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### OVERVIEW

We were the second largest domestic ceramic sanitary ware brand in China's mid-to-high end ceramic sanitary ware market in terms of retail sales value in 2011, according to Frost & Sullivan, with approximately 4.4% of the market segment. Our ranking in terms of retail sales value increased from third in 2010, representing 2.1% of the total market segment. The mid-to-high end of the domestic market represented 47% of the total domestic market in terms of retail sales value for ceramic sanitary ware in 2011 according to Frost & Sullivan. Our Bolina (航標) brand ranked second in terms of both domestic brand awareness and consumer preference among mid-to-high end domestic ceramic sanitary ware brands in the PRC in 2010, according to Frost & Sullivan.

We are primarily engaged in the design, development, production, marketing and distribution of sanitary ware branded products marketed under our own brand in the PRC and under third parties' brands on an OEM and ODM basis to our international customers. Our products are divided into five major categories: (i) one-piece toilets; (ii) two-piece toilets (with separate water tanks); (iii) washbasins and stands; (iv) other ceramic products such as urinals, bidets, squat pans and soap containers; and (v) non-ceramic sanitary products that are designed by us and manufactured by third party subcontractors, including bath tubs, showers, faucets, hooks, bathroom cabinets, shower rooms and soap dishes.

### Business model and our products

The initial phase of our business development predominantly focused on fulfilling production orders for ceramic sanitary ware products on an OEM basis for international brands. With our proven track record of providing high quality products and accumulation of know-how from our OEM business, we have also been entrusted with providing higher value-added ODM services to our international customers. We have built a solid and broad ODM and OEM customer base which includes American Standard, Gerber, Kelim, Crane (now part of American Standard) and Western Pottery. We have been recognised by American Standard as their "Partners in Business – American Standard Brands" since 2008. We believe our relationships with these leading international brands provide us with first hand access to the latest industry information on products, technologies and market trends, thereby enabling us to maintain a competitive advantage over many of our competitors. During the Track Record Period, we exported our products to countries including the United States, Canada, Korea, Argentina and various European countries. Our ODM business was an important contributor to our revenue, with revenue derived from our ODM business amounting to RMB152.6 million, RMB168.3 million and RMB162.0 million for the years ended 31 December 2009, 2010 and 2011, respectively.

Leveraging our experience in the ODM and OEM ceramic sanitary ware market, we launched our Bolina (航標) brand and retail strategy in 2008. We position and target our brand at the mid-to-high end of the domestic market, with a focus on providing our branded sanitary wares in attractive designs with strong functionality. For sales and distribution of our own branded products in the PRC, we currently adopt a third party distributor model, which we believe facilitates the effective and efficient expansion of our retail presence and promotion of the overall brand awareness of our brand. We believe our third party distributor model allows us to expand our retail presence, reach a large customer base and increase our brand awareness faster and at a lower cost than if we were to distribute our products ourselves. We also believe the third party distributor model serves as a cushion on execution risk for us by leveraging the distributors' knowledge of the local market to implement our retail strategy for our brand in China. We have expanded our distribution network rapidly, from 52 distributors and nine sub-distributors operating 74 points of sale as at 31 December 2009 to 158 distributors and 47 sub-distributors operating 321 points of sale as at 31 December 2011, and 170 distributors and 44 sub-distributors operating 359 points of sale as at the Latest Practicable Date. Our distribution network covers a wide area throughout the PRC. As a result, our own branded products business has grown rapidly with revenue increasing from RMB26.0 million for the year ended 31 December 2009 to RMB380.0 million for the year ended 31 December 2011, representing a CAGR of 282.3%. For the years ended 31 December 2009, 2010 and 2011, revenue from our own branded products accounted for 10.8%, 34.5% and 58.0%, respectively, of our total revenue.

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With the increasing contribution of our branded products business to our revenue and profits, we expect to place less emphasis on our OEM business by redirecting and devoting our resources to the development of our own branded products. This reallocation of resources is part of our overall strategy to increase our retail and brand business in China while maintaining steady growth for our ODM business given that our branded products business provide higher added value to our customers and generate better margins and returns for us.

The following table sets out a breakdown of our revenue by business segment and product category during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Branded products	25,967	10.8	127,999	34.5	380,020	58.0
OEM	61,802	25.7	74,965	20.2	113,478	17.3
ODM	152,649	63.5	168,339	45.3	161,984	24.7
<b>Total</b>	<b>240,418</b>	<b>100.0</b>	<b>371,303</b>	<b>100.0</b>	<b>655,482</b>	<b>100.0</b>

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Two-piece toilets (with water tanks)	193,778	80.6	228,540	61.6	273,229	41.7
One-piece toilets	28,857	12.0	118,248	31.8	278,066	42.4
Washbasins and stands	9,774	4.1	8,503	2.3	42,898	6.5
Other ceramic products including urinals and bidets	3,606	1.5	6,144	1.6	28,938	4.5
Non-ceramic sanitary products	4,403	1.8	9,868	2.7	32,351	4.9
<b>Total</b>	<b>240,418</b>	<b>100.0</b>	<b>371,303</b>	<b>100.0</b>	<b>655,482</b>	<b>100.0</b>

The following table sets out a breakdown of our revenue by the geographic location of the customers during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Americas	185,747	77.3	218,862	58.9	245,970	37.5
PRC	25,005	10.4	126,657	34.1	378,415	57.7
Europe	16,213	6.7	14,220	3.8	15,644	2.4
Asia (excluding the PRC)	13,453	5.6	11,564	3.2	15,453	2.4
<b>Total</b>	<b>240,418</b>	<b>100.0</b>	<b>371,303</b>	<b>100.0</b>	<b>655,482</b>	<b>100.0</b>

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The revenue contribution arising from our sales to Niagara Conservation Corporation, Gerber, American Standard Canada, Kelim, Crane (now part of American Standard) and Western Pottery, which are our major customers referred to in this prospectus, was in aggregate RMB217.6 million, accounting for 58.6% of our total revenue in 2010, and RMB237.0 million, accounting for 36.2% of our total revenue in 2011.

### Strategic alliances

According to Frost & Sullivan, nationwide home renovation and furniture shopping mall chains are the most popular and effective distribution channel for sanitary ware products in the PRC due to the extensive geographic coverage, diversified product portfolio and the one stop shopping experience they offer. As part of our initiative to expand our branded product business, in 2011 we entered into a strategic development alliance agreement with Red Star Macalline (紅星美凱龍), a nationwide home renovation and furniture shopping mall chain with approximately 100 shopping malls in 80 cities in China, which gives our distributors and sub-distributors priority to establish their points of sale in the shopping malls operated by Red Star Macalline (紅星美凱龍) for a one year term. In May 2012, we renewed our agreement with Red Star Macalline (紅星美凱龍) for another one year term. In August 2011 we entered into a similar strategic alliance agreement with Jinsheng (金盛集團), a regional home decoration mall and department store chain with 14 home decoration malls in China. According to our strategic alliance agreement with Jinsheng (金盛集團), Jinsheng (金盛集團) is required to keep us informed of any new shopping mall opened by it, and we are entitled to have a presence in all of the malls operated by Jinsheng (金盛集團) and to take advantage of additional benefits offered to us as its strategic partner, such as priority in allocation for points of sale, advertising space and media exposure. Our strategic alliance agreement with Jinsheng (金盛集團) is for a term of three years, subject to renewal upon expiry. As at the Latest Practicable Date, our distributors and sub-distributors had opened 63 points of sale in Red Star Macalline (紅星美凱龍) shopping malls and five points of sale at malls operated by Jinsheng (金盛集團). Please refer to the section headed “Business – Sales and Marketing – branded products – distribution of our own branded products in the PRC” for additional details. We believe our strategic alliances with Red Star Macalline (紅星美凱龍) and Jinsheng (金盛集團) will facilitate further penetration of our brand across different regions in the PRC and enhance awareness of our brand which we believe will further accelerate domestic sales of our own branded products.

In December 2011, we entered into a strategic cooperation partnership agreement with Onelink (萬菱實業), a real estate developer in the PRC with experience in developing and managing large-scale commercial properties including shopping malls, services apartments and hotels. According to the strategic cooperation partnership agreement, we, among sanitary product suppliers, are the only one which will be given exclusive preferential consideration when Onelink procures sanitary products for its real estate projects; we are required to submit our product quotation within the timeframe stipulated in the request for quotation from Onelink. As long as our products and services meet the requirements of Onelink’s real estate projects, Onelink will give us priority to become its supplier of sanitary products. The strategic cooperation partnership agreement is for a term of three years, and may be renewed upon expiry. No fee is payable in connection with the entering into of the strategic cooperation partnership agreement. We believe our strategic alliance with Onelink (萬菱實業) will enable us to penetrate into the commercial segment of the ceramic sanitary ware market in the PRC and to increase revenue generated from direct sales within the PRC.

### Industry recognition

With our strong track record in the OEM and ODM segments, we plan to continue providing high quality products with strong functionality which we consider crucial to gaining customers’ acceptance and the overall success of our branded product business in China. Many of our products include unique features including high water-conservation, dirt removal or antibacterial capabilities and high durability. We have been awarded the China Water-Conservation Products (中國節水產品) certificate for 19 of our product models by the China Quality Certification Centre, and the Chinese Nominated Green and Environmental Friendly Building Materials for Energy-saving Design, Construction and Decoration Integration (中國節能設計、施工、裝飾裝修一體化指定綠色、環保建材產品) certificate for our branded products between 2007 and 2009 by the China Association of Building and Decoration Materials. Our toilet products are particularly well recognised in the domestic sanitary ware industry for

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their water-conservation features, and can meet and outperform the Chinese National Standard, the ASME Standard and the European Standard for water-conservation model which each require six litres or below for each flush, with certain of our models achieving levels as low as three litres per flush.

In recognition of our brand and high quality products, our Bolina (航標) brand was recognized as one of the Top 10 Bathroom Sanitary Wares Brand Names in China (中國十大衛浴品牌) by the China Ceramics Industrial Association and Organizing Committee for Chinese Bathroom Sanitary Wares in 2010 and the Assessed Quality Products of Sanitary Wares in China for the year 2010 (2010年中國衛生潔具測評優質產品) conferred by the Kitchen and Bathroom Works Committee of China Building Decoration Association in 2010. We were also accredited as a Renowned Trademark of Fujian Province (福建省著名商標) in 2010. In addition, in 2004, our branded products were named as the 2008 Beijing Olympic Games Recommended Building Engineering Materials and Equipment (奧運建築工程材料及設備). Please refer to the section headed “Business – Certifications, Awards and Recognitions” for additional details.

Our high standards of quality and technical capability are also demonstrated by appointments of our senior management to various positions in industry associations and organisations. For example, in 2010 Mr. Xiao was elected as the vice-chairman of the China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), a national industrial association registered with the Ministry of Civil Affairs of the PRC responsible for assisting the government in regulating the PRC ceramic industry. We were appointed the vice-director unit of the first term of the national council of Ceramic Magazine in 2009, and subsequently Mr. Xiao was appointed as a consultant on its editorial board in 2011. Ceramic Magazine is an industry publication approved by the Ministry of Science and Technology of the PRC and published by Xianyang Research and Design Institute of Ceramics (咸陽陶瓷研究設計院). We believe these appointments underscore the strong expertise and capabilities of our senior management in ceramic sanitary ware manufacturing, which places us in an advantageous position to respond to changes and developments in the PRC sanitary ware industry.

### **Research and development**

We believe that the breadth and depth of our research and development capabilities have been and will continue to be critical to the success of our business. As at the Latest Practicable Date, we had a dedicated team of 83 research and development staff focusing on product development and improvement of our production technologies and process. During the Track Record Period, we developed 38, 42 and 41 new products, respectively. As at the Latest Practicable Date, we owned 14 patents in the PRC. One of these patents is used for the design of certain of our ceramic sanitary ware products and relates to our water-conservation models which require only three litres of water per flush.

### **Production capacity**

We manufacture ceramic sanitary ware products at our production facilities in Zhangzhou, Fujian Province, the PRC. We manufactured approximately 3.5 million units of ceramic sanitary ware products in 2011 and our designed production capacity was expanded to 3.9 million units per year as at 31 December 2011. According to Frost & Sullivan, we were one of the largest manufacturers of ceramic sanitary ware products in the PRC in terms of designed production capacity as at 31 December 2011. We believe that our sizable production facilities provide us with economies of scale, shorten lead time in launching new products and allow us to allocate additional production capacity to manufacture our own branded products, which command a higher margin in comparison to ODM and OEM products.

### **Turnover and net profits**

We experienced a significant growth in revenue and profit during the Track Record Period. Our total revenue for the years ended 31 December 2009, 2010 and 2011 were RMB240.4 million, RMB371.3 million and RMB655.5 million, respectively, and our net profit during the same periods was RMB53.1 million, RMB82.1 million and RMB160.4 million, respectively.

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### COMPETITIVE STRENGTHS

We believe our success to date and our potential for further growth are attributable to our competitive strengths as set out below:

#### **A leading domestic ceramic sanitary ware player with strong brand recognition and robust growth momentum in the PRC**

We are a leading domestic ceramic sanitary ware player in the PRC. Our Bolina (航標) brand ranked second and fifth among domestic brands and all brands, respectively, in China's mid-to-high end ceramic sanitary ware market in terms of retail sales value in 2011, according to Frost & Sullivan. In addition, our Company ranked second in the ceramic sanitary ware market in the PRC in terms of revenue generated from ODM/OEM business in 2011, according to Frost & Sullivan.

Our business initially focused on providing ceramic sanitary ware products to our overseas customers on an OEM/ODM basis. In anticipation of the increasing consumer need for high quality sanitary products as a result of the improving living standards and changing consumption patterns in the PRC, we launched our Bolina (航標) brand and retail strategy in 2008, targeting the mid-to-high end segment of the market with a dual focus on attractive design with strong functionality. Such brand theme/principle is applied consistently throughout our product design, the quality of our manufactured products and our marketing campaigns. Revenue generated from our branded products business increased from RMB26.0 million for the year ended 31 December 2009 to RMB380.0 million for the year ended 31 December 2011, representing a CAGR of 282.3%. Gross profit generated from our branded products business increased from RMB9.8 million for the year ended 31 December 2009 to RMB216.5 million for the year ended 31 December 2011, representing a CAGR of 370.0%. For the years ended 31 December 2009, 2010 and 2011, revenue of our branded products accounted for 10.8%, 34.5% and 58.0%, respectively, of our total revenue. Our Bolina (航標) brand had a market share of 4.4% of the PRC's mid-to-high end ceramic sanitary ware market in 2011.

We expect that the continuous growth in the PRC economy, increasing urbanisation, improvements in living standards and increasing domestic consumption will further drive the demand in the PRC for mid-to-high end ceramic sanitary ware products such as ours. According to Frost & Sullivan, the ceramic sanitary ware market in the PRC grew at a CAGR of 16.6% from RMB39.3 billion in 2006 to RMB84.7 billion in 2011 and is expected to reach RMB144.8 billion in 2015, which would represent a CAGR of 14.4%. We believe that we are well positioned to capture a significant portion of the growth of the mid-to-high sanitary ware market and further develop our Bolina (航標) brand business.

#### **High-quality products and outstanding product development capabilities benefiting from our relationship with key ODM/OEM customers**

By manufacturing sanitary ware products on an ODM/OEM basis for international brand companies, we have gained extensive knowledge of the production technologies and quality control processes required for products meeting international standards, which has contributed significantly to the development of our branded products. We believe such experience provides us with competitive advantages over our competitors who may not have this experience. Our customers include international sanitary ware brands, such as American Standard, Gerber, Kelim, Crane (now part of American Standard) and Western Pottery. We have been recognised by American Standard as their "Partners in Business – American Standard Brands" since 2008. Leveraging on our knowledge we have further developed our own technical expertise and know-how, which helped us to expand into our ODM operations and develop our own branded products.

In recognition of our brand and high quality products, our Bolina (航標) brand was recognized as one of the Top 10 Bathroom Sanitary Wares Brand Names in China (中國十大衛浴品牌) by the China Ceramics Industrial Association and Organizing Committee for Chinese Bathroom Sanitary Wares in 2010 and the Assessed Quality Products of Sanitary Wares in China for the year 2010 (2010年中國衛生潔具測評優質產品) conferred by the Kitchen and Bathroom Works Committee of China Building Decoration Association in 2010.

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We believe the overall success of our branded business in the PRC is also attributable to our research and development capabilities, which enable us to continuously introduce high-quality products with innovative product designs and high functionality. As at the Latest Practicable Date, we had a dedicated team of 83 research and development staff focusing on product development, and improvement of our production technologies, process and material formula. For the years ended 31 December 2009, 2010 and 2011, we developed 38, 42 and 41 new products, respectively. To design and develop products with high competitiveness in the market, our research and development staff work closely with our distributors and sub-distributors throughout the key steps of the design process.

One of the key achievements of our research and development efforts is the high water-conservation feature of our toilet products. Our products can meet or outperform the Chinese National Standard, the ASME Standard and the European Standard for water-conservation, which each requires six litres or less for each flush, with certain models achieving as low as three litres per flush. According to Frost & Sullivan, our products meet or outperform key specification requirements used in the ASME Standard, the Korean National Standard and the European Standard, such as water-conservation, flush test, tolerance of dimension distortion and water absorption rate. We held 14 patents as at the Latest Practicable Date. One of these patents is for the design of certain of our ceramic sanitary ware products and relates to our water-conservation models which require only three litres of water per flush.

We also place a strong emphasis on strict quality control and have implemented a comprehensive quality control system in our production process. As at the Latest Practicable Date, we had 195 quality control staff in the quality control department. In addition, we also deploy product quality inspectors at the production lines who are responsible for testing semi-finished products. As at the Latest Practicable Date, none of our customers had attempted to return any of our products.

We believe our extensive knowledge of production technologies and our technical expertise combined with our consistently high quality products enables us to achieve customer satisfaction and respond to changes in the PRC sanitary ware industry.

### **Rapidly growing third party distribution network and strategic distributor relationships**

We employ a third party distributor model whereby our branded products are sold through an extensive distribution network throughout China. The model facilitates the effective and efficient expansion of our retail presence, allowing us to reach a large customer base and increase awareness of our brand in a relatively short period of time and with lower capital expenditure requirements than would be required if we owned and operated our own distribution network. We also believe a third party distributor model reduces our expansion risk as it leverages our distributors' knowledge of the local market to successfully implement our expansive retail strategy for our brand in the PRC.

Our distribution network strategy gives us a wide and growing coverage throughout China. We have expanded our distribution network rapidly, with 52 distributors and 9 sub-distributors operating 74 points of sale as at 31 December 2009, 70 distributors and 19 sub-distributors operating 126 points of sale as at 31 December 2010, 158 distributors and 47 sub-distributors operating 321 points of sale as at 31 December 2011 and 170 distributors and 44 sub-distributors and open 359 points of sale as at the Latest Practicable Date. Average revenue from each point of sale of our branded products to our distributors increased in conjunction with our network expansion, from approximately RMB0.6 million for the year ended 31 December 2009 to approximately RMB1.2 million for the year ended 31 December 2010 and approximately RMB1.7 million for the year ended 31 December 2011.

Nationwide home renovation and furniture shopping mall chains are the most popular and effective retail distribution channel for sanitary ware products in the PRC according to Frost & Sullivan. As part of our overall initiative to expand our branded product business, in 2011 we entered into a strategic development alliance agreement with Red Star Macalline (紅星美凱龍), a nationwide home renovation and furniture shopping mall chain with approximately 100 shopping malls in 80 cities in the PRC, which gives our third-party distributors and/or sub-distributors priority to set up their points of sale in the shopping malls operated by Red Star Macalline (紅星美凱龍) for a one year term. In May 2012, we renewed our agreement with Red Star Macalline (紅星美凱龍) for another

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one year term. As at the Latest Practicable Date, our third-party distributors and/or sub-distributors had set up 63 points of sale at Red Star Macalline (紅星美凱龍) shopping malls. We expect sales at our distributors' points of sale at Red Star Macalline (紅星美凱龍) will increase as it opens more shopping malls. In August 2011 we also entered into a strategic alliance agreement with Jinsheng (金盛集團), a regional home decoration mall and department store chain with 14 home decoration malls in eight cities in the PRC.

We believe our third party distribution network, together with our strategic alliances with Red Star Macalline (紅星美凱龍) and Jinsheng (金盛集團), will facilitate further penetration of our brand in the PRC and enhancement of awareness of our brand, all of which will further accelerate domestic sales of our branded products.

### **Strategically located, large scale production facilities to achieve economies of scale and low production cost**

Our production facilities are strategically located in Fujian province, one of the principal source locations of ceramic minerals in the PRC. We have easy access to high-quality raw materials, including feldspar (長石), sericite (絹雲母) and clay (粘土), for our ceramic sanitary ware products. In addition, we enjoy logistical advantages as our production sites are in close proximity to the Xiamen port and important highways (including national highway no. 324, a provincial highway, and Shenhai Highway, a national highway) which allows for timely and cost-efficient transportation of our products to our customers. Moreover, as Fujian is a manufacturing and trading center for water tank fittings and sanitary products, we have easy access to subcontractors for water tank fittings, as well as skilled workers for our production teams.

In addition to our strategic location, we were one of the largest manufacturers of ceramic sanitary ware products in the PRC in terms of designed production capacity as at 31 December 2011, according to Frost & Sullivan. We believe that the scale of our production facilities benefits us in the following respects:

- enables us to achieve economies of scale, in particular through sourcing raw materials and water tank fittings in bulk and at lower prices;
- allows us to shorten the lead time required to launch new products, as we have sufficient capacity to direct our production facilities to manufacture our new products in a timely manner in response to changing market demands and trends;
- enables us to manufacture and sell a diverse mix of products with a range of designs and functionalities; and
- allows us to quickly allocate more production capacity to our branded products to satisfy market demand as we shift our focus to our branded products.

### **Dedicated, stable and experienced management team**

Our senior management team has accumulated extensive experience in the sanitary ware industry with, on average, 23 years of experience in the industry and seven years with our Group. Prior to our establishment, Mr. Xiao Zhiyong, our Chairman, Chief Executive Officer and executive director was a technician, engineer and deputy director of colour glazed pottery factory in the technology innovation department of Zhangzhou Construction Ceramics Factory (漳州建築瓷廠) from August 1985 to July 1997. He was also the deputy director of the engineering department, district manager and deputy general manager at Double Rhomb from July 1997 to January 2002. He is the vice president of several committees and associations, including China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), Zhangzhou Association of Enterprises and Entrepreneurs (漳州市企業與企業家聯合會) and Zhangzhou Elite Association of New Economy Organisations (漳州市新經濟組織英才協會). Mr. Zhao Chongkang, a member of our senior management, has approximately 30 years of experience in the ceramic and sanitary ware industry, and has worked for several ceramics factories. Mr. Zhao Chongkang is currently a member of the Science and Education Committee of the China Building Materials Federation (中國建築材料聯合會). Mr. Chen Zhiqiang, another member of our senior management, has over 14 years' experience in the ceramic sanitary ware industry, and became a member of the National Technical Committee on Building and Sanitary Ceramics of Standardisation Administration of China (全國建築衛生陶瓷標準化技術委員會) in 2009.

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We believe that our experienced and stable senior management team has been critical in ensuring the consistent application of our development and operating strategies, reflected in the increase of the market share of our branded products and the positioning of our Bolina (航標) brand.

### BUSINESS STRATEGIES

Our principal objectives are to maintain and strengthen our position as a leading brand name in the ceramic sanitary ware market in the PRC by strengthening the recognition and the positioning of our Bolina brand and increasing our market share. We intend to achieve these objectives by implementing the following strategies:

**Further enhance brand awareness and recognition:** We intend to improve our brand recognition and positioning by further strengthening our marketing capabilities, intensifying our marketing efforts including placing advertisements through various media channels such as national television, magazines, the internet and outdoor media and sponsoring of public events. We believe that as a result awareness and recognition of our Bolina (航標) brand will gain further momentum with consumers, which will help to further differentiate our Bolina (航標) brand from the other players in the PRC sanitary ware market.

In addition, we believe that celebrity endorsement as part of the overall marketing and promotional initiative can be instrumental in building a successful brand. To that end, we began engaging celebrities as brand ambassadors in 2010. In May 2012, we engaged celebrity Ms. Christine Fan (范瑋琪) as our brand ambassador for our Bolina (航標) brand from May 2012 to May 2014.

We also plan to establish eight new self-operated showrooms in the PRC by 31 December 2013 to display our branded products and enable consumers, designers and developers to see our branded products in an upmarket environment. We believe the showrooms will help to further improve brand awareness among customers and enhance our image as a leading ceramic sanitary ware brand in the domestic market. As at the Latest Practicable Date, we had not established any of our showrooms.

We believe our strategic alliance with Onelink (萬菱實業) will enable us to penetrate into the commercial segment of the ceramic sanitary ware market in the PRC and to increase revenue generated from direct sales within the PRC.

**Further expand our distribution network in the PRC:** We intend to continue to capitalise on future growth opportunities in the PRC mid-to-high end market by expanding our third-party distribution network.

- (i) Our distribution network expansion plan has evolved from focusing on Eastern China and Northern China, including Jiangsu province, Inner Mongolia, Hebei province, Henan province and Shandong province, to other regions such as Northeast China, including Liaoning province and Jilin province. We also have presence in first-tier and second tier cities including Beijing, Shanghai, Tianjin, Shenyang and Nanjing during the Track Record Period. We intend to further expand our distribution network in the abovementioned regions and cities, where we foresee strong growth potential, while concurrently expanding in other regions and lower tier cities, which we expect to become a high-growth market for mid-to-high end ceramic sanitary ware in the next several years and where we believe we can fully leverage our growing brand recognition. We plan to penetrate our target markets by establishing additional points of sale through existing distributors, appointing new high-quality distributors and recruiting more sales representatives to manage and support our distributors.

We intend to expand our third-party distribution network in the PRC with the addition of approximately 390 points of sale by the end of 2012 and approximately 320 points of sale in 2013 so that by the end of 2013 we target to have approximately 1,029 points of sale operated by our third-party distributors. It is expected that of the 390 new points of sale opened in 2012, 97 are located in Northeast China, 50 in Northern China, 64 in Southeast China, 88 in Eastern China, 22 in Central China, 30 in Northwest China and 39 in Southwest China. We will further refine our expansion plan by geographical region in 2012 and 2013, based on our assessment of the performance of the newly-opened points of sale in 2011 and market conditions in different regions at that time.



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- (ii) Apart from our current strategic alliances with Red Star Macalline (紅星美凱龍) and Jinsheng (金盛集團), we plan to expand the number of our points of sale and enhance awareness of our Bolina (航標) brand by entering into cooperation arrangements with other nationwide and regional home renovation and furniture shopping mall chains.

To achieve our expansion plan, we plan to further strengthen our human resources by recruiting more personnel in the areas of management of distributors and product quality control. We will also provide training and orientation programmes to our personnel in order to enhance their efficiency and skills. We are also constructing Wanrong Factory to increase our production capacity to manage the expected expansion of our distribution network. In terms of raw materials procurement, we believe that there are abundant raw materials in the PRC market and given our on-going relationship with major suppliers, the raw materials we need should be readily available to us. Regarding other aspects of our operations including research and development, labour safety control and allocation of management resources, with the strength of our existing management, policies and practices, we believe we are well placed to replicate and adopt the same for our planned expansion.

**Focus on research and development and design competence:** Regular product innovation and timely response to market trends and development are critical to success in the ceramic sanitary ware industry, where competition is intense. We consider our research and development and design expertise to be a vital element of our future success, in particular, further development of our brand as well as our competence in manufacturing products of high quality and strong functionality. To this end, we intend to:

- increase our technical expertise and know-how, which are key to the innovation of more self-developed products, particularly, in the areas of water-conservation, sanitation (including dirt removal or anti-bacterial capabilities) and high durability to ensure continuous improvement of functionality and unique features of our products. We also intend to further develop our own material formulas for use in the production of our ceramic products;
- recruit more experienced professionals from other international sanitary ware manufacturers and continue to provide training for our technical staff in order to maintain our outstanding capability in developing new products in a short lead time;
- collaborate with academic institutions and professional institutions to research and develop technologies used in sanitary ware products and establish product development laboratories to increase production quality while reducing production costs; and
- enhance communication between our marketing department, our research and development department and our production department to more effectively incorporate client feedback into product development.

We believe that research and development efforts are also important means towards increasing operation efficiency and reduction of production costs. We intend to constantly improve our production process and techniques in order to reduce production costs and improve product quality.

**Further increase our production capacity and product line:** We believe that increasing our production capacity will enable us to better control our production and allow us to quickly respond to market changes. Growing urbanisation in the PRC has led to an increase in demand for sanitary ware products and we believe that manufacturers with sufficient production capacity will be able to take advantage of economies of scale and compete successfully. In order to meet increasing demand, we plan to increase our production capacity through construction of our new production facility, Wanrong Factory, which we expect to house our fifth and sixth production lines, each with production capacity of approximately one million units per year.

We expect our fifth production line to commence production in the third quarter of 2012. We estimate that the capital expenditure required for the construction of the fifth production line in Wanrong Factory will amount to approximately RMB122 million. As at the Latest Practicable Date, we had spent approximately RMB62 million on the construction of Wanrong Factory. We plan to commence construction of our sixth production line in the second half of 2012 following receipt of the approval from the relevant government authorities and expect the capital expenditure required for its completion to be approximately RMB130 million. No capital had been spent on our sixth production line as at the Latest Practicable Date.

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We believe that the proceeds from the Global Offering earmarked for the construction of our fifth and sixth production lines will be sufficient to meet the majority of the costs in connection therewith, including the land costs and costs for purchases of equipment. We plan to use approximately HK\$174.1 million, approximately 45% of the total estimated net proceeds from the Global Offering (assuming an Offer Price of HK\$2.10 per Share, being the mid-point of the indicative Offer Price range of HK\$1.80 to HK\$2.40 and the Over-allotment Option is not exercised) for the construction of our fifth and sixth production lines. We will finance the shortfall with funds generated internally and/or from bank borrowings. If suitable opportunities arise, we may consider acquiring other sanitary ware manufacturers or facilities that would complement our existing operations.

In addition, the growing recognition of our Bolina (航標) brand is creating more opportunities for us to enhance our existing product portfolio and expand our offering of non-ceramic products, including showers, faucets, hooks, bathroom cabinets, shower rooms and soap discs. We plan to pursue further growth in our non-ceramic products business by working more closely with third party suppliers, building our own production facilities or through acquisitions.

### ODM AND OEM PRODUCTS

The initial phase of our business development predominantly focused on fulfilling production orders for ceramic sanitary ware products for international sanitary ware brands on an OEM basis. Revenue from the sales of our ODM/OEM products increased steadily during the Track Record Period. Our ODM and OEM product sales for the years ended 31 December 2009, 2010 and 2011 were RMB214.5 million, RMB243.3 million and RMB275.5 million, respectively.

### BRANDED PRODUCTS

#### The Bolina (航標) brand

We market our products in the PRC under the Bolina (航標) brand. We position and target our brand at the mid-to-high end of the domestic sanitary ware market with a dual focus on providing our branded sanitary wares in attractive designs and with strong functionality. We also aim to set the standard for sanitary ware products and to provide consumers with good quality and functional products.

We have received a number of awards and recognitions in China for our products and brand, including:

- Top 10 Bathroom Sanitary Wares Brand Names in China (中國十大衛浴品牌)
- Assessed Quality Products of Sanitary Wares in China for the year of 2010 (2010年中國衛生潔具測評優質產品)
- Renowned Trademark of Fujian Province (福建省著名商標)
- Customer Satisfied Products of Fujian Province for the year of 2007 (2007年福建省用戶滿意產品)
- Famous Branded Products of Fujian Province (福建名牌產品)
- Chinese Nominated Green and Environmental Friendly Building Materials for Energy-saving Design, Construction and Decoration Integration (中國節能設計、施工、裝飾裝修一體化指定綠色、環保建材產品)
- Recommended Building Engineering Materials and Equipment for Olympic Games (奧運建築工程材料及設備)

We obtained a licence to use the Bolina (航標) brand trademark in 2002 and subsequently acquired the trademarks underlying the brand for RMB320,000 at a public auction in 2008 when we launched our branded products business strategy. As at the Latest Practicable Date, the trademarks we had registered in the PRC included the following three trademarks: Bolina *Bolina*, 航標 航標 and Bolina Italiana *Bolina Italiana*. Please refer to the sub-section headed “intellectual property rights” in Appendix VI to this prospectus for additional information.

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### **Ceramic sanitary ware products**

Our ceramic sanitary ware products include toilets, squat pans and tanks, washbasins, urinals and bidets.

We offer various different styles of ceramic basins, including pedestal basins, wall-mount basins and counter basins such as countertop basins and built-in basins, which are washbasins built into a piece of furniture or integrated into marble-pane for residential as well as for commercial purposes. Our ceramic toilet products are one-piece or two-piece toilets offered in various designs. Our products embrace features including strong water-conservation, dirt removal or antibacterial capabilities and high durability, and come in a wide range of designs.

The photographs below show certain ceramic sanitary ware products, namely, toilet, bidet and washbasins that we offer.



Our toilet products are particularly well recognised in the domestic sanitary ware industry for their water-conservation features, which can meet and outperform the Chinese National Standard, the ASME Standard and the European Standard for water-conservation, each of which requires that toilets use six litres or less for each flush, with some of our toilets using as little as three litres per flush.

### **Non-ceramic sanitary products designed by us and manufactured by third party suppliers**

We also supply non-ceramic sanitary products, which are designed by us and carry our Bolina brand but are manufactured by third parties, including bathtubs, showers, faucets, hooks, bathroom cabinets, shower rooms and soap discs.

## **PRODUCTION**

### **Production sites**

We manufacture our products at our three production sites strategically located in Zhangzhou City, Fujian Province, the PRC, which is considered to be one of the hubs of the PRC ceramic sanitary ware industry. The production sites and other ancillary facilities we operate have a total site area of approximately 93,975.6 sq.m. and a total gross floor area of approximately 141,872.7 sq.m.

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The following table sets forth the details of our production facilities as at 31 December 2011.

Production facilities	Number of production lines	Total gross floor area	Production facilities (Owned or leased)	Designed production capacity
	<i>(kilns)</i>	<i>(sq.m.)</i>		<i>(Units)</i>
Wanjia Factory No.1 <i>(Note 1)</i>	1	28,819.0	Leased	900,000
Wanhui Factory	2	78,153.2	Owned	2,200,000
Wanjia Factory No.2 <i>(Notes 2 and 3)</i>	1	34,900.5	Leased	800,000
				<u>3,900,000</u>

*Notes:*

1. Wanjia Factory No. 1's facilities and production site are leased from an associate company of Double Rhomb, an Independent Third Party.
2. Wanjia Factory No.2's facilities are owned by our Group and its production site is leased from an independent third party.
3. Wanjia Factory No.2 commenced production in early September 2010.

The table below sets out the effective designed capacity, the actual production volume and the effective utilisation rate of the production facilities of our Group during the Track Record Period:

	For the year ended 31 December								
	2009			2010			2011		
	Effective designed capacity	Actual production volume	Effective utilisation rate	Effective designed capacity	Actual production volume	Effective utilisation rate	Effective designed capacity	Actual production volume	Effective utilisation rate
	<i>(Units)</i> <i>(Note 1)</i>	<i>(Units)</i>	<i>(%)</i> <i>(Note 2)</i>	<i>(Units)</i> <i>(Note 1)</i>	<i>(Units)</i>	<i>(%)</i> <i>(Note 2)</i>	<i>(Units)</i> <i>(Note 1)</i>	<i>(Units)</i>	<i>(%)</i> <i>(Note 2)</i>
Wanjia Factory No.1	900,000	769,206	85.5	900,000	805,071	89.5	900,000	853,276	94.8
Wanhui Factory	2,200,000	1,462,980	66.5	2,200,000	1,813,517	82.4	2,200,000	1,927,310	87.6
Wanjia Factory No.2 <i>(Note 1)</i>	-	-	-	267,000	221,697	83.0	800,000	751,200	93.9
<b>Total</b>	<u>3,100,000</u>	<u>2,232,186</u>	<u>72.0</u>	<u>3,367,000</u>	<u>2,840,285</u>	<u>84.4</u>	<u>3,900,000</u>	<u>3,531,786</u>	<u>90.6</u>

*Notes:*

1. The designed capacity is calculated for illustrative purposes only, based on 24 hours per working day and 330 working days per year, taking into account the required maintenance time during the year. Wanjia Factory No. 2 commenced mass production in early September 2010, with designed annual capacity of 800,000 units. Its effective designed capacity for the year ended 31 December 2010 has been adjusted on a pro rata basis to reflect its actual production period (September to December 2010) in 2010, which amounted to approximately 267,000 units.
2. Effective utilisation rate is derived by dividing the actual production volume by the effective designed production capacity.

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We are currently constructing a new production facility, Wanrong Factory, which will house our fifth production line with a designated production capacity of one million units per year. We expect that it will commence production in the third quarter of 2012 and increase our total designed capacity to 4.9 million units per year. According to construction project filing documents accepted by the relevant government authorities, the total production capacity of Wanrong Factory will be up to 1.6 million units per year. We intend to expand our production capacity by applying to the relevant government authorities for an increase in total production capacity at Wanrong Factory and then constructing our sixth production line in Wanrong Factory with a designated production capacity of 1 million units per year. The construction of our sixth production line is expected to commence in the second half of 2012, subject to the relevant government authorities approving our application and our receipt of all other requisite approvals from the applicable government authorities and we expect that the line will commence production in the second half of 2013. We will consider the need to further expand our production capacity in the future or to outsource the production of part of our products to third party suppliers, depending on, among other factors, market demand, the competition in the market and our Group's available funds.

### **Production process**

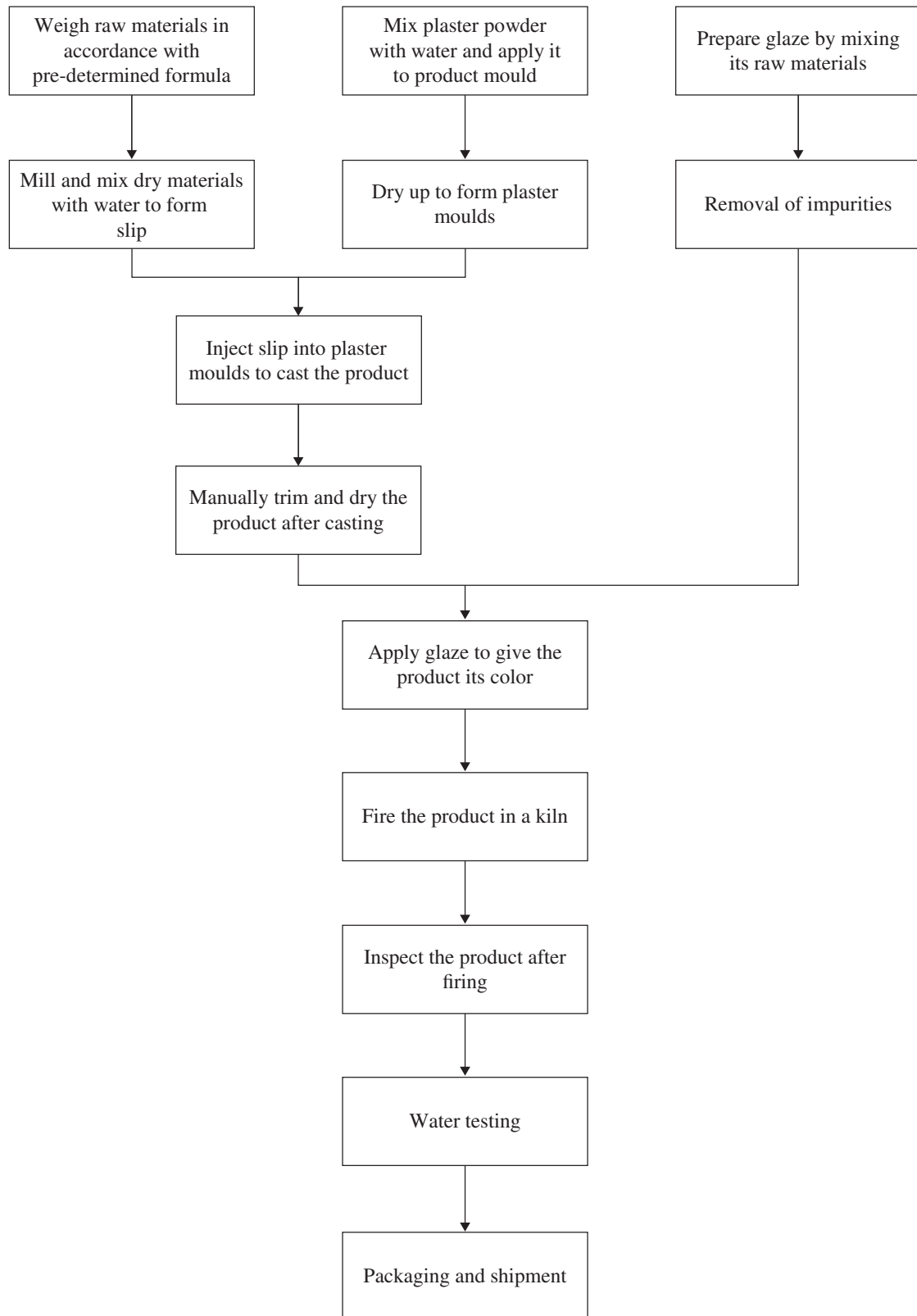
Major raw materials used in production of our ceramic products consist of feldspar (長石), sericite (絹雲母) and clay (粘土). The key production process for our ceramic products includes the following steps. The dry materials are weighed, milled and mixed with water forming a clay mixture known as “slip” which in turn is injected into a plaster mould where the products are casted. Thereafter, the products are manually trimmed, dried by heating and sprayed with a glaze that is mainly made up of feldspar (長石), silica (石英), dolomite (白雲石), calcium carbonate (碳酸鈣), zirconium silicate (矽酸鋯), zinc oxide (氧化鋅) and kaolin (高嶺土) which gives the products their color. After glazing, the products are loaded onto a cart, which then goes through a kiln for firing. After firing, the products are inspected and then subject to a water testing process. Finished products that pass the inspection and testing processes are packed and shipped.

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The chart below illustrates the production process for our ceramic sanitary ware products:



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### Major production machinery and equipment

Our production facilities are equipped with production machinery and equipment, including low battery line (全自動微壓立澆線), automatic glazing robots (自動施釉機器手), quick dry machines (快速風乾機) and a wide section energy-saving tunnel kilns (寬截斷面節能隧道窯). We expect to continue to upgrade our machinery and equipment to manage increasing production demands in the future.

### Repair and maintenance

As production of ceramic sanitary ware products requires stable temperature and humidity, our major production facilities, kilns, operate 24 hours a day. Machinery maintenance for our kilns is scheduled to take place during the Chinese New Year for about two weeks to ensure no production disruption and in accordance with our internal standards. Such internal standards are formulated after taking into account the technical, engineering and other specific requirements and procedures set out in our operation manual for the relevant machinery and the relevant ISO standards. These measures are in place to avoid unexpected stoppage and maximise production efficiency. During the Track Record Period, we did not experience any unexpected stoppage of operations as a result of any failure of our production facilities.

### PROCUREMENT

We use a variety of raw materials and accessories in our manufacturing processes. The principal raw materials for the ceramic process include feldspar (長石), sericite (絹雲母) and clay (粘土). We believe that the domestic supply of these materials is currently sufficient for our production needs. We also procure packaging materials and accessories such as toilet lids and water tank fittings from third parties, which are sold in a bundle with our ceramic products.

In addition to raw materials and accessories for use in our ceramic sanitary ware products, we also source various non-ceramic sanitary products which we sell under our Bolina (航標) brand. These sanitary products include bathtubs, showers, faucets, taps, bathroom cabinets, shower rooms and soap dishes. We source these products from various suppliers and do not depend on any single supplier. Such third party suppliers manufacture these products according to our quality and design specifications. Our purchases of non-ceramic sanitary products accounted for 2.4%, 4.8% and 11.8%, respectively, of our total purchases for the years ended 31 December 2009, 2010 and 2011.

### Principal suppliers

We believe that we enjoy an advantage from our strategic location in Fujian Province, where we have easy access and close proximity to high-quality raw materials for ceramic products as well as the advantage of low transportation expenses.

We select our suppliers by assessing various factors such as the size of their operations, quality of their raw materials, packaging materials and accessories, price, reputation in the industry and their ability to deliver goods on time.

We have established stable purchasing relationships with multiple suppliers. As at the Latest Practicable Date, we had 80 suppliers, 41 of which have had a business relationship with us for over three years. As at the Latest Practicable Date, we had approximately 28, 24 and 28 suppliers for raw materials, packaging materials and accessories, respectively.

We procure raw materials such as feldspar (長石), sericite (絹雲母) and clay (粘土) under supply agreements with no fixed term with a number of suppliers based on terms that are negotiated every time we order such materials.

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During the Track Record Period, purchases from our five largest suppliers accounted for 37.9%, 42.9% and 48.2%, respectively, of our total purchases, while purchases from our largest supplier accounted for 8.6%, 11.7% and 17.2%, respectively, of our total purchases. None of our Directors, their respective associates or shareholders holding more than 5% of the issued share capital of our Company had any interest in our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, there was no material cancellation of purchase orders placed by us with our suppliers. Additionally, none of our suppliers have filed for bankruptcy, insolvency or similar proceedings during the Track Record Period.

Our suppliers typically grant us credit terms of between 15 and 90 days, and up to a maximum of 120 days. Save for certain clay materials, transportation fees are usually paid by our suppliers.

### UTILITIES

Prior to early 2010, we used liquefied petroleum gas and natural gas for the process of firing our products at our kilns. Since early 2010, however, we have used only natural gas which is less expensive to fire our products at kilns. Our other production equipment is powered by electricity. During the Track Record Period, electricity, liquefied petroleum gas, natural gas and water supplies in Zhangzhou, Fujian Province were adequate and stable. There is a diesel back-up power supply facility at each of our production sites (300 kilowatts for Wanjia Factory No.1, 280 kilowatts for Wanhui Factory, and 400 kilowatts for Wanjia Factory No.2) which enables us to maintain a certain level of operations if there is a blackout or a shortage of electricity. During the Track Record Period, we did not experience any shortage of electricity, liquefied petroleum gas, natural gas or water that resulted in a material disruption in our operations. We also did not experience any accident causing material damage to our production facilities or a suspension of production.

### INVENTORY CONTROL

We have a stringent inventory control policy to monitor our inventory levels and minimise obsolete inventory. We monitor the usage of the current period's inventory and estimate the amount of any obsolete raw materials and finished goods.

Our inventory balance includes raw materials, accessories, packaging material, work in progress and finished goods. We have instituted the following major inventory management procedures to ensure efficient management of our inventory:

- all purchases of raw materials, parts and accessories and non-ceramic sanitary products must be authorised and approved by the heads of respective departments and recorded in our inventory management system;
- all incoming raw materials, parts and accessories and non-ceramic sanitary products must be examined and verified against our purchase orders before acceptance;
- all raw materials, parts and accessories and non-ceramic sanitary products are tagged with references after acknowledgement of receipt;
- all outgoing raw materials, parts and accessories and non-ceramic sanitary products for production use must be authorised by the heads of the respective departments and recorded in our inventory management system;
- customers or their agents acknowledge delivery of all finished goods, which is recorded in our inventory management system; and
- monthly and annual inventory counts are performed to ensure the number of items in our storage facilities correspond to all record entries recorded during the relevant period.



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We normally keep a stock of raw materials, parts and accessories and non-ceramic sanitary products at a level we believe to be sufficient for our operations. For raw materials used regularly, parts and accessories and non-ceramic sanitary products, we typically keep approximately six months supply in stock. We believe that stocking these levels of raw materials enables us to take advantage of lower prices through bulk purchasing and to alleviate any inflationary price pressure. As for clays, we keep an approximate one year supply in inventory because the clay must normally be placed outdoors to be exposed to sunlight and air for months before being used in the production process. The management of our Group conducts a half-yearly review of our Group's aging inventory. During the Track Record Period, we had no obsolete inventory.

### SALES AND MARKETING

Sanitary ware products under our Bolina (航標) brand are mainly sold through our distribution network in the PRC with a small portion sold directly to our customers. Sanitary ware products we manufacture on an ODM/OEM basis are sold to overseas customers including international brands and wholesalers, and these customers in turn sell the products under their own brand names or other brands.

The following table sets out our revenues by sales channel during the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Branded products</b>						
Distributors	22,501	9.4	121,662	32.8	374,725	57.2
Direct sales in the PRC	2,504	1.0	4,995	1.3	3,690	0.5
Direct sales to overseas customers	962	0.4	1,342	0.4	1,605	0.3
Sub-total	25,967	10.8	127,999	34.5	380,020	58.0
<b>Non-branded products</b>						
ODM	152,649	63.5	168,339	45.3	161,984	24.7
OEM	61,802	25.7	74,965	20.2	113,478	17.3
Sub-total	214,451	89.2	243,304	65.5	275,462	42.0
Total	240,418	100.0	371,303	100.0	655,482	100.0

### Our customers

Sales to our five largest customers accounted for 75.3%, 57.5% and 38.8% of our revenue, respectively, while sales to our largest customer accounted for 46.3%, 36.0% and 21.7% of our revenue for the years ended 31 December 2009, 2010 and 2011, respectively. Our largest customer for 2009, 2010 and 2011 was Niagara Conservation Corporation, which is based in the United States, and sells energy and water-conservation products including toilets and shower heads.

None of our Directors, their respective associates or shareholders holding more than 5% of the issued share capital of our Company had any interest in our five largest customers during the Track Record Period and up to the Latest Practicable Date.

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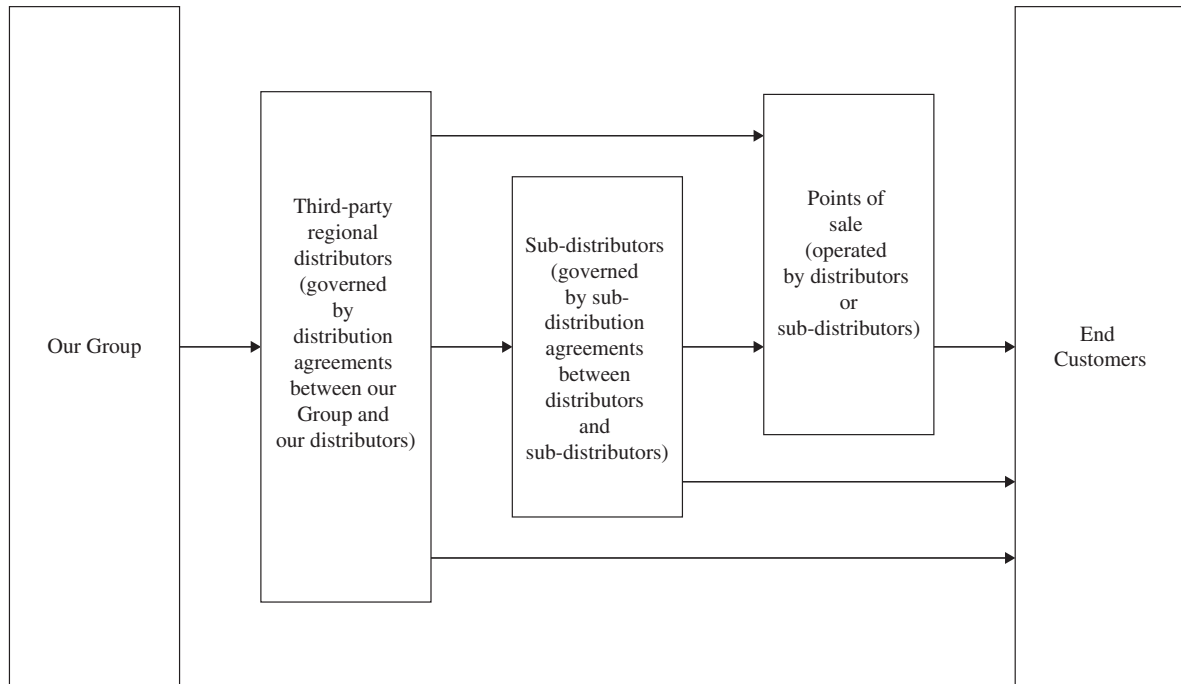
## BUSINESS

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### Branded products

#### *Distribution of own branded products in the PRC*

We currently use third party distributors for sales and distribution of almost all of our branded products in the PRC. These distributors either sell our products at their own points of sale or to their end customers, or sell our products to sub-distributors who then sell our products at their own points of sale or to their end customers. We believe the end customers mainly comprise retail consumers, home decoration companies, contractors and owners of commercial buildings. The following diagram illustrates the relationship among our Group, our distributors, sub-distributors, points of sale and end customers:



We have direct contractual relationships with our distributors. Our distribution agreements require our distributors to sell only our branded products at their respective points of sale. We enter into one-year distribution agreements with each of our distributors that are subject to annual review and renewal. Our distributors are also required under the distribution agreements to maintain consistent standards in decoration, display, operations and sales and marketing. We have the right to terminate a distribution agreement if a distributor fails to comply with the terms and conditions.

We allow our distributors to engage sub-distributors to operate points of sale. We do not have direct contractual relationships with the sub-distributors. However, our distributors are required under the distribution agreements to ensure that any sub-distributors they engage do not breach any of the terms and conditions of the distribution agreements. During the Track Record Period, we believe that our distributors and sub-distributors complied with the distribution agreements in all material respects.

Our distributors' and sub-distributors' points of sale have consistent exterior and interior decorations in order to improve awareness of our brand and products and can only display Bolina (航標) branded products. We intend to substantially increase the number of points of sale that form our third party distribution network in the PRC and also begin opening our own self-operated showrooms, where we plan to display our products in a higher service environment primarily for property developers and designers. We expect to make wholesale sales of our branded products directly to these property developers and designers. See the section headed "Business – Business strategies" in this prospectus for further information.

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In May 2011, we entered into a strategic alliance agreement with Red Star Macalline (紅星美凱龍) that gives our distributors and sub-distributors priority to set up points of sale in the shopping malls operated by Red Star Macalline (紅星美凱龍) throughout the PRC. The strategic development alliance agreement was valid for one year, subject to renewal upon expiry by the parties thereto, and the parties have renewed the agreement in May 2012 on the same terms. According to the strategic alliance agreement, Red Star Macalline (紅星美凱龍) is required to keep us informed of any new shopping malls it plans to open and any adjustments in the layouts or floor plans of its shopping malls. We are required to enter into discussions with Red Star Macalline (紅星美凱龍) about setting up our points of sale within seven days after receiving notice from Red Star Macalline (紅星美凱龍) about the opening of a new shopping mall. We are also required to set up new points of sale in at least 80% of all the new shopping malls opened by Red Star Macalline (紅星美凱龍) in the current year, unless Red Star Macalline (紅星美凱龍) waives this requirement. No fee is payable upon the entering into or performance of the strategic development alliance agreement with Red Star Macalline (紅星美凱龍). As at the Latest Practicable Date, our distributors and sub-distributors had opened 63 points of sale at Red Star Macalline (紅星美凱龍) shopping malls.

In August 2011 we also entered into a strategic alliance agreement with Jinsheng (金盛集團). According to the strategic alliance agreement, Jinsheng (金盛集團) is required to keep us informed of any new shopping mall opened by it, and we are entitled to have a presence in all of the malls operated by Jinsheng (金盛集團) and to take advantage of additional benefits offered to us as its strategic partner, such as priority in allocation for points of sale, advertising space and media exposure. Our strategic alliance agreement with Jinsheng (金盛集團) is for a term of three years, subject to renewal upon expiry by the parties thereto. No fee is payable by us upon the entering into or performance of the agreement. As at the Latest Practicable Date, our distributors and sub-distributors had set up five points of sale at Jinsheng (金盛集團) shopping malls.

To support our distributors, we may, in certain circumstances, pay a discretionary subsidy to them for the setting up of points of sale for up to two years. For the years ended 31 December 2009, 2010 and 2011, we paid such subsidies in the amount of RMB1.4 million, RMB1.8 million and RMB2.3 million, respectively.

We have expanded our distribution network by securing new distributors through different channels. We have participated in certain industry trade exhibitions, such as the International Construction Trade Fair in the PRC (中國國際建築貿易博覽會), which targeted domestic and international sanitary ware market players. Through such participation, we met and approached numerous potential distributors. We have also placed advertisements on television, in trade magazines, on the internet and in outdoor media about our plan to procure new distributors. We have set up a dedicated distributor development team to identify and communicate with potential distributors and to explore any cooperation opportunities.

We began engaging celebrities as brand ambassadors in 2010. In May 2012, we engaged celebrity Ms. Christine Fan (范瑋琪) as our brand ambassador for our Bolina (航標) brand from May 2012 to May 2014. According to the endorsement contract with Ms. Christine Fan (hereinafter referred to as the “Endorsement Contract”), if either party breaches the contract and fails to remedy the breach within the timeframe stipulated in the written notice given by the non-defaulting party, the non-defaulting party may terminate the contract and demand from the defaulting party liquidated damages equivalent to 20% of the remuneration of brand ambassador, as well as the remedies based on the actual damages suffered, if the actual damages exceed the liquidated damages. The Endorsement Contract also provides that during the contract period and within the territories in which the Endorsement Contract is applicable, in case the brand ambassador commits misconduct such as drug abuse, extra-marital affairs or theft, and such misconduct is determined by a final judgement to have caused us to suffer losses or damages, we will be entitled to terminate the contract and seek legal remedies.

Under the Endorsement Contract, the remuneration of the brand ambassador shall be paid in three stages, and the last payment, which equals to 25% of the total remuneration, shall be settled before 15 March 2013. As at the Latest Practicable Date, we had paid 75% of the total remuneration to our brand ambassador in accordance with the Endorsement Contract.

Our distribution network, comprising 52 distributors and 9 sub-distributors operating 74 points of sale as at 31 December 2009, increased to 158 distributors and 47 sub-distributors operating 321 points of sale as at 31 December 2011, and to 170 distributors and 44 sub-distributors operating 359 points of sale as at the Latest Practicable Date, covers a wide area throughout the PRC. Our distributors and sub-distributors opened 74 and 52 new points of sale in the years ended 31 December 2009 and 2010, respectively. In the years ended 31 December 2008, 2009 and 2010, we secured 19, 33 and 18 new distributors, respectively. Our sales to these 19, 33 and 18 new distributors amounted to

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RMB22.3 million, RMB10.7 million and RMB46.2 million for the years ended 31 December 2009, 2010 and 2011 (the respective first full financial year after the appointment of such new distributors), respectively. In the year ended 31 December 2011, we secured 94 new distributors and our distributor and sub-distributors opened 205 new points of sale. From 1 January 2012 to the Latest Practicable Date, we secured 17 new distributors and opened 50 additional points of sale. During the years ended 31 December 2009 and 2010, we maintained our relationships with all our distributors. However, we terminated our relationship with six of our distributors for the year ended 31 December 2011 and five of our distributors for the period from 1 January 2012 to the Latest Practicable Date as their sales performance, management and development of new points of sale did not meet our requirements. As a result, ten of our points of sale were closed during the year ended 31 December 2011 and 12 of our points of sale were closed in the period from 1 January 2012 to the Latest Practicable Date. We have secured suitable replacements for the distributors whose points of sale were closed.

During the Track Record Period, our sales attributable to the first orders placed by the newly appointed distributors with our Group in 2009, 2010 and 2011 amounted to RMB1.7 million, RMB0.9 million and RMB11.3 million, respectively.

The following table sets out the number of distributors, sub-distributors and the points of sale we had in the PRC by region during the Track Record Period:

Region	Province/City	As at 31 December									As at the Latest Practicable Date		
		2009			2010			2011			No. of distributors	No. of sub-distributors	No. of points of sale
		No. of distributors	No. of sub-distributors	No. of points of sale	No. of distributors	No. of sub-distributors	No. of points of sale	No. of distributors	No. of sub-distributors	No. of points of sale			
Northeast	Beijing (北京)	1	1	3	1	7	12	1	10	20	1	10	21
China (東北地區)	Tianjin (天津)	1	0	1	1	0	5	1	0	9	1	0	9
	Heilongjiang (黑龍江)	1	0	1	1	0	1	5	0	5	5	0	5
	Liaoning (遼寧)	3	0	3	4	0	4	7	0	17	8	0	18
	Jilin (吉林)	2	0	1	2	0	2	3	0	4	3	0	4
Northern	Inner Mongolia (內蒙古)	4	7	12	5	7	15	7	9	22	7	9	23
China (華北地區)	Hebei (河北)	2	0	2	4	0	4	10	0	14	9	0	13
	Henan (河南)	0	0	0	3	0	3	7	0	9	8	0	12
	Shandong (山東)	6	0	4	7	1	8	11	5	24	11	5	23
	Shanxi (山西)	2	0	0	4	0	4	8	1	10	7	1	11
Southeast	Fujian (福建)	5	1	8	6	4	14	13	14	36	15	14	43
China (東南地區)	Jiangxi (江西)	1	0	1	1	0	1	4	0	4	5	0	7
	Guangdong (廣東)	0	0	0	0	0	0	2	0	2	4	0	4
	Guangxi (廣西)	0	0	0	0	0	0	5	0	5	5	0	6
	Hainan (海南)	0	0	0	0	0	0	1	0	1	1	0	1
Eastern China	Shanghai (上海)	1	0	8	1	0	8	1	0	9	1	0	9
China (華東地區)	Zhejiang (浙江)	3	0	2	5	0	5	13	1	17	13	1	17
	Jiangsu (江蘇)	13	0	14	13	0	18	18	0	25	17	0	25
	Anhui (安徽)	2	0	3	2	0	3	9	0	14	11	0	19
Central China	Hunan (湖南)	0	0	0	2	0	2	7	0	9	7	0	11
China (華中地區)	Hubei (湖北)	1	0	3	1	0	3	3	0	13	3	0	15
Northwest	Shaanxi (陝西)	0	0	0	1	0	2	2	0	6	2	0	7
China (西北地區)	Ningxia (寧夏)	1	0	1	1	0	1	1	0	3	1	0	3
	Gansu (甘肅)	0	0	0	0	0	0	0	0	0	1	0	1
Southwest	Sichuan (四川)	1	0	3	2	0	4	4	4	17	5	4	20
China (西南地區)	Chongqing (重慶)	0	0	0	1	0	3	1	3	6	0	0	0
	Yunnan (雲南)	1	0	3	1	0	3	9	0	15	11	0	19
	Guizhou (貴州)	1	0	1	1	0	1	5	0	5	8	0	13
Total		52	9	74	70	19	126	158	47	321	170	44	359

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As at the Latest Practicable Date, 62 of our distributors were individuals and 108 were legal entities, and all of our distributors were Independent Third Parties with no past or present relationship (including any family, trust or employment relationship) with our Group or our Shareholders, Directors or senior management or any of their respective associates or affiliates. During the year ended 31 December 2010, sales to our top five distributors and our largest distributor amounted to approximately 32.4% and 7.7% of our Group's domestic revenue for branded products, respectively. During the year ended 31 December 2011, sales to our top five distributors and our largest distributor amounted to approximately 21.1% and 5.1% of our Group's domestic revenue for branded products, respectively.

We plan to further expand our third-party distribution network by adding approximately 390 points of sale in 2012 and approximately 320 points of sale in 2013, giving us a total of approximately 1,029 points of sale by the end of 2013. The required expenditure for the expansion of our points of sale, which primarily comprises marketing and promotional costs, including placing advertisements and engaging brand ambassadors, salaries and wages and other operating expenses, is estimated to be approximately RMB40.1 million and RMB53.7 million, respectively, for the years ending 31 December 2012 and 2013.

We also plan to establish eight new self-operated showrooms in the PRC by 31 December 2013. Our showrooms will display our branded products and enable consumers, designers and developers to see our branded products in an upmarket environment. We estimate that the capital expenditure for the establishment of the eight self-operated showrooms, which represents mainly renovation costs for the showrooms, will be approximately RMB1 million and RMB2 million for the years ending 31 December 2012 and 2013, respectively. As at the Latest Practicable Date, we had not committed or incurred any of the capital expenditure required for our showrooms.

We will fund the expenditure required for the expansion of our distribution network using the proceeds from the Global Offering. Should any shortfall arise, it will be met by fund generated internally and/or from bank borrowings.

The following table sets out our revenue by region in the PRC from sales of our branded products to our distributors during the Track Record Period:

<b>Region</b>	<b>For the year ended 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Northeast China (東北地區)	3,595	20,920	65,863
Northern China (華北地區)	2,293	20,927	97,012
Southeast China (東南地區)	3,879	19,099	51,479
Eastern China (華東地區)	8,772	41,520	105,960
Central China (華中地區)	867	5,077	16,833
Northwest China (西北地區)	–	522	5,991
Southwest China (西南地區)	3,095	13,597	31,587
<b>Total</b>	<b>22,501</b>	<b>121,662</b>	<b>374,725</b>

### *Management of our distributors*

Our distributors are principally responsible for selecting and ordering products from us and overseeing the operations of our points of sale. After placing orders with us, our distributors pick up our products from our production sites and are subsequently responsible for all logistics arrangements.

When selecting distributors, we take into account a number of factors, including geographic location, retail and management experience, financial resources and capacity for developing our distribution network.

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We enter into distribution agreements with our distributors pursuant to which our distributors are required to distribute our sanitary ware products in certain regions and to establish directly-operated stores to sell our sanitary ware products. Our distribution agreements are for a term of one year. We review the performance of our distributors annually and decide whether to renew our distribution agreement with each distributor. Our distribution agreements contain the following major provisions:

- Exclusive sale of Bolina (航標) branded products – Our points of sale shall exclusively sell Bolina (航標) branded products. Products other than Bolina (航標) branded products may not be sold without our written consent.
- Geographic exclusivity – Distributors are only permitted to sell our branded products within a defined geographic area. If any of the distributors repeatedly breaches this restriction, we have the right to terminate the agreement.
- Annual purchase target – The distribution agreement specifies the annual purchase target that the relevant distributor is expected to meet during the year. Where the target is met, an incentive equivalent to five per cent of the total purchase amount is paid to the distributor.
- Suggested retail price – Distributors are required to follow the suggested retail price that we adopt for each product. Distributors may, with our approval, adopt a selling price different from our suggested retail price depending on market conditions within the regions in which the distributors operate.
- Undertakings – Distributors undertake (i) to maintain a reasonable level of stock, based on the experience of the distributors, the understanding of the distributors of the market demand and the sales pattern of our individual products sold at the points of sale in the preceding months, and (ii) to adhere to our uniform store display standards.
- Sale and after-sales services – Distributors are required to provide delivery, installation and maintenance services to customers.
- Further distribution – Distributors shall endeavour to increase the market share of our products by operating or engaging sub-distributors to operate points of sale. In addition, distributors shall endeavour to set up points of sale in shopping malls operated by our strategic partners, such as Red Star Macalline (紅星美凱龍).

Effective monitoring of our distributors, sub-distributors and points of sale is critical to our operations. We have a dedicated team to monitor the performance of our distributors and sub-distributors. Each of our distributors is subject to an annual review of its operating results, ability to maintain our brand image, retail expansion capacity and compliance with our operating standards.

We work closely with our distributors to improve sales volume. To improve communication and interaction with our distributors and sub-distributors, we organise annual meetings and non-periodic meetings with our distributors and their sub-distributors in order to provide them with information on new products and to discuss ways to further improve the marketing of our products. We also conduct training courses for our distributors' and sub-distributors' sales staff and installation technicians and provide updates on our products to them because we consider them to be important intermediaries in our distribution network. We invite some of our distributors and sub-distributors to attend sales fairs organised by other distributors so that they can meet, communicate with and learn from other successful distributors. We also communicate with our distributors and sub-distributors from time to time to provide and receive market updates.

Annual distributors' meetings are held around Chinese New Year. During these meetings, we work with our distributors and sub-distributors to establish annual purchase targets. Our senior management review and approve the annual purchase targets and formulate a performance-based rebate scheme for each of our distributors at the beginning

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of the year. If the annual purchase targets are met, the rebates will be settled by delivering products with a value equivalent to the amount of the rebate to our distributors in the subsequent term of the distribution agreement. The sales rebate incentive scheme has been in place since 2010, and for the years ended 31 December 2010 and 2011, the sales rebates amounted to approximately RMB2.9 million and RMB16.0 million, respectively, which were accounted for as a deduction of revenue generated from distributors. We do not initially penalize any of our distributors which do not meet their annual purchase targets set in the previous year. However, we will offer guidance to any distributor that does not meet its annual purchase target, and in extreme cases, we may consider terminating its distributorship in the subsequent term.

During the Track Record Period, we adopted the following inventory control policies in order to monitor the level of inventory held by our distributors:

- (a) during our annual distributors' meetings, we make enquiries with our distributors as to their inventory needs;
- (b) we obtain monthly reports from our distributors, which set out, among other matters, sales made during the month. We then check these reports against our own sales and the orders placed by our distributors to monitor our distributors' inventory levels;
- (c) we conduct unscheduled visits at various points of sale from time to time. During these visits, our regional sales persons discuss with the manager or sales persons present at the points of sale various matters including the inventory levels at the points of sale; and
- (d) we maintain regular communication with our distributors to enquire about their inventory levels and to take orders from them.

Through the above inventory monitoring policies, we believe we are able to effectively determine whether there is any accumulation of inventory by our distributors that materially exceeds their expected sales volume, and our Directors confirm that during the Track Record Period we were not aware of any unusual accumulation of inventory by our distributors.

### *Management of points of sale*

During the initial phase of launching our branded products business strategy, particularly prior to the second half of 2009, we primarily focused on building our network of distributors and establishing relationships with our distributors. We leveraged our distributors' knowledge of local markets to sell and promote our branded products. As such, we did not exert control over or supervise the points of sale operated by our distributors. As the scale of our branded product business grew and our distribution network expanded, we have since the second half of 2009 enhanced the effectiveness of our distribution model and the level of control over the points of sale for our products through formalising and implementing the management and monitoring measures set out below.

All of our points of sale are required to sell only our own branded products. To provide consistent, quality services at each of our points of sale, we have requirements for, among other things, store displays, marketing activities and daily operations and we require our distributors and sub-distributors to inform us of the location of each point of sale before it is opened.

To further implement our retail policies, we conduct unscheduled on-site inspections at randomly selected points of sale. We also require our distributors to conduct regular site visits at sub-distributors' points of sale to confirm whether our operations standards are being followed.

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### *Business licences for points of sale*

Our distributors are required to obtain a business licence for each of the points of sale they operate. As at the Latest Practicable Date, our distributors had 359 points of sale and business registration licences had been obtained for 340 of such points of sale. Business registration licences are being processed for the remaining 19 points of sale. Of the 19 points of sale that have business registration licences currently in process, 18 are located in shopping malls such as Red Star Macalline (紅星美凱龍).

For the points of sale located in shopping malls, the management of the shopping mall in which they are located has taken the initiative to collectively apply for the business registration licences on behalf of all stores located within the shopping mall.

If any distributors fail to complete the requisite business licence registrations, we are entitled to contractually terminate our business relationship with such distributors without compensating them. Before terminating our relationship with any of our distributors for failure to obtain a business registration licence, we will discuss why the business registration licence for the relevant point of sale has not been obtained with the distributor and seek alternatives to secure the business registration licence as soon as practicable. If the distributor still does not obtain a business registration licence for their respective points of sale, we will request that the distributor close down the relevant points of sale. If the relevant distributor refuses to do so we may exercise our right to terminate the distribution agreement. If we exercise our right to terminate any distribution agreement, we will find a suitable replacement. Although we have no obligation to buy back or dispose of any of the remaining stock of our products held by such distributors with whom we have terminated our business relationship under our distribution agreements, we will procure other distributors to take over such remaining stock of our products.

As at the Latest Practicable Date, the business registration licences for 19 of the points of sale were currently in process. The relevant distributors have suspended the operations of these points of sale until the business registration licences are formally granted.

Since 1 January 2012, we have required our distributors to produce the relevant business registration licences of the points of sale that they plan to open when we give them the approval to operate any point of sale.

Our PRC legal advisers are of the view that the obtaining of business registration licence is a registration formality rather than a licensing or approval procedure. Provided the distributors submit the requisite application materials to the local administration for industry and commerce, there will be no material legal impediment for the distributors to complete their business registration license registration, and such registration may be granted on the date of the application in the fastest case in accordance with the relevant PRC rules.

The Controlling Shareholders have executed an indemnity in favour of our Company in relation to any loss that our Group has suffered or will suffer as a result of the lack of business registration licence of the points of sale of our distributors. For details of the indemnity, please refer to the section headed "Other information" in Appendix VI to this prospectus.

Our distributors which are individual persons are not required to complete a business registration before entering into a distribution agreement. Our distributors which are legal entities have each completed the requisite business registration for their operating entities which is required for them to enter into a distribution agreement. Therefore, according to our PRC legal advisers, failure on the part of any of our distributors to perform their obligations to conduct the relevant business registration licensing procedures for their respective points of sale will neither affect the validity of the distribution agreements we have entered into with our distributors nor subject us to any legal penalty or liability. However, those distributors whose points of sale lack the requisite business registration licences may be subject to certain administrative penalties, including being ordered to obtain a business registration licence, pay a maximum fine of RMB500,000 for each non-compliant point of sale, face confiscation of illegal profits, be ordered to terminate their business operations or face revocation of their business registration licence. To the best knowledge of our Directors, as at the Latest Practicable Date, our Directors were not aware of any of our distributors



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having been subject to any of these administrative penalties. In the event any of our distributors and their respective points of sale are required to cease operations and we cannot find a suitable replacement, it is likely that our revenue will be affected and this in turn could adversely affect our financial performance. We have not experienced any losses or been subject to any penalties as a result of the lack of business registration licence by any of our distributors during the Track Record Period.

Our branded products business was launched in 2008 and during the initial stage of the business our focus was to identify and secure distributors to help us expand the number of our points of sale. At that time, our Directors understood that our distributors had the responsibility to complete the business registration for each point of sale and therefore we did not request and check the registrations before approving the location of each point of sale. During the Track Record Period, no point of sale ceased business because it did not have a business registration licence.

See the Section headed “Risk Factors – Our business may be adversely affected if our distributors fail to perform their obligations under the distribution agreements entered into with us, or if our distributors, sub-distributors and points of sale constituting our distribution network through which our products are sold fail to comply with the relevant PRC licensing and other requirements” for details of risks arising from the failure to comply with relevant registration and other requirements by our distributors.

### **Pricing**

When pricing our branded products, we take into account various factors such as production cost, marketing information, packaging requirements, quantity and method of delivery.

We sell our branded products to our distributors at discounted wholesale prices. We provide our distributors with the suggested retail price for our branded products although they may, with our approval, adopt selling prices different from the suggested retail price.

### **Credit policy**

Since early 2010, we have required that our distributors pay for products at the time of delivery and we generally have not provided any credit to our distributors. Prior to that, in order to expand the number of distributors during the start-up phase of our distribution network, we provided credit terms of up to 12 months to certain distributors depending on our management’s assessment of their credit worthiness.

### **Product delivery**

For distribution of our products in the PRC, our distributors take delivery of our products from our production facilities at their own cost.

### **After sales services**

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

We provide a warranty on our own brand ceramic sanitary ware products for a period of three years as to production defects and one year for our non-ceramic sanitary products. During the warranty period, our distributors provide and pay for technical support and maintenance services for end customers, and subject to the confirmation of our quality control department and approval by our senior management, we provide free spare parts for repairs. Generally, if our distributors find any product related defect upon receiving our products, subject to our regional sales persons’ inspection and confirmation that the defect is due to a quality problem with our products, we will exchange the products for our distributors. We are not responsible for any product damage caused during transportation. If end customers are not satisfied with the quality of our branded products, they may exchange the products with our distributors. If the exchange is due to a quality problem with our products or spare parts, we will be responsible for

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the cost of the product exchange. If the exchange arises from our distributors' actions (such as improper storage or installation of the products), the distributors will be responsible for the cost of the product exchange. Also, no sales refunds or product returns are allowed under any circumstance. The distribution agreements we have entered into with our distributors contain no provision in relation to sales refunds or product returns. During the Track Record Period and up to the Latest Practicable Date, there were no requests for exchanges of or refunds for our products due to quality problems and accordingly, we did not make any warranty provision.

We also maintain product liability insurance to cover defective product liability claims.

During the Track Record Period, none of our distributors returned or asked to return any of our products to us.

### **ODM/OEM**

#### **Overview**

We generally sell our ODM and OEM products directly to our overseas customers, including branded product customers and wholesalers. Most of our ODM and OEM products are imported by our customers into the United States. We also have customers for ODM and OEM products in Canada, Korea, Argentina and various European countries. Revenue from the sales of our ODM/OEM products increased steadily during the Track Record Period. Our sales to overseas customers for the years ended 31 December 2009, 2010 and 2011 were RMB215.4 million, RMB244.6 million and RMB277.1 million, respectively. Please refer to the section headed "Risk Factors – Risks Relating to Our Business – We face risks associated with the marketing, distribution and sale of our products internationally, and if we are unable to effectively manage these risks, our ability to conduct or expand our business abroad could become impaired."

We obtain ODM/OEM orders mainly through customer referrals and by taking part in international exhibitions. Our ODM/OEM customers include American Standard and Gerber, from whom we have taken orders since 2007 and 2008, respectively.

#### **Framework agreements**

Since December 2004, we have entered into several annual or long term framework agreements with terms varying from one year to up to five years with eight of our ODM/OEM customers, two of which are included in our top five customers at the Latest Practicable Date. These customers are mainly sellers or manufacturers of sanitary ware products, and are based in the United States, Canada, South Korea, Germany and Greece.

In the framework agreements, the terms in relation to the quantities of products to be sold are not legally binding and are represented as sales indications or targets for sales of sanitary ware products. These indications or targets are subject to the purchase orders issued by our customers which become legally binding when accepted by us. The sales prices are generally not fixed in the framework agreements but determined at the time the purchase orders are placed and are based on the pricing policy of our Group. Therefore, until the purchase orders are placed, there is no certainty that we will generate revenue from the framework agreements.

#### **Pricing**

When pricing our OEM products, we take into account various factors such as production cost, packaging requirements and quantity. We take similar factors into account when pricing our ODM products, together with research and development costs.

#### **Credit policy**

We generally provide all ODM and OEM customers credit period ranging from 5 days to 3 months and require certain of our ODM and OEM customers to provide us with letters of credit of up to 90 days.

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We review overdue balances and our receivable balances on an ongoing basis and an assessment is made by our management team whether or not a provision for impairment of trade receivables should be made. For additional details of our policy on provision for impairment, please see the sub-section “Financial Information – Analysis of selected consolidated statement of financial position items – Trade receivables Analysis” in this prospectus.

During the Track Record Period, we did not experience any cancellation of orders other than in the ordinary course of business and which had no material impact on us, or any bankruptcy or default on the part of any of our ODM and OEM customers.

### Product delivery

We sell our ODM/OEM products overseas on the basis of FOB (free on board) Xiamen port to all of our major customers, and accordingly we are only responsible for their delivery up to the Xiamen port, and such customers are responsible for product transportation arrangements and import tariff beyond Xiamen port.

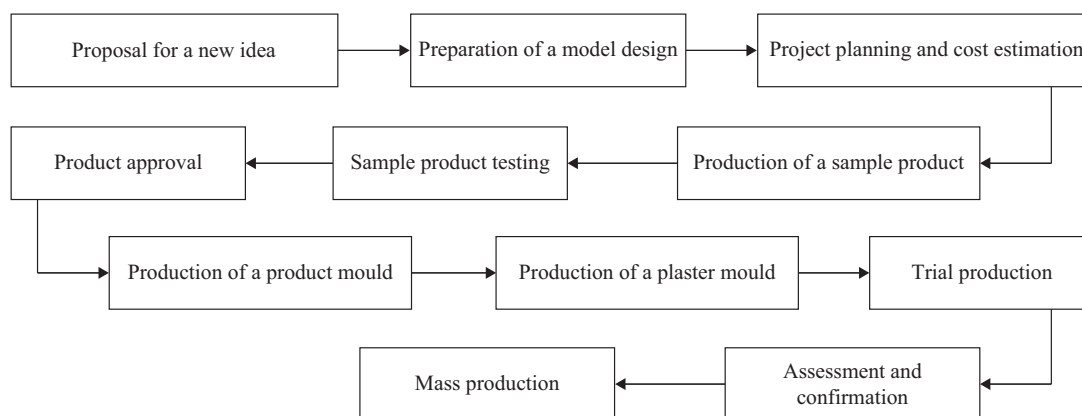
### After sales services

For ODM/OEM products, we are responsible for costs associated with any defective product. We have not incurred any costs associated with defective ODM/OEM products during the Track Record Period.

## PRODUCT DESIGN, RESEARCH AND DEVELOPMENT

### Product design

We design all of our branded sanitary ware products, starting from the proposal of a new idea for a product through to the time the product is put into mass production. The following flow chart shows the key steps of our design process.



After an idea for a new product is proposed, an initial design is prepared and presented to our senior management and department heads, who in turn will discuss the characteristics and advantages of the proposed product with our distributors and sub-distributors. If the new idea is approved internally with positive feedback received from our distributors and sub-distributors, we enter into the project planning stage, including cost, production difficulties and lead time estimates for the new product production. If the planning and various estimates indicate that production of the product is feasible, prototype samples are made, tested and presented to our distributors and sub-distributors for feedback. The trial production stage begins only after the prototypes of the new product have been positively reviewed and passed various internal tests. Trial production is aimed at identifying production difficulties and is intended to enhance production efficiency and ensure high product quality before mass production begins. At the trial production stage the product moulds are also constructed and tested and product quality tests are conducted. Before mass production commences, our management must grant final confirmation.

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The proposal stage of a new product to completion of prototypes usually takes between 30 to 50 days. Trial production is usually completed about 30 days after the production of product moulds for a new product, and, subject to assessment and confirmation of suitability for mass production, approximately another 40 to 70 days are required before the product is ready for the market. Overall, it takes approximately 100 to 150 days from the proposal stage of a new product to market launch, although the process can be expedited depending on the complexity and type of product and market conditions.

We continuously develop new products to adapt to changing consumer preferences and market trends. The development of new products is generally influenced by the following trends:

- **Energy-saving, water-conserving and environmentally-friendly products:** With increasing awareness of environmental issues, customers place greater importance on the environmental characteristics of sanitary ware products. In particular, we focus our efforts on the development and marketing of sanitary ware products with energy-saving, water-conserving and environmentally-friendly features.
- **Functional products for a healthy lifestyle:** We believe that lifestyle and hygiene functions of sanitary ware products will become increasingly important. We therefore devote significant resources to the development of products with functions such as anti-bacteria, anti-corrosive and self-cleaning functions.
- **Products with an international design:** With the growth in the Chinese economy and the increasing cultural exchange with foreign, and, in particular, Western countries, lifestyle and aesthetic preferences are increasingly influenced by international trends. We believe that the trend towards simplicity prevalent in European style sanitary ware design is becoming popular in the Chinese market.

### Research and development

Our research and development department is built on a system of inter-departmental coordination and participation. When developing new products or technologies, we also take into account production techniques and those standards applicable to our products. The development of new products involves our marketing department, research and development department, production department and also our finance department and general managers responsible for our overall strategy. Feedback from our distributors and sub-distributors is also taken into account. We place particular emphasis on input from customers when developing ODM products.

We consider research and development, design and innovative technology to be of key importance to our success. Our research and development activities also enhance our current technologies, processes and materials formulas and the standardisation of products in order to improve the quality of our products and make our production processes more efficient. We are collaborating with the National Construction Ceramic Sanitary Quality Testing Centre (國家建築衛生陶瓷質量監督檢驗中心) to set up a testing and analysing laboratory for sanitary ware products. The 14 patents we own as set out in the section headed “Further information about our business – Intellectual property rights” in Appendix VI to this prospectus were all developed through the efforts of our research and development department.

As at the Latest Practicable Date, there were 83 personnel in our research and development department, which included 36 core members holding the position of technician or above. These core members have been with our Group for an average of approximately five years and have on average been engaged in the research and development of ceramic sanitary ware industry for more than seven years. Nine of our core research and development employees have obtained tertiary qualifications in disciplines such as materials engineering, chemistry, mould design and manufacturing.

During the Track Record Period, our research and development expenses were RMB4.4 million, RMB4.2 million and RMB5.5 million, respectively.

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### INTELLECTUAL PROPERTY

We employ certain product designs and manufacturing processes that were developed in-house by our research and development department. We rely on a combination of laws and regulations including but not limited to patent, copyright and trademark laws, as well as confidentiality agreements signed by our senior management and key research and development personnel to protect our intellectual property rights.

We have not experienced any infringement of our intellectual property rights that has had a material impact on our Group during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, in the PRC we had 12 registered trademarks, 14 registered patents and had filed four trademark applications and in Hong Kong we had five registered trademarks. During the Track Record Period, revenue attributable to our 13 revenue producing patents amounted to RMB59.6 million, RMB58.5 million and RMB60.0 million, or 24.8%, 15.7% and 9.2% of our total revenue, respectively. Such patents were used for our ODM and OEM products during the Track Record Period. No revenue was attributable to the remaining registered patent, as we have not yet applied this patent in our production process.

While we have made efforts to obtain intellectual property protection for some of our products and production processes, we do not have intellectual property rights to protect all of our proprietary processes and technology against claims or infringement by other parties. Further details of the intellectual property rights of our Group are set out in the section headed “Further information about our business – Intellectual property rights” in Appendix VI to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we are not aware of any intellectual property right infringement that had a material impact on us and we were not involved in any litigation involving infringement of intellectual property rights.

### INFORMATION SYSTEM

To enhance our management systems, we have implemented an enterprise resources planning, or ERP, system, which applies to many aspects of daily operations and management, including financial reporting, inventories and sales and management. The system is currently used by our finance department. We plan to extend its operational scope to include other departments overseeing functions such as manufacturing, procurement and research and development. This will enable and facilitate the integration and exchange of information among retail outlets, third party distributors, our distribution centres, the departments in charge of manufacturing, procurement, and product research, design and development and our head office.

In order to strengthen customer and market management, we plan to gradually computerise all of our management information systems.

### QUALITY CONTROL

We strongly emphasize quality control over our products and have implemented a comprehensive quality control system.

Our quality control system includes the following processes:

- Purchase of raw materials – Sample tests are conducted prior to confirmation of orders to ensure the quality of raw materials.
- Production – Every stage of the production process is monitored by the quality management department to ensure that the production process conforms to specific quality control requirements. Visual inspection and performance testing (such as ageing and reliability tests) are conducted to assess the performance of semi-finished products to ensure that the relevant quality standards are met.

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- Inventory storage – Proper procedures are established to ensure no deterioration of product quality during storage and transportation.
- Machinery and equipment management – Regular inspections and maintenance are carried out by our equipment administrators to ensure optimum performance of our machinery and equipment.
- Sale – Each batch of finished products is subject to inspection and performance testing, and a final sample check before they are passed to our distributors or customers. Our management is responsible for collecting customers' opinions and handling customers' complaints appropriately and in a timely manner.
- Staff quality awareness system – Regular training and continuous assessments of the performance of staff are conducted.

As at the Latest Practicable Date, we had 195 quality control staff in our quality control department and we deploy product quality inspectors responsible for testing of semi-finished products at our production lines.

We were awarded ISO9001 and ISO14001 certificates in relation to the design, development and manufacture of sanitary ware products.

The ISO certification process involves the review and observation of the manufacturing processes and quality management systems over various periods. We have established a designated team overseeing the ISO standards compliance process. This team is mainly comprised of senior management and department heads from various departments, including quality control, production, finance, sales and marketing and research and development. Some members of our designated team have undergraduate or higher education qualifications and all have received training relating to the relevant ISO standards. In addition to providing training to quality control staff in relation to the requirements of ISO standards, we also conduct internal reviews, once a year or when the management of our Group considers necessary, on our operations against the prescribed quality control policy formulated on, among other standards, the ISO standards to ensure the ongoing compliance with the requirements of our ISO certifications. During the Track Record Period, we did not experience any difficulty in renewing our ISO certifications and we have followed up on complaints and comments given by our customers and improved our internal procedures to satisfy our customers' requirements.

During the Track Record Period and up to the Latest Practicable Date, there was no incident of failure of our quality control systems which had a material impact on us.

### CERTIFICATIONS, AWARDS AND RECOGNITIONS

The following table sets out the major awards received by us:

<u>Year(s) of award</u>	<u>Award</u>	<u>Awarding organisation or authority</u>
2012	Annual Overall Ranking for Building Materials Business – Most Valuable Brand for the year 2011 (中國建材商年度總評榜 – 2011年度最具價值品牌)	China Building Materials Circulation Association and Others (中國建築材料流通協會等)
2012	Renowned Trademark of Zhangzhou City (漳州市知名商標)	The People's Government of Zhangzhou City (漳州市人民政府)

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Year(s) of award	Award	Awarding organisation or authority
2011	Excellent Supplier of Construction Materials for National Indemnification Housing (全國保障性住房建設用材優秀供應商)	China Building Materials Circulation Association (中國建築材料流通協會)
2011	Top 100 Enterprises of China Kitchen & Bath (2011年中國廚衛百強)	Kitchen and Bathroom Works Committee, China Building Decoration Association (中國建築裝飾協會廚衛工程委員會)
2011	“Jin Long Ma” Award – Best Design Award (W1581 Toilet) (“金龍馬”獎最佳設計獎 (W1581坐便器))	Kitchen and Bathroom Works Committee, China Building Decoration Association (中國建築裝飾協會廚衛工程委員會)
2011	Quality Management Advanced Enterprise for the Year 2010 (2010年度質量管理先進企業)	Fujian Provincial Bureau of Quality and Technical Supervision (福建省質量技術監督局)
2011	Valuable Brand for the Year 2010 (2010年度價值品牌)	China Building Materials Circulation Association and Organizing Committee of China Building Materials Business Convention (中國建築材料流通協會和中國建材商大會組委會)
2010	Assessed Quality Products of Sanitary Wares in China for the year of 2010 (2010年中國衛生潔具測評優質產品)	Kitchen and Bathroom Works Committee, China Building Decoration Association (中國建築裝飾協會廚衛工程委員會)
2010	Top 10 Bathroom Sanitary Wares Brand Names in China (中國十大衛浴品牌)	China Ceramics Industrial Association (中國陶瓷工業協會) and Organising Committee for Chinese Bathroom Sanitary Wares (中國衛浴榜組委會)
2010	Renowned Trademark of Fujian Province (福建省著名商標)	Administration For Industry and Commerce of Fujian (福建省工商行政管理局)
2008	Partners in Business – American Standard Brands	American Standard
2008	Customer Satisfied Products of Fujian Province for the year of 2007 (2007年福建省用戶滿意產品)	The Association for Quality of Fujian Province (福建省質量協會)
2007	Famous Branded Products of Fujian Province (福建名牌產品)	The People’s Government of Fujian Province (福建省人民政府)

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Year(s) of award	Award	Awarding organisation or authority
2007	Chinese Nominated Green and Environmental Friendly Building Materials for Energy-saving Design, Construction and Decoration Integration (中國節能設計、施工、裝飾裝修一體化指定綠色、環保建材產品)	China Association of Building and Decoration Materials (中國建築裝飾裝修材料協會)
2004	Recommended Building Engineering Materials and Equipment for Olympic Games (奧運建築工程材料及設備)	Committee of Building Engineering Materials and Equipment for Olympic Games (奧運建築工程材料及設備委員會)

The following table sets out major recognitions received by us or our senior management from the sanitary ware industry:

Year	Participant in its/his capacity or on behalf of our Group	Title	Organisation
2012	Zhangzhou Wanhui	Vice-director unit (副會長單位)	Fujian Ceramics Industry Association (福建省陶瓷行業協會)
2011	Mr. Xiao	Pioneer of 2010 (2010年先鋒人物)	China Building Materials Circulation Association and Organizing Committee of China Building Materials Business Convention (中國建築材料流通協會和中國建材商大會組委會)
2010	Mr. Xiao	Vice-Chairman	China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會)
2010	Mr. Zhao Chongkang and Mr. Lu Jianqing	Standard Setting Expert of Building and Decoration Materials (《建材及裝飾材料流通標識》標準的制定專家)	China Building Materials Circulation Association (中國建築材料流通協會)
2009	Mr. Chen Zhiqiang	Member	National Technical Committee on Building and Sanitary Ceramics of Standardisation Administration of China (全國建築衛生陶瓷標準化技術委員會)
2009	Zhangzhou Wanjia	Vice-director unit of the first term of national council (全國理事會首屆理事會副理事長單位)	Ceramic Magazine



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Year	Participant in its/his capacity or on behalf of our Group	Title	Organisation
2011	Mr. Xiao	Consultant of the tenth editorial board of Ceramic Magazine (《陶瓷》雜誌第十屆編輯委員會專業顧問)	Ceramic Magazine
2009	Mr. Zhao Chongkang	Vice-director of the first term of national council (全國理事會首屆理事會副理事長)	Ceramic Magazine
2008	Mr. Zhao Chongkang	Member	Science and Education Committee of China Building Materials Federation (建築材料聯合會科技教育委員會)

The following table sets out our major certifications:

Year of grant	Nature	Recipient	Award	Awarding organisation or authority	Period of validity
2011	New and high technology enterprise certification	Zhangzhou Wanjia	New and High Technology Enterprise	Fujian Provincial Department of Science and Technology	21 October 2011 to 20 October 2014
2011	Green industry certification	Zhangzhou Wanjia	Member of Green Industry International Association	Green Industry International Association (國際綠色產業協會)	10 August 2011 to 9 August 2012
2011	Green industry certification	Zhangzhou Wanjia	International Green Energy Saving Brand – Bolina Sanitary Ware Products	Green Industry International Association (國際綠色產業協會)	10 August 2011 to 9 August 2012
2010	Environmental management system certification	Zhangzhou Wanjia	ISO14001:2004	World Standards Certification Center Inc. (北京世標認證中心有限公司)	17 August 2010 to 16 August 2013
2010	Quality management system certification	Zhangzhou Wanjia	ISO9001:2008	World Standards Certification Center Inc. (北京世標認證中心有限公司)	17 August 2010 to 16 August 2013
2010	Measurement management system certification	Zhangzhou Wanjia	ISO10012:2003	Zhongqi Metrology Certification Center (中啓計量體系認證中心)	23 June 2010 to 22 June 2014

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Year of grant	Nature	Recipient	Award	Awarding organisation or authority	Period of validity
2010	Measurement management system certification	Zhangzhou Wanhui	ISO10012:2003	Zhongqi Metrology Certification Centre (中啟計量體系認證中心)	27 December 2010 to 26 December 2015
2011	Water conservation product certification	Zhangzhou Wanjia	China Certificate for Water Conservation Product (CQC3221-2009 “Water Conservation Certification Criteria for Sitting WC Pan”); Product model and specification: W1311, W1312, W1221, W1222, W1331, W1332, W1391, W1392, W1521, W1522, W1581	China Quality Certification Centre (中國質量認證中心)	27 December 2011 to 27 December 2014
2010	Water conservation product certification	Zhangzhou Wanjia	China Certificate for Water Conservation Product (CQC3221-2009 “Water Conservation Certification Criteria for Sitting WC Pan”); Product model and specification: W1292S, W1582, W1621, W1622, W1682	China Quality Certification Centre (中國質量認證中心)	30 June 2010 to 30 June 2013
2010	Water conservation product certification	Zhangzhou Wanjia	China Certificate for Water Conservation Product (CQC3221-2009 “Water Conservation Certification Criteria for Sitting WC Pan”); Product model and specification: W1291S, W1681	China Quality Certification Centre (中國質量認證中心)	29 January 2010 to 29 January 2013
2008	Environmental management system certification	Zhangzhou Wanhui	ISO14001:2004	World Standards Certification Center Inc. (北京世標認證中心有限公司)	14 July 2008 to 8 June 2014
2008	Quality management system certification	Zhangzhou Wanhui	ISO9001:2008	World Standards Certification Center Inc. (北京世標認證中心有限公司)	14 July 2008 to 8 June 2014
2010	Occupational health and safety management system certification	Zhangzhou Wanhui	GB/T28001/2001	World Standards Certification Center Inc. (北京世標認證中心有限公司)	10 May 2010 to 8 June 2014

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### COMPETITION

The sanitary ware products market in the PRC is very competitive and, according to Frost & Sullivan, is highly fragmented. In 2010, there were approximately 50 manufacturers with a production capacity of over 500,000 units per year, and the top ten non-local brands had 15.6% of the market share of the mid-to-high end market segment. Mergers and acquisitions in recent years have become more common with overseas sanitary ware companies acquiring well-known local manufacturers. Our Directors consider our major competitors to be manufacturers of mid-to-high end sanitary ware products in the PRC. We believe that with the second largest production capacity in China as at the end of 2011, according to Frost & Sullivan, we are well placed to capture the growing domestic demand in the mid-to-high end segment of the Chinese sanitary market.

### ENVIRONMENTAL PROTECTION

We are subject to certain laws and regulations in relation to environment protection. Please refer to the section headed “Regulations” in this prospectus for further information about these laws and regulations.

We are committed to minimizing any adverse impact on the environment resulting from our business activities. 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.

Based on the past experience of our management, the nature of the industry and future development trends in the industry, our Directors believe that our Group’s current environmental conservation facilities are adequate to satisfy the relevant environmental laws and regulations and do not expect any major or significant expenditures to be incurred in this respect. During the Track Record Period, we incurred expenses related to environmental protection in the amount of RMB113,000, RMB143,000 and RMB115,000, respectively. We estimate that expenses of this nature will not exceed RMB400,000 in total for 2012 and 2013.

We have not violated any environmental laws, or been subject to any material environmental claims, lawsuits, penalties or administrative sanctions, and the operations of our Group have been in compliance with the relevant environmental regulations of the PRC during the Track Record Period in all material aspects.

### INSURANCE

In accordance with the regulatory requirements of local governments in the PRC, we maintain insurance that covers unemployment, pension, personal injury, maternity and medical expenses for our employees in the PRC. To protect consumers, we have purchased and will continue to maintain product liability insurance.

We maintain insurance policies in respect of most of the buildings owned by us covering physical loss or damage arising from natural hazards or accidents in relation to our operations in the PRC.

With respect to all of our products sold within mainland China, we maintain product liability insurance coverage in the total amount of RMB2,000,000, limited to RMB300,000 for each claim. We paid a premium of RMB65,000 in January 2012 for the insurance period for the year ending 31 December 2012. With respect to all of our products sold outside the PRC, since early 2010 we have procured product liability insurance coverage in the total amount of US\$5,000,000, limited to US\$2,000,000 for each claim. We paid a premium of US\$49,000 in February 2012 for a period of one year ending on 27 November 2012 for our product liability coverage outside of the PRC.

Our Directors believe that our Group’s insurance coverage is in line with industry practice. Our Group has not had any claims or liabilities arising from any accidents relating to our operations or experienced any material production interruptions or product liability incidents during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, there was no fire, explosion, spill, corrosion, pollution, or other unexpected or dangerous accident causing personal injury or death, property damage, environmental damage or business interruption which had a material impact on us.

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### PROPERTIES AND FACILITIES

#### Owned Properties

##### *Land*

As at the Latest Practicable Date, we held the State-owned land use right certificates to occupy seven parcels of land in Zhangzhou City, Fujian Province, with a gross site area of approximately 199,006.80 sq.m. As advised by our PRC legal advisers, Jingtian & Gongcheng, we have obtained all State-owned land use right certificates for the land we own, and we are entitled to occupy, use, transfer, lease, pledge or otherwise dispose of the land use rights under applicable PRC laws.

##### *Buildings*

As at the Latest Practicable Date, we held the building ownership certificates for buildings with an aggregate floor area of 85,391.39 sq.m. These buildings are all situated on land for which we hold State-owned land use rights, and are mainly used for production, staff quarters, storage, office and ancillary purposes.

#### Leased Properties

As at the Latest Practicable Date, we leased three properties for production, office and storage use in Zhangzhou City, Fujian Province, with an aggregate gross floor area of 64,183.5 sq.m. With regard to one property (the “Property”) leased by us from an Independent Third Party (the “Lessor”, which has been designated by its subsidiary (the “Owner”) to lease the Property to us), the Lessor/Owner has not provided us with the relevant building ownership certificate. The Property is occupied by Wanjia Factory No. 1. We have obtained a confirmation from Housing Security and the Real Estate Board of Zhangzhou City, responsible for the property administration and hence the competent authority, which confirms that the Owner is the sole legal owner of the Property and it is entitled to lease the Property to any of the lessees. Our PRC legal advisers, Jingtian & Gongcheng, are of the opinion that the Housing Security and the Real Estate Board of Zhangzhou City was the supervision and administration authority for the Property and therefore a competent authority to issue the confirmation. Our PRC legal advisor is also of the opinion that based on the abovementioned confirmation, the relevant property administration authority has already confirmed the Owner’s legal title ownership and the lease arrangement regarding the Property and our Group will not be forced to vacate the Property.

### LEGAL AND ADMINISTRATIVE PROCEEDINGS

Save as disclosed below, during the Track Record Period and up to the Latest Practicable Date, there were no material legal proceedings, regulatory inquiries or investigations made or pending or threatened against any member of our Group. Members of our Group may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business such as proceedings in respect of disputes with suppliers or customers, labour disputes or infringement of intellectual property rights.

### NON-COMPLIANCE WITH THE COMPANIES ORDINANCE

#### A. Nature of non-compliance

Pursuant to section 122 of the Companies Ordinance, the directors of a Hong Kong company shall cause its profit and loss account and balance sheet to be made up and laid before its shareholders at each of its annual general meetings and such accounts shall be made up to a date falling not more than 9 months before the date of the meeting.

Since its incorporation on 26 July 2004 and up to the present, the entire issued share capital of Nelson Marketing has always been beneficially owned by Mr. Xiao. Nelson Marketing’s then directors were so appointed as from 2004 to 2010 at the direction of Mr. Xiao. They have delegated its secretarial and accounting matters to individuals and/or its company secretaries. Until recently, Nelson Marketing did not prepare any accounts for the period from 2005 to 2008 (the “**Non-compliance Period**”).

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As confirmed by our Directors, the principal activity of Nelson Marketing since its incorporation is investment holding to hold certain equity interests in Zhangzhou Wanhui (please see the section headed “History, Reorganisation and Group Structure”) and the then directors of Nelson Marketing were Canadian citizens having only a limited understanding of the relevant rules and regulations under Hong Kong law. They had retained professional companies holding themselves out as providers of corporate secretarial services as the company secretary of Nelson Marketing and to attend to company matters including preparation and filings of annual returns of Nelson Marketing. However, throughout the aforementioned period, the professional companies did not advise Nelson Marketing of the need to prepare the accounts. Our then Directors confirmed that as a secretarial services provider, it had provided advice on, among others, the preparation of general meetings and other filings under the Companies Ordinance. Due to the reasons above, together with unintended and inadvertent oversight, section 122 of the Companies Ordinance was not complied with.

*Maximum potential liability:* Non-compliance with section 122 of the Companies Ordinance could attract maximum penalties as follows:

<u>Section</u>	<u>Maximum Penalty</u>
Section 122 of the Companies Ordinance	The directors(s) shall be liable to a fine of HK\$300,000 and 12-month imprisonment.

### **B. Remedial actions taken**

In the course of preparation for the Listing, Mr. Xiao, being the current sole director of Nelson Marketing, was advised that Nelson Marketing had failed to prepare accounts for the Non-compliance Period as required under the Companies Ordinance. In response to this, Mr. Xiao immediately took steps to arrange for a qualified accounting firm in Hong Kong to prepare the accounts of Nelson Marketing for the Non-compliance Period. Such accounts were adopted by Jinny (HK), being the sole shareholder of Nelson Marketing, by way of written resolution on 31 December 2009.

On 14 June 2011, Nelson Marketing wrote to the Hong Kong Companies Registry seeking confirmation as to whether action will be taken against it and its then officers in light of the aforesaid non-compliance with section 122 of the Companies Ordinance. On 16 June 2011, the Hong Kong Companies Registry replied that it is not empowered to waive the requirement under section 122(1) of the Companies Ordinance and a court order should be applied for under section 122(1B) of the Companies Ordinance.

Nelson Marketing made an application to the High Court of Hong Kong on 5 August 2011 to apply for an order that (i) the audited accounts of Nelson Marketing for the Non-compliance Period which should have been submitted at annual general meetings be substituted by the written resolutions passed by Nelson Marketing on 31 December 2009 in respect of the accounts for such Non-compliance Period; and (ii) the time be extended pursuant to section 122(1B) of the Companies Ordinance for Nelson Marketing’s failure to meet the time requirement for making up and submitting its accounts. As at the Latest Practicable Date, the Company has not received the final decision on the application from the High Court of Hong Kong after the first hearing on 5 September 2011.

The current director of Nelson Marketing, Mr. Xiao, understands that a grant of a court order in relation to section 122 of the Companies Ordinance may not by itself bar criminal enforcement by the Companies Registry against the then directors of Nelson Marketing, who have resigned from being directors of Nelson Marketing and are no longer directors or employees of our Group, on possible offences arising from past default but the likelihood of its occurrence is low given that such orders, if granted by the court, are granted based on the court’s acceptance of evidence submitted with the relevant applications for relief. However, any potential penalty arising from the Non-compliance, if imposed, would be directed against the former directors of Nelson Marketing under the Companies Ordinance. Therefore, the Directors do not foresee there being any impact arising from the Non-compliance on our Group’s operations.

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### C. Mitigating Measures

Our Group has taken the following measures to improve our corporate governance and internal controls to ensure compliance with various applicable rules and regulations:

- (a) We engaged internal control consultants to review our Group's internal control systems and procedures on 31 December 2010. We will adopt measures and policies to improve our internal control systems based on their review and recommendations.
- (b) A detailed memorandum prepared by our Company's Hong Kong legal advisers, Stephenson Harwood, setting out the ongoing regulatory requirements of our Directors after the Listing has been distributed to and reviewed by our Directors.
- (c) The Directors and senior management of our Group have attended training sessions conducted by our Hong Kong legal advisers, Stephenson Harwood, on the on-going obligations and duties of directors of a publicly listed company, including sessions on connected transactions, code of corporate governance, dealing in securities, disclosure of price-sensitive information, notifiable transactions and dissemination of information.
- (d) Our Company has appointed Mr. Lin Shimao, who has expertise in accounting and financial management, as an independent non-executive Director. Our Company expects to draw on his experience with respect to compliance with applicable regulatory and financial reporting requirements. Please see the section headed "Directors, Senior Management and Employees" for detailed information of Mr. Lin Shimao.
- (e) Our Company has appointed Mr. Yuen Chi Wai, Stanley as the company secretary, who is responsible for the day-to-day compliance matters of our Group. He is also responsible for monitoring the timing for convening annual general meetings of our Company.
- (f) An audit committee will be established to review the internal control systems and procedures for compliance with the requirements of the Listing Rules.
- (g) Our Company will appoint CCBI as our compliance adviser to advise on compliance matters in accordance with the Listing Rules.
- (h) Our Company secretarial team will be responsible for preparing and keeping proper records of minutes of board meetings and Shareholders' meetings for our Company. Our Company secretarial team is familiar with the statutory requirements in relation to board meetings and Shareholders' meetings and will ensure proper compliance of all such requirements.

Our Directors are of the view that the internal control measures adopted by our Group are adequate and effective in significantly reducing the risk of future non-compliance with legal and regulatory requirements in Hong Kong.