 31 December		
	2011	2012	2013
Effective interest rates (per annum):			
Variable-rate borrowings	1.45%–6.10%	1.45%–6.10%	1.74%–6.90%
Fixed-rate borrowings	6.10%–7.11%	5.86%–6.98%	2.16%–3.35%

The variable rate bank borrowings bear interest with reference to Hong Kong Interbank Offered Rate and prime rate of the relevant banks. The ranges of effective interest rates on our fixed rate bank borrowings as at 31 December 2011, 2012 and 2013 were 6.10% to 7.11%, 5.86% to 6.98% and 2.16% to 3.35%, respectively. The decrease in the ranges of effective interest rates on our fixed rate bank borrowings as at 31 December 2013 as compared to that as at 31 December 2012 were primarily because all of our fixed rate borrowings as at 31 December 2013 were denominated in US dollars, which generally had a much lower interest rate than that of bank borrowings denominated in RMB. Our fixed rate bank borrowings as at 31 December 2011 and 2012 were mostly denominated in RMB.

FINANCIAL INFORMATION

The following table sets forth the carrying amount repayable of our bank loans as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Classified as:			
Bank loans repayable on demand or within one year	182,981	168,248	147,532
Bank loans repayable after one year	32,971	23,000	15,000

As at 30 April 2014, being the latest practicable date for the purpose of this indebtedness statement in this Prospectus, our total indebtedness amounted to HK\$242.6 million, comprising HK\$95.2 million secured by guarantees given by certain of our connected persons and HK\$147.4 million being unsecured. All bank loans are repayable within one year. As at 30 April 2014, we have settled all amounts due to the related companies. We confirm that there has not been any material change in our indebtedness since 30 April 2014.

As at 30 April 2014, our Group had banking facilities of HK\$741.0 million, of which HK\$318.7 million were utilised (which amount includes bank loans and bills payables) and we were able to meet the relevant covenants of the relevant bank loans.

Other than the requirement to maintain a certain amount of tangible net worth of a subsidiary for a bank loan, there were no other material financial covenants nor any cross default provisions in our banking facilities outstanding as at the Latest Practicable Date. In respect of a bank loan with a carrying amount of HK\$8,203,000 as at 31 December 2012, one of our subsidiaries had breached the covenant that it maintain tangible net worth at no less than HK\$30,000,000 at all times. The relevant loan was repaid in full during the year ended 31 December 2013 given that there were adequate alternative sources of finance available to us. Please refer to Note 6 of the Accountants' Report attached to Appendix I to this Prospectus for more details. Save as disclosed above, we have complied with all the covenants in the bank facility letters with our lending banks during the Track Record Period. As at 31 December 2013, we complied with all the terms of the bank loan.

Certain of our bank borrowings as at 31 December 2011 and 2012 are secured by our property, plant and equipment and land use rights. Please refer to Note 39 of the Accountants' Report attached to Appendix I to this Prospectus.

During the Track Record Period, certain of our subsidiaries had provided corporate guarantees to a bank to secure the banking facilities granted to a related company, Charmax Enterprise Limited, and the utilisation of such facilities amounted to HK\$33,516,000, HK\$29,601,000, HK\$39,793,000 and HK\$35,121,000, as at 31 December 2011, 2012, 2013 and 30 April 2014, respectively. The guarantees will be released upon the Listing.

We had provided a one-year corporate guarantees to a bank in respect of banking facilities granted to a company controlled by a non-controlling shareholder of a subsidiary on 1 January 2011 and 18 January 2012, respectively. The extent of guarantees provided by us amounted to RMB45,000,000 and RMB15,000,000, respectively, and the banking facilities were not utilised as at 31 December 2011 and 2012, respectively. The guarantee was released during the year ended 31 December 2013.

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During the Track Record Period, certain of our connected persons provided guarantees to banks in respect of our bank borrowings. Two properties owned by certain connected persons were also pledged against banking facilities granted to us. The utilisation of such facilities by us amounted to HK\$154,073,000, HK\$137,608,000 and HK\$171,582,000 as at 31 December 2011, 2012 and 2013, respectively. As at 30 April 2014, our bank borrowings amounting to HK\$68.9 million were secured by guarantees given by our related parties. Our creditor banks have agreed that these guarantees and mortgages will be released upon our Listing. Please refer to Note 40 of the Accountants' Report as set out in Appendix I to this Prospectus for further details.

Save as disclosed in "Financial Information – Indebtedness" above, and apart from intra-group liabilities and normal trade payables in the normal course of business, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits (other than normal trade bills), or any guarantees or other material contingent liabilities outstanding as at 30 April 2014 and at the Latest Practicable Date.

Contingent liabilities

Save as disclosed above, as at the Latest Practicable Date, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us.

COMMITMENTS

Operating lease commitments

Operating lease payments represent our rental payables for the retail stores, offices, factory, staff quarters and warehouses. Leases are generally negotiated for terms ranging from one to 10 years.

Certain retail stores in department stores and home furnishing malls include payment obligations with rental varying with gross revenue. The additional rental payable (contingent rents) is determined generally by applying pre-determined percentages to actual sales less the basic rentals of the respective leases. Concessionaire commissions in respect of department store counters is generally calculated by applying pre-determined percentages to actual sales made through the relevant counters.

The following table sets forth the maturity profile of our obligations for future minimum lease payments under non-cancellable operating leases as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	16,939	20,986	28,607
In the second to fifth years inclusive	34,337	28,555	24,239
Over five years	10,543	4,808	–
	<u>61,819</u>	<u>54,349</u>	<u>52,846</u>

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Capital commitments

In addition to the operating lease commitments as set out above, we had the following capital commitments as at 31 December 2011, 2012 and 2013. The capital commitments as at 31 December 2013 primarily represents committed purchases of new machinery to automate and improve our production efficiency and operating costs.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided	19,538	16,801	11,881

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as at the Latest Practicable Date, we did not enter into any off-balance sheet transaction.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Credit Risk

Our maximum exposure to credit risk in the event of our counterparties' failures to perform their obligations as at the balance sheet dates arises from:

- the carrying amounts of the respective recognised financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by us as disclosed in Note 36 of the Accountants' Report attached to Appendix I to this Prospectus.

In order to minimise the credit risk, we have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual debt as at balance sheet dates to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our management considers that our credit risk is significantly reduced.

Our management considers that our credit risk in relation to sales made at concession counters is limited as we only operate concession counters in leading and reputable department stores. For international and export sales, the customers are mainly leading retailers in the US and the credit risk is not expected to be significant by our management. For other customers, our management closely monitors settlement status and regularly updates their credit profile to ensure that our credit risk is properly managed. For customers in the PRC, we would accept bills as alternate settlement means to reduce the exposure of credit risk.

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We have concentration of credit risk in relation to our trade receivables as follows:

	At 31 December		
	2011	2012	2013
Amount due from the largest debtor as a percentage to total trade receivables	27%	21%	9%
Total amounts due from the five largest debtors as a percentage to total trade receivables	42%	43%	32%

We continue to seek out new customers to diversify and strengthen our customer base and to reduce the concentration of credit risk.

The credit risk on liquid funds, pledged and structured banks deposits is limited because majority of the counterparties are banks with good reputations.

Our management considers that the credit risk on amounts due from related parties is limited because we regularly monitor the financial position of these related parties through involvement in either our management and operations, and in case of individuals, we have a good understanding of their financial background and ability to repay the debt. In addition, advances are only made to related parties having a good financial standing.

We have concentration of credit risk in relation to amounts due from related parties, of which a significant portion is due from a few counterparties.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign currency exchange rates. Several subsidiaries of ours have foreign currency sales and purchases, which expose us to foreign currency risk. We currently do not have a formal foreign currency hedging policy but will use foreign currency contracts to hedge against the risk when it is foreseen to be significant. Details of the foreign currency contracts entered into by us during the Track Record Period are set out in Note 28 of the Accountants' Report attached to Appendix I to this Prospectus and the relevant foreign currency risk exposure is considered insignificant.

The carrying amounts of our monetary assets and monetary liabilities (excluding inter-company balances) denominated in currencies other than the respective group entities' functional currencies as at the dates indicated are as follows:

	Assets			Liabilities		
	As at 31 December			As at 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	13,829	16,038	16,854	61,423	61,175	145
Renminbi (“RMB”)	245	527	168	–	–	–
United States dollars (“US\$”)	94,547	81,681	71,280	71,037	83,950	112,548

FINANCIAL INFORMATION

In addition, inter-company balances denominated in foreign currencies other than the respective group entities' functional currencies as at the dates indicated are as follows:

	Assets			Liabilities		
	As at 31 December			As at 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	781,332	56,358	26,124	956,369	157,603	235,560
RMB	1,192	1,239	–	21,802	7,320	34,312
US\$	158,863	234,353	299,981	–	–	6,140

Sensitivity analysis

Our subsidiaries carry out most of the transactions denominated in HK\$, RMB or US\$ and we are mainly exposed to the foreign exchange risk arising from these currencies when they are different from the functional currencies of the respective group entities. Under the pegged exchange rate system, the financial impact arising from changes in exchange rates between HK\$ and US\$ is not expected to be significant and therefore, the corresponding sensitivity analysis is not prepared.

The sensitivity analysis below details our sensitivity to a 5% increase and decrease in HK\$, RMB or US\$ against the functional currencies of the respective group entities. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. A positive (negative) number indicates an increase (decrease) in pre-tax profit for the year when HK\$, RMB or US\$ strengthen 5% against the functional currencies of the respective group entities. For a 5% weakening of HK\$, RMB or US\$, there would be an equal but opposite impact on the pre-tax profit for the year.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	(11,132)	(7,319)	(9,636)
RMB	(1,019)	(278)	(1,707)
US\$	(527)	1,321	(1,015)

In our management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Derivative financial instrument

In November 2011, we entered into a two-year foreign currency contract primarily to hedge against the appreciation of Renminbi against U.S. dollar. The contract expired on 21 November 2013. With respect to this contract, as at 31 December 2011, 2012 and 2013, we recorded unrealised mark-to-market loss of HK\$931,000, gain of HK\$87,000 and nil, respectively. Please refer to Note 28 to the Accountants' Report set out in Appendix I to this Prospectus for further details. After our Directors' careful consideration, taking into account the macro-economic conditions and the foreign exchange rate trend in the US and PRC, our Directors considered that it is not advantageous for us to continue to enter into any new derivative financial instruments in the future. As at the Latest Practicable Date, we did not hold any other derivatives contract. We do not intend to invest in any derivative financial instruments in the foreseeable future but may reconsider should conditions warrant.

FINANCIAL INFORMATION

Interest Rate Risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank deposits and bank borrowings due to the fluctuation of the prevailing market interest rates. We currently do not have a policy on hedging interest rate risk. However, our management monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise.

We are also exposed to fair value interest rate risk in relation to the fixed-rate bank deposits and bank borrowings. However, our management consider the fair value interest rate risk is insignificant as the deposits and borrowings are relatively short-term.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Details of our remaining contractual maturity analysis for our non-derivative financial liabilities are set out in Note 6 of Accountants' Report attached to Appendix I to this Prospectus.

In respect of a bank loan with a carrying amount of HK\$8,203,000 as at 31 December 2012, one of our subsidiaries had breached a covenant of a bank loan which required that subsidiary to maintain tangible net worth at no less than HK\$30,000,000 at all times. On discovery of the breach, the directors of the subsidiary informed the lending bank and commenced a renegotiation of the terms of the loan. As at 31 December 2012, the negotiation had not been concluded and the loan was therefore classified as a current liability repayable on demand.

In January 2013, while the negotiations were still in progress, the directors of the subsidiary decided to repay the bank loan given that there were adequate alternative sources of finance available to the Group and that subsidiary. In August 2013, the negotiation was concluded and a new facility letter was signed with the subsidiary. As at 31 December 2013, we complied with all the terms of the bank loan.

Save as disclosed above, we have complied with all the covenants in the bank facilities with our lending banks during the Track Record Period.

As at 31 December 2011, 2012 and 2013, the aggregate principal amounts of these bank loans amounted to HK\$154.1 million, HK\$137.6 million and HK\$105.1 million, respectively. Taking into account our financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

FINANCIAL INFORMATION

The Directors believe that the principal and interest will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates that are set out as follows:

	Weighted average effective interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings							
At 31 December 2011	2.05	65,916	48,182	12,479	30,514	157,091	154,073
At 31 December 2012	1.98	65,140	45,409	4,995	24,074	139,618	137,608
At 31 December 2013	1.93	58,159	20,321	12,494	15,531	106,505	105,141

We had provided corporate guarantees to other parties during the Track Record Period. The maximum amounts that we could be required to settle under such financial guarantee arrangements were HK\$33.5 million, HK\$29.6 million and HK\$14.2 million as at 31 December 2011, 2012 and 2013, respectively. Such guarantees will be released prior to the Listing.

Commodity Price Risk

Commodity price risk is primarily related to the changes in prices of key commodities and raw materials that we purchase. We are exposed to commodity price risks resulting from increases in prices of PPG and TDI, which are the key commodities used as raw materials for our production of visco-elastic material and other polyurethane foams. To mitigate the influence of raw material purchase price on our profits and profit margin, we have established a cost-plus pricing policy to account for fluctuations in the cost of raw materials.

Pursuant to this policy, our management reviews the current and forecasted exposure to raw materials price fluctuations on a monthly basis and maintains close communication with our raw materials suppliers. Management also analyses raw materials price fluctuations and evaluates the price adjustments of other companies in the visco-elastic material market on a monthly basis to determine whether corresponding adjustments to our prices need to be made so that we are able to pass on any raw materials price increases to our end customers. If we expect an increase in raw materials prices, we will work with our suppliers to try to minimise impact on cost of goods sold by increasing our purchases prior to the expected increase. Conversely, if we expect a decrease in raw materials prices, we will reduce our purchases prior to the change in prices. The decision regarding the increase or decrease in the quantity of our purchases is determined by our executive Directors after reviewing the current and forecasted exposure to raw materials price fluctuations, through discussions with our raw materials suppliers and making reference to the global production and consumption data published by authoritative sources. Currently, we do not use derivative commodity instruments to manage the risk of changes in prices of PPG and TDI. Please refer to "Volatility in the pricing of raw materials that we use in our products could materially and adversely affect our business, financial condition and results of operations" in Risk Factors for details.

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Sensitivity analysis

The sensitivity analyses below sets out the sensitivity of gross profit and profit before taxation to a 12% and 24% increase and decrease in raw material costs, respectively. During the Track Record Period, the maximum range in the fluctuation of the average prices of each of TDI and PPG, being the two key raw materials of our Group, were 24%. The following analysis is for illustration purposes only and does not take into account the changes in selling price of our products as we have adopted a cost-plus pricing policy. Our Directors consider that we have monitored and managed the level of raw material costs effectively as our raw materials costs to revenue ratios during the three years ended 31 December 2011, 2012 and 2013 were relatively stable and ranged from 61.5% to 64.6%.

In the table below, a positive number indicates the amount the relevant line item would decrease in response to a 24% increase in raw material costs. A 24% decrease in raw material costs would result in an equivalent increase in the same line item of our equivalent current.

	Years ended 31 December		
	2011	2012	2013
Gross profit	69.9%	63.5%	54.9%
Profit before taxation	230.1%	190.7%	179.7%

In the table below, a positive number indicates the amount the relevant line item would decrease in response to a 12% increase in raw material costs. A 12% decrease in raw material costs would result in an equivalent increase in the same line item.

	Years ended 31 December		
	2011	2012	2013
Gross profit	35.0%	31.7%	27.4%
Profit before taxation	115.1%	95.3%	89.8%

DISTRIBUTABLE RESERVES

As at 31 December 2013, our Company had HK\$322.9 million in distributable reserves, which comprised of share premium, capital reserve and accumulated losses, available for distribution to the shareholders of our Company.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. An amount of HK\$20.8 million listing expenses was charged to the consolidated statement of profit or loss and other comprehensive income during the Track Record Period. We expect to incur approximately an additional HK\$16.3 million in listing expenses, of which approximately HK\$5.7 million will be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2014 and approximately HK\$10.6 million will be deducted from equity upon Listing. An additional approximately HK\$42.3 million in listing expenses will be borne by the Selling Shareholders and will not be charged to our consolidated statement of profit or loss and other comprehensive income.

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DIVIDEND POLICY

In 2011, Sinomax Kuka declared dividends of approximately RMB26.1 million (equivalent to approximately HK\$32.1 million) to Trade Sincere and in turn, Trade Sincere declared dividends of approximately HK\$28.3 million, which was paid to its shareholders at the time of declaration. On 19 September 2013, our Directors declared an interim dividend totaling HK\$60.0 million to our then sole shareholder and the amount was settled in February 2014 from internal resources. Saved as disclosed above, we did not declare or pay any dividend during the Track Record Period.

The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon our earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions our Directors may deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Set forth below are certain developments or expected developments after 31 December 2013 regarding our business:

- Our Directors declared an interim dividend of HK\$60.0 million on 19 September 2013 which was settled in February 2014 from internal resources.
- On 4 March 2014, our Board has approved the issuance of 1,499,950,000 shares under the Capitalisation Issue on or around Listing Date. For further details, please refer to the paragraph headed “A. Further information about our Company and the subsidiaries of our Group” in Appendix IV to this Prospectus.
- Assuming the final Offer Price to be HK\$1.25, being the mid-point of the Offer Price range, we estimate to charge an amount not more than HK\$8.9 million as employee benefit expenses in connection with the options granted under the Pre-IPO Share Option Scheme for the year ending 31 December 2014.

The Directors confirmed that the listing expenses and expenses in connection with the options granted under the Pre-IPO Share Option Scheme, to be charged to our consolidated statements of profit or loss and/or other comprehensive income for the year ending 31 December 2014, should not have any material adverse impact on our financial position, as the aggregated amount of such expenses are not material to profit attributable to owners of the Company for the year ended 31 December 2013.

The directors of the Company have prepared the Subsequent Interim Financial Information. The Subsequent Interim Financial Information, which has been prepared in accordance with the accounting policies consistent to those followed in the preparation of the financial information of the Group for the Track Record Period in the Accountants' Report as set out in Appendix I, does not contain sufficient information to constitute a complete set of financial statements as defined in HKAS 1 “Presentation of Financial Statements” or an interim financial report as defined in HKAS 34 “Interim Financial Reporting”. Our Reporting Accountants, Deloitte Touche Tohmatsu, have conducted a review on the Subsequent Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity”.

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The following sets out certain financial data for the four months period ended 30 April 2014 and as at 30 April 2014:

- Based on the Subsequent Interim Financial Information, our revenue for the four months period ended 30 April 2014 was HK\$768.1 million, which represents an increase by 23.3% when compared to that for the same period in 2013, mainly due to increased sales across all three of our business segments (export sales, retail and corporate sales and polyurethane foam sales). In particular our retail and corporate sales increased by 60.2%.
- Based on the Subsequent Interim Financial Information, our gross profit margin for the four months period ended 30 April 2014 was 27.0%, which slightly increased from our gross profit margin for the year ended 31 December 2013 of 26.2%.
- As at 30 April 2014, we have recovered 93.2% of the trade receivables outstanding as at 31 December 2013.
- As at 30 April 2014, our Group had banking facilities of HK\$741.0 million, of which HK\$318.7 million were utilised (which amount includes bank loans and bills payables) and our Directors confirmed that we were able to meet the relevant covenants of the relevant bank loans.

Our Directors confirm that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2013 and there is no event since 31 December 2013 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report set out in Appendix I to this Prospectus, in each case except as otherwise disclosed herein.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business – Strategies” in this Prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds from the Global Offering to us, after deducting underwriting fees and estimated total expenses paid and payable by us in connection thereto, are estimated to be approximately HK\$171.2 million assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$1.06 to HK\$1.43 per Offer Share. We intend to use such net proceeds as follows:

- approximately HK\$46.2 million, or approximately 27% of our total estimated net proceeds to be used for brand building and promotion from 2014 to 2016. We intend to build our brand and promoting our products through, amongst others, implementing a multi-faceted marketing strategy, involving trading advertising channels, and online advertising and social media coverage across the Pearl River Delta in the near future. For details of our brand building and promotion strategies, please refer to the section headed “Business – Strategies – Continue to strengthen our flagship brand recognition”;
- approximately HK\$47.9 million, or approximately 28% of our total estimated net proceeds to be used for strategic acquisitions and business opportunities in the health and wellness market, including but not limited to acquisitions of brands, distribution network and/or production facilities. We would consider a range of factors in assessing acquisition targets, including (i) reputation of such company in the industry; (ii) its brand portfolio and product offering; (iii) distribution channels and POS coverage; (iv) location of production facilities; and (v) historical financial performance. Generally, we would look at the overall synergy effect that the proposed acquisition can offer. As at the Latest Practicable Date, we had yet to identify any target that could fulfil our acquisition criteria;
- approximately HK\$20.5 million, or approximately 12% of our total estimated net proceeds to be used for expanding our distribution network and diversifying our sales channels. This includes the expansion of our retail sales network in Hong Kong and the PRC for “SINOMAX” branded products and expansion of e-commerce sales channels and exploring opportunities with other established department stores and bedding and furniture retailers in the US. We plan to open 10 “Sinomax Life Stores” in the PRC and Hong Kong in 2014. We estimate the investment costs (including, amongst others, rental deposit, decoration expenses, rents and staff costs) per “Sinomax Life Store” to be approximately HK\$9.5 million and RMB5.8 million, in Hong Kong and the PRC, respectively. For details of our strategies to expand our distribution network, please refer to the section headed “Business – Strategies – Continue to expand our distribution network and diversify our sales channels”;
- approximately HK\$24.0 million, or approximately 14% of our total estimated net proceeds to be used for upgrading or acquisition of production equipment and building new production facilities and warehouses in Dongguan and Jiashan. The expected total capital expenditure is expected to be approximately RMB116.9 million (equivalent to approximately HK\$151.8 million), which is expected to be incurred by 2016;

FUTURE PLANS AND USE OF PROCEEDS

- approximately HK\$10.3 million, or approximately 6% of our total estimated net proceeds to be used for acquiring or setting up production facilities in the US. We consider that by setting up production facilities in the US, we can provide products which are made in the US to capture different market segments and also shorten the lead time between production to delivery and thus better serve our customers. We would consider a range of criteria in assessing acquisition targets for or setting up production facilities in the US, including, amongst others, (i) location in the central or southern regions of the US where the warehouses of our retailer customers are located; and (ii) scale of the production facilities to be at least 3,000 tonnes of foam per year. As at the Latest Practicable Date, we had yet to identify any target facilities to acquire or target locations to set up such production facilities;
- approximately HK\$5.2 million, or approximately 3% of our total estimated net proceeds to be used for our expenses in design, research and development from 2014 to 2016. We intend to apply such amounts to pay the fees to our product designers and to acquire equipment and software for product design, research and development; and
- approximately HK\$17.1 million, or approximately 10% of our total estimated net proceeds to be used for general working capital.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase to HK\$197.3 million or decrease to HK\$143.7 million, respectively. If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will change to HK\$258.8 million, HK\$306.9 million and HK\$352.5 million, assuming an Offer Price of HK\$1.06, HK\$1.25 and HK\$1.43 per Share, respectively, being the low end, mid-point and high end of the Offer Price range, respectively. In such events, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis.

Should our Directors decide to reallocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions for so long as our Directors consider it to be in our best interest. We will also disclose the same in the relevant annual report.

Our Company is not aware of any legal or regulatory restrictions with respect to the use of proceeds for the projects and plans detailed above.

The net proceeds of the Sale Shares, being an aggregate of 600,000,000 Shares, assuming an Offer Price of HK\$1.25 per Offer Share, being the mid-point of the proposed Offer Price range of HK\$1.06 to HK\$1.43 per Offer Share, would be approximately HK\$707.7 million. The net proceeds of the Sale Shares will be attributable to the Selling Shareholders only and will not belong to the Company.

UNDERWRITING

HONG KONG UNDERWRITERS

China Merchants Securities (HK) Co., Limited

Taiping Securities (HK) Co., Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this Prospectus and the Application Forms at the Offer Price. One of the conditions is that the Offer Price must be agreed between our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters). For applicants applying under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed.

Subject to the listing of and permission to deal in our Shares in issue and to be issued as mentioned in this Prospectus being granted by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers to subscribe for their respective applicable portions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on, and subject to, the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the obligations of the International Underwriters under the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated.

Grounds for Termination

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination with immediate effect by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) by notice in writing to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (i) there has been a breach of any of the warranties or there has been a breach by our Company, the Controlling Shareholders, or the Selling Shareholders (collectively, “**Warrantors**”) of any of the provisions of Hong Kong Underwriting Agreement; or
- (ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, result in a misstatement in, or constitute an omission from, any of this Prospectus, the Application Forms and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

UNDERWRITING

- (iii) any statement contained in any of this Prospectus, the Application Forms and/or in any announcements issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of this Prospectus, the Application Forms and/or any announcements, issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions; or
- (iv) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of any of our Company or the executive Directors pursuant to the indemnities provided in the Hong Kong Underwriting Agreement; or
- (v) there shall have been any material adverse change or development involving a prospective material adverse change in the assets, liabilities, conditions, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, condition or position, financial or otherwise, or performance, of any Group company; or
- (vi) our Company withdraws this Prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or
- (vii) any non-compliance of this Prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (viii) there is an order or petition for the winding up of any Group company with substantive business operations or any composition or arrangement made by any such Group company with its creditors or a scheme of arrangement entered into by any such Group company or any resolution for the winding up of any such Group company or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any such Group company or anything analogous thereto occurring in respect of any such Group company; or
- (ix) any actions, suits, claims (whether or not any such claim involves or results in any actions or proceedings), demands, investigations, judgment, awards and proceedings, joint or several, from time to time instituted, made or brought or threatened or alleged to be instituted, made or brought against or otherwise involve (together the "**Actions**") of any third-party being threatened or instigated against any Group company; or
- (x) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign or political body or organisation in any relevant jurisdiction (together the "**Authority**") commencing any Action, or announcing an intention to take any Action, against any Director; or

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- (xii) any prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
- (xiii) the chairman of our Company vacating his office; or
- (xiv) any contravention by any Group company of the Listing Rules or applicable laws; or
- (xv) our Company is required to produce or issue a supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or
- (xvi) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (a) any change or development involving a prospective change, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the US) in Hong Kong, the US, the United Kingdom, Japan, the PRC, Singapore, or any other member of the European Union (each a “**Relevant Jurisdiction**”); or
 - (b) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any Relevant Jurisdiction; or
 - (c) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or
 - (d) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange or any suspension of trading of any of the securities of our Company on any exchange or over-the-counter market or any major disruption of any securities settlement or clearing services in any Relevant Jurisdiction or on commercial banking activities in any Relevant Jurisdiction, due to exceptional financial circumstances or otherwise; or

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- (e) a change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the HK\$, the Euro, the Japanese yen, the Renminbi, the US\$ or the British pound sterling against any foreign currencies and any disruptions in monetary, trading or securities settlement or clearance services, procedures or matters) in any Relevant Jurisdiction;

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- A. is or will be, or is likely to result in a material adverse change, or any development involving a prospective material adverse change, in or affecting (i) the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company and the other members of our Group, taken as a whole; or (ii) the success of the Global Offering and/or the level of applications under the Hong Kong Public Offering and/or the level of interest under the International Offering; or
- B. has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
- C. makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Offering on the terms and in the manner contemplated in the offer documents; or
- D. has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof;

then the Sole Global Coordinator, in its sole and absolute discretion, may, on behalf of the Hong Kong Underwriters), upon giving notice to our Company on or prior to 8:00 a.m. on the Listing Date (with a copy of such notice to each of the executive Directors and the other Hong Kong Underwriters), terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings

Undertaking by our Company to the Hong Kong Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our Shares commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing) except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering.

UNDERWRITING

Undertaking by the Controlling Shareholders to the Hong Kong Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to each of the Hong Kong Stock Exchange and our Company that, except pursuant to the Global Offering (including the Stock Borrowing Agreement), it/he shall not and shall procure that the relevant registered holder(s) (if any) shall not, without the prior written consent of the Hong Kong Stock Exchange or unless otherwise in compliance with the Listing Rules:

- (i) in the period commencing on the date of this Prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Securities**”); and
- (ii) in the period of six months commencing from the expiry of the period referred to in paragraph (i) above, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be the controlling shareholder (as defined in the Listing Rules) of the Company.

In addition, in accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and our Company that, during the period commencing on the date of this Prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it/he pledges or charges any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Undertakings by our Company and other Warrantors pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that; and the Warrantors (other than our Company) will procure that; except pursuant to the Capitalisation Issue, the Global Offering or pursuant to any transaction or arrangement contemplated in this Prospectus including, pursuant to the exercise of the Over-allotment Option or options granted under the Pre-IPO Share Option Scheme or may be granted under the Post-IPO Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure that the members of our Group will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant

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or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable) or deposit any shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, with a depository in connection with the issue of depository receipts; or

- (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to do any of the foregoing or announce any intention of our Company to enter into the transaction described in (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of the Shares or such other securities of our Company or shares, capital or any other securities of other members of our Group, as applicable, or in cash or otherwise (whether or not such allotment or issue of the Shares or securities will be completed within the First Six-Month Period).

In the event that, at any time during the period of six months immediately following the expiry of the First Six-Month Period, our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, except with the prior written consent of the Sole Sponsor and Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) it/he/she will not and, will procure that none of its affiliates will, at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over,

UNDERWRITING

or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest in any of the foregoing or voting right or any other right attaching thereto (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) or deposit any Shares or other securities of our Company with a depository in connection with the issue of depository receipts, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the First Six-Month Period);

- (ii) it/he/she will not, and shall procure that none of its/his/her affiliates will, at any time during the period of thirty months immediately following the expiry of the First Six-Month Period (“**Second Thirty-Month Period**”), enter into any of the transactions specified in paragraphs (i)(a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it/he/she will cease, whether individually or collectively with the other Controlling Shareholders, to be a Controlling Shareholder of the Company; and
- (iii) until the expiry of the Second Thirty-Month Period, in the event that it/he/she enters into any of the transactions specified in paragraphs (i)(a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, it/he/she will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the securities of our Company.

Each of Sinomax Enterprises, LAM Chi Fan, CHEUNG Tung, CHEN Feng and CHEUNG Shui Ying has further undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, it/he/she will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

- (a) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of our Company beneficially owned by it/him/her and/or the trusts set up by it/him/her for a bona fide commercial loan, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by it/him/her, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of our Company will be disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

UNDERWRITING

The International Offering

In connection with the International Offering, it is expected that our Company and the Controlling Shareholders and the Selling Shareholders will enter into the International Underwriting Agreement with the International Underwriters and other parties named therein. Under the International Underwriting Agreement, our Company and the Selling Shareholders will offer the International Offer Shares to the International Underwriters, or to certain professional, institutional and other investors procured by the International Underwriters, at the Offer Price, on and subject to the terms and conditions set out in the International Underwriting Agreement. The International Underwriters will agree to severally underwrite the International Offer Shares.

Our Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until the 30th day after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 112,500,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, at the Offer Price in connection with over-allocations in the International Offering, if any.

Commission and Expenses

The Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price of all the Offer Shares (including Offer Shares sold pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees. The Sole Global Coordinator may receive a discretionary incentive fee of up to 0.5% of the aggregate Offer Price of all the Offer Shares (including Offer Shares sold pursuant to the exercise of the Over-allotment Option).

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 (being the mid-point of Offer Price range between HK\$1.06 per Offer Share and HK\$1.43 per Offer Share), the underwriting commission, financial advisory fees, listing fees, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$79.4 million in total of which approximately HK\$37.1 million has been and shall be borne by us and HK\$42.3 million shall be borne by the Selling Shareholders.

Hong Kong Underwriters' Interests in our Company

Save as disclosed in this Prospectus and other than pursuant to the Underwriting Agreements, as of the Latest Practicable Date, none of the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner or the Underwriters was interested beneficially or non-beneficially in any shares in any member of our Group or had any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters or the International Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

Stamp Taxes

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

UNDERWRITING

Indemnity

Our Company, the Controlling Shareholders and the Selling Shareholders have agreed to indemnify, among others, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, the Controlling Shareholders and the Selling Shareholders of the Hong Kong Underwriting Agreement, as the case may be.

The Sole Sponsor' Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Minimum Public Float

Our Directors will ensure that there will be a minimum of 25% of the total issued share capital of our Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the International Offering of an aggregate of 675,000,000 International Offer Shares (initially comprising 75,000,000 New Shares and 600,000,000 Sale Shares, and subject to adjustment and the Over-allotment Option as mentioned below), representing 90% of the total number of Offer Shares initially available under the Global Offering, which will be conditionally placed with selected professional and institutional investors in Hong Kong and other jurisdictions outside the US in reliance on Regulation S; and
- (ii) the Hong Kong Public Offering of 75,000,000 Hong Kong Offer Shares (comprising 75,000,000 New Shares and subject to adjustment as mentioned below), representing 10% of the total number of Offer Shares initially available under the Global Offering, which will be offered to members of the public in Hong Kong under the Hong Kong Public Offering.

Of the 75,000,000 Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering, 3,750,000 Offer Shares are available for subscription by Eligible Employees on a preferential basis under the Employee Preferential Offering.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to severally underwrite the International Offer Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed "Underwriting" in this Prospectus.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both. Eligible Employees may make an application for Employee Reserved Shares on a **PINK** Application Form and, in addition, will be entitled to apply for Hong Kong Offer Shares under the Hong Kong Public Offering but may not apply for or indicate an interest for International Offer Shares under the International Offering.

References in this Prospectus to applications, Application Forms, application monies or the procedures for applications relate solely to the Hong Kong Public Offering.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Global Offering is conditional upon, amongst others:

1. Listing

The Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this Prospectus on the Main Board, and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Hong Kong Stock Exchange.

STRUCTURE OF THE GLOBAL OFFERING

2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Bookrunner, on behalf of the Underwriters), and not being terminated, prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Details of the Hong Kong Underwriting Agreement, its conditions and grounds for termination are set out in the section headed “Underwriting” of this Prospectus; and
- (ii) the execution and delivery of the International Underwriting Agreement in accordance with its terms, prior to or on the Price Determination Date.

3. Price Determination

The Offer Price having been duly determined and the execution and delivery of the Price Determination Agreement on the Price Determination Date.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If any of the conditions is not fulfilled or waived on or before the dates and times (where applicable) specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares and Employee Reserved Shares – Refund of Application Monies”. Notice of the lapse of the Global Offering (including the Hong Kong Public Offering) will cause to be published by us in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Stock Exchange’s website at www.hkexnews.hk and our website at www.sinomax.com/group on the next Business Day following such lapse.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

We expect to despatch share certificates for the Offer Shares on Wednesday, 9 July 2014. However, these share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all aspects; and (ii) the right of termination as described in the section headed “Underwriting” in this Prospectus has not been exercised.

HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 75,000,000 Hong Kong Offer Shares for subscription (subject to adjustment) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to our Company, the Selling Shareholders and the Sole Global Coordinator agreeing on the Offer Price. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$1.43 per Share plus a 1% brokerage fee, a 0.005% Hong Kong Stock Exchange trading fee and a 0.003% SFC transaction levy.

STRUCTURE OF THE GLOBAL OFFERING

Of the 75,000,000 Shares initially being offered under the Hong Kong Public Offering, 3,750,000 Shares (representing 5% and 0.5% of the total number of Shares initially being offered under the Hong Kong Public Offering and the Global Offering, respectively) are available for subscription by the Eligible Employees on a preferential basis, subject to the terms and conditions set out in this Prospectus and the **PINK** Application Form.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involve dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

The Hong Kong Public Offering is expected to be subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below and after deducting the number of Hong Kong Offer Shares validly applied for under the Employee Preferential Offering) will be divided equally into two pools: pool A and pool B with any odd board lots being allocated to Pool A. Accordingly, the initial maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 35,626,000 and 35,624,000 respectively. If the Hong Kong Offer Shares offered to Eligible Employees for subscription on a preferential basis are not fully taken up, any excess Hong Kong Offer Shares will be re-allocated to pool A and pool B in equal proportion. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools.

Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 35,624,000 Hong Kong Offer Shares are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.43 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$2,888.83 for one board lot of 2,000 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Determination of the Offer Price" in this section, is less than the maximum price of HK\$1.43 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set forth below in the section headed "How to Apply for Hong Kong Offer Shares and Employee Reserved Shares" in this Prospectus.

THE EMPLOYEE PREFERENTIAL OFFERING

Up to 3,750,000 Employee Reserved Shares, representing approximately 5% of the Hong Kong Offer Shares and approximately 0.5% of the Offer Shares without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option or options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, are available for subscription by the Eligible Employees on a preferential basis.

The 3,750,000 Employee Reserved Shares available for application by Eligible Employees on **PINK** Application Form will be allocated to such applicants on a basis to be determined by our Hong Kong Share Registrar based on the level of valid applications received under the Employee Preferential Offering and the number of Employee Reserved Shares validly applied for within each application tier. The allocation basis will be consistent with the allocation basis commonly used in the case of over-subscriptions in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications. The allocation of Employee Reserved Shares to Eligible Employees will in any event be made on an equitable basis and will not be based on the identity, seniority, work performance or length of service of the Eligible Employee. No favour will be given to any Eligible Employee who applies for a large number of Employee Reserved Shares. Any application made on a **PINK** Application Form for more than 3,750,000 Employee Reserved Shares will be rejected. Allocation of Hong Kong Offer Shares under the Employee Preferential Offering will be based on the allocation guidelines contained in Practice Note 20 to the Listing Rules.

In addition to any application for Employee Reserved Shares on a **PINK** Application Form, Eligible Employees will be entitled to apply for the Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form or by submitting application online through the designated website of the **HK eIPO White Form** Service Provider or giving **electronic application instructions** to HKSCC via CCASS.

As at the Latest Practicable Date, there were 112 Eligible Employees.

STRUCTURE OF THE GLOBAL OFFERING

In case not all the 3,750,000 Employee Reserved Shares are subscribed for by the Eligible Employees, the undersubscribed Employee Reserved Shares will be available as Hong Kong Offer Shares for subscription by the public under the Hong Kong Public Offering.

INTERNATIONAL OFFERING

Number of Offer Shares initially offered

Our Company is expected to offer initially 675,000,000 International Offer Shares (subject to adjustment and the Over-allotment Option) at the Offer Price under the International Offering. The number of International Offer Shares expected to be initially available for application under the International Offering represents 90% of the total number of Offer Shares being initially offered under the Global Offering and comprise, initially, 75,000,000 New Shares (subject to Over-allotment Option) offered by our Company and 600,000,000 Sale Shares offered by the Selling Shareholders.

The International Offering is expected to be subject to the conditions set forth in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation and applications

The International Offering is expected to be fully underwritten by the International Underwriters, subject to our Company, the Selling Shareholders and the Sole Global Coordinator (for itself and on behalf of the International Underwriters) agreeing on the Offer Price. Investors subscribing for the International Offer Shares are also required to pay the maximum Offer Price of HK\$1.43 per Share plus a 1% brokerage, a 0.005% Hong Kong Stock Exchange trading fee and a 0.003% SFC transaction levy of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company and the Selling Shareholders, will conditionally place the International Offer Shares at the Offer Price with selected professional and institutional investors in Hong Kong and other jurisdictions outside the US in reliance on Regulation S. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Offer Shares in the International Offering may also be allocated the International Offer Shares.

Allocation of the International Offer Shares will be effected in accordance with the “book-building” process and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom International Offer Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive Shares under the International Offering, and to identify and reject indications of interest in the International Offering from investors who receive Shares under the Hong Kong Public Offering.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Friday, 4 July 2014 (Hong Kong time), and in any event, no later than Tuesday, 8 July 2014.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this Prospectus. The Offer Price will not be more than HK\$1.43 per Offer Share and is expected to be not less than HK\$1.06 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this Prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of our Company and the Selling Shareholders, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at www.sinomax.com/group and the website of the Hong Kong Stock Exchange at www.hkexnews.hk an announcement or a supplemental prospectus (as appropriate) in connection with the reduction. Upon issue of such an announcement or supplemental prospectus (as appropriate), the revised number of the Offer Shares and the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such an announcement or supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics, and any other financial information set out in this Prospectus which may change as a result of any such reduction. **If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.**

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters), our Company and the Selling Shareholders are unable to reach agreement on the Offer Price on or before Tuesday, 8 July 2014, the Global Offering will not proceed and lapse. Notice of the lapse of the Global Offering (including the Hong Kong Public Offering) will cause to be published by us in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Stock Exchange's website at www.hkexnews.hk and our website at www.sinomax.com/group on the next Business Day following such lapse.

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Offering; (iii) the level of applications in the Hong Kong Public Offering; (iv) the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering and

STRUCTURE OF THE GLOBAL OFFERING

(v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offering and the International Offering is expected to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at www.sinomax.com/group and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on Wednesday, 9 July 2014.

BASIS OF ADJUSTMENT OF THE OFFER SHARES

The allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering is subject to adjustment, including reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offering (including the Employee Preferential Offering) represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering (including the Employee Preferential Offering), then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 225,000,000 Shares, representing 30% of the Offer Shares available under the Global Offering;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offering (including the Employee Preferential Offering) represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering (including the Employee Preferential Offering), then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Shares available for subscription under the Hong Kong Public Offering will be increased to 300,000,000 Shares, representing 40% of the Offer Shares available under the Global Offering; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offering (including the Employee Preferential Offering) represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering (including the Employee Preferential Offering), then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Shares available for subscription under the Hong Kong Public Offering will be increased to 375,000,000 Shares, representing 50% of the Offer Shares available under the Global Offering.

In all cases, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator may deem appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILISATION

The Over-allotment Option

In connection with the Global Offering, the Company intends to grant to the International Underwriters the Over-allotment Option, which will be exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) starting from the Listing Date and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The additional Shares to be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option will be able to satisfy the Sole Global Coordinator's obligation to return Shares borrowed under the Stock Borrowing Agreement. Pursuant to the Over-allotment Option, the Company may be required to allot and issue at the Offer Price up to an aggregate of 112,500,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Offering, if any. The Sole Global Coordinator may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, an announcement will be made in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at www.sinomax.com/group and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

Stabilising Action

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent, any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Offer Shares at a level higher than the otherwise prevailing price in the open market. Short sales involve the sale by the Stabilising Manager of a greater number of Offer Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilising Manager may close out the covered short position by either exercising the Over-allotment Option to subscribe for additional Offer Shares or purchasing Offer Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilising Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may subscribe for additional Offer Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares. Any market purchases of the Offer Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time.

STRUCTURE OF THE GLOBAL OFFERING

Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the Shares that may be allotted and issued under the Over-allotment Option, namely, 112,500,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules. Stabilising actions permitted pursuant to the Securities and Futures (Price Stabilising) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (b) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the Offer Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (e) selling or agreeing to sell the Offer Shares to liquidate any position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilising actions by the Stabilising Manager will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

As a result of effecting transactions to stabilise or maintain the market price of the Offer Shares, the Stabilising Manager may maintain a long position in the Offer Shares. The size of the long position, and the period for which the Stabilising Manager will maintain the long position is at the sole discretion of the Stabilising Manager and is uncertain. In the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Offer Shares.

Stabilising action by the Stabilising Manager is not permitted to support the price of the Offer Shares for longer than the stabilising period, which begins on the day on which trading of the Offer Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilising period is expected to end on Friday, 1 August 2014. As a result, demand for the Offer Shares, and their market price, may fall after the end of the stabilising period. These activities by the Stabilising Manager may stabilise, maintain or otherwise affect the market price of the Offer Shares. As a result, the price of the Offer Shares may be higher than the price that otherwise may exist in the open market. Any stabilising action taken by the Stabilising Manager may not necessarily result in the market price of the Offer Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the Offer Shares by the Stabilising Manager may be made at a price at or below the Offer Price and therefore at or below the price paid for the Offer Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

STRUCTURE OF THE GLOBAL OFFERING

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Sole Global Coordinator (or its affiliate(s)) may choose to borrow Shares from shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilising Manager will enter into the Stock Borrowing Agreement with Sinomax Enterprises, whereby the Stabilising Manager may borrow Shares from Sinomax Enterprises on the following conditions:

- (a) the stock borrowing will only be effected by the Stabilising Manager for the settlement of over-allocations in connection with the International Offering;
- (b) the maximum number of Shares borrowed from Sinomax Enterprises will be limited to 112,500,000 Shares, being the maximum number of Shares which may be issued and allotted upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Sinomax Enterprises will be returned to it or its nominees (as the case may be) no later than the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be transferred upon exercise of the Over-allotment Option have been transferred; or (iii) such earlier time as may be agreed in writing between Sinomax Enterprises and the Stabilising Manager;
- (d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Sinomax Enterprises by the Stabilising Manager in relation to such stock borrowing arrangement.

The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 10 July 2014, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. in Hong Kong on Thursday, 10 July 2014. Our Shares will be traded in board lots of 2,000 Shares each, the stock code of our Shares will be 1418.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at (www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

In addition, if you are an Eligible Employee, you may also apply for Employee Reserved Shares by using a **PINK** Application Form.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the US, and are not a US Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

You can also apply for Employee Reserved Shares by using a **PINK** Application Form if you satisfy the above criteria and you are also an Eligible Employee.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Sole Global Coordinator, the Sole Sponsor and the Sole Bookrunner may accept or reject it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares and the Employee Reserved Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a director or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) or a close associate (as defined in the Amended Listing Rules) of any of the above;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participating in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the designated website (www.hkeipo.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

If you are an Eligible Employee, and want the Hong Kong Offer Shares to be issued in your own name and want your application be given preferential treatment, use a **PINK** Application Form.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and this Prospectus during normal business hours from 9:00 a.m. on Monday, 30 June 2014 to 12:00 noon on Friday, 4 July 2014 from:

- (i) the office of the Joint Lead Managers:

China Merchant Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

Taiping Securities (HK) Co., Limited
2901 China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

(ii) any of the following branches of the following receiving banks:

(a) Standard Chartered Bank (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island:	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon:	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong
	Mei Foo Manhattan Branch	Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
New Territories:	New Town Plaza Branch	Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin
	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan

(b) Hang Seng Bank Limited

District	Branch Name	Address
Hong Kong Island:	Head Office	83 Des Voeux Road Central
	Wanchai Branch	200 Hennessy Road
	North Point Branch	335 King's Road
Kowloon:	Tsimshatsui Branch	18 Carnarvon Road
	Kowloon Main Branch	618 Nathan Road
	Yaumati Branch	363 Nathan Road

You can collect a **YELLOW** Application Form and this Prospectus during normal business hours from 9:00 a.m. on Monday, 30 June 2014 until 12:00 noon on Friday, 4 July 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

A **PINK** Application Form together with this Prospectus can be collected on Monday, 30 June 2014 from our Company's office at Units 2005-2007, Level 20, Tower 1, MegaBox Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Hong Kong. Electronic copies of the **PINK** Application Form and this Prospectus can be viewed from the website of our Company at www.sinomax.com/group.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited – Sinomax Group Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, 30 June 2014 – 9:00 a.m. to 5:00 p.m.
Wednesday, 2 July 2014 – 9:00 a.m. to 5:00 p.m.
Thursday, 3 July 2014 – 9:00 a.m. to 5:00 p.m.
Friday, 4 July 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 4 July 2014, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

Your completed **PINK** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited – Sinomax Group Public Offer" for the payment must be deposited in the collection box located at the Company's office at Units 2005-2007, Level 20, Tower 1 MegaBox Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Hong Kong by 4:00 p.m. on Thursday, 3 July 2014.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator and/or the Sole Sponsor and/or the Sole Bookrunner (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- (v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the Sole Global Coordinator, the Sole Sponsor, our Hong Kong Share Registrar, receiving banks, the Sole Bookrunner, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the US Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the US (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s), or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- (xvii) understand that our Company, the Sole Global Coordinator, the Sole Sponsor and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service by you or by any one as your agent or by any other person, other than on a **PINK** Application Form as an Eligible Employee; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at (www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at (www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 30 June 2014 until 11:30 a.m. on Friday, 4 July 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 4 July 2014 or such later time under the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a copy of this Prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;
 - agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that the Company will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 30 June 2014	– 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 2 July 2014	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 3 July 2014	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 4 July 2014	– 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 June 2014 until 12:00 noon on Friday, 4 July 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 4 July 2014, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 4 July 2014.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

In addition, if you are an Eligible Employee you may also make an application for Employee Reserved Shares by using a **PINK** Application Form. Only one application for Employee Reserved Shares is permitted per Eligible Employee under the Employee Preferential Offering. Multiple applications by any Eligible Employee via **PINK** Application Form are liable to be rejected.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at (www.hkeipo.hk).

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Determination of the Offer Price” in this Prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 July 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 4 July 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this Prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the indication of the level of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Employee Preferential Offering and the basis of allocation of the Hong Kong Offer Shares and Employee Reserved Shares on or before Wednesday, 9 July 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Company’s website at <http://www.sinomax.com/group> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card numbers, passport numbers or Hong Kong business registration certificate numbers (where applicable) of successful applicants under the Hong Kong Public Offering and Employee Preferential Offering will be available at the times and dates and in the manners specified below:

- in the announcement to be posted on our Company’s website at <http://www.sinomax.com/group> and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 9 July 2014;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 9 July 2014 to 12:00 midnight on Tuesday, 15 July 2014;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 9 July 2014 to Monday, 14 July 2014 (excluding Saturdays, Sundays and public holidays in Hong Kong);
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 9 July 2014 to Friday, 11 July 2014 at all the receiving bank branches and sub-branches.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this Prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, we or they would violate applicable securities or other laws, rules or regulations;
- your application is for more than 35,624,000 Hong Kong Offer Shares; or
- you are an Eligible Employee, your application is for more than 3,750,000 Employee Reserved Shares.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.43 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering – Conditions of the Global Offering" in this Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 9 July 2014.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE**, **YELLOW** or **PINK** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Hong Kong Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, 9 July 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this Prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE and/or PINK Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 9 July 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares and/or Employee Reserved Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 9 July 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 9 July 2014 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 9 July 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraph headed "11. Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 9 July 2014 or any other date as determined by HKSCC or HKSCC Nominees.

Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 9 July 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, 9 July 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 9 July 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of Results" in this section on Wednesday, 9 July 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 9 July 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES AND EMPLOYEE RESERVED SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 9 July 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 9 July 2014.

15. ADMISSION OF THE SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



德勤•關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

30 June 2014

The Directors
Sinomax Group Limited
China Merchants Securities (HK) Co., Limited

Dear Sirs,

We set out below our report on the financial information relating to Sinomax Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2011, 2012 and 2013 (the "Track Record Period") (the "Financial Information") for inclusion in the prospectus of the Company dated 30 June 2014 in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

The Company, which acts as investment holding 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. Through a group reorganisation as more fully explained in the section headed "Our History and Reorganisation" in the Prospectus (the "Group Reorganisation"), the Company has since 31 July 2013 become the holding company of the Group. Other than the transactions relating to the Group Reorganisation, the Company has not carried on any business since the date of its incorporation.

At the date of this report, the Company has equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital/quota capital	Proportion of share/registered/quota capital held by the Group			At date of this report	Principal activity	Form of company
			At 31 December					
			2011	2012	2013			
<i>Directly owned</i>								
Treasure Range Holdings Limited ("Treasure Range")	Hong Kong 21 May 2013	Ordinary shares HK\$27	N/A	N/A	100%	100%	Investment holding	Limited liability
<i>Indirectly owned</i>								
Ascension International Development Limited (previously known as "Ascension International Limited 高升國際有限公司") ("Ascension") 高晉國際發展有限公司	The British Virgin Islands (the "BVI") 23 November 2004	Ordinary shares US\$1	100%	100%	100%	100%	Investment holding	Limited liability
Fullelite Limited ("Fullelite") 傑豐有限公司	The BVI 12 May 2005	Ordinary shares US\$10	100%	100%	100%	100%	Investment holding	Limited liability
Year Prosper Limited ("Year Prosper") 盛年有限公司	The BVI 6 February 2004	Ordinary shares US\$10	100%	100%	100%	100%	Investment holding	Limited liability
Wonderful Health Limited ("Wonderful Health")	The BVI 8 April 2005	Ordinary shares US\$10	100%	100%	100%	100%	Investment holding	Limited liability
Trade Sincere Limited ("Trade Sincere") 寶誠有限公司	The BVI 12 May 2005	Ordinary shares US\$100	85%	85%	85%	85%	Investment holding	Limited liability
Sinomax International Investment Limited ("Sinomax Investment") 聖諾盟國際投資有限公司	The BVI 18 December 2003	Ordinary shares US\$10	100%	100%	100%	100%	Investment holding and provision of treasury management services	Limited liability

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital/quota capital	Proportion of share/registered/quota capital held by the Group				At date of this report	Principal activity	Form of company
			At 31 December						
			2011	2012	2013				
Sinomax Health & Household Products Limited ("Sinomax Health") 聖諾盟健康家居用品有限公司	Hong Kong 30 June 2003	Ordinary shares HK\$10	100%	100%	100%	100%	Retail and wholesale of health and household products	Limited liability	
Sinomax International Trading Limited ("Sinomax Trading") 聖諾盟國際貿易有限公司	Hong Kong 15 September 2011	Ordinary shares HK\$10,000	100%	100%	100%	100%	Trading of health and household products	Limited liability	
東莞賽諾家居用品有限公司 Dongguan Sinohome Limited* ("Dongguan Sinohome")	The People's Republic of China (the "PRC") 19 June 2007	Registered capital HK\$32,000,000	100%	100%	100%	100%	Manufacture and sale of health and household products	Wholly foreign owned enterprise	
賽諾家居用品(深圳)有限公司 Sinohome Household Products (Shenzhen) Limited* ("Sinohome Shenzhen")	The PRC 10 December 2005	Registered capital HK\$1,000,000	100%	100%	100%	100%	Retail and wholesale of health and household products	Wholly foreign owned enterprise	
聖諾盟(浙江)聚氨酯家居用品有限公司 Sinomax (Zhejiang) Polyurethane Household Products Limited* ("Sinomax Zhejiang")	The PRC 2 August 2004	Registered capital US\$22,680,000	100%	100%	100%	100%	Manufacture and sale of health and household products	Wholly foreign owned enterprise	
浙江聖諾盟顧家海棉有限公司 Sinomax Kuka (Zhejiang) Foam Co. Limited* ("Sinomax Kuka")	The PRC 29 December 2005	Registered capital US\$2,100,000	60%	60%	60%	60%	Manufacture and sale of foam	Sino-foreign equity joint venture	
海寧聖諾盟貿易有限公司 Haining Sinomax Trading Co., Ltd.* ("Haining Sinomax")	The PRC 27 December 2012	Registered capital RMB1,000,000	N/A	100%	100%	100%	Trading of foam	Sino-foreign equity joint venture	
Sinomax Macao Commercial Offshore Limited ("Sinomax Macao") 聖諾盟澳門離岸商業服務有限公司	Macau 6 October 2004	Quota capital MOP100,000	100%	100%	100%	100%	Wholesale of health and household products	Limited liability	
Sinomax USA, Inc. ("Sinomax USA")	The United States of America (the "US") 7 June 2005	100 shares of common stock of no par value	100%	100%	100%	100%	Wholesale of health and household products	Limited liability	

* English translated name is for identification purpose only

All companies now comprising the Group have adopted 31 December as their financial year end date.

The statutory financial statements of Sinomax Health for each of the years ended 31 December 2011, 2012 and 2013, the statutory financial statements of Sinomax Trading for the period from 15 September 2011 (date of incorporation) to 31 December 2012 and year ended 31 December 2013 and the statutory financial statements of Treasure Range for the period from 21 May 2013 (date of incorporation) to 31 December 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by us.

The statutory financial statements of Sinomax Macao for each of the years ended 31 December 2011, 2012 and 2013 were prepared in accordance with Financial Reporting Standards of Macao Special Administrative Region, the PRC and were audited by Deloitte Touche Tohmatsu – Sociedade de Auditores.

The statutory financial statements of the below subsidiaries established in the PRC were prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises. The statutory financial statements were audited by the following auditors:

Name of subsidiary	Financial period	Name of statutory auditor for the statutory financial statements
Dongguan Sinohome	For each of the years ended 31 December 2011, 2012 and 2013	東莞市永和會計師事務所有限公司 (Dongguan Wing Wo Certified Public Accountants Co., Ltd.*)
Sinohome Shenzhen	For each of the years ended 31 December 2011, 2012 and 2013	深圳市長城會計師事務所有限公司 (Shenzhen Great Wall Certified Public Accountants Co., Ltd.*)
Sinomax Zhejiang	For each of the years ended 31 December 2011, 2012 and 2013	嘉興誠洲聯合會計師事務所 (Jiaxing Chengzhou United Certified Public Accountants Firm*)
Sinomax Kuka	For each of the years ended 31 December 2011, 2012 and 2013	浙江天譽會計師事務所有限公司 (Zhejiang Tianyu Certified Accountants*)
Haining Sinomax	For the period from 27 December 2012 (date of establishment) to 31 December 2013	浙江天譽會計師事務所有限公司 (Zhejiang Tianyu Certified Accountants*)

* English translated name is for identification purpose only

No audited statutory financial statements have been prepared for the Company and its subsidiaries incorporated in the BVI and the US since their respective dates of incorporation as there are no statutory requirements to do so.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period using the accounting policies which conform with HKFRSs issued by the HKICPA (the "Underlying Financial Statements"). We have performed an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 of Section A below. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2011, 2012 and 2013 and of the Company as at 31 December 2012 and 2013 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

(A) FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2011	2012	2013
		HK\$'000	HK\$'000	HK\$'000
Revenue	7	1,778,443	1,971,495	2,369,539
Cost of sales		(1,382,701)	(1,506,736)	(1,748,912)
Gross profit		395,742	464,759	620,627
Other income	8	23,487	29,220	27,882
Other gains and losses	9	10,709	(13,627)	(5,497)
Selling and distribution costs		(195,319)	(213,164)	(280,750)
Administrative expenses		(88,098)	(88,393)	(124,498)
Finance costs	10	(7,161)	(7,991)	(6,879)
Other expenses		(19,130)	(16,128)	(41,307)
Profit before taxation	11	120,230	154,676	189,578
Income tax expenses	14	(25,607)	(39,000)	(44,545)
Profit for the year		94,623	115,676	145,033
Other comprehensive income that may be reclassified subsequently to profit or loss				
Exchange differences arising on translation of foreign operations		13,244	1,238	10,323
Total comprehensive income for the year		107,867	116,914	155,356
Profit for the year attributable to:				
Owners of the Company		87,959	108,411	135,761
Non-controlling interests		6,664	7,265	9,272
		94,623	115,676	145,033
Total comprehensive income for the year attributable to:				
Owners of the Company		99,921	109,551	145,261
Non-controlling interests		7,946	7,363	10,095
		107,867	116,914	155,356
Earnings per share, basic	16	5.86 cents	7.23 cents	9.05 cents

STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP			THE COMPANY	
		As at 31 December			As at 31 December	
		2011	2012	2013	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets						
Investment in a subsidiary	17	–	–	–	–	403,846
Investment properties	18	33,332	31,808	28,830	–	–
Property, plant and equipment	19	145,949	175,887	202,241	–	–
Prepaid lease payments	20	24,555	24,234	24,258	–	–
Deposits paid for acquisition of property, plant and equipment	21	4,406	12,227	17,415	–	–
Rental deposits	22	11,566	10,608	17,657	–	–
Deferred tax assets	23	18,779	9,992	16,143	–	–
Amounts due from related parties	27	57,463	–	–	–	–
		<u>296,050</u>	<u>264,756</u>	<u>306,544</u>	<u>–</u>	<u>403,846</u>
Current assets						
Inventories	24	273,148	279,681	346,037	–	–
Trade and other receivables	25	333,637	410,373	508,519	–	6,014
Bills receivables	26	31,953	12,412	14,809	–	–
Prepaid lease payments	20	586	592	608	–	–
Amounts due from related parties	27	26,762	99,248	31,532	–	641
Financial asset at fair value through profit or loss ("FVTPL")	28	–	87	–	–	–
Pledged bank deposits	29	5,266	4,320	14,916	–	–
Structured bank deposits	29	58,896	43,119	40,452	–	–
Bank balances and cash	29	151,305	168,523	165,248	–	52
		<u>881,553</u>	<u>1,018,355</u>	<u>1,122,121</u>	<u>–</u>	<u>6,707</u>
Current liabilities						
Trade and other payables	30	251,601	290,056	328,538	–	7,354
Bills payables	31	60,583	70,547	113,547	–	–
Dividend payable		–	–	60,000	–	60,000
Amounts due to related parties	27	201,507	152,704	77,302	20	20,259
Financial liability at FVTPL	28	931	–	–	–	–
Taxation payable		78,098	88,598	102,557	–	–
Bank borrowings	32	211,731	191,248	162,532	–	–
		<u>804,451</u>	<u>793,153</u>	<u>844,476</u>	<u>20</u>	<u>87,613</u>
Net current assets (liabilities)		<u>77,102</u>	<u>225,202</u>	<u>277,645</u>	<u>(20)</u>	<u>(80,906)</u>
Total assets less current liabilities		<u>373,152</u>	<u>489,958</u>	<u>584,189</u>	<u>(20)</u>	<u>322,940</u>

	NOTES	THE GROUP			THE COMPANY	
		As at 31 December			As at 31 December	
		2011	2012	2013	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities						
Bank borrowings	32	4,221	–	–	–	–
Deferred tax liabilities	23	5,945	10,058	8,933	–	–
		<u>10,166</u>	<u>10,058</u>	<u>8,933</u>	<u>–</u>	<u>–</u>
Net assets (liabilities)		<u>362,986</u>	<u>479,900</u>	<u>575,256</u>	<u>(20)</u>	<u>322,940</u>
Capital and reserves						
Share capital	33	11	11	5	–	5
Reserves	34	345,448	454,999	540,266	(20)	322,935
Equity attributable to owners of the Company		345,459	455,010	540,271	(20)	322,940
Non-controlling interests		17,527	24,890	34,985	–	–
Total equity		<u>362,986</u>	<u>479,900</u>	<u>575,256</u>	<u>(20)</u>	<u>322,940</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company							Non-controlling interests	Total	
	Share capital	Share premium	Merger reserve	Statutory reserve	Capital reserve	Translation reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000 (Note ii)	HK\$'000 (Note iii)	HK\$'000	HK\$'000			
At 1 January 2011	1	-	-	1,602	-	18,727	238,104	258,434	16,097	274,531
Profit for the year	-	-	-	-	-	-	87,959	87,959	6,664	94,623
Exchange differences arising on translation of foreign operations	-	-	-	-	-	11,962	-	11,962	1,282	13,244
Total comprehensive income for the year	-	-	-	-	-	11,962	87,959	99,921	7,946	107,867
Transfers	-	-	-	3,491	-	-	(3,491)	-	-	-
Changes in interests in subsidiaries without losing control (Note iii)	-	-	-	-	1,515	-	-	1,515	7,340	8,855
Incorporation of Sinomax Trading	10	-	-	-	-	-	-	10	-	10
Dividends paid (note 15)	-	-	-	-	-	-	(14,421)	(14,421)	(13,856)	(28,277)
At 31 December 2011	11	-	-	5,093	1,515	30,689	308,151	345,459	17,527	362,986
Profit for the year	-	-	-	-	-	-	108,411	108,411	7,265	115,676
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,140	-	1,140	98	1,238
Total comprehensive income for the year	-	-	-	-	-	1,140	108,411	109,551	7,363	116,914
At 31 December 2012	11	-	-	5,093	1,515	31,829	416,562	455,010	24,890	479,900
Profit for the year	-	-	-	-	-	-	135,761	135,761	9,272	145,033
Exchange differences arising on translation of foreign operations	-	-	-	-	-	9,500	-	9,500	823	10,323
Total comprehensive income for the year	-	-	-	-	-	9,500	135,761	145,261	10,095	155,356
Group Reorganisation (note 2)	(11)	403,846	(403,835)	-	-	-	-	-	-	-
Dividend recognised as distribution (note 15)	-	(60,000)	-	-	-	-	-	(60,000)	-	(60,000)
Issue of shares (note 33)	5	-	-	-	(5)	-	-	-	-	-
Transfers	-	-	-	1,500	-	-	(1,500)	-	-	-
At 31 December 2013	5	343,846	(403,835)	6,593	1,510	41,329	550,823	540,271	34,985	575,256

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 2) to Treasure Range) 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 was satisfied by issue of new shares from Treasure Range to the Company and from the Company to Sinomax Enterprises Limited.
- (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, Sinomax Macao 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 (as defined in note 2) acquired an additional 34% interest in Trade Sincere 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 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 is recorded in capital reserve.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Operating activities			
Profit before taxation	120,230	154,676	189,578
Adjustments for:			
Allowance for doubtful debts	12,853	12,347	7,350
Allowance (reversal of allowance) for inventories	1,928	16,083	(7,824)
Amortisation of prepaid lease payments	574	590	601
Changes in fair value of financial asset/liability at FVTPL	931	(1,018)	–
Depreciation of investment properties	1,166	1,655	1,446
Depreciation of property, plant and equipment	12,074	13,799	17,761
Finance costs	7,161	7,991	6,879
Interest income	(1,306)	(3,218)	(1,884)
Loss on disposal and written off of property, plant and equipment	–	–	17
Reversal of allowance for doubtful debts	(18,214)	(2,264)	(280)
Operating cash flows before movements in working capital	137,397	200,641	213,644
(Increase) decrease in rental deposits	(5,574)	958	(7,049)
Decrease (increase) in inventories	72,345	(22,344)	(53,426)
Decrease (increase) in trade and other receivables	18,959	(86,109)	(101,029)
(Increase) decrease in bills receivables	(13,024)	19,541	(2,397)
(Increase) decrease in amounts due from related parties	(430)	6,099	4,252
Settlement of financial asset at FVTPL	–	–	87
(Decrease) increase in trade and other payables	(28,324)	37,816	31,503
(Decrease) increase in bills payables	(40,778)	9,722	43,000
Increase (decrease) in amounts due to related parties	29,421	(11,480)	33,603
Cash generated from operations	169,992	154,844	162,188
Hong Kong Profits Tax paid	(479)	(3,342)	(7,157)
PRC Enterprise Income Tax paid	(9,826)	(6,251)	(23,001)
US Income Tax paid	(4,420)	(5,884)	(7,803)
Net cash from operating activities	155,267	139,367	124,227

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Investing activities			
Advances to related parties	(52,841)	(23,418)	(1,893)
Purchase of property, plant and equipment	(50,405)	(38,717)	(22,213)
Net (placement) withdrawal of structured bank deposits	(22,847)	15,777	3,569
Deposits paid for acquisition of property, plant and equipment	(4,406)	(12,227)	(17,415)
Net (placement) withdrawal of pledged bank deposits	4,675	946	(10,367)
Interest received	1,306	3,218	1,884
Repayments from related parties	53	2,296	65,357
Proceeds from disposal of property, plant and equipment	–	–	60
Additions to investment properties	–	–	(2,980)
Net cash (used in) from investing activities	(124,465)	(52,125)	16,002
Financing activities			
New bank borrowings raised	398,370	478,774	479,990
Advances from related parties	9,660	1,625	1,174
Partial disposal of interest in a subsidiary	8,855	–	–
Capital injection	10	–	–
Repayments of bank borrowings	(371,921)	(503,709)	(510,133)
Interest paid	(7,161)	(7,991)	(6,879)
Dividends paid	(28,277)	–	–
Repayments to related parties	–	(38,948)	(110,179)
Net cash from (used in) financing activities	9,536	(70,249)	(146,027)
Net increase (decrease) in cash and cash equivalents	40,338	16,993	(5,798)
Cash and cash equivalents at beginning of the year	108,755	151,305	168,523
Effect of foreign exchange rate changes	2,212	225	2,523
Cash and cash equivalents at end of the year, represented by bank balances and cash	151,305	168,523	165,248

NOTES TO THE FINANCIAL INFORMATION

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 on 5 June 2012. Its immediate and ultimate holding company is Sinomax Enterprises Limited (“Sinomax Enterprises”), a company incorporated in the BVI which is beneficially owned by the Individual Shareholders as defined in note 2.

The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” to the Prospectus.

The Financial Information is presented in Hong Kong dollar (“HK\$”), which is also the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

Prior to the Group Reorganisation, the companies now comprising the Group were ultimately controlled by six individuals, namely Mr. Lam Chi Fan (“Mr. Lam”), Mr. Lin Han Li, Mr. Cheung Fung, Jackson, Ms. Cheung Shui Ying, Mr. Cheung Tung (“Mr. Cheung”) and Mr. Chen Feng (“Mr. Chen”) (collectively referred to as the “Individual Shareholders”). Except for Trade Sincere and its subsidiaries, namely Sinomax Kuka and Haining Sinomax, the companies now comprising the Group were beneficially and wholly owned by the Individual Shareholders collectively. Sinomax Kuka is a 60% (100% prior to 28 July 2011) 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% (51% and 9% prior to 28 July 2011, with another shareholder holding 40%) equity interests, respectively. Sinomax Kuka established Haining Sinomax as its wholly owned subsidiary in December 2012.

In the preparation for a listing of the Company’s shares on the Stock Exchange (the “Listing”), the companies now comprising the Group underwent the Group Reorganisation. On 31 July 2013, the Group Reorganisation was completed by interspersing the Company and its wholly owned subsidiary, namely 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 as mentioned below.

The consolidated statements of profit or loss and other comprehensive income and consolidated statements of cash flows which include the results and cash flows of the companies now comprising the Group for the Track Record Period have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since the respective date of establishment/incorporation of the relevant entity where this is a shorter period, and taking into account the changes of the equity interests in Trade Sincere and Sinomax Kuka during the year ended 31 December 2011 as mentioned above.

The consolidated statements of financial position at 31 December 2011 and 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective date of establishment/incorporation of the relevant entity.

3. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted all HKFRSs which are effective for the Group’s accounting periods beginning on 1 January 2013 consistently throughout the Track Record Period.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³

Amendment to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ⁴
HKFRS 9	Financial Instruments ³
HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁶
HKFRS 14	Regulating Deferral Accounts ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁶
Amendments to HKAS 19	Defined Benefit Plans: Employee Contribution ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁴
Amendments to HKAS 36	Recoverable Amount Disclosures for Non- Financial Assets ⁴
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ⁴
HK(IFRIC) – Int 21	Levies ⁴

¹ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

² Effective for annual periods beginning on or after 1 July 2014.

³ Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

⁴ Effective for annual periods beginning on or after 1 January 2014.

⁵ Effective for first annual HKFRS financial statement beginning on or after 1 January 2016.

⁶ Effective for annual periods beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries now comprising the Group.

Subsidiaries are entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Merger accounting for business combination involving entities under common control

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Individual Shareholders.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Individual Shareholders' interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

When an owner-occupied property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the transfer is made at the carrying amount.

When there is a change of use of an investment property as evidenced by commencement of owner-occupation, the transfer is made at the carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes (i.e. construction in progress) are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted

from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial asset at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial asset at FVTPL

The Group's derivative financial instrument, representing a foreign currency forward contract, is classified as financial asset held for trading as it is a derivative that is not designated and effective as a hedging instrument.

Financial asset at FVTPL is measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits, structured bank deposits, short-term bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio passed the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit and loss on the repurchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liability at FVTPL

The Group's derivative financial instrument, representing a foreign currency forward contract, is classified as financial liability held for trading as it is a derivative that is not designated and effective as a hedging instrument.

Financial liability at FVTPL is measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities, including trade and other payables, bills payables, amounts due to related parties and bank borrowings, are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment losses

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

Estimated allowance for inventories

Inventories are valued at the lower of cost and net realisable value. The Group regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a realisable value that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories. If the realisable value of inventories of the Group becomes much lower than its carrying amount subsequently, additional allowance may be required.

Details of the Group's inventories are set out in note 24.

Estimated allowance for trade receivables

Management regularly reviews the recoverability of trade receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

Details of the Group's trade receivables are set out in note 25.

Estimated provision for the income tax and related obligations

As detailed in note 14, the Hong Kong Inland Revenue Department ("IRD") has initiated a tax audit on certain subsidiaries of the Company. The tax audit covers the years of assessment from 2005/06 onwards. The directors of the Company are of the opinion that the Group has made the best estimate of the provisions for Hong Kong Profits Tax and related potential penalty and/or interest for the tax audit in the Financial Information. Provision for potential penalty and/or interest is recognised in other expenses on the consolidated statements of profit or loss and other comprehensive income and included in other payables. If the final payment required for the settlement of the tax audit is more or less than expected, additional impact to profit or loss may arise.

6. FINANCIAL INSTRUMENTS**Categories of financial instruments****THE GROUP**

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
At FVTPL	–	87	–
Loans and receivables (including cash and cash equivalents)	617,292	693,907	708,413
Rental deposits	11,566	10,608	17,657
Financial liabilities			
At FVTPL	931	–	–
Amortised cost	647,373	613,960	610,456

THE COMPANY

Except for amounts due from/to related parties and dividend payable, the Company has no material financial instruments since its date of incorporation and up to 31 December 2013.

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amounts due from related parties, financial asset at FVTPL, pledged bank deposits, structured bank deposits, bank balances and cash, trade and other payables, bills payables, dividend payable, amounts due to related parties, financial liability at FVTPL and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with certain of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk***Interest rate risk***

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits and bank borrowings (see notes 29 and 32 for details of these balances) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate bank deposits and bank borrowings (see notes 29 and 32 for details of these balances). However, management considers the fair value interest rate risk is insignificant as they are relatively short-term.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for variable-rate bank deposits and bank borrowings. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of the reporting period were outstanding for the whole year. 25 basis point and 50 basis point increase or decrease represent the management's assessment of the reasonable possible change in interest rates of bank deposits and bank borrowings, respectively. Based on the sensitivity analysis, the directors of the Company consider that the impact to profit or loss for the respective years is insignificant.

Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy but will use foreign currency contracts to hedge against the risk when it is foreseen to be significant. Details of the foreign currency contract entered into by the Group during the Track Record Period are set out in note 28 and the relevant foreign currency risk exposure is considered insignificant.

The carrying amounts of the Group's monetary assets and monetary liabilities (excluding inter-company balances) denominated in currencies other than the respective group entities' functional currencies at the end of each reporting period are as follows:

	Assets			Liabilities		
	As at 31 December			As at 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	13,829	16,038	16,854	61,423	61,175	145
Renminbi ("RMB")	245	527	168	–	–	–
United States dollars ("US\$")	94,547	81,681	71,280	71,037	83,950	112,548

In addition, inter-company balances denominated in foreign currencies other than the respective group entities' functional currencies at the end of each reporting period are as follows:

	Assets			Liabilities		
	As at 31 December			As at 31 December		
	2011	2012	2013	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	781,332	56,358	26,124	956,369	157,603	235,560
RMB	1,192	1,239	–	21,802	7,320	34,312
US\$	158,863	234,353	299,981	–	–	6,140

Sensitivity analysis

Subsidiaries of the Company carry out most of the transactions denominated in HK\$, RMB or US\$ and the Group is mainly exposed to the foreign exchange risk arising from these currencies when they are different from the functional currencies of the respective group entities. Under the pegged exchange rate system, the financial impact arising from changes in exchange rates between HK\$ and US\$ is not expected to be significant and therefore, the corresponding sensitivity analysis is not prepared.

The sensitivity analysis below details the Group's sensitivity to a 5% increase and decrease in HK\$, RMB or US\$ against the functional currencies of the respective group entities. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. A positive (negative) number indicates an increase (decrease) in pre-tax profit for the year when HK\$, RMB or US\$ strengthen 5% against the functional currencies of the respective group entities. For a 5% weakening of HK\$, RMB or US\$, there would be an equal but opposite impact on the pre-tax profit for the year.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	(11,132)	(7,319)	(9,636)
RMB	(1,019)	(278)	(1,707)
US\$	(527)	1,321	(1,015)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the end of the reporting period is arising from:

- the carrying amount of the respective recognised financial assets as stated in the statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 36.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The management of the Group considers that the Group's credit risk in relation to sales made at concession counters is limited as the Group only operates concession counters in leading and reputable department stores. For international and export sales, the customers are mainly leading retailers in the US and the credit risk is not expected to be significant by the management. For other customers, the management closely monitors settlement status and regularly updates their credit profile to ensure that the Group's credit risk is properly managed. For customers in the PRC, the Group would accept bills as alternate settlement means to reduce the exposure of credit risk.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	At 31 December		
	2011	2012	2013
Amount due from the largest debtor as a percentage to total trade receivables	27%	21%	9%
Total amounts due from the five largest debtors as a percentage to total trade receivables	42%	43%	32%

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk.

The credit risk on liquid funds, pledged and structured banks deposits is limited because majority of the counterparties are banks with good reputation.

The management of the Group considers that the credit risk on amounts due from related parties is limited because they regularly monitor the financial position of these related parties through involvement in either their management or operations, and in case of individuals, they have a good understanding of their financial background and ability to repay the debt. In addition, advances are only made to related parties having a good financial standing.

The Group has concentration of credit risk in relation to its amounts due from related parties, of which a significant portion is due from a few counterparties.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amounts
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2011							
Trade and other payables	-	118,223	51,108	-	-	169,331	169,331
Bills payables	-	1,773	38,887	19,923	-	60,583	60,583
Amounts due to related parties							
- non-interest bearing	-	186,507	-	-	-	186,507	186,507
- interest bearing	6.00	15,000	-	-	-	15,000	15,000
Bank borrowings							
- variable-rate	2.60	154,073	-	26,037	-	180,110	178,614
- fixed-rate	6.43	5,539	6,335	23,062	4,478	39,414	37,338
Financial guarantee contracts	-	33,516	-	-	-	33,516	-
		<u>514,631</u>	<u>96,330</u>	<u>69,022</u>	<u>4,478</u>	<u>684,461</u>	<u>647,373</u>

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amounts
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2012							
Trade and other payables	-	129,347	70,114	-	-	199,461	199,461
Bills payables	-	5,300	42,764	22,483	-	70,547	70,547
Amounts due to related parties							
- non-interest bearing	-	137,704	-	-	-	137,704	137,704
- interest bearing	6.00	15,000	-	-	-	15,000	15,000
Bank borrowings							
- variable-rate	2.72	137,608	-	32,678	-	170,286	168,407
- fixed-rate	6.10	6,276	-	17,698	-	23,974	22,841
Financial guarantee contracts	-	29,601	-	-	-	29,601	-
		<u>460,836</u>	<u>112,878</u>	<u>72,859</u>	<u>-</u>	<u>646,573</u>	<u>613,960</u>

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amounts
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2013							
Trade and other payables	-	125,789	71,286	-	-	197,075	197,075
Bills payables	-	40,973	53,014	19,560	-	113,547	113,547
Dividend payable	-	60,000	-	-	-	60,000	60,000
Amounts due to related parties							
- non-interest bearing	-	62,302	-	-	-	62,302	62,302
- interest bearing	6.00	15,000	-	-	-	15,000	15,000
Bank borrowings							
- variable-rate	2.77	105,270	9,107	15,901	-	130,278	129,160
- fixed-rate	2.90	81	161	34,097	-	34,339	33,372
Financial guarantee contracts	-	14,167	-	-	-	14,167	-
		<u>423,582</u>	<u>133,568</u>	<u>69,558</u>	<u>-</u>	<u>626,708</u>	<u>610,456</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

In respect of a bank loan with a carrying amount of HK\$8,203,000 as at 31 December 2012, a subsidiary of the Company had breached certain terms of the bank loan, primarily related to the net tangible assets of that subsidiary. On discovery of the breach, the directors of the subsidiary informed the lending bank and commenced a renegotiation of the terms of the loan. As at 31 December 2012, the negotiation had not been concluded and the loan was therefore classified as a current liability repayable on demand. As at 31 December 2013, the Group complied with all the terms of the bank loan.

Other than the breach of the terms of the bank loan mentioned above, other bank loans with a repayment on demand clause are also included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2011, 2012 and 2013, the aggregate principal amounts of these bank loans amounted to HK\$154,073,000, HK\$137,608,000 and HK\$105,141,000, respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment.

The directors of the Company believe that the principal and interest will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings							
At 31 December 2011	2.05	<u>65,916</u>	<u>48,182</u>	<u>12,479</u>	<u>30,514</u>	<u>157,091</u>	<u>154,073</u>
At 31 December 2012	1.98	<u>65,140</u>	<u>45,409</u>	<u>4,995</u>	<u>24,074</u>	<u>139,618</u>	<u>137,608</u>
At 31 December 2013	1.93	<u>58,159</u>	<u>20,321</u>	<u>12,494</u>	<u>15,531</u>	<u>106,505</u>	<u>105,141</u>

As set out in note 36, the Group had provided corporate guarantees to other parties during the Track Record Period. HK\$33,516,000, HK\$29,601,000 and HK\$14,167,000 are the maximum amount as at 31 December 2011, 2012 and 2013, respectively, that the Group could be required to settle under those financial guarantee arrangements for the utilised amounts if that amount is claimed by the counterparties to the guarantees. Based on expectations at the end of each reporting period, the management considered that it is more likely than not that no amount will be payable under the arrangements. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses. In the opinion of the directors of the Company, the above-mentioned guarantees will be released prior to completion of the Listing.

The Company's financial liabilities are repayable on demand or less than 1 month from the end of the reporting period.

Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of non-option based derivative financial instruments is calculated based on discounted cash flow analysis using the applicable yield for the duration of the instruments.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

The fair value measurement of a foreign currency contract classified as financial asset/liability at FVTPL is level 2 (see note 28) and there were no transfers between the three level fair value measurement hierarchy during the Track Record Period.

7. 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 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 PRC (other than Hong Kong and Macau), 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 maintain 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 Group's senior management personnel who are now also 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.

Segment revenues and results

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

Year ended 31 December 2011

	<u>Export sales</u>	<u>Retail and corporate sales</u>	<u>Polyurethane foam sales</u>	<u>Consolidated</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE				
External sales	877,118	304,206	597,119	1,778,443
Segment profit	178,237	71,180	53,126	302,543
Unallocated other income				23,487
Unallocated costs and expenses				(205,800)
Profit before taxation				120,230

Year ended 31 December 2012

	<u>Export sales</u>	<u>Retail and corporate sales</u>	<u>Polyurethane foam sales</u>	<u>Consolidated</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE				
External sales	1,019,902	296,623	654,970	1,971,495
Segment profit	177,291	81,876	87,566	346,733
Unallocated other income				27,327
Unallocated costs and expenses				(219,384)
Profit before taxation				154,676

Year ended 31 December 2013

	<u>Export sales</u>	<u>Retail and corporate sales</u>	<u>Polyurethane foam sales</u>	<u>Consolidated</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE				
External sales	<u>1,254,223</u>	<u>284,057</u>	<u>831,259</u>	<u>2,369,539</u>
Segment profit	<u>264,653</u>	<u>52,123</u>	<u>111,354</u>	428,130
Unallocated other income				26,212
Unallocated costs and expenses				<u>(264,764)</u>
Profit before taxation				<u>189,578</u>

There were no inter-segment sales during the Track Record Period.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. 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 Dongguan Sinohome and Sinomax Zhejiang 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 as the information are not regularly provided to the CODM.

Segment assets and liabilities

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

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 the customers for other sales.

	<u>Year ended 31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	HK\$'000	HK\$'000	HK\$'000
The US	722,618	906,765	1,143,165
The PRC (other than Hong Kong and Macau)	793,056	807,424	986,202
Hong Kong	107,927	138,494	118,364
Macau	4,883	5,581	9,958
Europe	79,967	62,766	56,613
Other Asian countries	48,175	33,646	41,872
Other American countries	17,829	9,435	10,703
Others	3,988	7,384	2,662
	<u>1,778,443</u>	<u>1,971,495</u>	<u>2,369,539</u>

Information about the Group's non-current assets (excluding deferred tax assets and amounts due from related companies) is presented based on the location of the assets:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
The PRC (other than Hong Kong and Macau)	209,637	243,997	269,770
Hong Kong	5,024	6,245	14,596
Macau	23	16	31
The US	5,124	4,506	6,004
	<u>219,808</u>	<u>254,764</u>	<u>290,401</u>

Information about major customers

An analysis of revenue from a customer in the segment of export sales contributing over 10% of the Group's total revenue during the Track Record Period is as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Customer A	<u>367,223</u>	<u>493,401</u>	<u>685,344</u>

8. OTHER INCOME

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest income	1,306	3,218	1,884
Rental income	3,911	4,982	3,898
Scrap sales (<i>Note a</i>)	16,670	19,124	19,573
Government subsidy (<i>Note b</i>)	12	102	1,400
Others	1,588	1,794	1,127
	<u>23,487</u>	<u>29,220</u>	<u>27,882</u>

Notes:

- (a) The corresponding cost of scrap inventories is inseparable from cost of sales.
- (b) During the year ended 31 December 2013, a subsidiary of the Company in the PRC received an unconditional government subsidy of approximately of HK\$1.4 million for setting up a new subsidiary in the PRC. The government subsidy was recognised in profit or loss for the year ended 31 December 2013.

9. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Changes in fair value of financial asset/liability at FVTPL	(931)	1,018	–
Allowance for doubtful debts	(12,853)	(12,347)	(7,350)
Reversal of allowance for doubtful debts	18,214	2,264	280
Loss on disposal and written off of property, plant and equipment	–	–	(17)
Net exchange gains (losses)	6,279	(4,562)	1,590
	<u>10,709</u>	<u>(13,627)</u>	<u>(5,497)</u>

10. FINANCE COSTS

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	6,261	7,091	5,979
Interest on amounts due to shareholders	900	900	900
	<u>7,161</u>	<u>7,991</u>	<u>6,879</u>

11. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):			
Directors' remuneration (<i>note 12</i>)	4,396	4,695	5,975
Other staff costs	124,613	136,277	203,152
Retirement benefit schemes contributions for other staff	7,586	11,310	17,928
Total staff costs	<u>136,595</u>	<u>152,282</u>	<u>227,055</u>
Amortisation of prepaid lease payments	574	590	601
Depreciation of investment properties	1,166	1,655	1,446
Depreciation of property, plant and equipment	12,074	13,799	17,761
Total depreciation and amortisation	<u>13,814</u>	<u>16,044</u>	<u>19,808</u>
Operating lease rentals in respect of			
– rented premises	13,076	14,948	23,264
– retail stores (included in selling and distribution costs) (<i>Note a</i>)	4,464	4,654	6,217
Department store counters concessionaire commission (included in selling and distribution costs) (<i>Note b</i>)	17,540	19,602	29,481
	<u>50,141</u>	<u>51,142</u>	<u>61,994</u>
	<u>67,681</u>	<u>70,744</u>	<u>91,475</u>

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration	1,755	1,834	1,800
Allowance (reversal of allowance) for inventories (included in cost of sales)	1,928	16,083	(7,824)
Cost of inventories recognised as expenses (included in cost of sales) (Note c)	1,380,773	1,490,653	1,756,736
Research and development expenses (included in other expenses) (Note d)	3,588	4,249	5,809
Listing expenses (included in other expenses)	–	–	20,812

Notes:

- (a) The amounts include contingent rent of HK\$207,000, HK\$105,000, and HK\$256,000 for the years ended 31 December 2011, 2012 and 2013, respectively.
- (b) Concessionaire commission in respect of department store counters is generally calculated by applying pre-determined percentages to actual sales made through respective counters.
- (c) The reversal of allowance for inventories for the year ended 31 December 2013 was mainly resulted from the utilisation of the inventories of which allowance had previously been provided.
- (d) Research and development expenses comprised of staff salaries of HK\$2,429,000, HK\$3,112,000, HK\$4,713,000 for the years ended 31 December 2011, 2012 and 2013, respectively, which were also included in the staff costs disclosed above.

12. DIRECTORS' EMOLUMENTS

	Fees	Salaries and allowances	Performance related incentive payments	Retirement benefit schemes contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note)		
For the year ended 31 December 2011					
Mr. Lam	–	606	–	12	618
Mr. Cheung	–	606	–	12	618
Mr. Chen	–	1,238	233	233	1,704
Ms. Lam Fei Man	–	464	–	12	476
Mr. Lam Kam Cheung	–	968	–	12	980
	–	3,882	233	281	4,396
For the year ended 31 December 2012					
Mr. Lam	–	716	180	14	910
Mr. Cheung	–	671	165	14	850
Mr. Chen	–	1,240	–	–	1,240
Ms. Lam Fei Man	–	499	90	14	603
Mr. Lam Kam Cheung	–	964	114	14	1,092
	–	4,090	549	56	4,695
For the year ended 31 December 2013					
Mr. Lam	–	1,225	–	15	1,240
Mr. Cheung	–	1,200	–	15	1,215
Mr. Chen	–	1,695	–	–	1,695
Ms. Lam Fei Man	–	672	–	15	687
Mr. Lam Kam Cheung	–	1,123	–	15	1,138
	–	5,915	–	60	5,975

Note: Performance related incentive payments were determined with reference to the Group's operating results, individual performance and comparable market statistics.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two, one and two were directors of the Company for each of the years ended 31 December 2011, 2012, and 2013 whose emoluments are included in the disclosures above. The emoluments of the remaining individuals are as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	2,879	4,606	3,697
Performance related incentive payments	930	544	527
	<u>3,809</u>	<u>5,150</u>	<u>4,224</u>

Their emoluments were within the following bands:

	Year ended 31 December		
	2011	2012	2013
	No. of employees	No. of employees	No. of employees
HK\$1,000,001 to HK\$1,500,000	2	3	2
HK\$1,500,001 to HK\$2,000,000	1	1	1

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

14. INCOME TAX EXPENSES

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Current tax			
Hong Kong Profits Tax	9,008	8,591	11,419
PRC Enterprise Income Tax (the "EIT") (Note)	8,747	12,781	29,544
US income tax	3,835	5,215	10,405
	<u>21,590</u>	<u>26,587</u>	<u>51,368</u>
(Over)/under provision in prior years			
Hong Kong Profits Tax	–	(29)	(77)
PRC EIT	–	(497)	(48)
US income tax	–	–	443
	<u>–</u>	<u>(526)</u>	<u>318</u>
Deferred taxation (note 23)	4,017	12,939	(7,141)
	<u>25,607</u>	<u>39,000</u>	<u>44,545</u>

Note: The amounts include PRC withholding tax on distributed profits of a PRC subsidiary of HK\$3,142,000, Nil and HK\$1,357,000 for the years ended 31 December 2011, 2012 and 2013, respectively.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the Track Record Period.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law effective from 1 January 2008, the statutory income tax rate of the PRC subsidiaries is 25% for the Track Record Period.

For a PRC subsidiary that is situated in a special economic zone and qualified under the old law for preferential EIT rate of 15%, as a transitional policy pursuant to GuoFa [2007] No. 39, the tax rate progressively increased from 18% in year 2008 to 20%, 22%, 24% and 25% in years 2009, 2010, 2011 and 2012, respectively.

For two PRC subsidiaries not located in a special economic zone, they are entitled to tax exemption for two years commencing from their first profit making year and thereafter entitled to a 50% relief from EIT for the next three years ("Tax Holiday"). GuoFa [2007] No. 39 allowed the subsidiary which has already started to enjoy the Tax Holiday to continue enjoy the remaining period of the Tax Holiday until 2012. Hence, the applicable EIT rate for that subsidiary in year 2011, in which a 50% relief from EIT was available, was 12.5%; and was increased to 25% in year 2012 and thereafter. For the subsidiary that did not commence its Tax Holiday before the effective date of the EIT Law (i.e. 1 January 2008), it is deemed to have started to enjoy the Tax Holiday from 1 January 2008. As a result, the applicable EIT rate for this subsidiary in years 2011 and 2012 was 12.5%, and was increased to 25% in year 2013 and thereafter.

The US income tax includes (a) federal income tax calculated at 34% on the estimated US federal taxable income of Sinomax USA and (b) state income tax calculated at various state income tax rates on the estimated state taxable income of Sinomax USA. 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 Sinomax USA operates in).

The Company and group entities incorporated in the BVI are not subject to any income tax.

Under Decree-Law no. 58/99/M, Sinomax Macao, a Macau subsidiary incorporated under that Law is exempted from Macau Complementary tax as it satisfies the relevant conditions as specified in the Law, one of which being that it does not sell its products to any Macau resident company during the Track Record Period.

The income tax expenses for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	120,230	154,676	189,578
Tax at Hong Kong Profits Tax rate of 16.5%	19,838	25,522	31,280
Tax effect of expenses not deductible for tax purposes	6,782	2,444	4,112
Tax effect of income not taxable for tax purposes	–	(113)	(27)
(Over) under provision in prior years	–	(526)	318
Tax effect of tax losses not recognised	31	–	–
Utilisation of tax losses previously not recognised	(1,013)	(31)	–
Tax effect of deductible temporary difference not recognised	2,527	3,328	55
Utilisation/recognition of deductible temporary difference previously not recognised	(6,812)	(2,866)	(1,909)
Income tax at concessionary rates	(4,714)	(4,533)	–
Deferred tax on withholding tax on undistributed earnings of PRC subsidiaries	3,166	4,113	222
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,382	11,843	10,494
Others	(580)	(181)	–
Income tax expenses	25,607	39,000	44,545

The IRD is currently conducting a tax audit on certain subsidiaries of the Group. 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 an amount of HK\$175,000 which was required to be paid by one of the subsidiaries concerned for the year of assessment 2006/07.

The Group has provided various information and supporting documents to address to 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 on 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 during the Track Record Period.

15. DIVIDENDS

Except for the interim dividend totalling HK\$60,000,000 to its then sole shareholder declared by the Company on 19 September 2013, no other dividend has been declared or paid by the Company since its date of incorporation. The interim dividend has been paid in February 2014.

In addition, during the Track Record Period, Trade Sincere made the following distributions to its then shareholders.

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Dividends declared and paid/payable to the then shareholders of Trade Sincere	28,277	–	–
Including:			
Dividends attributable to the Individual Shareholders	14,421	–	–
Dividend attributable to the non-controlling interest	13,856	–	–
	28,277	–	–

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the Track Record Period is based on the following data:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Earnings			
Profit for year the attributable to owners of the Company for the purpose of basic earnings per share	87,959	108,411	135,761
Number of shares			
Number of shares for the purpose of basic earnings per share	1,500,000,000	1,500,000,000	1,500,000,000

No diluted earnings per share was presented as there was no potential ordinary share outstanding during the Track Record Period.

The number of ordinary shares for the purpose of basic earnings per share has taken into account the shares issued pursuant to the Group Reorganisation as set out in Note 2 and the capitalisation issue as set out in section C and as described in Appendix IV to the Prospectus.

17. INVESTMENT IN A SUBSIDIARY

	The Company	
	As at 31 December	
	2012	2013
	HK\$	HK\$
Investment in Treasure Range:		
Unlisted shares, at cost	–	27
Deemed investment cost	–	403,845,819
	–	403,845,846
	HK\$'000	HK\$'000
Shown in the Company's statement of financial position as	–	403,846

The deemed investment cost represented the total equity attributable to the owners of the Company of the relevant subsidiaries pursuant to the Group Reorganisation and the corresponding credit is recognised in share premium.

18. INVESTMENT PROPERTIES

	HK\$'000
COST	
At 1 January 2011	9,228
Exchange adjustments	1,005
Transferred from property, plant and equipment	24,558
At 31 December 2011	34,791
Exchange adjustments	141
At 31 December 2012	34,932
Exchange adjustments	878
Additions	2,980
Transferred to property, plant and equipment	(6,004)
At 31 December 2013	32,786
DEPRECIATION	
At 1 January 2011	256
Exchange adjustments	37
Provided for the year	1,166
At 31 December 2011	1,459
Exchange adjustments	10
Provided for the year	1,655
At 31 December 2012	3,124
Exchange adjustments	90
Provided for the year	1,446
Transferred to property, plant and equipment	(704)
At 31 December 2013	3,956
CARRYING VALUES	
At 31 December 2011	33,332
At 31 December 2012	31,808
At 31 December 2013	28,830

The Group's investment properties are erected on land held under medium-term land use rights in the PRC and are depreciated on a straight-line basis over 20 years.

As at 31 December 2011, 2012 and 2013, the fair values of the Group's investment properties were HK\$39,337,000, HK\$39,749,000 and HK\$31,832,000, respectively. The fair values have been determined by the directors of the Company.

The directors of the Company determined the fair values of the investment properties at the end of each reporting period by reference to the depreciated replacement cost model of valuation. The inputs used by the directors of the Company in the fair value measurements mainly include the cost of replacement (reproduction) of the improvements.

The Group's investment properties represent industrial properties located in Zhejiang Province, the PRC and their fair value measurements are categorised as level 3 in the fair value hierarchy.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1 January 2011	65,246	31,151	18,583	2,450	27,752	145,182
Exchange adjustments	3,781	1,639	272	124	1,611	7,427
Additions	82	8,958	6,309	779	37,572	53,700
Transfers	9,026	–	–	–	(9,026)	–
Transferred to investment properties	–	–	–	–	(24,558)	(24,558)
At 31 December 2011	78,135	41,748	25,164	3,353	33,351	181,751
Exchange adjustments	318	176	46	12	177	729
Additions	698	12,499	10,030	1,826	18,065	43,118
At 31 December 2012	79,151	54,423	35,240	5,191	51,593	225,598
Exchange adjustments	2,701	1,531	297	103	806	5,438
Additions	420	24,560	3,951	1,936	3,573	34,440
Disposals and written off	–	(284)	(11)	–	–	(295)
Transfers	50,028	–	1,652	–	(51,680)	–
Transferred from investment properties	6,004	–	–	–	–	6,004
At 31 December 2013	138,304	80,230	41,129	7,230	4,292	271,185

	Buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
DEPRECIATION						
At 1 January 2011	5,234	5,943	11,033	699	–	22,909
Exchange adjustments	359	348	81	31	–	819
Provided for the year	3,485	4,325	3,876	388	–	12,074
At 31 December 2011	9,078	10,616	14,990	1,118	–	35,802
Exchange adjustments	46	47	13	4	–	110
Provided for the year	3,781	5,291	4,174	553	–	13,799
At 31 December 2012	12,905	15,954	19,177	1,675	–	49,711
Exchange adjustments	402	431	118	35	–	986
Provided for the year	5,048	6,955	4,938	820	–	17,761
Eliminated on disposals and write off	–	(207)	(11)	–	–	(218)
Transferred from investment properties	704	–	–	–	–	704
At 31 December 2013	19,059	23,133	24,222	2,530	–	68,944
CARRYING VALUES						
At 31 December 2011	69,057	31,132	10,174	2,235	33,351	145,949
At 31 December 2012	66,246	38,469	16,063	3,516	51,593	175,887
At 31 December 2013	119,245	57,097	16,907	4,700	4,292	202,241

The Group's buildings are erected on land held by the Group under medium-term land use rights in the PRC.

The buildings with carrying values of approximately HK\$22,219,000, HK\$21,028,000 and Nil were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2011, 2012 and 2013, respectively.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method and at the following rates per annum:

Buildings	Over the shorter of the term of the lease or 20 years
Plant and machinery	10% – 20%
Leasehold improvements, furniture and fixtures	20% – 33 ¹ / ₃ % or over the term of the lease, whichever is shorter
Motor vehicles	20%

20. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Analysed for reporting purposes as:			
Non-current asset	24,555	24,234	24,258
Current asset	586	592	608
	<u>25,141</u>	<u>24,826</u>	<u>24,866</u>

Details of the land use rights pledged to a bank to secure the banking facilities granted to the Group are set out in note 39.

21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The balances represent deposits paid by the Group in connection with the acquisition of property, plant and equipment to meet the Group's business plan.

The related capital commitments are disclosed in note 38.

22. RENTAL DEPOSITS

The balances represent rental deposits placed by the Group in connection with its rented premises, retail stores and department store counters. The relevant leases will expire after one year from the end of the respective reporting period, or if the remaining lease term is less than one year, the Group has the positive intention to renew the leases upon expiry. Therefore, the balances are classified as non-current.

23. DEFERRED TAXATION

The following are the deferred tax (liabilities) assets recognised and movements thereon during the Track Record Period:

	Undistributed profits of PRC subsidiaries	Unrealised profit in inventories	Tax losses	Allowance for inventories and doubtful debts	Inventory costing	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	(5,260)	1,663	688	1,667	17,831	(726)	15,863
Exchange adjustments	–	–	147	81	760	–	988
(Charged) credited to profit or loss	(3,166)	(718)	5,418	900	(11,054)	1,461	(7,159)
Released to profit or loss upon payment of dividends	3,142	–	–	–	–	–	3,142
At 31 December 2011	<u>(5,284)</u>	<u>945</u>	<u>6,253</u>	<u>2,648</u>	<u>7,537</u>	<u>735</u>	<u>12,834</u>
Exchange adjustments	–	–	12	8	19	–	39
(Charged) credited to profit or loss	(4,113)	1,133	(6,049)	1,018	(5,105)	177	(12,939)
At 31 December 2012	<u>(9,397)</u>	<u>2,078</u>	<u>216</u>	<u>3,674</u>	<u>2,451</u>	<u>912</u>	<u>(66)</u>
Exchange adjustments	(13)	–	46	78	14	10	135
(Charged) credited to profit or loss	(222)	1,066	3,479	3,186	(2,465)	740	5,784
Released to profit or loss upon payment of dividends	1,357	–	–	–	–	–	1,357
At 31 December 2013	<u>(8,275)</u>	<u>3,144</u>	<u>3,741</u>	<u>6,938</u>	<u>–</u>	<u>1,662</u>	<u>7,210</u>

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets	18,779	9,992	16,143
Deferred tax liabilities	(5,945)	(10,058)	(8,933)
	<u>12,834</u>	<u>(66)</u>	<u>7,210</u>

As at 31 December 2011, 31 December 2012 and 31 December 2013, the Group had unused tax losses of HK\$25,160,000, HK\$871,000 and HK\$14,967,000 available for offset against future profits, respectively. Deferred tax assets have been recognised in respect of such tax losses of HK\$25,020,000, HK\$871,000 and HK\$14,967,000, respectively. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The unrecognised tax losses as at 31 December 2013 will expire in various dates up to the year 2018.

As at 31 December 2011, 31 December 2012 and 31 December 2013, the Group had deductible temporary differences mainly arising from inventory costing, allowance for inventories and doubtful debts and unrealised profits on inventories of HK\$82,793,000, HK\$77,254,000 and HK\$75,985,000, respectively. Deferred tax assets have been recognised in respect of such deductible temporary differences of HK\$51,684,000, HK\$42,358,000 and HK\$51,688,000, respectively. No deferred tax asset has been recognised in relation to the remaining deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided in full in the Financial Information in respect of temporary differences attributable to such undistributed profits of the PRC subsidiaries as at 31 December 2011 and 2012. Deferred taxation has not been provided for in respect of temporary differences attributable to the undistributed profit earned by the PRC subsidiaries as at 31 December 2013 of RMB47,567,000 (equivalent to HK\$59,510,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Group is liable to withholding tax on dividends distributed from Sinomax USA. As at 31 December 2011, 2012 and 2013, the Group had temporary differences relating to the undistributed profits of Sinomax USA of US\$1,781,000 (equivalent to HK\$13,838,000), US\$2,163,000 (equivalent to HK\$16,807,000) and US\$3,772,000 (equivalent to HK\$29,233,000), respectively. Deferred taxation has not been provided for such temporary differences as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. INVENTORIES

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Raw materials	73,278	87,220	110,657
Work in progress	30,179	32,696	50,438
Finished goods	169,691	159,765	184,942
	<u>273,148</u>	<u>279,681</u>	<u>346,037</u>

25. TRADE AND OTHER RECEIVABLES

THE GROUP

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	294,900	381,856	473,589
Less: Allowance for doubtful debts	(17,715)	(25,648)	(32,133)
	<u>277,185</u>	<u>356,208</u>	<u>441,456</u>
Other receivables			
– Prepayments for purchase of raw materials and operating expenses	32,837	28,748	35,286
– Other taxes recoverable	15,153	15,340	17,518
– Others	8,462	10,077	14,259
	<u>56,452</u>	<u>54,165</u>	<u>67,063</u>
Total trade and other receivables	<u>333,637</u>	<u>410,373</u>	<u>508,519</u>

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

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	143,534	120,558	214,339
31 to 60 days	81,402	100,261	129,914
61 to 90 days	27,816	84,244	64,755
91 to 180 days	23,448	33,530	19,809
181 to 365 days	985	17,615	5,380
Over 365 days	–	–	7,259
	<u>277,185</u>	<u>356,208</u>	<u>441,456</u>

For sales to wholesalers, retailers and other manufacturers, before accepting any new customer, the Group will internally assess the potential customers' credit quality and define the credit limits based on results from investigation of historical credit records of these customers.

The management of the Group closely monitors the credit quality of trade receivables and considers the debts that are neither past due nor impaired to be of a good credit quality. Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no history of default.

Included in the Group's trade receivables balance are debtors with aggregate carrying amounts of HK\$109,009,000, HK\$238,488,000 and HK\$124,557,000 as at 31 December 2011, 31 December 2012 and 31 December 2013, respectively, which are past due at end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables based on revenue recognition date which are past due but not impaired at the end of each reporting period.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	7,040	2,838	11,316
31 to 60 days	49,720	100,261	56,564
61 to 90 days	27,816	84,244	32,954
91 to 180 days	23,448	33,530	11,084
181 to 365 days	985	17,615	5,380
Over 365 days	–	–	7,259
	<u>109,009</u>	<u>238,488</u>	<u>124,557</u>

Movements in the allowance for doubtful debts

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Balance at beginning of the year	61,468	17,715	25,648
Impairment loss recognised	12,853	12,347	7,350
Reversal of impairment loss recognised	(18,214)	(2,264)	(280)
Bad debts written off	(40,554)	(1,986)	(761)
Exchange adjustments	2,162	(164)	176
	<u>17,715</u>	<u>25,648</u>	<u>32,133</u>

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	12,357	12,263	16,310
US\$	32,866	7,765	9,210
	<u>45,223</u>	<u>20,028</u>	<u>25,520</u>

THE COMPANY

The Company's trade and other receivables as at 31 December 2013 represents the prepayments for listing expenses.

26. 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.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	10,719	7,033	3,534
31 to 60 days	8,378	496	5,557
61 to 90 days	978	924	4,197
91 to 180 days	11,878	3,959	1,385
181 to 365 days	–	–	136
	<u>31,953</u>	<u>12,412</u>	<u>14,809</u>

Included in bills receivables are the following amounts denominated in a currency other than the functional currencies of the respective group entities which they relate:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
US\$	<u>13,141</u>	<u>591</u>	<u>–</u>

27. AMOUNTS DUE FROM/TO RELATED PARTIES**THE GROUP**

The Group's amounts due from/to related parties comprised of amounts due from/to shareholders and related companies, details of which are set out below.

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Amounts due from shareholders (Note a)	2,705	1,456	133
Amounts due from related companies (Note c)	<u>81,520</u>	<u>97,792</u>	<u>31,399</u>
Amounts due from related parties	<u>84,225</u>	<u>99,248</u>	<u>31,532</u>
Disclosed in the consolidated statements of financial position as:			
– Non-current assets	57,463	–	–
– Current assets	<u>26,762</u>	<u>99,248</u>	<u>31,532</u>
	<u>84,225</u>	<u>99,248</u>	<u>31,532</u>

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Amounts due to shareholders (<i>Note b</i>)	16,401	17,781	15,000
Amounts due to related companies (<i>Note d</i>)	185,106	134,923	62,302
Amounts due to related parties – current liabilities	201,507	152,704	77,302

THE COMPANY

The Company's amounts due from related parties as at 31 December 2013 represents amounts due from a subsidiary of HK\$231,000 (2012: Nil) and the immediate holding company, Sinomax Enterprises of HK\$410,000 (2012: Nil), which are non-trade in nature, unsecured, interest-free and repayable on demand.

The Company's amounts due to related parties as at 31 December 2013 represented amounts due to subsidiaries. The amounts due to related parties as at 31 December 2012 represented amount due to Sinomax Enterprises. Both amounts are non-trade nature, unsecured, interest-free and repayable on demand.

Notes:

- (a) Amounts due from shareholders

Particulars of the amounts due from shareholders presented as current assets are disclosed as follows:

	As at	As at 31 December		
	1 January	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Lam*	234	181	211	44
Mr. Cheung Fung, Jackson	–	–	1,017	82
Mr. Cheung*	2,210	2,524	228	–
Mr. Chen*	–	–	–	7
	2,444	2,705	1,456	133

Maximum amounts outstanding during the Track Record Period are as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Mr. Lam*	234	211	211
Mr. Cheung Fung, Jackson	–	1,017	1,017
Mr. Cheung*	2,524	2,524	228
Mr. Chen*	–	–	7

* A director of the Company

The amounts are non-trade in nature, unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the amounts as at 31 December 2013 have fully recovered subsequent to 31 December 2013.

(b) Amounts due to shareholders

Particulars of the amounts due to shareholders are disclosed as follows:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Interest bearing at 6% per annum			
Mr. Lam*	4,500	4,500	4,500
Mr. Lin Han Li	3,000	3,000	3,000
Mr. Cheung Fung, Jackson	1,500	1,500	1,500
Mr. Cheung*	4,500	4,500	4,500
Mr. Chen*	1,500	1,500	1,500
	15,000	15,000	15,000
Non-interest bearing			
Mr. Lin Han Li	193	194	–
Mr. Cheung Fung, Jackson	245	–	–
Mr. Cheung*	–	1,624	–
Mr. Chen*	963	963	–
	1,401	2,781	–
Total amounts due to shareholders	16,401	17,781	15,000

* A director of the Company

The amounts are non-trade in nature, unsecured and repayable on demand. In the opinion of the directors of the Company, the amounts as at 31 December 2013 have fully repaid subsequent to 31 December 2013.

(c) Amounts due from related companies

	Nature of balances	Relationship	As at	As at 31 December		
			1 January	2011	2012	2013
			2011	2011	2012	2013
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sinomax Enterprises	Non-trade	(i)	18,195	57,554	79,655	15,621
東莞東聯傢俱有限公司	Non-trade	(ii)	447	13,615	13,885	15,778
Dongguan Donglian Furniture Co., Ltd.* ("Dongguan Donglian")						
Sinomax Europe GmbH	Trade	(ii)	–	4,821	4,252	–
聖諾盟聚氨酯(上海)有限公司	Trade	(iii)	2,898	–	–	–
Sinomax Polyurethane (Shanghai) Co., Ltd.* ("Sinomax Polyurethane (Shanghai)")						
嘉善怡聖聚氨酯製品有限公司	Trade	(iii)	–	3,229	–	–
Jiashan Yisheng Polyurethane Housing Limited* ("Jiashan Yisheng")						
施諾聚氨酯(上海)有限公司	Trade	(iii)	7,023	2,301	–	–
Shinuo Polyurethane (Shanghai) Co., Ltd.* ("Shinuo Polyurethane (Shanghai)")						
			28,563	81,520	97,792	31,399
Presented in the consolidated statements of financial position as:						
– Non-current assets				57,463	–	–
– Current assets				24,057	97,792	31,399
				81,520	97,792	31,399

* English translated name is for identification purpose only

Maximum amounts outstanding during the Track Record Period are as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Sinomax Enterprises	57,554	79,655	83,177
Dongguan Donglian	13,747	28,989	15,778
Sinomax Europe GmbH	4,821	4,821	6,817
Sinomax Polyurethane (Shanghai)	2,898	–	–
Jiashan Yisheng	3,229	3,229	–
Shinuo Polyurethane (Shanghai)	7,023	2,301	–

For non-trade balances, the amounts are unsecured, interest-free and repayable on demand.

In the opinion of the directors of the Company, amount due from Sinomax Enterprises as at 31 December 2011 was not expected to be recovered within twelve months from that date and therefore, it was classified as non-current asset.

For trade balances, the amounts are unsecured, interest-free and aged within 90 days from the end of the respective reporting period. The credit period granted to these related parties in respect of sales transactions is 90 days.

The amounts as at 31 December 2013 have been fully recovered subsequent to 31 December 2013.

(d) Amounts due to related companies

	Nature of balances	Relationship	As at 31 December		
			2011	2012	2013
			HK\$'000	HK\$'000	HK\$'000
Sinomax Enterprises	Non-trade	(i)	118,357	86,970	3,188
聖諾盟聚氨酯(東莞)有限公司 Sinomax Polyurethane (Dongguan) Co., Ltd.*	Non-trade				
("DG Polyurethane")		(ii)	2,113	1,745	2,919
Sino Century Development Limited	Non-trade	(iii)	9,445	9,445	–
Sinomax Holding Group Limited	Non-trade				
("Sinomax Holding")		(iv)	21,119	14,171	–
Shinuo Polyurethane (Shanghai)	Trade	(iii)	–	–	17,133
Sinomax Polyurethane (Shanghai)	Trade	(iii)	34,072	22,592	39,062
			<u>185,106</u>	<u>134,923</u>	<u>62,302</u>

For non-trade balances, the amounts are unsecured, interest-free and repayable on demand.

For trade balances, the amount due to Shinuo Polyurethane (Shanghai) is trade deposit as at 31 December 2013. The amount due to Sinomax Polyurethane (Shanghai) are aged over 365 days during the Track Record Period.

The amounts as at 31 December 2013 have been fully repaid subsequent to 31 December 2013.

(e) Amounts denominated in foreign currencies

Included in amounts due from/to related parties are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

Due from

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
US\$	4,821	4,252	–

Due to

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	59,497	59,248	–
US\$	6,204	–	–

Notes:

- (i) Immediate holding company
- (ii) Fellow subsidiaries of the Company
- (iii) Companies controlled by the Individual Shareholders collectively
- (iv) Companies controlled by certain of the Individual Shareholders

28. FINANCIAL ASSET/LIABILITY AT FVTPL

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Derivative financial (liability) asset			
– a foreign currency contract, net settled	(931)	87	–

Major terms of the foreign currency contract are as follows:

<u>Notional amount</u>	<u>Maturity</u>	<u>Reference exchange rate</u>
<i>As at 31 December 2011 and 31 December 2012</i>		
US\$500,000	Monthly settled based on notional amount and up to 21 November 2013	US\$1.00 to RMB6.55

29. PLEDGED BANK DEPOSITS/STRUCTURED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

As at 31 December 2011, 2012 and 2013, pledged bank deposits with original maturity of more than three months carried interest at fixed rates ranging from 2.50% to 3.30%, 3.05% to 3.30% and 3.05% to 3.30% per annum, respectively. The bank deposits have been pledged to secure the Group's general banking facilities and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payable.

(b) Structured bank deposits

As at 31 December 2011, 2012 and 2013, structured bank deposits carried interest at variable rates ranging from 0.78% to 5.40%, 0.73% to 4.50% and 1.49% to 5.80% per annum, respectively. Interest rates of these structured deposits vary depending on the movement of market interest rates and foreign exchange rates at the respective maturity dates and those features constitute embedded derivatives. Some of the embedded derivatives are closely related whereas some are not based on assessment of their risks and characteristics. For the non-closely related embedded derivatives, their fair values are assessed to be insignificant during the Track Record Period.

(c) Bank balances

As at 31 December 2011, 2012 and 2013, bank balances carried interest at market rates ranging from 0.01% to 3.10%, 0.01% to 2.85% and 0.01% to 3.05% per annum, respectively.

Included in bank balances and deposits above are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	1,472	3,775	544
RMB	245	527	168
US\$	43,719	39,318	62,070

30. TRADE AND OTHER PAYABLES

THE GROUP

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Trade payables	157,826	192,291	196,518
Deposits received from customers	11,449	14,985	11,763
Accrued expenses/provision for expenses	51,635	56,140	81,139
Accrued listing expenses	–	–	7,354
Other taxes payable	12,554	15,504	18,622
Retention payable	4,962	165	–
Amount due to a non-controlling shareholder of a subsidiary (<i>Note</i>)	6,543	6,543	6,543
Others	6,632	4,428	6,599
	<u>93,775</u>	<u>97,765</u>	<u>132,020</u>
Total trade and other payables	<u>251,601</u>	<u>290,056</u>	<u>328,538</u>

Note: The amount was unsecured, interest-free and repayable on demand.

The credit period of trade payables is from 30 to 60 days.

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	102,216	140,228	136,604
31 to 60 days	32,066	37,112	52,118
61 to 90 days	9,939	2,979	3,020
91 to 180 days	1,243	6,602	1,438
Over 180 days	12,362	5,370	3,338
	<u>157,826</u>	<u>192,291</u>	<u>196,518</u>

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the respective group entities which they relate:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
HK\$	1,926	1,926	145
US\$	26,420	45,981	24,828
	<u>28,346</u>	<u>47,907</u>	<u>25,013</u>

THE COMPANY

The Company's other payables mainly represents the accrued listing expenses and operating expenses.

31. 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 2011, 31 December 2012 and 31 December 2013 were secured by pledged bank deposits of HK\$5,266,000, HK\$4,320,000 and HK\$14,916,000, respectively.

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

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	19,924	22,482	38,342
31 to 60 days	30,731	27,677	44,422
61 to 90 days	8,155	15,088	10,438
91 to 180 days	1,773	5,300	20,345
	<u>60,583</u>	<u>70,547</u>	<u>113,547</u>

Included in bills payables are the following amounts denominated in a currency other than the functional currencies of the respective group entities which they relate:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
US\$	<u>33,001</u>	<u>37,969</u>	<u>54,348</u>

32. BANK BORROWINGS

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Secured	7,387	4,238	–
Unsecured	208,565	187,010	162,532
	<u>215,952</u>	<u>191,248</u>	<u>162,532</u>
Variable-rate	178,614	168,407	129,160
Fixed-rate	37,338	22,841	33,372
	<u>215,952</u>	<u>191,248</u>	<u>162,532</u>
Carrying amounts repayable*			
On demand or within one year	182,981	168,248	147,532
More than one year, but not more than two years	9,970	8,000	8,250
More than two years, but not more than five years	23,001	15,000	6,750
	<u>215,952</u>	<u>191,248</u>	<u>162,532</u>

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Amounts shown under current liabilities:			
Bank borrowings that are repayable on demand or within one year from the end of the reporting period and contain a repayable on demand clause	125,323	114,608	90,141
Bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause	28,750	23,000	15,000
Bank borrowings do not contain a repayable on demand clause but due within one year	57,658	53,640	57,391
	<u>211,731</u>	<u>191,248</u>	<u>162,532</u>
Amounts shown under non-current liabilities	4,221	–	–
	<u>215,952</u>	<u>191,248</u>	<u>162,532</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Variable-rate bank borrowings bear interest with reference to Hong Kong Interbank Offered Rate and Prime rate of the relevant banks.

Included in bank borrowings are the following amounts denominated in a currency other than the functional currency of the corresponding group entity which it relates:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
US\$	5,412	–	33,372

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2011, 2012 and 2013, respectively, are as follows:

	As at 31 December		
	2011	2012	2013
	2011	2012	2013
Effective interest rates (per annum):			
Variable-rate borrowings	1.45%–6.10%	1.45%–6.10%	1.74%–6.90%
Fixed-rate borrowings	6.10%–7.11%	5.86%–6.98%	2.16%–3.35%

Details of a breach of loan covenants during the Track Record Period are set out in note 6.

Certain of the Group's bank borrowings as at 31 December 2011 and 2012 were secured by the Group's property, plant and equipment and land use rights as set out in note 39.

Details of bank borrowings guaranteed by and/or secured by properties of related parties are set out in note 40. As at 31 December 2011 and 2012 and 2013, a non-controlling shareholder of a subsidiary had provided a guarantee to a bank to secure the bank facilities granted to that subsidiary to the extent of RMB44,000,000, out of which RMB30,000,000 (equivalent to HK\$36,810,000), RMB25,000,000 (equivalent to HK\$30,799,000) and RMB19,000,000 (equivalent to HK\$24,018,000) were utilised, respectively.

33. SHARE CAPITAL

The Group

The share capital as at 1 January 2011, 31 December 2011, 31 December 2012 and 31 December 2013 represented the combined share capital of following companies attributable to owners of the Company:

	As at 1 January	As at 31 December	As at 31 December
	2011	2011	2012
	HK\$	HK\$	HK\$
Name of the companies			
The Company	–	–	78
Ascension	8	8	8
Fullelite	78	78	78
Year Prosper	78	78	78
Wonderful Health	78	78	78
Trade Sincere	398	663	663
Sinomax Investment	78	78	78
Sinomax Health	10	10	10
Sinomax Trading	–	10,000	10,000
	<u>728</u>	<u>10,993</u>	<u>11,071</u>
	HK\$'000	HK\$'000	HK\$'000
Shown in the consolidated statements of the financial position	<u>1</u>	<u>11</u>	<u>11</u>

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

The Company

	Number of shares	Amount
		HK\$'000
Authorised:		
On 5 June 2012 (date of incorporation) and 31 December 2012 of US\$1 each (note a)	50,000	389
Cancellation of shares of US\$1 each (note e)	(50,000)	(389)
Increase in authorised capital (note d)	<u>10,000,000,000</u>	<u>1,000,000</u>
At 31 December 2013 of HK\$0.1 each	<u>10,000,000,000</u>	<u>1,000,000</u>
		HK\$
Issued and fully paid:		
On 5 June 2012 (date of incorporation) and 31 December 2012 of US\$1 each (note b)	<u>10</u>	<u>77</u>
Issue of shares of US\$1 each (note c)	17	132
Issue of shares of HK\$0.1 each (note d)	50,000	5,000
Repurchase of shares of US\$1 each (note e)	<u>(27)</u>	<u>(209)</u>
At 31 December 2013	<u>50,000</u>	<u>5,000</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands with limited liability on 5 June 2012 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (b) On 5 June 2012, 10 shares of US\$1 each were issued to the shareholders at par to provide the initial capital to the Company.
- (c) On 5 September 2013, additional 17 shares of US\$1 each were issued to the shareholders for the Group Reorganisation as set out in note 2.
- (d) On 11 December 2013, the Company passed a written resolution pursuant to which the authorised share capital of the Company was increased by HK\$1,000,000,000 by the creation of 10,000,000,000 shares of par value HK\$0.10 each. 50,000 shares were issued and allotted to Sinomax Enterprises at par and credited as fully paid.
- (e) Immediately after the issue and allotment of the 50,000 shares at par value of HK\$0.10 each to Sinomax Enterprises, the Company repurchased the 27 shares at par value of US\$1.00 each then held by Sinomax Enterprises and cancelled such shares. The authorised share capital was then reduced by US\$50,000 by the cancellation of 50,000 unissued shares of par value of US\$1.00 each.

34. RESERVES

Details of the reserves of the Group and their movements during the Track Record Period are set out in the consolidated statements of changes in equity.

Below is a table showing the movements of the reserves of the Company since its incorporation and up to 31 December 2013:

	Share premium	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At date of incorporation	–	–	–	–
Loss for the period	–	–	(20)	(20)
At 31 December 2012	–	–	(20)	(20)
Issue of shares (<i>note 33</i>)	–	(5)	–	(5)
Loss for the year	–	–	(20,886)	(20,886)
Group Reorganisation (<i>note 17</i>)	403,846	–	–	403,846
Dividend recognised as distribution (<i>note 15</i>)	(60,000)	–	–	(60,000)
At 31 December 2013	<u>343,846</u>	<u>(5)</u>	<u>(20,906)</u>	<u>322,935</u>

35. MATERIAL NON-CONTROLLING INTERESTS

The amounts disclosed below represent the consolidated financial information of Sinomax Kuka and its wholly owned subsidiary, Haining Sinomax before the elimination of intragroup transactions, which represent the majority of the non-controlling interests of the Group for the Track Record Period.

	Sinomax Kuka and Haining Sinomax		
	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Current assets	91,131	102,782	135,541
Non-current assets	10,324	10,990	6,144
Current liabilities	(62,063)	(58,081)	(64,642)
Non-current liabilities	–	–	–
Total equity	39,392	55,691	77,043
Total equity attributable to non-controlling interests	19,302	27,289	37,751
	Sinomax Kuka and Haining Sinomax		
	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Revenue	224,861	214,084	367,355
Expenses	(210,755)	(198,766)	(348,333)
Profit for the year	14,106	15,318	19,022
Profit for the year attributable to non-controlling interests	6,912	7,506	9,321
Other comprehensive income for the year	2,615	199	1,983
Total comprehensive income for the year	16,721	15,517	21,005
Net cash inflow from operating activities	19,527	16,330	31,624
Net cash outflow from investing activities	(726)	(529)	(969)
Net cash outflow from financing activities	(21,842)	(9,248)	(9,631)
Net cash (outflow) inflow	(3,041)	6,553	21,024

The dividend paid to non-controlling interest had disclosed in note 15.

36. CONTINGENT LIABILITIES

During the Track Record Period, 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, Charmax Enterprise Limited and the utilisation of such facilities amounted to HK\$33,516,000, HK\$29,601,000 and HK\$39,793,000 as at 31 December 2011, 2012 and 2013, respectively. In the opinion of the directors of the Company, the fair value of such guarantees was insignificant and the guarantees will be released prior to completion of the Listing.

The Group had provided one-year corporate guarantee to a bank in respect of banking facilities granted to a company controlled by a non-controlling shareholder of a subsidiary on 1 January 2011 and 18 January 2012, respectively. The extent of guarantee provided by the Group amounted to RMB45,000,000 and RMB15,000,000, respectively, and the banking facilities were not utilised as at both 31 December 2011 and 2012. In the opinion of the directors of the Company, the fair value of such guarantee provided by the Group was insignificant. The guarantee had been released during the year ended 31 December 2013.

37. OPERATING LEASES**The Group as lessee**

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	16,939	20,986	28,607
In the second to fifth years inclusive	34,337	28,555	24,239
Over five years	10,543	4,808	–
	<u>61,819</u>	<u>54,349</u>	<u>52,846</u>

Included above are the following lease payments committed to Dongguan Donglian, a related party:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	4,705	4,808	10,432
In the second to fifth years inclusive	19,200	19,233	10,432
Over five years	9,600	4,808	–
	<u>33,505</u>	<u>28,849</u>	<u>20,864</u>

Operating lease payments represent rentals payable by the Group for the retail stores, offices, factory, staff quarters and warehouses. Leases are negotiated for initial terms ranging from one to ten years.

Certain retail stores include payment obligations with rental varied with gross revenue. The additional rental payable (contingent rents) is determined generally by applying pre-determined percentages to actual sales less the basic rentals of the respective leases.

The Group as lessor

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	2,821	3,657	2,345
In the second to fifth years inclusive	3,517	1,520	480
Over five years	384	–	2,208
	<u>6,722</u>	<u>5,177</u>	<u>5,033</u>

Included above are the following lease arrangements with Jiashan Yisheng, a related party:

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Within one year	153	–	–
In the second to fifth years inclusive	614	–	–
Over five years	384	–	–
	<u>1,151</u>	<u>–</u>	<u>–</u>

The amounts represent rentals receivable by the Group for the leasing of unutilised factories and warehouses classified as investment properties. Leases are generally negotiated for initial terms ranging from a few months to two years.

During the year ended 31 December 2012, the ten-year lease entered into with Jiashan Yisheng were early terminated as agreed between both parties.

38. CAPITAL COMMITMENTS

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the Financial Information	<u>19,538</u>	<u>16,801</u>	<u>11,881</u>

39. PLEDGE OF ASSETS

	As at 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Prepaid lease payments	12,017	11,866	–
Property, plant and equipment	22,219	21,028	–
Pledged bank deposits	5,266	4,320	14,916
	<u>39,502</u>	<u>37,214</u>	<u>14,916</u>

40. RELATED PARTY DISCLOSURES

In addition to the transactions, balances and commitments disclosed elsewhere in the Financial Information, the Group had entered into the following related party transactions:

Name of related companies	Relationship	Nature of transactions	Year ended 31 December		
			2011	2012	2013
			HK\$'000	HK\$'000	HK\$'000
Dongguan Donglian (Note iii)	Note (i)	Rental expenses	4,705	4,808	7,268
Sinomax Europe GmbH	Note (i)	Sales of health and household products	4,845	4,133	4,443
Jiashan Yisheng	Note (ii)	Rental income	153	157	–
		Sales of foam	33,381	28,201	–
		Purchase of property, plant and equipment	–	7,986	–
Sinomax Polyurethane (Shanghai)	Note (ii)	Sales of foam	41,291	50,990	34,011
		Purchases of foam and chemicals	25,980	–	–
Shinuo Polyurethane (Shanghai)	Note (ii)	Sales of foam	48,759	45,223	17,233
		Purchases of foam and chemicals	3,676	–	–

Certain trademarks owned by related companies were used by the Group free of charge during the Track Record Period (Note iii).

Notes:

- (i) Fellow subsidiaries
- (ii) Companies controlled by the Individual Shareholders collectively
- (iii) These transactions constitute connected transactions pursuant to the Listing Rules and will continue after the Listing.

During the Track Record Period, certain subsidiaries of the Company, its shareholders (namely Mr. Lam, Mr. Lin Han Li, Mr. Cheung Fung, Jackson and Mr. Cheung), Sinomax Enterprises and its subsidiaries (namely Dongguan Donglian, DG polyurethane, Charmax Enterprises Limited, Onview Limited and People Achieve Group Limited), Sinomax Holding and Luen Tai (Group) Enterprises Limited (on which Mr. Lam has significant influence on this entity) had provided corporate guarantees to banks in respect of the Group's bank borrowings. Two properties owned by Mr. Lam and a family member of Mr. Cheung, respectively, were also pledged against banking facilities granted to the Group. The utilisation of such facilities by the Group amounted to HK\$154,073,000, HK\$137,608,000 and HK\$171,582,000 as at 31 December 2011, 2012 and 2013, respectively. In the opinion of the directors of the Company, the guarantees will be released prior to completion of the Listing.

Details of the guarantees provided by the Group to a bank in respect of the banking facilities granted to a related party, Charmax Enterprise Limited, are set out in note 36.

Compensation of key management personnel

The remuneration of directors and other member of key management during the Track Record Period was as follows:

	Year ended 31 December		
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
Salaries and allowances	6,072	7,635	9,732
Performance related incentive payments	257	949	298
Retirement benefit schemes contributions	317	98	134
	<u>6,646</u>	<u>8,682</u>	<u>10,164</u>

41. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at a rate of 5% specified in the rules, but subject to a cap. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. No forfeited contribution is available to reduce the contribution payable in future years.

(B) DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the Company by the Group during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ending 31 December 2014 is estimated to be approximately HK\$9.0 million.

(C) EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2013, the Company issued 34,918,000 share options to 140 eligible participants under the pre-IPO share option scheme, details are set out in Appendix IV to the Prospectus.

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 under the capitalisation issue on or around the listing date, details are set out in Appendix IV to the Prospectus.

(D) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies comprising the Group have been prepared in respect of any period subsequent to 31 December 2013.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report" set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013, as set out in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 as if it had taken place on 31 December 2013. This unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Global Offering been completed as of 31 December 2013 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	(Note 3)
Based on an Offer Price of HK\$1.06 per Share	540,271	143,726	683,997	HK\$0.41
Based on an Offer Price of HK\$1.43 per Share	540,271	197,283	737,554	HK\$0.45

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 has been extracted from the audited consolidated financial information in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.
- (2) Estimated net proceeds from the Global Offering are based on 150,000,000 new Shares to be issued under the Global Offering and the Offer Price of HK\$1.06 and HK\$1.43 per Offer Share, being the lower end and higher end of the indicated Offer Price range, after deducting underwriting commissions and other estimated expenses payable by the Group in connection with the Global Offering, other than those expenses which had been recognised in profit or loss

in the periods up to 31 December 2013, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is calculated based on the 1,650,000,000 Shares expected to be in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 31 December 2013, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate.
- (4) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2013.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Prospectus, in respect of the unaudited pro forma financial information of the Group.

Deloitte.
德勤

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INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**TO THE DIRECTORS OF SINOMAX GROUP LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sinomax Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets as at 31 December 2013 and related notes as set out in Section A of Appendix II to the prospectus issued by the Company dated 30 June 2014 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Section A of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 31 December 2013 as if the Global Offering had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2013 on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 June 2014

1 MEMORANDUM OF ASSOCIATION

The Memorandum of Association was conditionally adopted on 4 March 2014 and effective on the Listing Date and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection as referred to in the section headed "Appendix V – Documents delivered to the Registrar of Companies and available for inspection" in this Prospectus.

2 ARTICLES OF ASSOCIATION

The Articles of Association were conditionally adopted on 4 March 2014 and effective on the Listing Date and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The authorised share capital of the Company at the date of adoption of the Articles of Association is HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.1 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum of Association and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof is, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association of the Company expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association of the Company or the Companies Law expressly directed or required to be exercised

or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association of the Company and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association of the Company, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third-party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also

by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) ***Borrowing powers***

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) ***Proceedings of the Board***

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum of Association or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution – majority required

A “special resolution” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by notice of not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid

up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 June 2012 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the Articles of Association or by an ordinary resolution of the company. The Articles of Association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this Prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND THE SUBSIDIARIES OF OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 5 June 2012 with an authorised share capital of US\$50,000 divided into 50,000 shares of a nominal or par value of US\$1 each.

Our Company has established its principal place of business in Hong Kong at Units 2005-2007, Level 20, Tower 1, MegaBox Enterprise Square Five, 38 Wang Chiu Road, Kowloon Bay, Hong Kong. Our Company was registered on 8 August 2012 with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the predecessor of the Companies Ordinance as applied prior to 3 March 2014. CHEUNG Tung was appointed as the authorised representative of our Company for acceptance of service of process in Hong Kong.

As our Company was incorporated in the Cayman Islands, its operation is subject to the relevant laws and regulations of the Cayman Islands and its constitution which comprises the Memorandum and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix III to this Prospectus.

2. Changes in share capital of our Company***(a) Increase in authorised share capital***

On 5 June 2012, one share was allotted and issued, nil-paid, to Offshore Incorporations (Cayman) Limited and such nil-paid share was transferred to LAM Chi Fan. On the same day, the one issued nil-paid share held by LAM Chi Fan was credited as fully paid at par and a total of nine shares were allotted and issued, credited as fully-paid, as to two shares to LAM Chi Fan, two shares to LIN Han Li, two shares to CHEUNG Fung, Jackson, one share to CHEUNG Shui Ying, one share to CHEUNG Tung and one share to CHEN Feng, as more particularly described in the section headed "Our History and Reorganisation" in this Prospectus.

On 28 November 2013, our then sole Shareholder passed a written resolution pursuant to which the authorised share capital of our Company was increased by HK\$1,000,000,000 by the creation of 10,000,000,000 Shares of par value HK\$0.10 each. Subsequently on 11 December 2013, 50,000 Shares of a par value of HK\$0.10 each were issued and allotted to Sinomax Enterprises at par and credited as fully paid. Immediately after the issue and allotment of the 50,000 Shares to Sinomax Enterprises, our Company repurchased the 27 shares of par value US\$1.00 each then held by Sinomax Enterprises and the authorised share capital of our Company was reduced by the cancellation of all authorised shares with a par value of US\$1.00 each.

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of (i) the Over-allotment Option or (ii) the options granted pursuant to the Share Option Schemes), the authorised share capital of our Company will be HK\$1,000,000,000 divided into 10,000,000,000 Shares, of which 1,650,000,000 Shares will be issued fully paid or credited as fully paid, and 8,350,000,000 Shares will remain unissued. Other than pursuant to the exercise of (i) the Over-allotment Option or (ii) the options granted pursuant to the Share Option Schemes, our Company does not have any present intention to issue any of the authorised but unissued share capital and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this sub-paragraph and in sub-paragraph headed “A. Further information about our Company and the subsidiaries of our Group – 5. Changes in share capital or registered capital of the subsidiaries of our Company” in this Appendix, there has been no alteration to the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolution in writing of our Shareholders

By resolutions in writing of our Shareholders passed on 4 March 2014 and 23 June 2014:

- (a) our Company approved and conditionally adopted the Memorandum and the Articles to be effective on the Listing Date;
- (b) our Company approved and conditionally adopted the Post-IPO Share Option Scheme to be effective on the Listing Date;
- (c) conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus on the Hong Kong Stock Exchange and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions thereof) and not being terminated in accordance with the terms of such agreements or otherwise, in each case on or before the day falling 30 days after the date of this Prospectus:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the New Shares, on and subject to the terms and conditions stated in this Prospectus and relevant Application Forms;
 - (ii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to allot and issue a total of 1,499,950,000 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company at 4:00 p.m. on the date of this Prospectus (or as they may direct) in proportion to their then existing respective shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$149,995,000 standing to the credit of the share premium account of our Company, and the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation and distribution;
 - (iii) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend on Shares in accordance with the Articles or under the Global Offering or the Capitalisation Issue, unissued Shares in the capital of our Company with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; and (bb) the aggregate nominal amount of any

share capital of our Company purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (iv) below, and to make or grant offers, agreements and options which may require the exercise of such powers, until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors;

- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase on the Hong Kong Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Hong Kong Stock Exchange for this purpose Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the Global Offering and the Capitalisation Issue, until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors; and
- (v) the general unconditional mandate mentioned in sub-paragraph (iii) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted, issued or dealt with by our Directors pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the Shares in the capital of our Company purchased by our Company pursuant to or in accordance with the authority granted under sub-paragraph (iv) above.

4. Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation. Details of the Reorganisation are set out in the section headed “Our History and Reorganisation” in this Prospectus.

5. Changes in share capital or registered capital of the subsidiaries of our Company

The subsidiaries of our Group are listed in the Accountants’ Report set out in Appendix I to this Prospectus.

There has been no alteration in the share capital of any of the subsidiaries of our Company within two years immediately preceding the Latest Practicable Date.

6. Repurchase by our Company of our own securities

This paragraph includes information required by the Hong Kong Stock Exchange to be included in this Prospectus concerning the repurchase by our Group of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Main Board of the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by our Shareholders on 4 March 2014, the Repurchase Mandate was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the Global Offering and the Capitalisation Issue, until the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Main Board of the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time. Under the laws of the Cayman Islands, any repurchases of Shares by our Company may be made out of profits of our Company, out of the Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of our Company or, if authorised by the Articles and subject to the Companies Law, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands. On the basis of our current financial position as disclosed in this Prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this Prospectus.

However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates has any present intention to sell any Shares to our Company or any of its subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person of our Company has notified us that he/she/it has a present intention to sell his/her/its Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY**1. Material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the Latest Practicable Date and are or may be material:

- (a) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Year Prosper to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (b) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Sinomax Health to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (c) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Fullelite to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (d) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred 85% of the entire issued share capital of Trade Sincere to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (e) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Wonderful Health to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;

- (f) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Ascension to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (g) a sale and purchase agreement dated 30 June 2013 entered into between Sinomax Enterprises as seller, Treasure Range as purchaser, LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng collectively as warrantors, pursuant to which Sinomax Enterprises transferred the entire issued share capital of Sinomax Trading to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting one new share to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (h) a sale and purchase agreement dated 31 July 2013 entered into between LAM Chi Fan, LIN Han Li, CHEUNG Fung, Jackson, CHEUNG Shui Ying, CHEUNG Tung and CHEN Feng as sellers, Treasure Range as purchaser, pursuant to which the sellers transferred the entire issued share capital of Sinomax International Investment Limited to Treasure Range, and the consideration was settled by Treasure Range issuing and allotting 10 new shares to the Company. Details of the said sale and purchase agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (i) an agreement dated 5 September 2013 executed by the Company and Sinomax Enterprises pursuant to which, in consideration of the three shares issued and allotted to the Company by Treasure Range for the transactions contemplated in the agreements referred to sub-paragraphs (c), (d) and (f) above, the Company shall issue and allot three shares to Sinomax Enterprises. Details of the said agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (j) an agreement dated 5 September 2013 executed by the Company and Sinomax Enterprises pursuant to which, in consideration of the four shares issued and allotted to the Company by Treasure Range for the transactions contemplated in the agreements referred to sub-paragraphs (a), (b), (e) and (g) above, the Company shall issue and allot four shares to Sinomax Enterprises. Details of the said agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (k) an agreement dated 5 September 2013 executed between, inter alia, the Company and Sinomax Enterprises pursuant to which, in consideration of the 10 shares issued and allotted to the Company by Treasure Range for the transactions contemplated in the agreements referred to sub-paragraph (h) above, the Company shall issue and allot 10 shares to Sinomax Enterprises. Details of the said agreement are set out in the section headed “Our History and Reorganisation” in this Prospectus;
- (l) a deed of non-competition dated 8 May 2014 executed by our Controlling Shareholders and the existing directors of Sinomax Enterprises in favour of our Company (for itself and as trustee of other members of our Group), details of which are set out in the paragraph headed “Non-Competition Undertakings” in the section headed “Relationship with our Controlling Shareholders” in this Prospectus;

- (m) a deed of indemnity dated 11 March 2014 executed by our Controlling Shareholders in favour of our Company for itself and as trustee for the subsidiaries of our Company stated therein containing the indemnities more particularly referred to in sub-paragraph headed “Estate duty, tax and other indemnity” in the paragraph headed “F. Other information” of this Appendix; and
- (n) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks




(i) Registered trademarks owned by our Group

As at the Latest Practicable Date, our Group was the registered owner of the following trademarks which are material in relation to our business:

	Name of proprietor	Registration number	Class	Trademark	Place of registration	Duration of validity (Year. month. date)/Date of Registration
1	Sinomax Health	300542583	20, 24		Hong Kong	2005.12.06 to 2015.12.05
		300542574	10			2005.12.06 to 2015.12.05
2	Sinomax Health	T0709287H	24		Singapore	2007.04.30 to 2017.04.30
		T0709286Z	20			2007.04.30 to 2017.04.30
3	Sinomax Health	01327876	20, 24		Taiwan	2008.09.01 to 2018.08.31
4	Sinomax Health	300438336	18, 21, 25, 27, 28, 35, 41, 45		Hong Kong	2005.06.14 to 2015.06.13
		300472437	20, 24			2005.08.08 to 2015.08.07
5	Sinomax Health	1074258	20	 	Australia	2005.09.07 to 2015.09.07
6	Sinomax Health	4864384	20, 24		Japan	2005.05.13 to 2015.05.12
7	Sinomax Health	302496899	24		Hong Kong	2013.01.16 to 2023.01.15
8	Sinomax Health	300711774	20		Hong Kong	2006.08.31 to 2016.08.30

	Name of proprietor	Registration number	Class	Trademark	Place of registration	Duration of validity (Year. month. date)/Date of Registration
9	Sinomax Health	300434231	18, 20, 21, 24, 25, 27, 28, 35, 41, 45		Hong Kong	2005.06.07 to 2015.06.06
		300472446	35			2005.08.08 to 2015.08.07
10	Sinomax Health	302232152	1, 10, 20, 24, 28, 35		Hong Kong	2012.04.24 to 2022.04.23
11	Sinomax Health	300697168	20, 24		Hong Kong	2006.08.08 to 2016.08.07
12	Sinomax Health	301394532	20, 24		Hong Kong	2009.07.29 to 2019.07.28
13	Sinomax Health	300438345	18, 21, 25, 27, 28, 35, 41, 45		Hong Kong	2005.06.14 to 2015.06.13
		300472428	20, 24			2005.08.08 to 2015.08.07
14	Sinomax USA	4033769	20		US	2011.10.04
15	Sinomax USA	4250894	20		US	2012.11.27
16	Sinomax USA	3698004	20		US	2009.10.20
17	Sinomax USA	4411805	20		US	2013.10.01
18	Dongguan Sinohome	5148764	45		PRC	2009.08.28 to 2019.08.27
		5148765	41			2010.01.28 to 2020.01.27
19	Dongguan Sinohome	5148766	28		PRC	2009.07.07 to 2019.07.06
		5148767	27			2009.06.07 to 2019.06.06
		5148768	25			2009.12.21 to 2019.12.20
		5148769	24			2009.06.07 to 2019.06.06
		5148770	21			2009.08.07 to 2019.08.06
		5148771	20			2009.5.21 to 2019.05.20
5148772	18	2009.07.07 to 2019.07.06				





	Name of proprietor	Registration number	Class	Trademark	Place of registration	Duration of validity (Year. month. date)/Date of Registration
20	Dongguan Sinohome	5148773	10		PRC	2009.01.14 to 2019.01.13
21	Dongguan Sinohome	4805957	45		PRC	2009.04.07 to 2019.04.06
		4805958	41			2009.04.14 to 2019.04.13
		4805959	27			2009.03.07 to 2019.03.06
		4805960	25			2009.04.21 to 2019.04.20
		4805961	18			2009.04.14 to 2019.04.13
22	Dongguan Sinohome	400910848	20		Korea	2012.03.15 to 2022.03.15
23	Dongguan Sinohome	4805947	45		PRC	2009.02.28 to 2019.02.27
		4805948	41			2009.06.28 to 2019.06.27
		4805949	28			2009.04.21 to 2019.04.20
		4805950	27			2009.02.14 to 2019.02.13
		4805953	24			2009.02.14 to 2019.02.13
		4805954	21			2009.5.21 to 2019.05.20
		4805955	20			2008.12.28 to 2018.12.27
24	Dongguan Sinohome	4805956	18		PRC	2009.4.14 to 2019.4.13
		7767873	1			2010.12.28 to 2020.12.27
25	Dongguan Sinohome	5829070	22		PRC	2010.01.07 to 2020.01.06
		7678490	20			2010.12.07 to 2020.12.06
26	Dongguan Sinohome	7678496	24		PRC	2010.11.28 to 2020.11.27
		7737187	20			
27	Dongguan Sinohome	1553004	24		PRC	2011.04.14 to 2021.04.13
		10877745	24			2013.08.07 to 2023.08.06
		10878536	28			2013.08.07 to 2023.08.06
		10878580	35			2013.09.07 to 2023.09.06
		10877712	1		PRC	2013.10.07 to 2023.10.06

Name of proprietor	Registration number	Class	Trademark	Place of registration	Duration of validity (Year. month. date)/Date of Registration
28 Sinohome Shenzhen	10877723	10		PRC	2013.10.07 to 2023.10.06
	10877735	20		PRC	2013.12.28 to 2023.12.27
	10924928	21		PRC	2013.11.14 to 2023.11.13
29 Sinomax Macao	010170116	10		European Union	2011.12.14 to 2021.08.02
	010170165	20		European Union	2011.12.14 to 2021.08.02
	010170181	24		European Union	2011.12.14 to 2021.08.02
30 Sinomax Macao	1892009	20		India	2009.12.04 to 2019.12.04
	1892010	24		India	2009.12.04 to 2019.12.04

Notes: For details of the classification of goods for trademarks, see the paragraph “B. Further Information about the Business of our Company – 2. Intellectual property rights – (a) Trademarks – (iii) Classification of goods for trademarks”.

(ii) *Applications for registration of trademarks*

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks, the registration of which had not yet been granted:

Name of applicant	Trademark	Place of registration	Class	Trademark application number	Application date (year.month.date)
1 Sinomax Health		Hong Kong	20, 24, 35, 36	302732553	2013.09.10
2 Sinomax Health		Hong Kong	20, 24, 35, 36	302732535	2013.09.10
3 Dongguan Sinohome		PRC	24	11868374	2012.12.10
			20	11868332	2012.12.10
			10	11868309	2012.12.10
			1	11868276	2012.12.10
			35	11868252	2012.12.10
28	11868229	2012.12.10			
4 Sinohome Shenzhen		PRC	27	10925010	2012.05.16

Name of applicant	Trademark	Place of registration	Class	Trademark application number	Application date (year.month.date)
5 Sinomax USA		USA	20	85932367	2013.05.15

Note: For details of the classification of goods for trademarks, see the paragraph “B. Further Information about the Business of our Company – 2. Intellectual property rights – (a) Trademarks – (iii) Classification of goods for trademarks”.

(iii) Classification of goods for trademarks

The table below sets out the classification of goods for trademarks (the detailed classification in relation to the relevant trademarks depends on what is set out in the relevant trademark certificate and may differ from the list below):

<u>Class Number</u>	<u>Goods</u>
1	Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.
10	Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.
18	Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas and parasols; walking sticks; whips, harness and saddlery.
20	Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.
21	Household or kitchen utensils and containers; combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steelwool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.
22	Ropes, string, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.

<u>Class Number</u>	<u>Goods</u>
24	Textiles and textile goods, not included in other classes; bed covers; table covers.
25	Clothing, footwear, headgear.
27	Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).
28	Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.
35	Advertising; business management; business administration; office functions.
36	Insurance; financial affairs; monetary affairs; real estate affairs.
41	Education; providing of training; entertainment; sporting and cultural activities.
45	Legal services; security services for the protection of property and individuals; personal and social services rendered by others to meet the needs of individuals.

(iv) *Licensed trademarks, intellectual property, etc.*

The Group has been granted licences to use the following trademarks, logos, brands or other intellectual property:

- Pursuant to a trademark licensing agreement entered into between Sinomax Macao and Dongguan Donglian dated 2 December 2013, Sinomax Macao was granted an exclusive licence to use the trademark “**SINOMAX** (registration number 162196)” registered in the Vietnam, at nil consideration for a term of three years from the date of the trademark licensing agreement subject to automatic early termination on the date when the transfer of the licensed trademark to Sinomax Macao is completed and Sinomax Macao is registered as the owner of the licensed trademark.
- Pursuant to the licence agreement entered into between Sharper Image Acquisition, LLC and Sinomax USA dated 11 July 2011 (as amended by the amendment to licence agreement dated 26 July 2012 and the second amendment to licence agreement dated 31 May 2013 (*note*)), Sinomax USA has been granted the non-exclusive licence to use the trademark “THE SHARPER IMAGE” within the US and Canada from 11 July 2011 to 31 December 2016 in connection with the manufacturing, sales, distribution and promotion of certain products.

Note: The trademark “THE SHARPER IMAGE” was assigned to Icon NY Holdings LLC by Sharper Image Acquisition, LLC and therefore the second amendment to licence agreement dated 31 May 2013 was entered into by Icon NY Holdings LLC and Sinomax USA.

- Pursuant to the licence agreement entered into between Joan Lunden Productions, Inc. who is an independent third party and Sinomax USA dated 6 March 2013, Sinomax USA has been granted the non-exclusive licence to use the trademark of Awaken by Joan Lunden within the US and Canada for a term of 18 months after the date the first order for sale of the products using the licensed trademark is placed by a customer, renewable for an additional one year, in connection with the manufacture, distribution and sale of certain products.
- Pursuant to the licence agreement entered into between a licensor, who is an independent third party, and Dongguan Sinohome dated 26 June 2013, Dongguan Sinohome has been granted the non-exclusive licence to use the artistic designs and/or the name of an animated cartoon character within the PRC from 1 June 2013 to 30 May 2015 in connection with the manufacturing, sales, distribution of certain products.
- Pursuant to the sub-licence agreement entered into between a sub-licensor, who is an independent third party, and Sinomax Health dated 1 December 2012, Sinomax Health has been granted the non-exclusive licence to use the artistic designs and/or the name of an animated cartoon character within Hong Kong and Macau from 1 December 2012 to 28 February 2015 in connection with the manufacturing, sales, distribution of certain products.
- Pursuant to the licence agreement entered into between FKA Distributing Co., LLC and Sinomax USA dated 5 June 2013, Sinomax USA has been granted the non-exclusive licence to use the trademark “HoMedics” within the US from 15 June 2013 to 31 December 2015, renewable for an additional one year, in connection with the manufacture, distribution and sale of certain products.

(b) Patents

Registered patents owned by our Group

As at the Latest Practicable Date, our Group was the registered owner of the following patents which are material in relation to our business:

	<u>Name of proprietor</u>	<u>Title of patent</u>	<u>Place of registration</u>	<u>Type of patent</u>	<u>Patent number</u>	<u>Duration of Validity (year.month.date)</u>
1	Sinomax Macao	Running Pad (跑步墊)	PRC	Utility Model Patent	ZL201220313504.5	2012.07.02 to 2022.07.02
2	Sinomax Macao	A vacuum suction device for moving soft foam materials (用於軟質泡沫材料搬遷的真空吸吊裝置)	PRC	Utility Model Patent	ZL201020165561.4	2010.04.20 to 2020.04.20
3	Sinomax Macao	A water absorbing non-slippery mat used of bath room door (用於浴室門口的吸水防滑墊)	PRC	Utility Model Patent	ZL201020184147.8	2010.05.06 to 2020.05.06

	Name of proprietor	Title of patent	Place of registration	Type of patent	Patent number	Duration of Validity (year.month.date)
4	Sinomax Macao	Gel Pad (凝膠墊體)	PRC	Utility Model Patent	ZL201220313490.7	2012.07.02 to 2022.07.02
5	Sinomax Macao	A Type of Elastic Magic Box Pillow (一種彈性體魔方枕墊)	PRC	Utility Model Patent	ZL200820045105.9	2008.03.18 to 2018.03.18
6	Sinomax Macao	A Type of Height Adjustable Pillow (一種可調節高度的枕墊)	PRC	Utility Model Patent	ZL200920008233.0	2009.03.27 to 2019.03.27
7	Sinomax Macao	Pillow (枕墊)	PRC	Utility Model Patent	ZL200520058914.X	2005.05.31 to 2015.05.31
8	Sinomax Macao	Pillow with Neck Supporting Function (具有護頸功能的枕頭)	PRC	Utility Model Patent	ZL201020238873.3	2010.06.25 to 2020.06.25
9	Sinomax Macao	Pillow with Neck and Shoulder Supporting Function (具有護肩和護頸功能的枕頭)	PRC	Utility Model Patent	ZL201020238875.2	2010.06.25 to 2020.06.25
10	Sinomax Macao	Magic Box Combination Mattress (魔方組合床墊)	PRC	Utility Model Patent	ZL200520061052.6	2005.07.11 to 2015.07.11
11	Sinomax Macao	Foam Pad (海綿墊)	PRC	Utility Model Patent	ZL200720121703.5	2007.07.20 to 2017.07.20
12	Sinomax Macao	Foam Spring and Elastic Pad Applying Such Foam Spring (海綿彈簧及使用該海綿彈簧的彈性墊)	PRC	Utility Model Patent	ZL200920194528.1	2009.09.11 to 2019.09.11
13	Sinomax Macao	A Type of Pillow Core (一種枕墊芯)	PRC	Utility Model Patent	ZL200620065724.5	2006.10.17 to 2016.10.17
14	Sinomax Macao	Inflatable Pillow (充氣枕)	PRC	Utility Model Patent	ZL200920296049.0	2009.12.31 to 2019.12.31
15	Sinomax Macao	Pillow (Height Adjustable) (枕墊(可調節高度))	PRC	Design Patent	ZL200930181037.9	2009.03.27 to 2019.03.27
16	Sinomax Macao	Mattress (Square Shape) (床墊(方格形))	PRC	Design Patent	ZL200930071073.X	2009.03.23 to 2019.03.23
17	Sinomax Macao	A Type of Shredded Foam Mattress (一種碎棉床墊)	PRC	Utility Model Patent	ZL201320014445.6	2013.01.11 to 2023.01.11

	Name of proprietor	Title of patent	Place of registration	Type of patent	Patent number	Duration of Validity (year.month.date)
18	Sinomax Macao	A Type of Air Sac Intelligence Pillow (一種氣囊智能枕)	PRC	Utility Model Patent	ZL201320014446.0	2013.01.11 to 2023.01.11
19	Sinomax Zhejiang	Device for High Efficiency Storage and Transportation for Compressed Goods (可壓縮貨物高效儲運裝置)	PRC	Utility Model Patent	ZL201220341350.0	2012.07.16 to 2022.07.16

(c) Domain names

As at the Latest Practicable Date, our Group had registered the following domain name which has been currently used by us:

	Domain name	Registered owner	Place of registration	Registration date	Expiry date
1	www.sinomax.com.hk	Our Company	Hong Kong	2000.03.06	2018.07.30
2	www.sinomax-usa.com	Sinomax USA	US	2000.03.10	2021.03.10
3	www.sinomaxlife.com	Sinohome Shenzhen	PRC	2012.07.27	2022.07.27
4	www.sinomax.com.cn	Dongguan Sinohome	PRC	2003.05.19	2015.06.19
5	www.sinomax.com	Our Company	US	2003.01.28	2018.01.28

Save as aforesaid, there are no other trade or service marks, patents, other intellectual property rights which are material in relation to our business.

3. Our property interests

(a) Owned property

As at the Latest Practicable Date, the Group had the following owned properties with the details set out below:

No.	Address and description of location	Owner	Use	Restriction on use	Approximate area (sq.m.)	Book value as at 31 December 2013 (RMB)
1	68 Nanxing Road, Weitang Street, Jiashan County, Jiaxing City, Zhejiang Province, China (中國浙江省嘉興市嘉善縣魏塘街道南星路68號)	Sinomax Zhejiang	Factories, offices, employees' dormitories	Industrial	277,057.60	116,175,293

(b) Leased property

As at the Latest Practicable Date, the Group had the following leased properties with the details set out below:

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
1	No.1 Dajieling Road, Shahu Village, TangXia Town, Dongguan, Guangdong Province, China (中國廣東省東莞市塘廈鎮沙湖村大結嶺路一號)	Dongguan Donglian	Dongguan Sinohome	Factories, employees' dormitories	63,220.08 sq.m.	2 December 2013 to 31 December 2015
2	No. 99, QiChao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, China (中國浙江省海寧農業對外綜合開發區啟潮路99號)	Zhejiang Puruimei Industry Co., Ltd.* (浙江普瑞美實業有限公司)	Sinomax Kuka	Factories, warehouses, office, employees' dormitories	18,863 sq.m. (Additional site area 7,000 sq.m.)	1 January 2014 to 31 December 2015
3	Office No. 101-105, Block 1, No. 99, Qi Chao Road, Haining Agriculture Foreign Integrated Development Area, Zhejiang, China (中國浙江省海寧農業對外綜合開發區啟潮路99號1幢101-105號辦公室)	Zhejiang Puruimei Industry Co., Ltd.* (浙江普瑞美實業有限公司)	Haining Sinomax	Office	100 sq.m.	25 December 2012 to 25 December 2014
4	First and Second Floor, Factory No. 2, YuWan HeAn Copper Company Limited, 58 FuGang Road, Bingang Industrial City, China (中國濱港工業城富港路58號玉環和安銅業有限公司2號廠房一、二兩層)	Independent third party	Sinomax Zhejiang	Warehouse	3,000 sq.m.	5 April 2014 to 4 April 2016
5	2608-2613 QiuShi Building East, ShenNanZhong Road, FuTien Area, Shenzhen City, Guangdong Province, China (中國廣東省深圳市福田區深南中路求是大廈東座2608-2613)	Independent third party	Sinohome Shenzhen	Office	348.47 sq.m.	10 May 2014 to 9 May 2016

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
6	First Floor Plant, No. 3 HengSheng Industrial Park, No. 2 Xihua Road, NanPuXiYi Village, LuoPu Street, PanYu District, Guangzhou City, Guangdong Province, China (中國廣東省廣州市 番禺區洛浦街南浦 西一村西華路2號 恒盛工業園3號首層廠房)	Independent third party	Sinohome Shenzhen	Warehouse	1,200.00 sq.m.	17 March 2013 to 16 March 2016
7	Industrial Site, No. 53 BanJieTa Village, DongBaXiang, ZhaoYang District, Beijing City, China (中國北京市朝陽區 東壩鄉半截塔村53號 工業用地)	Independent third party	Sinohome Shenzhen	Warehouse	635.00 sq.m.	1 January 2013 to 31 December 2014
8	Room 06F, 6/F, Block B, No. 3 ShiLiBao A, ZhaoYang District, Beijing City, China (中國北京市朝陽區 十里堡甲3號B座6層06F)	Independent third party	Sinohome Shenzhen	Office	122.04 sq.m.	25 April 2013 to 24 April 2015
9	22-7B, No. 50-13 YuBei Road, ShaPingBa Area, Chongqing City, China (中國重慶市沙坪壩區 渝碕路50號 附13號22-7B)	Independent third party	Sinohome Shenzhen	Office	145.00 sq.m.	9 May 2014 to 10 May 2015
10	Room 301, Level 3, Unit 1, Block 30, ChangQing Garden 14th District, WuHan City, Hubei Province, China (中國湖北省武漢市 常青花園十四小區 30棟1單元3層301室)	Independent third party	Sinohome Shenzhen	Employee's dormitories	125.02 sq.m.	1 January 2014 to 31 December 2014
11	Room 411, No. 8-3, HuiYuanXin Village, HunNanZhong Road, HunNanXin District, Shenyang City, Liaoning Province, China (中國遼寧省瀋陽市 渾南新區渾南中路 慧緣馨村8-3號411室)	Independent third party	Sinohome Shenzhen	Warehouse	170.00 sq.m.	3 August 2013 to 2 August 2014

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
12	Room 1-6-1, Block 8-4, HuiYuanXin Village, HunNanZhong Road, HunNanXin District, Shenyang City, Liaoning Province, China (中國遼寧省瀋陽市 渾南新區渾南中路 慧緣馨村8-4號1-6-1室)	Independent third party	Sinohome Shenzhen	Employee's dormitory	188.37 sq.m.	10 August 2013 to 9 August 2015
13	Room 1405, 198 ZhongShanBei Road, Shanghai City, China (中國上海市中山北路 198號1405室)	Independent third party	Sinohome Shenzhen Shanghai Branch Office	Office	178.00 sq.m.	1 September 2012 to 31 August 2014
14	Unit 616, 2158 WanYuan Road, MinXing District, Shanghai City, China (中國上海市閔行區萬源路 2158號616單元)	Independent third party	Sinohome Shenzhen	Office	197.62 sq.m.	25 September 2012 to 24 September 2014
15	Room 704, Block 10, JinDi Garden East, 1 Shao LingDong Road, WuHou District, Chengdu City, Sichuan Province, China (中國四川省成都市武侯區 少陵東路1號金地花園 東區10棟704室)	Independent third party	Sinohome Shenzhen	Office	133.84 sq.m.	1 May 2014 to 30 April 2015
16	Room 1407, 615 TianHeBei Road, TianHe District, Guangzhou City, Guangdong Province, China (中國廣東省廣州市天河區 天河北路615號1407房)	Independent third party	Sinohome Shenzhen	Office	150.563 sq.m.	20 May 2014 to 19 May 2017
17	Room 503, 289 WuShan Road, TianHe District, Guangzhou City, Guangdong Province, China (中國廣東省廣州市天河區 五山路289號503房)	Independent third party	Sinohome Shenzhen	Employee's dormitories	95 sq.m.	1 May 2014 to 30 April 2016
18	40101#, WuYiJinYuan, YiZhongBei Road, LianHu Area, Xian City, China (中國西安市蓮湖區一中北 路五一錦苑40101#)	Independent third party	Sinohome Shenzhen	Employee's dormitories	157.06 sq.m.	1 May 2014 to 30 April 2015

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
19	No. 101, 1st Floor, Unit 2, Block 3, 99 DongPoBei Third Road, QingYang District, Chengdu City, China (中國成都市青羊區東坡北 三路99號3棟2單元1層 101號)	Independent third party	Sinohome Shenzhen	Warehouse	126.06 sq.m.	10 July 2013 to 9 July 2014
20	Shop B1C-086B, Futian Galaxy COCO Park, Mintian Road East, Fuhua Third Road North, Futian District, Shenzhen City, China (中國深圳市福田區 民田路東福華三路北 星河蘇活購物公園 B1C-086B號商舖)	Independent third party	Sinohome Shenzhen	Retail	120 sq.m.	15 October 2013 to 14 September 2015
21	Shop L3S-016, 4th Floor, Longgang Galaxy COCO Park, 666 AiNan Road, AiLian Community, LongCheng Street, Longgang District, Shenzhen City, China (中國深圳市龍崗區 龍城街道愛聯社區 愛南路666號星河 COCO Park四樓 L3S-016號商舖)	Independent third party	Sinohome Shenzhen	Retail	87.74 sq.m.	20 October 2013 to 10 October 2015
22	Shop 316, 3rd Floor, 8 HuangShaDa Road, Li Wan District, Guangzhou City, China (中國廣州市荔灣區 黃沙大道8號第三層 316號商舖)	Independent third party	Sinohome Shenzhen	Retail	125 sq.m.	8 July 2013 to 7 July 2016
23	Shop 418, 4th Floor, Happy Valley Mall, 36 MaChang Road, Tianhe District, Guangzhou City, China (中國廣州市天河區馬場路 36號太陽新天地購物中心 四層418號商舖)	Independent third party	Sinohome Shenzhen	Retail	166 sq.m.	30 September 2013 to 29 September 2015
24	Shop L422, 4th Floor, Haiya Colourful City, Baomin Road, Baocheng Wuqu, Baoan District, Shenzhen City, China 中國深圳市寶安區寶城5區 寶民路海雅繽紛城商業中心 之肆樓邊櫃L422商舖	Independent third party	Sinohome Shenzhen	Retail	93.4 sq.m.	31 October 2013 to 31 October 2015

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
25	Shop Unit 115, Paradise Mall, 100 Shing Tai Street, Heng Fa Chuen, Chai Wan, Hong Kong	Independent third party	Sinomax Health	Retail	349.00 sq.ft.	15 September 2013 to 14 September 2016
26	Shop no. 2100 on Level 2 of Sheung Shui Centre, No.3 Chi Cheong Road, Sheung Shui, New Territories, Hong Kong	Independent third party	Sinomax Health	Retail	1,047 sq.ft.	7 October 2013 to 6 October 2016
27	Shop no. 245 on Level 2 of 138 Shatin Rural Committee Road, Shatin, New Territories, Hong Kong	Independent third party	Sinomax Health	Retail	718.00 sq.ft.	19 March 2014 to 18 March 2016
28	Shop Nos. 338 & 339, Third Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	540.00 sq.ft.	10 July 2012 to 9 July 2014
29	Units 5 & 6 on Level 3 of Megabox, Enterprise Square Five erected on The Remaining Portion of New Kowloon Inland Lot No. 5927, Hong Kong	Independent third party	Sinomax Health	Retail	1,050.00 sq.ft.	10 July 2012 to 9 July 2015
30	Shop No. 128A on the First Floor of Mikiki, 638 Prince Edward Road East, San Po Kong, NKIL 6308, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	451.00 sq.ft.	31 August 2011 to 30 August 2014
31	Shop No. 115 on the First Floor, Olympian City Two, Olympian City, Kowloon Inland Lot No. 11090, Hong Kong	Independent third party	Sinomax Health	Retail	376.00 sq.ft.	6 April 2013 to 5 April 2015
32	Shop Unit 524, Level 5, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	249.00 sq.ft.	1 June 2013 to 31 May 2016
33	Shop Unit 508 Level 5, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	675.00 sq.ft.	1 May 2013 to 30 April 2016
34	2nd Floor, International Industrial Building, No. 175 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong	Independent third party	Sinomax Health	Industrial	20,000 sq.ft.	2 May 2013 to 1 May 2015

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
35	Units 2005-2007 on Level 20 of Megabox Tower 1, Enterprise Square Five erected on The Remaining Portion of New Kowloon Inland Lot No. 5927, Hong Kong	Independent third party	Sinomax Health	Office	8,003.00 sq.ft.	18 February 2014 to 17 February 2016
36	Unit 19 on First Floor of Lions Rise Mall, No. 8 Muk Lun Street, Wong Tai Sin, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	581 sq.ft.	2 July 2013 to 1 July 2016
37	Shop Nos.1201-02 on the 12th Floor, Windsor House, 311 Gloucester Road, Causeway Bay, Hong Kong	Independent third party	Sinomax Health	Retail	3,345 sq.ft.	2 December 2013 to 1 December 2016
38	Shop L707 on Level 7 of The ONE, 100 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong	Independent third party	Sinomax Health	Retail	2,476 sq.ft.	2 December 2013 to 1 December 2016
39	Shop No. 221 on the 2nd Floor, Windsor House, 311 Gloucester Road, Causeway Bay, Hong Kong	Independent third party	Sinomax Health	Retail	999 sq.ft.	5 May 2014 to 4 May 2017
40	Workshop 1C, 1/F, Wah Hung Centre, No. 41 Hung To Road, Kwun Tong, Kowloon, Hong Kong	Independent third party	Sinomax Health	Warehouse	2,771 sq.ft.	12 May 2014 to 11 May 2016
41	Shop No. G12 on the Ground Floor, Provident Square, 21-53 Wharf Road, North Point, Hong Kong	Independent third party	Sinomax Health	Retail	800 sq.ft.	9 June 2014 to 8 June 2017
42	13H, Macau Plaza, 43-53A Avenida do Infante D. Henrique, Macau (澳門殷皇子大馬路43-53A號澳門廣場13樓H室)	Independent third party	Sinomax Macao	Office	83.45 sq.m.	1 December 2011 to 30 November 2014
43	Suite 100, 2901 Wilcrest, Houston, Texas 77042, USA (relocated from 210 2901 Wilcrest, Houston, Texas 77042)	Independent third party	Sinomax USA	Office	6,698.00 sq.ft.	1 April 2007 to 31 October 2016 (relocation date: 1 August 2011)
44	Sugar Land Corporate Centre #2, 1631 Gillingham Lane, Suite 200, Sugar Land, TX 77478, USA	Independent third party	Sinomax USA	Warehouse	35,100 sq.ft.	1 August 2011 to 31 July 2014
45	Bays 8 and 9, 7/F room 709, Textile Building, 295 fifth avenue, Manhattan, New York, USA	Independent third party	Sinomax USA	Office and showroom	3,880.00 sq.ft.	1 December 2009 to 31 May 2015
46	1205 S.E. 8th Suite #1, Bentonville, Arkansas 72712, USA	Independent third party	Sinomax USA	Office	3,225.00 sq.ft.	1 September 2011 to 30 September 2015

No.	Address and description of location	Owner	Tenant	Use	Leased area/ gross floor area	Term of lease
47	1601 Gillingham Lane, Sugar Land, Fort Bend, Texas, TX 77479, USA	Independent third party	Sinomax USA	Warehouse	30,000.00 sq.ft.	15 April 2013 to 14 July 2014
48	Suite 200, 2725 S. Highway 360, Grand Prairie, Texas, USA	Independent third party	Sinomax USA	Warehouse	55,000 sq.ft.	10 December 2013 to 30 June 2015

4. Connected transactions and related party transactions

Save as disclosed in this Prospectus and in Note 40 Related Party Disclosure of the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, during the two years immediately preceding the Latest Practicable Date, our Company did not engage in any other material connected transactions or related party transactions.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interests of Directors

- (i) LAM Chi Fan, CHEUNG Tung, CHEN Feng and LAM Fei Man are interested in the Reorganisation; and
- (ii) save as disclosed in this Prospectus, none of our Directors or their respective associates was engaged in any dealings with our Group during the two years preceding the Latest Practicable date.

(b) Particulars of Directors' service agreements

(i) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company pursuant to which he/she agreed to act as an executive Director for a fixed term of three years with effect from the Listing Date.

Each of these executive Directors is entitled to a basic salary as set out below. In addition, each of our executive Directors is also entitled to a discretionary management bonus to be decided by our Board and approved by the remuneration committee of our Company. A Director may not vote on any resolution of the Board and the remuneration committee regarding the amount of the management bonus payable to him. The basic annual salaries of our executive Directors will be as follows:

Name	Annual Salary (HK\$)
LAM Chi Fan	1,860,000
CHEUNG Tung	1,925,000
CHEN Feng	2,172,000
LAM Kam Cheung	1,430,000
LAM Fei Man	1,023,750

(ii) *Independent non-executive Director*

Each of our independent non-executive Directors has been appointed for a fixed term of three years commencing from the Listing Date. Each of the independent non-executive Directors is entitled to an annual director's fee of HK\$240,000. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration, for holding their office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with our Company or any of the subsidiaries of our Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) *Remuneration of Directors*

- (i) The aggregate remuneration paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended 31 December 2013 were approximately HK\$5,975,000.
- (ii) Under the arrangements currently in force, the aggregate remuneration paid and benefits in kind granted (excluding the discretionary bonus) payable by our Group to our Directors (including our independent non-executive Directors (in their respective capacity as directors)) for the year ending 31 December 2014, are expected to be approximately HK\$8.4 million for our executive Directors and approximately HK\$0.6 million for our independent non-executive Directors.
- (iii) None of our Directors or any past directors of any members of our Group has been paid any sum of money for each of the three years ended 31 December 2013 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any members of our Group.
- (iv) There has been no arrangement under which a Director waived or agreed to waive any emoluments for each of the three years ended 31 December 2013.

(d) *Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Share which may be issued or allotted pursuant to the exercise of (i) the Over-allotment Option or (ii) the options granted pursuant to the Share Option Schemes), the interests or short positions of our Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to notify our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Long Positions

The Company

<u>Name of Director</u>	<u>Capacity/nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of interest</u>
LAM Chi Fan (Note 1)	Beneficiary of The Frankie Trust	900,000,000 Ordinary Shares	54.55%
LAM Chi Fan	Personal interest	6,650,000 Ordinary Shares	0.40%
LAM Chi Fan	Interest of Spouse (Note 2)	100,000 Ordinary Shares	0.01%
CHEUNG Tung	Personal interest	6,376,200 Ordinary Shares	0.39%
CHEN Feng	Personal interest	3,050,000 Ordinary Shares	0.18%
LAM Kam Cheung	Personal interest	2,000,000 Ordinary Shares	0.12%
LAM Fei Man	Personal interest	2,150,000 Ordinary Shares	0.13%

Associated corporation – Sinomax Enterprises

Name of Director	Capacity/nature of Interest	Number and class of securities	Approximate percentage of interest
LAM Chi Fan	Beneficiary of The Frankie Trust	15 Ordinary shares	50%
CHEUNG Tung	Beneficiary of The Cheung's Family Trust	5 Ordinary shares	16.67%
CHEN Feng	Beneficiary of The Feng Chen's Family Trust	5 Ordinary shares	16.67%

Notes:

1. 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 acting as the trustee. The beneficiaries of The Frankie Trust are LAM Chi Fan and his family members.
2. These Shares belong to LI Ching Hau, the spouse of LAM Chi Fan, pursuant to the options granted to her under the Pre-IPO Share Option Scheme.

2. Interests and/or short positions discloseable under Divisions 2 and 3 of Part XV of the SFO and Substantial Shareholder

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Share which may be issued or allotted pursuant to the exercise of (i) the Over-allotment Option or (ii) the options granted or may be granted pursuant to the Share Option Schemes), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations" above, the persons who will have an interest or short position in the shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group will be as follows:

*Long Positions***The Company**

Name of Substantial Shareholder	Capacity/nature of interest	Number and class of securities	Approximate percentage of interest
Sinomax Enterprises (Note 1)	Beneficial interest	900,000,000 Ordinary Shares	54.55%
Chi Fan Holding Limited (Note 2)	Interest of a controlled corporation	900,000,000 Ordinary Shares	54.55%

<u>Name of Substantial Shareholder</u>	<u>Capacity/nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of interest</u>
Orangefield (Note 3)	Trustee of various trusts	900,000,000 Ordinary Shares	54.55%

Other member of our Group

<u>Name of Substantial Shareholder</u>	<u>Member of our Group</u>	<u>Capacity/nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of interest</u>
QIAN Hong Xiang	Trade Sincere	Beneficial interest	15 Ordinary shares	15%
Gu Jia Household	Sinomax Kuka	Beneficial interest	N/A	40%

Notes:

- (1) 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 by The Frankie Trust, The Cheung's Family Trust, The James' Family Trust and The Feng Chen's Family Trust, respectively.
- (2) These Shares belong to Sinomax Enterprises, which is legally owned as to 50% by Chi Fan Holding Limited.
- (3) 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.

3. Directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO

Each of LAM Chi Fan, CHEN Feng and CHEUNG Tung is a director of Sinomax Enterprises, and LAM Chi Fan is a director of Chi Fan Holding Limited, both being companies which had an interest in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 Part XV of the SFO immediately following completion of the Global Offering and the Capitalisation Issue.

4. Disclaimers

Save as disclosed in this Prospectus:

- (a) our Directors are not aware of any person (not being a Director or the chief executive of our Company) who will, immediately after completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Global Offering or upon the exercise of and any interests under the Stock Borrowing Agreement), have an interest or a short position in shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;

- (b) none of our Directors or the chief executive of our Company has any interest or short position in any of the shares, underlying shares or debentures of our Company or any of its associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case, immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of any interests under the Stock Borrowing Agreement);
- (c) none of our Directors nor any of the parties listed in the sub-paragraph headed “7. Qualifications of experts” in the paragraph headed “F. Other information” of this Appendix was interested in the promotion of, or had any direct or indirect interest in any assets which have been, within the two years immediately preceding the Latest Practicable Date, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group;
- (d) none of our Directors nor any of the parties listed in the sub-paragraph headed “7. Qualifications of experts” in the paragraph headed “F. Other information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to business of our Group;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the sub-paragraph headed “7. Qualifications of experts” in the paragraph headed “F. Other information” in this Appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors, their respective associates, or Shareholders who are interested in more than 5% of the issued capital of our Company has any interest in our Company’s five largest customers and five largest suppliers during the Track Record Period;
- (g) none of our Directors is interested in any business apart from the business of our Group, which competes or is likely to compete, either directly or indirectly, with our Group’s business; and
- (h) each of our Directors confirms with respect to himself/herself that: save as disclosed in this Prospectus, (i) he/she has not held any directorship in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of our Company; (iii) he/she does not hold any positions in our Company or other members of our Group; (iv) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(a) to 13.51(2)(v) of the Listing Rules; and (v) there are no other matters that need to be brought to the attention of our Shareholders in connection with each of our Directors.

D. PRE-IPO SHARE OPTION SCHEME**1. Summary of Terms**

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme which was adopted by the sole Shareholder's resolutions dated 13 December 2013.

(a) Purpose

The Pre-IPO Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in (b) below) have or may have made to the Company. The Pre-IPO Share Option Scheme will provide the Eligible Participants with an opportunity to have a personal stake in the Company with a view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Company; and
- (ii) track and retain or otherwise maintain relationships with the Eligible Participants (as defined in paragraph (b) below) whose contributions are or will be beneficial to the long-term growth of the Company.

(b) Who may join

The eligible participants (collectively the "**Eligible Participants**") under the Pre-IPO Share Option Scheme 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 the Subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of the Subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Outstanding number of Shares

On 13 December 2013, we granted options to subscribe for an aggregate of 34,918,000 Shares to 140 grantees under the Pre-IPO Share Option Scheme. Prior to the Latest Practicable Date, 11 out of the 140 grantees, who have been granted share options to subscribe for an aggregate of 270,000 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 the Latest Practicable Date was 34,648,000, being held by 129 Eligible Participants. The outstanding Shares subject to the Pre-IPO Share Option Scheme represent approximately 2.10% of the issued share capital of the Company immediately upon completion of the Global Offering and the Capitalisation Issue, but excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option or the options granted or to be granted under the Pre-IPO Share Option Scheme or the other schemes and represent approximately 2.06% of the issued share capital of the Company immediately upon completion of the Global Offering and the Capitalisation Issue, and including any Shares which may fall to be issued upon the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the other schemes, but excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option.

(d) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be a price representing 30% discount to the Offer Price.

(e) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third-party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Pre-IPO Share Option Scheme may be registered).

(f) Time of exercise of Option and duration of the Pre-IPO Share Option Scheme

The options granted to each grantee under the Pre-IPO Share Option Scheme shall be vested equally in five tranches commencing on the Listing Date and on each of the first, second, third and fourth anniversary of the Listing Date. The grantees to whom an option has been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the option any time after the option has been vested but in any event on or before the date falling on the fifth anniversary of the Listing Date. An Eligible Participant to whom any option is granted is not required to achieve any performance target before any exercise of his/her option.

The Pre-IPO Share Option Scheme will expire on the Listing Date and will cease to have effect after the Listing Date.

The Options granted under the Pre-IPO Share Option Scheme are not transferable and options not exercised within the exercise period will lapse and cease to be of further effect.

(g) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof on the register of members of the Company. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the fully-paid Shares in issue on the date of exercise, save that they will not rank for any rights attaching to Shares by reference to a record date falling on or before the date of allotment.

(h) Effect of alterations to capital

In the event of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the maximum number of Shares in respect of which options under the Pre-IPO Share Option Scheme together with options under other schemes may be granted as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Hong Kong Stock Exchange dated 5 September 2005 to all issuers relating to pre-IPO share option schemes (the “**Supplemental Guidance**”). Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplemental Guidance) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Hong Kong Stock Exchange from time to time.

(i) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any periods as in more details provided for under the Pre-IPO Share Option Scheme in relation to option holders ceasing to be Eligible Participants, a general offer being made to Shareholders, a compromise or arrangement between the Company and its Shareholders and/or creditors, or a voluntary winding-up;
- (iii) the date on which the scheme of arrangement of the Company becomes effective;
- (iv) the date of commencement of the winding-up of the Company in accordance with the Companies Law;

- (v) the date on which the grantee ceases to be an Eligible Participant by reason of termination of his relationship with our Company on grounds set out in the Pre-IPO Share Option Scheme in more details. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated shall be conclusive; or
- (vi) the date on which the Board shall exercise the Company's right to cancel the option in accordance with paragraph (l) below.

(j) Alteration of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to the terms and conditions of the Pre-IPO Share Option Scheme or any change to the terms of options granted, which shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Pre-IPO Share Option Scheme.

(k) Cancellation of options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(l) Termination of the Pre-IPO Share Option Scheme

We may by resolution in general meeting or the Board at any time terminate the Pre-IPO Share Option Scheme and in such event no further option shall be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(m) Administration of the Board

The Pre-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(n) Disclosure in annual and interim reports

We will disclose details of the Pre-IPO Share Option Scheme in our annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time. Our Directors confirm that they will not exercise any options granted under the Pre-IPO Share Option Scheme if as a result of the conversion the Company would not be able to comply with the minimum public float requirement of the Listing Rules.

Save for the above, no further options has been offered under the Pre-IPO Share Option Scheme and no further options will be offered thereunder on or after the Listing Date.

(o) Application for listing

Application has been made to the Listing Committee of the Hong Kong Stock Exchange for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which were granted under the Pre-IPO Share Option Scheme.

2. Outstanding Options

On 13 December 2013, options to subscribe for an aggregate of 34,918,000 Shares at an exercise price representing 30% discount to the Offer Price have been conditionally granted by the Company under the Pre-IPO Share Option Scheme. A total of 140 Eligible Participants have been granted options under the Pre-IPO Share Option Scheme. Prior to the Latest Practicable Date, 11 out of the 140 grantees, who have been granted share option for an aggregate of 270,000 Shares, have ceased to become Eligible Participants and the said share option has automatically lapsed. As such, the number of outstanding Shares subject to the Pre-IPO Share Option Scheme as at the Latest Practicable Date was 34,648,000, being held by 129 Eligible Participants.

Below is a list of the Directors who are grantees under the Pre-IPO Share Option Scheme:

Grantee	Position	Address	Number of Shares under the options granted	Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue
LAM Chi Fan (林志凡)	Chairman of the Board and Executive Director	Stage 1, Marina Cove, House 72, Sai Kung, New Territories, Hong Kong	6,650,000	0.40%
CHEUNG Tung (張棟)	President and Executive Director	House 75, Hong Lok Road West, Hong Lok Yuen, Tai Po, New Territories, Hong Kong	6,376,200	0.39%
CHEN Feng (陳楓)	Executive Director	7607 Emerald Meadow Court, Katy, TX77494, U.S.A	3,050,000	0.18%
LAM Kam Cheung (林錦祥)	Executive Director, Chief Financial Officer and Company Secretary	Flat B, 1/F Block 10, Discovery Park, 398 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	2,000,000	0.12%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue</u>
LAM Fei Man (林斐雯)	Executive Director	136A, Hong Lok Road East, Hong Lok Yuen, Tai Po, New Territories, Hong Kong	2,150,000	0.13%

Below is a list of senior management who are grantees under the Pre-IPO Share Option Scheme:

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue</u>
LAM Sze Chiu (林仕超)	Marketing Director	2/F Flat C, Block B, Panoramic Rise Marina Cove, Sai Kung, New Territories, Hong Kong	3,425,000	0.21%
QIAN Hong Xiang (錢洪祥)	General Manager of Sinomax Kuka	No.49, Jinzhong Road, Yunshan Sub-district, Lanxi City, Zhejiang, China	608,800	0.04%
LIN Feng (林峰)	General Manager of Sinohome Shenzhen	Flat 601, Tower 13, Donghai Garden, Luoxixincheng, Panyu District, Guangdong, China	150,000	0.01%
YUE Wai Fun (余慧芬)	General Manager of Sinomax Health	Flat 7B, Tower 1, East Point City, Tseung Kwan O, New Territories, Hong Kong	250,000	0.02%

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue</u>
CHEN Xiao Hua (陳小華)	General Manager of Sinomax Zhejiang	Flat 503, Unit 1, Block 1, 8-28 Hujia Street, Yunshan Sub-district, Lanxi City, Zhejiang, China 浙江省蘭溪市雲山街道胡家街8-28號1幢1單元503室	754,000	0.05%

Below is a list of the connected persons who are grantees under the Pre-IPO Share Option Scheme:

<u>Grantee</u>	<u>Position</u>	<u>Relationship</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue</u>
LI Ching Hau (李晶霞)	Assistant to President	Spouse of LAM Chi Fan	Stage 1, Marina Cove, House 72, Sai Kung, New Territories, Hong Kong	100,000	0.01%
LIN Fei Tung, Tiffany (林妃桐)	Assistant Manager	Cousin of LAM Chi Fan, sister of LAM Fei Man, aunt of CHEUNG Tung, daughter of CHEN Feng's cousin	136A, Hong Lok Road East, Hong Lok Yuen, Tai Po, New Territories, Hong Kong	1,170,000	0.07%

Below is a list of other persons who are grantees under the Pre-IPO Share Option Scheme with options to subscribe for more than 1,000,000 Shares:

<u>Grantee</u>	<u>Position</u>	<u>Address</u>	<u>Number of Shares under the options granted</u>	<u>Approximate percentage of shareholding held under the options granted immediately following completion of the Global Offering and the Capitalisation Issue</u>
FONG Wing Shan, Wincy (方穎珊)	Human Resources Manager	Flat C, 1/F, Block 2, Man Lai Court, Tai Wai, New Territories, Hong Kong	1,125,000	0.07%

Carving out the 11 grantees who have ceased to become Eligible Participants and the 13 grantees whose details are listed above, the remaining 116 grantees, being employees of the Group, have been conditionally granted options to subscribe for an aggregate of 6,839,000 Shares under the Pre-IPO Share Option Scheme, collectively representing 0.41% of the total number of Shares in issue immediately following completion of the Global Offering (assuming none of the options granted pursuant to the Pre-IPO Share Option Scheme have been exercised and without taking into account any Shares which may be issued upon the exercise of (i) the Over-allotment Option or (ii) any options which may be granted under the Post-IPO Share Option Scheme).

Our Company has applied to the Hong Kong Stock Exchange and the SFC respectively for and has been granted (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Further details of the waiver/exemption applications; and the reasons and conditions for such waivers/exemption are provided in the section headed "Waivers from Strict Compliance with the Listing Rules and the Amended Listing Rules and Exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance" in this Prospectus.

Assuming that the Over-allotment Option is not exercised, the shareholding in the Company before and after the full exercise of all the options granted under the Pre-IPO Share Option Scheme for the grantees under the Pre-IPO Share Option Scheme and those who will exercise, or control the exercise of, 5% of more of voting power at general meetings of the Company before the exercise of the options granted under the Pre-IPO Share Option Scheme will be as follows:

	<u>Before any exercise</u>	<u>After full exercise</u>
Sinomax Enterprises	54.55%	53.42%
Chi Fan Holding Limited	54.55%	53.42%
Orangefield	54.55%	53.42%

We will ensure compliance with the minimum public float requirement of Rule 8.08 of the Listing Rules. The Directors and our connected persons will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

3. Effect on the Earnings per Share as a Result of the Pre-IPO Share Options

Assuming all of the options outstanding under the Pre-IPO Share Option Scheme as at the Latest Practicable Date are exercised in full, but not taking into account any Shares which may be allotted and issued upon the exercise of (i) the Over-allotment Option or (ii) any option which may be granted under the Post-IPO Share Option Scheme, this will have a dilutive effect on (i) the shareholdings of the Shareholders of approximately 2.06%; and (ii) earnings per Share of approximately 2.06%. As at the Latest Practicable Date, none of the options granted under the Pre-IPO Share Option Scheme had been exercised by the grantees.

E. POST-IPO SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Post-IPO Share Option Scheme, which is in accordance with Chapter 17 of the Listing Rules and was conditionally adopted pursuant to the written resolutions of our Shareholders passed on 4 March 2014 and to be effective on the Listing Date:

(a) Purpose

The purpose of the Post-IPO Share Option Scheme is to provide incentive or reward to the Eligible Participants (as defined in paragraph (b) below) 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 our Board may approve from time to time, thus 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.

(b) Who may join

The Board may, in its discretion, offer to grant options to subscribe for such number of Shares as the Board may determine at an exercise price determined in accordance with paragraph (c) below to Eligible Participants (“**Offer**”) including 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 the subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of the Subsidiaries.

(c) Subscription price

The subscription price of a Share in respect of any particular option granted under the Post-IPO Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price shall at least be the higher of:

- (i) the closing price of the Shares as stated in the Hong Kong Stock Exchange’s daily quotations sheet on the date of Offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities (“**Business Day**”);
- (ii) the average of the closing prices of the Shares as stated in the Hong Kong Stock Exchange’s daily quotations sheet for the five Business Days immediately preceding the date of Offer; and
- (iii) the nominal value of the Shares.

(d) Acceptance of Offer

Any Offer of option may be accepted, in whole or in part, in a board lot of dealing in Shares on the Hong Kong Stock Exchange or an integral multiple thereof and in writing received by the Company on the date specified in the Offer provided that no such Offer shall be open for acceptance after the expiry of the Scheme Period (as defined in paragraph (j)) below or after the Post-IPO Share Option Scheme has been terminated in accordance with the rules thereof.

(e) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares in respect of which 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 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 ("**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 Limit. Subject to the approval of the Shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that:

- (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the Shareholders of the Company in general meeting;
- (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 Limit as refreshed; and
- (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched, also in compliance with Rule 17.06 of the Listing Rules, to the Shareholders of the Company together with the notice of the relevant general meeting.

The Company may also with the approval of the Shareholders of the Company in general meeting grant options in respect of Shares in excess of the Limit (as refreshed from time to time) to Eligible Participants specifically identified by the Company before such approval is sought. The circular issued by the Company to its Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules. We will issue such a circular in compliance with Rule 17.06 of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding 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 Shares in issue from time to time. No 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 maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of consolidation, subdivision or reduction of the share capital of the Company but shall in no event exceed the 30% limit.

(f) *Maximum entitlement of each Eligible Participant*

The total number of Shares issued and which fall to be issued upon exercise of the 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 Eligible Participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the Shares in issue as at the date of offer to grant.

Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company disclosing the identity of the Eligible Participant, the number of and terms of the options to be granted (and options previously granted to such participant) and the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules. We will issue such a circular in compliance with Rule 17.06 of the Listing Rules; and
- (ii) the approval of the Shareholders of the Company in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person, as defined in the Amended Listing Rules) abstaining from voting.

The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the approval by the Shareholders of the Company and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of offer of grant for the purpose of calculating the subscription price of the Shares.

(g) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) 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 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 issued and to be issued upon exercise of 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 offer of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million, based on the closing price of the Shares at the date of offer of each grant,

such further grant of options will be subject to, in addition to the approval of the independent non-executive Directors, the issue of a circular by the Company and the approval of the Shareholders of the Company in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting at such general meeting, and/or such other requirements prescribed under the Listing Rules from time to time.

(h) Restrictions on the times of grant of options

An offer to grant options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published by the Company. In particular, no options may be offered to be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of actual publication of the results announcement.

(i) Rights are personal to option holder

An option is personal to the option holder and is not transferable or assignable.

(j) Exercise period and duration of the Post-IPO Share Option Scheme

Subject to the rules of the Post-IPO Share Option Scheme, options may be exercised by an Eligible Participant, in whole or in part, at any time during the period commencing from the date of grant and such expiry date as determined by the Board in the Offer. Subject to earlier termination by the Company in general meeting or by the Board, the Post-IPO Share Option Scheme shall be valid and effective for a period commencing from the Listing Date and expiring on the Business Day preceding the tenth anniversary thereof ("**Scheme Period**").

(k) Performance target

An Eligible Participant to whom any option is granted may be required to achieve such performance target as determined by the Board before any exercise of his/her option.

(l) Rights of exercise for option holders

In the event that the grantee ceases to be an Eligible Participant under the Post-IPO Share Option Scheme by reason of death or permanently disabled before exercising the option in full or at all, the option may be exercised up to the entitlement of such grantee by his personal representatives within twelve months after the date of his death or permanent disability or such longer period as the Board may determine.

In the event that the grantee ceases to be an Eligible Participant by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Participant, his right to exercise an option (to the extent not already exercised) shall terminate immediately.

Where the Grantee of an outstanding option ceases to be an Eligible Participant for other reason save as aforesaid, the option may be exercised within one month after the date of such cessation.

(m) Rights on takeover and scheme of arrangement

If a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror), the Company shall use its best endeavours to procure that such offer is extended to all the option holders (on the same terms mutatis mutandis, and assuming that they shall become, by the exercise in full of the options granted to them, shareholder(s) of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the option holder (or his legal personal representative(s)) shall be entitled to exercise his option up to his entitlement which has been vested to him by the Company (subject to the Company's discretion to accelerate the vesting and to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

(n) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all option holders and thereupon, each option holder shall be entitled to exercise all or any of his or her options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company.

(o) Rights on compromise or arrangement between the Company and its member or Creditors

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies, the Company shall give notice to all the option holders on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each option holder shall forthwith be entitled to exercise his or her option at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of meeting. If for any reason such compromise or arrangement is not approved by the court, the rights of the option holder to exercise their respective options shall, to the extent that they have not been exercised be restored in full.

Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine.

(p) Ranking of Shares issued upon exercise of options

The Shares to be allotted and issued upon the exercise of an option will not carry voting rights until completion of the registration of the option holder (or any other person) as the Shareholder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation, as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(q) Effect of alterations to capital

In the event of capitalisation issue, rights issue, open offer, consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option and/or the maximum number of Shares in respect of which options under the Post-IPO Share Option Scheme together with options under other schemes may be granted as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto. Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company (as interpreted in accordance with the Supplementary Guidance), for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations. Any adjustment to be made will comply with the Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the Listing Rules issued by the Hong Kong Stock Exchange from time to time.

(r) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the date of lapse as provided in paragraphs (l), (m), (n) or (o) above;
- (iii) the date on which the scheme of arrangement of the Company becomes effective;
- (iv) the date of commencement of the winding-up of the Company in accordance with the Companies Law; and
- (v) the date on which the options are cancelled in accordance with paragraph (t) below.

(s) Alteration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the option holders or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted,

shall first be approved by the Shareholders in general meeting except where the proposed alteration takes effect automatically under the existing terms of the Post-IPO Share Option Scheme. Any change to the authority of the Board in relation to any alteration to the terms of the Post-IPO Share Option Scheme must be approved by the Shareholders in general meeting.

(t) Cancellation of options

Any unexercised option may be cancelled subject to approval by the option holder. Issuance of new options to the same option holder may only be made if there are unissued options available under the Post-IPO Share Option Scheme (excluding the cancelled options) within the 10% limit or the limit as refreshed pursuant to the Post-IPO Share Option Scheme and in compliance with the terms of the Post-IPO Share Option Scheme in force from time to time.

(u) Termination of the Post-IPO Share Option Scheme

The Company may by resolution in general meeting or the Board may at any time terminate the Post-IPO Share Option Scheme and in such event no further options shall be granted but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Post-IPO Share Option Scheme.

(v) Administration of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be administered by the Board whose decision as to all matters arising in relation to the Post-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) Condition of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which may be granted under the Post-IPO Share Option Scheme;
- (ii) the passing of the necessary resolutions by the sole Shareholder to approve and adopt the Post-IPO Share Option Scheme;
- (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise; and
- (iv) the commencement of dealings in our Shares on the Hong Kong Stock Exchange.

(x) Present status of the Post-IPO Share Option Scheme

As at the Latest Practicable Date, no option has been granted or agreed to be granted under the Post-IPO Share Option Scheme. Application has been made to the Listing Committee of the Hong Kong Stock Exchange for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of any options which may be granted under the Post-IPO Share Option Scheme.

Our Directors consider that it is inappropriate to state the value of options that can be granted under the Post-IPO Share Option Scheme as if they had been granted on the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no option have been granted, certain variables are not available for calculating the value of options. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the Shareholders and investors.

F. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Our Controlling Shareholders (collectively the “**Indemnifiers**”), have entered into a deed of indemnity with and in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) (being the material contract referred to in item (m) in the sub-paragraph headed “B. Further information about the business of our Company – 1. Material Contracts” of this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of section 35 or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of our Group on or before the date on which the conditions stated in the paragraph headed “Structure of the Global Offering – Conditions of the Global Offering” in this Prospectus being fulfilled (“**Effective Date**”). Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands, the BVI, the PRC, the US and Macau.

Under the deed of indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to any and all tax liabilities together with all reasonable costs (including all legal costs), expenses or other liabilities which in whatever part of the world which might be payable by any member of our Group in respect of among other matters any income, profits, gains, transactions, events, matters or things earned, accrued or received or entered into (or deemed to be so earned, accrued, received or entered into) on or before the Effective Date.

The deed of indemnity does not cover any claim, and the Indemnifiers shall be under no liability under the deed of indemnity, in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of our Company or any of its subsidiaries up to 31 December 2013; or
- (b) to the taxation falling on any member of our Group in respect of their accounting periods or any accounting period commencing on or after 1 January 2014 unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business after 31 December 2013; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2013 or pursuant to any statement of intention made in this Prospectus.

Under the deed of indemnity, the Indemnifiers have also undertaken to indemnify, on a joint and several basis, any member of our Group against:

- (a) any fines, penalties, losses, damages, liabilities, fees, costs, expenses, demands, claims, proceedings, actions (including without limitation any legal costs) and taxation which any member of our Group may suffer, sustain or incur or which may be commenced, brought or instituted against any member of our Group arising in connection with the non-compliance incidents as referred to in the paragraph headed “Business – Legal and Compliance – Non-compliance incidents during the Track Record Period” and “Business – Legal and Compliance – Non-compliance incident of our predecessor companies” in this Prospectus;
- (b) any fines, penalties, losses, damages, liabilities, fees, costs, expenses, demands, claims, proceedings, actions (including without limitation any legal costs) and taxation which any member of our Group may suffer, sustain or incur or which may be commenced, brought or instituted against any member of our Group arising in connection with the failure of certain landlords to provide the building ownership certificates in respect of buildings leased by members of our Group as set out in the paragraph headed “Business – Properties – Leased Properties” in this Prospectus;
- (c) any assessments, taxes, duties, levies, fines, penalties, losses, damages, liabilities, fees, costs, expenses, demands, claims, proceedings, actions (including without limitation any legal costs) which any member of our Group may suffer, sustain or incur or which may be commenced, brought or instituted against any member of our Group arising in connection with the tax matter as set out in the section headed “Financial Information – Description of Selected Income Statement Line Items – Taxation” in this Prospectus;
- (d) any taxes, duties, levies, fines, penalties, losses, damages, liabilities, fees, costs, expenses, demands, claims, proceedings, actions (including without limitation any legal costs) which any member of our Group may suffer, sustain or incur or which may be commenced, brought or instituted against any member of our Group arising in connection with the indirect transfer of Sinohome Shenzhen (through transfer of Fullelite), Dongguan Sinohome (through transfer of Ascension), Sinomax Zhejiang (through transfer of Sinomax Investment), Sinomax Kuka and Haining Sinomax (through transfer of Trade Sincere) as part of our Reorganisation as set out in the section headed “Our History and Reorganisation – Reorganisation and corporate structure – (3) Transfer of our subsidiaries to Treasure Range by way of share swap” in this Prospectus; and
- (e) any fines, penalties, losses, damages, liabilities, fees, costs, expenses, demands, claims, proceedings, actions (including without limitation any legal costs) which any member of our Group may suffer, sustain or incur by any member of our Group as a result of any act, non-performance, non-compliance, omission or otherwise of any member of our Group, its predecessor companies and/or shareholders on or before the Listing Date.

2. Litigation

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on our results of operations or financial condition of our Group as at the Latest Practicable Date.

3. Preliminary expense

The preliminary expenses of our Company are HK\$22,000 and have been paid by our Company.

4. Promoters

Our Company does not have promoter. Within the two years preceding the Latest Practicable Date, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this Prospectus.

5. Sponsor's fee, agency fees or commissions received

The Sole Sponsor charges a sponsor's fee of HK\$3 million. The Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price of all the Offer Shares (including Offer Shares issued pursuant to the exercise of the Over-Allotment Option), out of which they will pay any sub-underwriting commissions and other fees. The Sole Global Coordinator may receive a discretionary incentive fee of up to 0.5% of the aggregate Offer Price of all the Offer Shares (including Offer Shares issued pursuant to the exercise of the Over-Allotment Option).

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 (being the mid-point of Offer Price range between HK\$1.06 per Offer Share and HK\$1.43 per Offer Share), the sponsor's fee, the underwriting commission, financial advisory fees, listing fees, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$79.4 million in total of which approximately HK\$37.1 million has been and shall be borne by us and HK\$42.3 million shall be borne by the Selling Shareholders.

6. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS. The Sole Sponsor is independent of our Company pursuant to Rule 3A.07 of the Listing Rules.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice and/or whose names are included in this Prospectus:

Name	Qualification
China Merchants Securities (HK) Co., Limited	Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities under the SFO, acting as the Sole Sponsor of the Global Offering
Deloitte Touche Tohmatsu	Certified Public Accountants
Maples and Calder	Cayman Islands attorneys-at-law
King & Wood Mallesons	Qualified PRC legal advisers
MdME	Qualified Macau Legal advisers
Frost & Sullivan	Industry Consultants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property Valuer and Consultant
The Law Office of Williams & Associates, PC	California tax attorneys

8. Consents of experts

Each of China Merchants Securities (HK) Co., Limited, Deloitte Touche Tohmatsu, Maples and Calder, King & Wood Mallesons, MdME, Frost & Sullivan, Jones Lang LaSalle Corporate Appraisal and Advisory Limited and The Law Office of Williams & Associates, PC, has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuation and/or opinion (as the case may be) and the references to its name or summaries of opinions included herein in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts named in the sub-paragraph headed “7. Qualifications of experts” in the paragraph headed “F. Other information” in this Appendix has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group save that the Sole Sponsor, which is also a Joint Lead Manager and one of the Underwriters, may be required to perform its underwriting obligation in respect of the Offer Shares.

9. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

10. Taxation of holders of Shares

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

11. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2013 (being the date to which the latest audited consolidated financial statements of our Group were made up) which would materially affect the information shown in this Prospectus.

13. Miscellaneous

Save as disclosed in this Prospectus, within the two years preceding the Latest Practicable Date:

- (a) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither the Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;
- (f) there were no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (g) the Company has no outstanding convertible debt securities;
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement;
- (i) no company within our Group is presently listed on any stock exchange or traded in any trading system; and
- (j) there is no arrangement under which future dividends are waived or agreed to be waived.

Our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material and adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this Prospectus.

14. Selling Shareholders

The Selling Shareholders are Summer Wealth Holding Limited and Jacksonville Sky Park Limited.

Summer Wealth is a company incorporated in the BVI on 26 February 2014 with registered office at Columbus Centre, Suite 210, Road Town, Tortola, British Virgin Islands. Summer Wealth is directly wholly-owned by Orangefield beneficially as trustee of The Lin's Family Trust. Immediately upon completion of the Capitalisation Issue but before the Global Offering, Summer Wealth will hold 300,000,000 Shares in our Company, representing approximately 20% of the then total issued share capital of our Company. The number of Sale Shares offered for sale by Summer Wealth under the International Offering is 300,000,000 Shares.

Jacksonville is a company incorporated in the BVI on 26 February 2014 with registered office at Columbus Centre, Suite 210, Road Town, Tortola, British Virgin Islands. Jacksonville is directly wholly-owned by Orangefield beneficially as trustee of The Jackson Trust. Immediately upon completion of the Capitalisation Issue but before the Global Offering, Jacksonville will hold 300,000,000 Shares in our Company, representing approximately 20% of the then total issued share capital of our Company. The number of Sale Shares offered for sale by Jacksonville under the International Offering is 300,000,000 Shares.

Upon completion of the Global Offering, neither Summer Wealth nor Jacksonville will hold any Share in our Company and they will cease to be shareholders of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW, GREEN and PINK** Application Forms, the written consents referred to in the paragraph headed “F. Other Information – 8. Consents of experts” in Appendix IV to this Prospectus and copies of the material contracts referred to in the paragraph headed “B. Further information about the business of our Company – 1. Material Contracts” in Appendix IV to this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of King & Wood Mallesons at 13/F Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report on our Company prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this Prospectus;
- (c) the report to the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this Prospectus;
- (d) the material contracts referred to in the paragraph headed “B. Further information about the business of our Company – 1. Material Contracts” in Appendix IV to this Prospectus;
- (e) the service agreements referred to in the paragraph headed “C. Further information about Directors and Substantial Shareholders – 1. Directors – (b) Particulars of Directors’ service agreements” in Appendix IV to this Prospectus;
- (f) the rules of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme;
- (g) a full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme;
- (h) the written consents referred to in the paragraph headed “F. Other Information – 8. Consents of experts” in Appendix IV to this Prospectus;
- (i) the Companies Law;
- (j) the letter dated the Prospectus date prepared by Maples and Calder summarising certain aspects of the Companies Law referred to in Appendix III to this Prospectus;
- (k) the PRC legal opinions dated the date of this Prospectus prepared by King & Wood Mallesons, the legal advisers of the Company as to PRC law;
- (l) the Macau legal opinion dated the date of this Prospectus prepared by MdME, the legal advisers of the Company as to Macau law;
- (m) the industry report dated the date of this Prospectus prepared by Frost & Sullivan, the industry consultants;

- (n) the valuation letter dated the date of this Prospectus prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the property valuer and consultant; and
- (o) the US tax legal opinion dated the date of this Prospectus prepared by the Law Office of Williams & Associates, PC, the California tax attorneys to the Company.

The logo for Sinomax Group Limited, featuring the word "SINOMAX" in a bold, sans-serif font. The letters are primarily blue, with a green-to-blue gradient effect across the bottom of the characters.

Sinomax Group Limited
盛諾集團有限公司

