



DONGPENG HOLDINGS COMPANY LIMITED 東鵬控股股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3386

Global Offering



Sole Global Coordinator and Sole Sponsor

Goldman Sachs

Joint Bookrunners and Joint Lead Managers

Goldman Sachs

Deutsche Bank Group 

 BOC INTERNATIONAL

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Dongpeng Holdings Company Limited

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(Incorporated in the Cayman Islands with limited liability)

Global Offering

Total number of Offer Shares under the Global Offering	:	249,400,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares	:	24,940,000 Shares (subject to adjustment)
Number of International Offer Shares	:	224,460,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$4.55 per Share and expected to be not less than HK\$3.68 per Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)
Nominal value	:	US\$0.000002 per Share
Stock code	:	03386

Sole Global Coordinator and Sole Sponsor

**Goldman
Sachs**

Joint Bookrunners and Joint Lead Managers

**Goldman
Sachs**

Deutsche Bank Group   **BOC INTERNATIONAL**

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners, on behalf of the Underwriters, and our Company on or before November 22, 2013 or such later time as may be agreed between the parties, but in any event, no later than November 27, 2013. If, for any reason, the Joint Bookrunners, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by November 27, 2013, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$4.55 per Share and is expected to be not less than HK\$3.68 per Share although the Joint Bookrunners, on behalf of the Underwriters, and our Company may agree to a lower price. The Joint Bookrunners, on behalf of the Underwriters, may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus (being HK\$3.68 per Share to HK\$4.55 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.dongpeng.net as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares" in this prospectus.

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

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offer Shares, the Joint Bookrunners, on behalf of the Hong Kong Underwriters, has the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws in the United States, and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only (i) in the United States to QIBs in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act and (ii) outside of the United States in offshore transactions in reliance on Regulation S.

November 18, 2013

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk (<i>note 2</i>)	11:30 a.m. on Thursday, November 21, 2013
Application lists for the Hong Kong Public Offering open (<i>note 3</i>)	11:45 a.m. on Thursday, November 21, 2013
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC (<i>note 4</i>).	12:00 noon on Thursday, November 21, 2013
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, November 21, 2013
Application lists close (<i>note 3</i>)	12:00 noon on Thursday, November 21, 2013
Expected Price Determination Date (<i>note 5</i>)	Friday, November 22, 2013
Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.dongpeng.net on or before (<i>note 6</i>).	Thursday, November 28, 2013
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Public Offer Shares — Publication of Results" from	Thursday, November 28, 2013
Results of allocations for the Hong Kong Public Offering will be available at www.iporeresults.com.hk with a "search by ID" function	Thursday, November 28, 2013
Share certificates (if applicable) in respect of wholly or partially successful applications to be despatched on or before (<i>notes 7 and 9</i>).	Thursday, November 28, 2013
White Form e-Refund payment instructions/Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before (<i>notes 8 and 9</i>).	Thursday, November 28, 2013
Dealings in Shares on the Stock Exchange to commence on	Friday, November 29, 2013

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on November 21, 2013, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Public Offer Shares — Effect of Bad Weather on the Opening of the Application Lists”.
- (4) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Public Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS” for details.
- (5) The Offer Price is expected to be determined by November 22, 2013, but in any event, the expected time for determination of the Offer Price will not be later than November 27, 2013. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners, on behalf of the Underwriters, and our Company by November 27, 2013, the Global Offering will not proceed.
- (6) None of the website or any information contained on the website forms part of this prospectus.
- (7) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on November 29, 2013 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of your refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (where applicable) and/or Share certificates (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong between 9:00 a.m. to 1:00 p.m. on November 28, 2013. Applicants being individuals who opt for personal collection may not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation’s chop. Both individuals and authorized representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section “How to Apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies — Personal Collection — If you apply via electronic application instructions to HKSCC” for details. Uncollected Share certificates and refund cheques will be despatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.
Further information is set out in the sections “How to Apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies” and “How to Apply for the Hong Kong Offer Shares — Refund of Application Monies”.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.dongpeng.net, does not form part of this prospectus.

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SUMMARY

This summary provides an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

OUR BUSINESS

Dongpeng is the largest ceramic tile company in the PRC in terms of 2012 retail sales value. We are also the largest industry participant in the high-end ceramic tile segment⁽¹⁾ with a market share of 9.77%, according to the F&S Report. Ceramic tile is the preferred choice of material used for interior decoration in China.

Our market leadership represents a culmination of the experience and capabilities gained from a history of more than 40 years of operations. Our products have been used in high profile projects such as the 2008 Beijing Olympic Games, the National Center for the Performing Arts in Beijing and China's Ministry of Commerce building. Our brand has been recognized by China Brand Research Institute as an Industry Landmark Brand, which is awarded to one brand in each industry, each time this award has been granted since 2006.

Our Products

We design, develop, produce, market and sell a wide variety of ceramic tile products and bathroom products under the "Dongpeng" brand. Our principal business is our ceramic tile business, with products categorized into unglazed tiles and glazed tiles. Our bathroom products primarily consist of ceramic bathroom products such as toilets and wash basins.

(1) According to the F&S Report, the high-end ceramic tile segment, as widely accepted by major participants in the PRC ceramic tile industry, is the market segment with an average retail selling price of ceramic tiles above RMB260 per square meter.

SUMMARY

The following table sets forth our revenue by product segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Ceramic tiles										
Unglazed tiles	626,120	64.2%	1,157,579	58.5%	1,370,249	54.9%	592,386	55.4%	621,810	48.8%
Glazed tiles	333,392	34.2	798,992	40.4	1,096,088	43.9	465,467	43.5	596,900	46.8
Subtotal	959,512	98.4	1,956,571	98.9	2,466,337	98.8	1,057,853	98.9	1,218,710	95.6
Bathroom products ..	15,115	1.6	22,382	1.1	31,587	1.2	11,235	1.1	56,039	4.4
Total.....	<u>974,627</u>	<u>100.0%</u>	<u>1,978,953</u>	<u>100.0%</u>	<u>2,497,924</u>	<u>100.0%</u>	<u>1,069,088</u>	<u>100.0%</u>	<u>1,274,749</u>	<u>100.0%</u>

Backed by our strong innovation and development capabilities, we have continuously developed and brought to market “hit” new products that have helped us to influence industry trends in China and enhance our pricing power. Our trend-setting products include Perlato Svevo (“金花米黄”) series, Travertine (“洞石”) series, Navona (“纳福娜”) series and Italian Wood (“意大利木纹”) series. These products have rapidly gained acceptance among consumers and remained on our best-selling products list for a number of years after launch.

Our products have been recognized in China for their high quality and are sold internationally in 66 countries. Our largest export destinations include countries with high quality standards such as Canada, Australia and the United States. Among our current products, 111 have received the CE mark, signifying that they meet the requirements of the European Economic Area.

Historically, our bathroom products business consisted of resale of finished products purchased from related parties. In May 2013, as part of our expansion, we acquired the bathroom products business from certain related parties as part of our reorganization. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”. We intend to fully exploit the brand synergy and cross-selling opportunities between our ceramic tile and bathroom products.

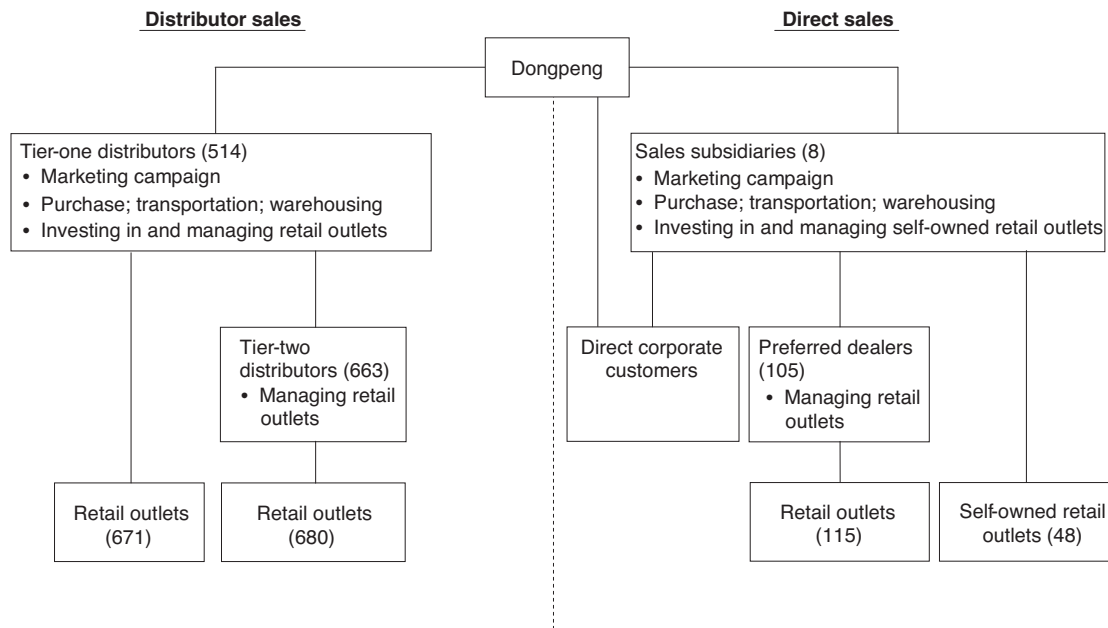
Sales and Distribution

As of June 30, 2013, our nationwide ceramic tile sales network consisted of 1,514 retail outlets covering 388 cities across all provinces, autonomous regions and municipalities in China. We sell our products through both tier-one distributors and direct sales channels. Our tier-one distributors further distribute our products through their tier-two distributors. In line with general industry practice, we generally manage our tier-two distributors through tier-one distributors. Our direct sales channels consist of (i) self-owned retail outlets, all of which are located on leased premises, (ii) direct corporate sales to customers such as real estate developers, interior design companies and construction companies, and (iii) preferred dealers (these are retail outlet operators with whom we have a sales relationship that closely resembles that of other direct sales channels in terms of services, support and gross margin).

SUMMARY

70.4% of our ceramic tile products in terms of revenue were sold through our tier-one distributors, with the remaining 29.6% sold through direct sales channels in 2012. We manage various aspects of the sales and distribution process of our distributors and preferred dealers as well as our relationship with them, such as their geographic territory, performance target, pricing, order and delivery and payment and credit term, through contractual arrangements.

The following diagram illustrates the distribution model for our ceramic tile products as of June 30, 2013.



As of December 31, 2010, 2011, 2012, and June 30, 2013, we had 351, 412, 446 and 514 tier-one distributors, respectively. The following table sets forth our retail outlets for ceramic tile products as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Retail outlets operated by				
Tier-one distributors	495	535	612	671
Tier-two distributors	393	503	603	680
Preferred dealers	57	83	93	115
Self-owned	42	57	58	48
Total	987	1,178	1,366	1,514

SUMMARY

The following table sets forth our revenue of ceramic tile products by sales channel and as percentage of total revenue for ceramic tile products for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Distributors	644,600	67.2%	1,552,330	79.3%	1,736,033	70.4%	752,132	71.1%	910,297	74.7%
Direct sales										
Self-owned retail outlets .	80,779	8.4	111,336	5.7	185,061	7.5	75,240	7.1	77,108	6.3
Corporate sales	170,140	17.7	203,860	10.4	415,833	16.9	182,022	17.2	157,774	13.0
Preferred dealers.....	63,993	6.7	89,045	4.6	129,410	5.2	48,459	4.6	73,531	6.0
Subtotal.....	314,912	32.8	404,241	20.7	730,304	29.6	305,721	28.9	308,413	25.3
Total for ceramic tiles	<u>959,512</u>	<u>100.0%</u>	<u>1,956,571</u>	<u>100.0%</u>	<u>2,466,337</u>	<u>100.0%</u>	<u>1,057,853</u>	<u>100.0%</u>	<u>1,218,710</u>	<u>100.0%</u>

Historically, most of our distribution agreements and dealership agreements require our distributors and preferred dealers to sell our products above certain minimum prices. By September 2013, we have amended all existing agreements with our distributors and preferred dealers. The new agreements no longer have provisions on mandatory minimum prices and only provide guidance on the suggested retail prices. Our PRC legal advisor, Jun He Law Offices, advised us that (i) these new distribution agreements and dealership agreements are in compliance with the PRC anti-monopoly law and (ii) the risk of us being subject to retrospective penalties as to potential historical violation of PRC anti-monopoly law due to the provisions on mandatory minimum prices in our old agreements is remote. See “Risk Factors — We face uncertainties in the interpretation and enforcement of PRC anti-monopoly law”.

The following table sets forth our revenue of all products by region and as percentage of total revenue for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Northern China ⁽¹⁾	119,955	12.3%	381,841	19.3%	657,749	26.3%	273,074	25.5%	365,087	28.6%
Central China ⁽²⁾	172,412	17.7	463,997	23.4	762,761	30.5	329,787	30.9	404,869	31.8
Southern China ⁽³⁾	682,260	70.0	1,133,115	57.3	949,366	38.0	414,575	38.8	445,669	35.0
International ⁽⁴⁾	—	—	—	—	128,048	5.2	51,652	4.8	59,124	4.6
Total	<u>974,627</u>	<u>100.0%</u>	<u>1,978,953</u>	<u>100.0%</u>	<u>2,497,924</u>	<u>100.0%</u>	<u>1,069,088</u>	<u>100.0%</u>	<u>1,274,749</u>	<u>100.0%</u>

Notes:

- (1) Includes Beijing and Tianjin municipalities and Gansu, Hebei, Heilongjiang, Jilin, Liaoning, Qinghai, Shaanxi, Shandong and Shanxi provinces and Inner Mongolia, Ningxia, Tibet and Xinjiang autonomous regions.

SUMMARY

- (2) Includes Chongqing and Shanghai municipalities and Anhui, Henan, Hubei, Jiangsu, Sichuan and Zhejiang provinces.
 (3) Includes Fujian, Guangdong, Guizhou, Hainan, Hunan, Jiangxi and Yunnan provinces and Guangxi autonomous region.
 (4) Includes regions that are outside of China.

Logistics and Information Technology

Our logistics network and information technology system play a pivotal role in supporting our market expansion and penetration efforts. We operate the largest logistics network in China's ceramic industry, according to the F&S Report. This logistics network currently consists of five central warehouses located at close proximity to our production facilities and a network of 20 regional warehouses at strategic locations across China. We believe this logistics network has enabled us to provide faster shipping and lower transportation cost for our distributors, as well as supports our sales and production planning. In addition, we have implemented a comprehensive SAP enterprise resource planning system in stages since 2007 to support our business operation. This system has helped to improve our operational and management efficiencies in facilitating real time information access, expediting ordering and delivery process, and improving management and control process.

Production Facilities

We currently have five production facilities for ceramic tile products. We have expanded our production capacity significantly during the Track Record Period, and the utilization rates at our production facilities remained relatively high. See "Business — Production — Ceramic Tile Products — Production Facilities".

Financial Track Record

We have experienced significant growth during the Track Record Period. The following table sets forth our selected income statement items for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
(RMB'000 except for percentages)										
(unaudited)										
Revenue	974,627	100.0%	1,978,953	100.0%	2,497,924	100.0%	1,069,088	100.0%	1,274,749	100.0%
Gross profit.....	200,615	20.6%	568,373	28.7%	888,370	35.6%	355,312	33.2%	473,354	37.1%
Operating profit ⁽¹⁾	30,300	3.1%	218,292	11.0%	265,858	10.6%	91,270	8.5%	196,105	15.4%
Profit before tax.....	12,883	1.3%	197,665	10.0%	240,198	9.6%	76,361	7.1%	171,286	13.4%
Profit for the year/period	7,284	0.7%	147,942	7.5%	172,840	6.9%	56,337	5.3%	121,233	9.5%

- (1) Operating profit is calculated by adding gross profit with other income, then subtracting bank interest income and interest income from credit sales, distribution and selling expenses, administrative expenses, other expenses and share of loss of a joint venture.

SUMMARY

Our Reorganization and Related Party Transactions

Our operating results during the Track Record Period have been affected by our reorganization and related party transactions. Historically, Guangdong Dongpeng Ceramics was our principal onshore holding company. In November 2011, a new onshore holding company, Guangdong Dongpeng Holdings, was established to hold our PRC operating subsidiaries. This was done principally to facilitate our pre-IPO investment and put in place our current group structure. In addition, Guangdong Dongpeng Ceramics had certain unrelated businesses such as real estate investments, which made it unsuitable as the holding company of a ceramic tile focused company seeking a listing on the Hong Kong Stock Exchange.

- *Reorganization.* As part of our reorganization, we took over businesses of Shandong Dongpeng and Shandong Jialiya, entities controlled by certain members of our Controlling Shareholders, into our current onshore holding company in 2011. In 2011, revenue from Zibo Kapuer, our wholly-owned subsidiary that consisted of only the businesses taken over from Shandong Dongpeng and Shandong Jialiya, contributed a total of RMB358.6 million, or 18.1%, of our total revenue.
- *Related party transactions.* During the Track Record Period, our related party transactions were primarily with Guangdong Dongpeng Ceramics, Shandong Jialiya and Shandong Dongpeng. In 2010, our selling prices to related parties were generally at a discount off the selling prices to third parties. Since 2011, such discounts have been terminated and we have sold to related parties at similar prices as to third parties. Sales to Guangdong Dongpeng Ceramics and other related parties as a percentage of total revenue decreased from 37.3% in 2010 to 28.6% in 2011 and further to 1.6% in 2012.

For more information, see “Financial Information — Impact of Reorganization and Related Party Transactions”.

STRENGTHS AND STRATEGY

We believe that the strengths of our Company that have enabled us to compete effectively in the marketplace include (i) our market leadership and strong brand recognition in key segment of the PRC home improvement industry; (ii) being the industry trendsetter with comprehensive product offerings through persistent focus on innovation; (iii) our nationwide sales network and effective control of distribution channels; (iv) our unique logistics network that strengthens distributor relationship and supports market expansion; (v) our effective implementation of SAP system driving operational efficiencies; and (vi) our experienced, dedicated and visionary management team with a proven track record.

We intend to become a dominant leader in the PRC home improvement industry with a focus on ceramic tiles and bathroom products by (i) continuing to strengthen our brand to solidify leading market position; (ii) continuing to expand our sales network and enhance distributor management; (iii) enhancing store-level productivity; (iv) further expanding our bathroom products business; (v) continuing to enhance product mix and operational efficiency; and (vi) selectively pursuing acquisition and investment opportunities.

SUMMARY

OUR CHALLENGES

We face a number of challenges in our business and industry. In particular, we may not be able to derive the desired benefits from our product development efforts or respond to changes in consumer preferences. We also may not be able to expand our sales network or enhance the productivity of our retail outlets, or expand successfully in the bathroom products market. In addition, we depend on distributors for a substantial portion of our revenue, and we may be unable to effectively manage our relationships with distributors. The ceramic tile market and the bathroom product market in the PRC are highly competitive, and we may fail to compete effectively in the market place. Furthermore, some of our owned and leased properties and production facilities have title defects. For more details of the risks and uncertainties that we face, see “Risk Factors”.

In addition, we had certain historical non-compliance incidents. For details, see “Business — Legal Proceedings and Compliance — Non-compliance”.

OUR SHAREHOLDERS

Immediately following the completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, as a group of persons acting in concert, will be interested in, through companies controlled by them, approximately 68.56% of the post offering enlarged issued share capital of our Company and hence will continue to be the ultimate Controlling Shareholders of our Company. Our ultimate Controlling Shareholders confirm that they do not have any interest in any business which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under Rule 8.10 of the Listing Rules.

In addition, Sequoia is an investor in our Company, and will own approximately 7.82% of our issued and outstanding share capital immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised. We completed the issuance of 195,105,600 shares of series A preferred shares to Sequoia on June 8, 2013. The fair value of these series A preferred shares was RMB188.4 million as of June 30, 2013. Immediately prior to the closing of the Global Offering, all series A preferred shares will be automatically converted into ordinary shares of the Company on a one-to-one basis and their liability component will become part of the Company’s share capital. See “History and Corporate Development — Pre-IPO Investment from Sequoia” and note 27 of the Accountant’s Report in Appendix I of this prospectus.

DIVIDEND POLICY

Following completion of the Global Offering, our Shareholders will be entitled to receive dividends that we declare. For details of our dividend policy, see “Financial Information — Dividend Policy”.

We have declared and paid dividends of an aggregate amount of nil, nil, RMB169.3 million and nil in 2010, 2011, 2012 and the first half of 2013, respectively, to our shareholders. On November 5, 2013,

SUMMARY

we declared and approved a dividend of RMB90 million to our pre-IPO shareholders of record as of November 6, 2013 which dividend will be paid prior to the Listing. Our dividend payments in the past are no indication of our dividend policy in the future. See “Financial Information — Dividend Policy” for a detailed description of our dividend policy.

SHARE OPTION SCHEMES

Pursuant to the resolutions of our Shareholders passed on October 31, 2013 and November 5, 2013, we have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, respectively.

The principal terms of these share option schemes are set out in the sections headed “Pre-IPO Share Option Scheme” and “Share Option Scheme” respectively in Appendix IV to this prospectus. As at the Latest Practicable Date, options to subscribe for an aggregate of 47,500,000 Shares have been conditionally granted under the Pre-IPO Share Option Scheme by our Company, and remained outstanding as at the Latest Practicable Date. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme will be HK\$0.01.

The Shares subject to the options granted under the Pre-IPO Share Option Scheme represent (i) approximately 3.81% of our issued share capital immediately after completion of the Global Offering (excluding all Shares which may be allotted and issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or to be granted under the Share Option Scheme or the exercise of the Over-allotment Option); and (ii) approximately 3.67% of our issued share capital immediately after completion of the Global Offering, assuming that all options granted under the Pre-IPO Share Option Scheme are exercised without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option.

Further, assuming that (i) our Company had been listed on the Stock Exchange since January 1, 2012 with 1,246,952,800 shares in issue; and (ii) all the options granted under the Pre-IPO Share Option Scheme in respect of 47,500,000 Shares were exercised in full on January 1, 2012, the earnings per Share on a pro forma diluted basis would be approximately HK\$0.16 (unaudited) for the year ended December 31, 2012.

RECENT DEVELOPMENTS

For the nine months ended September 30, 2013, our revenue and net profit derived from our ceramic tile products business are expected to continue to increase as we continue to expand our sales channels and refine our product mix. In addition, we acquired the bathroom products business from certain related parties in May 2013 to further expand into this segment. As we further grow the bathroom products business and improve its profitability after such acquisition, we expect our revenue and net profit derived from our bathroom products business to increase.

SUMMARY

Based on our unaudited management accounts for the nine months ended September 30, 2013:

- We expect revenue for the nine months ended September 30, 2013 to be approximately RMB2.3 billion, representing an increase of approximately RMB1.0 billion from RMB1.3 billion for the six months ended June 30, 2013. The strong revenue growth during the three months ended September 30, 2013 was primarily due to (i) the overall growth in market demand; (ii) our continuing sales and marketing efforts; (iii) the expansion of our sales channels; and (iv) the acquisition of the bathroom products business in May 2013.
- We expect gross profit for the nine months ended September 30, 2013 to be approximately RMB855.7 million, representing an increase of approximately RMB382.3 million from RMB473.4 million for the six months ended June 30, 2013. We expected the gross profit margin for the three months ended September 30, 2013 to be approximately 37.1%. The strong growth in gross profit during the three months ended September 30, 2013 was primarily due to continued improvement of overall operational efficiency and change in product mix and the acquisition of the bathroom products business in May 2013.

During the three months ended September 30, 2013, we added 42 new tier-one distributors, one new preferred dealer and 34 additional retail outlets operating under these distributors and preferred dealer.

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company since June 30, 2013 and up to the date of this prospectus.

OFFERING STATISTICS

Offering size:	Initially 20% of the enlarged share capital of the Company
Offering structure:	Approximately 10% Hong Kong Public Offering (subject to adjustment) and approximately 90% International Placing (subject to adjustment and Over-allotment Option)
Over-allotment Option:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price per Share:	HK\$3.68 to HK\$4.55 per Offer Share
Use of Proceeds (assuming an Offer Price of HK\$4.12 per Share, or the mid-point of the indicative Offer Price range)	We estimate that net proceeds are expected to be approximately HK\$953.8 million (after deducting estimated underwriting fees and commissions and expenses in connection with the Global Offering) assuming no exercise of the Over-allotment Option. We plan to use the net proceeds to: <ul style="list-style-type: none">• approximately 40%, or HK\$381.5 million, allocated for expansion and upgrade of production facilities;

SUMMARY

- approximately 10%, or HK\$95.4 million, allocated for expansion of our distribution network (including opening of additional self-owned retail outlets and product showrooms), the setting up of additional local sales management offices, and the hiring of additional sales and marketing personnel;
- approximately 10%, or HK\$95.4 million, allocated for research and development, including the opening of a new research and development center (primarily consisting of proceeds used for construction of the center and the purchase of production and testing equipment for prototypes);
- approximately 10%, or HK\$95.4 million, allocated for the repayment of loans;
- approximately 25%, or HK\$238.4 million, will be used for mergers and acquisitions to complement our existing product lines and sales channels; and
- the remaining amount of approximately not more than 5%, or HK\$47.7 million, will be used for working capital and other general corporate purposes.

Any additional proceeds received from the exercise of Over-allotment Option will be allocated to the above purposes on a pro rata basis.

See “Future Plans and Use of Proceeds — Use of Proceeds” for more details.

	Based on an Offer Price of HK\$3.68 per Share⁽¹⁾	Based on an Offer Price of HK\$4.55 per Share⁽¹⁾
Market capitalization of our Share ⁽²⁾	HK\$4,588.8 million	HK\$5,673.6 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽³⁾	HK\$0.93	HK\$1.11

(1) All statistics in this table are presented based on the assumption that options granted under the Pre-IPO Share Option Scheme and the Over-allotment Option are not exercised.

(2) The calculation of market capitalization is based on 1,246,952,800 Shares expected to be in issue and outstanding following the completion of the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible asset value per Share is arrived at after the adjustments referred to in the section entitled “Appendix II — Unaudited Pro Forma Financial Information” and on the basis that 1,149,400,000 Shares are in issue (including 900,000,000 shares in issue as at June 30, 2013, and 249,400,000 shares to be issued upon the Global Offering) and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised and no conversion of Series A convertible preferred shares.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus.

“Advertisement Law”	PRC Advertisement Law (中華人民共和國廣告法) promulgated on October 27, 1994 by the Standing Committee of the National People’s Committee of the National People’s Congress and effective from February 1, 1995
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), individually or collectively, as the context may require
“Articles of Association” or “Articles”	our third amended and restated articles of association, as conditionally adopted on November 5, 2013, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“associate”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Beijing Dongpeng”	Beijing Dongpeng Ceramics Technologies Co., Ltd. (北京東鵬陶瓷技術有限公司), a company incorporated under the laws of the PRC with limited liability on June 8, 2011 and a connected person of our Company
“Board of Directors” or “Board”	our board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“BVI Co”	China Home Investment Company Limited, a company incorporated under the laws of the BVI with liability limited by shares on April 11, 2012 and a wholly owned subsidiary of the Company
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of the board of Directors of the Company
“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“China Brand Research Institute”	an independent market research firm, focusing on researching and evaluating brands in the PRC market as well as providing consulting services for brand promotion in the PRC
“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “Dongpeng”, “Group”, “our Group”, “we” or “us”	Dongpeng Holdings Company Limited (東鵬控股股份有限公司), an exempted company incorporated under the laws of Cayman Islands with limited liability on March 12, 2012 and except where the context indicated otherwise (i) our subsidiaries and (ii) with respect to the period before our Company became the holding company of our present subsidiaries, the business operated by our present subsidiaries or (as the case may be) their predecessors
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and in the context of this prospectus, refers to Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, our ultimate “Controlling Shareholders”, and the companies through which they hold equity interest in our Company, namely, Profit Strong, Superb Idea, Cosmo Ray and High Ride
“Cosmo Ray”	Cosmo Ray Investments limited, a company incorporated under the laws of the BVI with liability limited by shares on September 16, 2011 and one of our Controlling Shareholders

DEFINITIONS

“Datang Hesheng”	Foshan Datang Hesheng Ceramic Co., Ltd. (佛山市大唐合盛陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on July 8, 2004 and a connected person of our Company
“Deqing Heying”	Duilong Deqing Heying Trading Co., Ltd. (堆龍德慶和盈商貿有限公司), a company incorporated under the laws of the PRC with limited liability on April 10, 2013 and an indirect wholly-owned subsidiary of our Company
“Deqing Yuwei”	Duilong Deqing Yuwei Trading Co., Ltd. (堆龍德慶裕威商貿有限公司), a company incorporated under the laws of the PRC with limited liability on April 10, 2013 and an indirect wholly-owned subsidiary of our Company
“Director(s)”	the director(s) of the Company
“Dongpeng Ceramic Factory Storage and Transportation Department”	Foshan Shiwan Dongpeng Ceramic Factory Storage and Transportation Department (佛山市石灣東平陶瓷總廠儲運部), a company incorporated under the laws of the PRC with limited liability in July 1995 and one of our predecessors
“Dongpeng Group”	Foshan Shiwan Dongpeng Ceramic Group Co., Ltd. (佛山市石灣東平陶瓷集團有限公司), a company incorporated under the laws of the PRC with limited liability in November 1997 and one of our predecessors
“Dongpeng International”	Dongpeng International Holding Company Limited, a company incorporated under the laws of Cayman Islands in June 2010, a connected person of our Company
“Dongpeng Sanitary Ware”	Foshan Dongpeng Sanitary Ware Co., Ltd. (佛山東平潔具股份有限公司) (formerly known as Foshan Leqi Sanitary Ware Co., Ltd. (佛山市樂奇潔具有限公司)), a company incorporated under the laws of the PRC with limited liability on December 22, 1994 and an indirect wholly-owned subsidiary of our Company
“Dongping Group”	Foshan Shiwan Dongping Ceramic Group Company (佛山市石灣東平陶瓷集團公司), a company incorporated under the laws of the PRC with limited liability in March 1991 and one of our predecessors
“EIT Implementation Rules”	The Implementation Rules of the Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》) promulgated on November 28, 2007

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“EIT Law”	the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) promulgated by the National People’s Congress of China on March 16, 2007
“ERP”	enterprise resource planning
“Exclusive Trademarks License Agreement”	the exclusive trademarks license agreement entered into between Guangdong Dongpeng Ceramics and Guangdong Dongpeng Holdings on January 1, 2013
“Fengcheng Dongpeng”	Fengcheng Dongpeng Ceramics Co., Ltd. (豐城市東鵬陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on July 10, 2007 and an indirect wholly-owned subsidiary of our Company
“FIE”	foreign invested enterprise
“Foreign Trade Law”	the Foreign Trade Law of the People’s Republic of China (《中華人民共和國對外貿易法》) promulgated by the National People’s Congress of China on May 12, 1994
“Foshan Dongliansheng”	Foshan Dongliansheng Investment Co., Ltd. (佛山市東聯盛投資有限公司), a company incorporated under the laws of the PRC with limited liability on May 30, 2007 and a connected person of our Company
“Foshan Dongpeng Ceramics”	Foshan Dongpeng Ceramics Co., Ltd. (佛山市東鵬陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on December 14, 2011 and an indirect wholly-owned subsidiary of our Company
“Foshan Dongpeng Development”	Foshan Dongpeng Ceramics Development Co., Ltd. (佛山市東鵬陶瓷發展有限公司), a company incorporated under the laws of the PRC with limited liability on February 20, 2012 and a company owned as to 92.31% by Guangdong Dongpeng Holdings and 7.69% by a connected person of our Company
“Foshan Hua Sheng Chang”	Foshan Hua Sheng Chang Ceramics Co., Ltd. (佛山華盛昌陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on April 18, 1994 and a wholly-owned subsidiary of HK Co and therefore an indirect wholly-owned subsidiary of our Company
“Foshan Lease Agreement”	lease agreements entered into by Guangdong Dongpeng Ceramics with Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe on July 1, 2013 and amended by a supplemental agreement on October 8, 2013

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“Foshan Yuanheng”	Foshan Yuanheng Investment Holding Co., Ltd. (佛山市元亨投資控股有限公司), a company incorporated under the laws of the PRC with limited liability in August 2010 and a connected person of our Company
“F&S Report”	an independent market research report commission by the Company on the China ceramic tile and bathroom product markets prepared by Frost & Sullivan, an independent market research firm, in October 2013
“Gaoming Furniture”	Foshan Gaoming Wenchang Furniture Co., Ltd. (佛山市高明穩暢傢俱有限公司), a company incorporated under the laws of the PRC with limited liability on September 13, 2011 that became a 70% owned indirect subsidiary of our Company on September 18, 2012
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Guangdong Dongpeng Ceramics”	Guangdong Dongpeng Ceramics Co., Ltd. (廣東東鵬陶瓷股份有限公司), a company incorporated under the laws of the PRC with limited liability on November 11, 1997 as Foshan Shiwan Dongpeng Ceramic Group Co., Ltd. (佛山市石灣東鵬陶瓷集團有限公司) and a connected person of our Company
“Guangdong Dongpeng Holdings”	Guangdong Dongpeng Holdings Co., Ltd. (廣東東鵬控股股份有限公司), a company incorporated under the laws of the PRC with limited liability on November 4, 2011 and an indirect wholly-owned subsidiary of our Company
“Guangdong Yuhe”	Guangdong Yuhe Trading Co., Ltd. (廣東裕和商貿有限公司), a company incorporated under the laws of the PRC with limited liability on January 10, 2011 and an indirect wholly-owned subsidiary of our Company
“Guangxi Yuepeng”	Guangxi Yuepeng Building Materials Co., Ltd. (廣西粵鵬建材有限公司), a company incorporated under the laws of the PRC with limited liability on September 29, 2010 and an indirect wholly-owned subsidiary of our Company
“Guangzhou Dongpeng”	Guangzhou Dongpeng Ceramics Co., Ltd. (廣州市東鵬陶瓷有限責任公司), a company incorporated under the laws of the PRC with limited liability on June 20, 2008 and an indirect wholly-owned subsidiary of our Company

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“High Ride”	High Ride Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on November 11, 2011 and one of our Controlling Shareholders
“HK Ceramic”	Dongpeng Ceramic (HK) Limited (東鵬陶瓷(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on December 9, 2005 and a connected person of our Company
“HK Co”	Dongpeng International (Hongkong) Holdings Company Limited (東鵬國際(香港)控股有限公司), a company incorporated under the laws of Hong Kong with limited liability on May 4, 2012 and an indirect wholly-owned subsidiary of our Company
“HK Flying”	Hong Kong Flying Development Limited (香港佛來盈發展有限公司), a company incorporated under the laws of Hong Kong with limited liability on April 29, 1998 and a connected person of our Company
“HK-Mainland Taxation Arrangement”	the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offer Shares”	the 24,940,000 new Shares initially being offered by the Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in “Structure of the Global Offering”)
“Hong Kong Public Offering”	the offer by the Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as described in “Structure of the Global Offering” at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto

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“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited, the Hong Kong share registrar of the Company
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering named in “Underwriting — Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong underwriting agreement dated November 15, 2013 relating to the Hong Kong Public Offering entered into by, among others, the Company, the Controlling Shareholders, the Joint Bookrunners and the Hong Kong Underwriters
“Hunan Dongpeng”	Hunan Dongpeng Building Materials Trading Co., Ltd. (湖南東鵬建材貿易有限公司), a company incorporated under the laws of the PRC with limited liability on January 28, 2013 and an indirect wholly-owned subsidiary of our Company
“Hunan Jinpeng”	Hunan Jinpeng New Building Materials Co., Ltd. (湖南金鵬新型建材有限公司), a company incorporated under the laws of the PRC with limited liability in January 2008 and a connected person of our Company
“Independent Third Party”	a party which is not connected (as defined in the Listing Rules) to our Company or our connected persons
“International Offer Shares”	the 224,460,000 new Shares initially being offered by the Company for subscription at the Offer Price under the International Placing (subject to adjustment as described in the section headed “Structure of the Global Offering”) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Placing”	the conditional placing by the International Underwriters of the International Offer Shares outside the United States (including to professional, institutional and corporate investors and excluding retail investors in Hong Kong) in reliance on Regulation S and to QIBs in the United States in reliance on Rule 144A for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed “Structure of the Global Offering” on and subject to the terms and conditions stated herein and in the International Underwriting Agreement

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“International Underwriters”	the group of underwriters led by the Sole Global Coordinator and the Joint Bookrunners, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the conditional placing and purchase agreement relating to the International Placing and expected to be entered into by, among others, the Company, the Controlling Shareholders and the Joint Bookrunners on behalf of the International Underwriters on or about the Price Determination Date
“Jiangxi Bathroom Products”	Jiangxi Dongpeng Bathroom Products Co., Ltd. (江西東鵬衛浴有限公司), a company incorporated under the laws of the PRC with limited liability on June 15, 2012 and an indirect wholly-owned subsidiary of our Company
“Jiangxi Fengyu”	Jiangxi Fengyu Commercial and Trading Co., Ltd. (江西豐裕商貿有限公司), a company incorporated under the laws of the PRC with limited liability on January 16, 2012 and an indirect wholly-owned subsidiary of our Company
“Jinma Village Committee”	the village committee of Jinma village, Shuangyang town, Zichuan district, Zibo city, Shandong province (山東省淄博市淄川區雙楊鎮金馬村村民委員會)
“Joint Bookrunners” or “Joint Lead Managers”	Goldman Sachs (Asia) L.L.C., Deutsche Bank AG, Hong Kong Branch and BOCI Asia Limited
“Latest Practicable Date”	November 8, 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Law on Foreign-invested Enterprises”	The Law of the People’s Republic of China on Foreign-invested Enterprises (《中華人民共和國外資企業法》) promulgated by the National People’s Congress of China on April 12, 1986 and amended on October 31, 2000
“Lianli Factory”	Foshan Chancheng Lianli Raw Materials Factory (佛山市禪城區聯力原料加工廠), a company incorporated under the laws of the PRC with limited liability in June 1994 and a former shareholder of Dongpeng Group
“Linzhi Yuhe”	Linzhi Yuhe Trading Co., Ltd. (林芝裕和商貿有限公司), a company incorporated under the laws of the PRC with limited liability on March 11, 2013 and an indirect wholly-owned subsidiary of our Company
“Listing”	listing of the Shares on the Main Board of the Stock Exchange

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“Listing Date”	the date expected to be on or about November 29, 2013 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Lixian Xinpeng”	Lixian Xinpeng Ceramics Co., Ltd. (澧縣新鵬陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on September 9, 2009 and an indirect wholly-owned subsidiary of our Company
“M&A Regulation”	Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)
“Memorandum of Association” or “Memorandum”	our third amended and restated memorandum of association, as conditionally adopted on November 5, 2013, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“MEP”	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“MLR”	the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. He”	He Xinming, one of our ultimate Controlling Shareholders and Our Chairman
“Nanfeng Guzao”	Foshan Nanfeng Guzao Tourism Development Co., Ltd. (佛山市南風古灶旅遊發展有限公司), a company incorporated under the laws of the PRC with limited liability and owned by the People’s Government of Shiwan town, Guangdong province
“Nanhai Dongpeng”	Foshan Nanhai Dongpeng Bathroom Products Co., Ltd. (佛山市南海東鵬衛浴有限公司), formerly known as Nanhai Flying Ceramics Co., Ltd. (佛山市南海佛來盈陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability in March 2004 and a connected person of our Company
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“New Opportunity”	any business investment or other commercial opportunity in the PRC relating to the Restricted Business as defined in the Non-competition Deed entered into by our ultimate Controlling Shareholders in favor of our Company
“Non-competition Deed”	a deed of non-competition entered into by our ultimate Controlling Shareholders in favor of our Company dated November 5, 2013
“OEM”	original equipment manufacturer
“Offer Price”	the final Hong Kong dollar price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK\$4.55 and is expected to be not less than HK\$3.68, to be determined as described in the section headed “Structure of the Global Offering — Pricing and Allocation — Determining the Offer Price”
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares
“Offshore Share Incentives Rule”	the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) promulgated by the SAFE on February 15, 2012
“Over-allotment Option”	the option to be granted by the Company to the International Underwriters under the International Underwriting Agreement pursuant to which the Company may be required by the Sole Global Coordinator (on behalf of the International Underwriters), to allot and issue up to an aggregate of 37,410,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Placing, details of which are described in the section headed “Structure of the Global Offering”
“Over-allotment Shares”	up to 37,410,000 Shares which the Company may be required to issue at the Offer Price pursuant to the Over-allotment Option
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

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“Pre-IPO Share Option Scheme”	the Pre-IPO Share Option Scheme adopted by the Company on October 31, 2013, the principal terms of which are summarized in “Appendix IV — Statutory and General Information — Pre-IPO Share Option Scheme”
“Price Determination Date”	the date, expected to be on or about November 22, 2013 (Hong Kong time), when the Offer Price is determined and, in any event, no later than November 27, 2013
“Profit Strong”	Profit Strong Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on September 5, 2011 and one of our Controlling Shareholders
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Qingdao Ruipeng”	Qingdao Ruipeng Building Materials Co., Ltd. (青島瑞鵬建材有限公司), a company incorporated under the laws of the PRC with limited liability on November 3, 2011 and an indirect wholly-owned subsidiary of our Company
“Qingyuan Dongpeng”	Dongpeng Ceramics (Qingyuan) Co., Ltd. (東鵬陶瓷(清遠)有限公司), a company incorporated under the laws of the PRC with limited liability on October 17, 2003 and a connected person of our Company
“Qingyuan Dongpeng Bathroom Products”	Qingyuan Dongpeng Bathroom Products Co., Ltd. (清遠東鵬衛浴有限公司), a company incorporated under the laws of the PRC with limited liability on October 17, 2003 and a connected person of our Company
“Qingyuan Haiwei”	Qingyuan Haiwei Industrial Investment Co., Ltd. (清遠市海威工業投資有限公司), a company incorporated under the laws of the PRC with limited liability on May 18, 2006, and a connected person of our Company
“Qingyuan Nafuna”	Qingyuan Nafuna Ceramics Co., Ltd. (清遠納福娜陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on August 12, 2010 and a company owned as to 90.35% by Guangdong Dongpeng Holdings and 9.65% by a connected person of our Company
“Qingyuan Xinxi”	Qingyuan Xinxi Industrial Investment Co., Ltd. (清遠市新禧工業投資有限公司), a company incorporated under the laws of the PRC with limited liability on May 18, 2006, and a connected person of our Company
“Regulation S”	Regulation S under the U.S. Securities Act

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“related parties”	has the meaning as set out in the paragraph headed “Related parties” under note 34 to the accountant’s report set out in Appendix I to this prospectus
“Restricted Business”	any business which is or may be in competition with our existing core business as defined in the Non-competition Deed entered into by our ultimate Controlling Shareholders in favour of our Company
“Rich Blossom”	Rich Blossom Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on November 11, 2011 and one of our direct Shareholders
“RMB”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAFE Circular 142”	the Circular on Foreign Currency Capital of Foreign-Funded Enterprise (《關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知》) promulgated by the SAFE on August 29, 2008 and supplemented on July 18, 2011
“SAFE Circular No. 75”	Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by SAFE on October 21, 2005
“SAIC”	the State Administration of Industry and Commerce (中華人民共和國國家工商行政管理總局)
“SAP”	an enterprise resource planning system
“SASAC” or “State-owned Assets Supervision and Administration Commission”	State-owned Assets Supervision and Administration Commission of the PRC (中華人民共和國國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SAT Circular 82”	the Notice on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the SAT on April 22, 2009

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“SAT Circular 601”	the Notice on How to Understand and Recognize the Beneficial Owner in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) promulgated by the SAT on October 27, 2009
“SAT Circular 698”	the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) issued by the SAT on December 10, 2009
“SAT Public Notice 24”	the Announcement on Several Issues concerning the Administration of Income Tax of Non-tax-resident Enterprises (《國家稅務總局關於非居民企業所得稅管理若干問題的通告》) released by the SAT on March 29, 2011
“SAWS”	State Administration of Work Safety (中華人民共和國國家安全生產監督管理總局)
“Sequoia”	Collectively, Sequoia Fund, Sequoia Partners and Sequoia Principals
“Sequoia Fund”	Sequoia Capital China Growth Fund I, L.P., an exempted limited partnership established in the Cayman Islands on May 18, 2007 and a pre-IPO investor of our Company
“Sequoia Holding”	SC China Holding Limited, a company incorporated in the Cayman Islands on August 12, 2005 with limited liability and a general partner of Sequoia Management
“Sequoia Management”	Sequoia Capital China Growth Fund Management I, L.P., an exempted limited partnership established in the Cayman Islands on May 18, 2007 and a general partner of Sequoia Fund, Sequoia Partners and Sequoia Principals
“Sequoia Partners”	Sequoia Capital China Growth Partners Fund I, L.P., an exempted limited partnership established in the Cayman Islands on March 13, 2008 and a pre-IPO investor of our Company
“Sequoia Principals”	Sequoia Capital China GF Principals Fund I, L.P., an exempted limited partnership established in the Cayman Islands on October 24, 2007 and a pre-IPO investor of our Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shaanxi Dongpeng”	Shaanxi Dongpeng Building Materials Co., Ltd. (陝西東鵬建材有限公司), a company incorporated under the laws of the PRC with limited liability on September 3, 2008 and an indirect wholly-owned subsidiary of our Company
“Shandong Dongpeng”	Shandong Dongpeng Ceramic Co., Ltd. (山東東鵬陶瓷股份有限公司), a company incorporated under the laws of the PRC with limited liability on September 9, 2002 and a connected person of our Company
“Shandong Jialiya”	Shandong Jialiya Ceramic Co., Ltd. (山東嘉麗雅陶瓷股份有限公司), a company incorporated under the laws of the PRC with limited liability on July 30, 1993, and a connected person of our Group
“Shandong Lease Agreement”	a lease agreement in relation to certain production premises and production lines entered into between Zibo Kapuer and Shandong Jialiya on June 30, 2013
“Shanghai Dongpeng”	Shanghai Dongpeng Ceramics Co., Ltd. (上海東鵬陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on March 5, 2007 and an indirect wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) of nominal or par value US\$0.000002 each in the issued share capital of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on November 5, 2013, the principal terms of which are summarized in “Appendix IV — Statutory and General Information — Share Option Scheme”
“Shareholder(s)”	holder(s) of Shares
“Shenzhen Dongpeng”	Shenzhen Dongpeng Ceramics Co., Ltd. (深圳東鵬陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on July 21, 2008 and an indirect wholly-owned subsidiary of our Company
“Shiwan Central Factory”	Foshan Shiwan Dongping Ceramic Central Factory (佛山市石灣東平陶瓷總廠), a company incorporated under the laws of the PRC with limited liability in February 1990 and one of our predecessors
“Shiwan Decorative Tile Factory”	Foshan Shiwan Dongping Ceramic Decorative Tile Factory (佛山市石灣東平裝飾磚廠), a company incorporated under the laws of the PRC with limited liability in February 1990 and one of our predecessors

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“Shiwan Huatai”	Foshan Shiwan Huatai Ceramics Co., Ltd. (佛山市石灣華泰陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability in July 1992 and acquired by one of our predecessors
“Shuangyang Economic Development Office”	the Economic Development Office of Shuangyang town, Zichuan district, Zibo city, Shandong province (山東省淄博市淄川區雙楊鎮經濟發展辦公室)
“Shunde Dongpeng”	Foshan Shunde Dongpeng Ceramics Sales Co., Ltd. (佛山市順德區東鵬陶瓷銷售有限公司), a company incorporated under the laws of the PRC with limited liability on August 19, 2010 and an indirect wholly-owned subsidiary of our Company
“Social Insurance Law”	The Social Insurance Law of the People’s Republic of China (《中華人民共和國社會保險法》) promulgated by the National People’s Congress of China on October 28, 2010
“Sole Global Coordinator” or “Sole Sponsor”	Goldman Sachs (Asia) L.L.C.
“Stabilizing Manager”	Goldman Sachs International
“Stock Borrowing Agreement”	the stock borrowing agreement which is expected to be entered into by Profit Strong and the Stabilizing Manager (or its agents) on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules
“Superb Idea”	Superb Idea Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability on September 12, 2011 and one of our direct Shareholders
“tonne” or “metric ton”	a unit measuring weight, equal to 1,000 kilograms
“Track Record Period”	the period consisting of the three years ended December 31, 2010, 2011, 2012 and six months ended June 30, 2013
“TRE”	PRC tax-resident enterprises
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States, as defined in Regulation S

DEFINITIONS

“U.S. Person”	has the meaning given to it in Regulation S
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“VAT”	Value-added Tax
“ White Form eIPO ”	applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WTO”	World Trade Organization
“Xinli Asset Management Company”	Shiwan Xinli Asset Management Company (石灣鎮信力資產投資管理公司), a company incorporated under the laws of the PRC with limited liability and represented the interest of the People’s Government of Shiwan town, Guangdong province
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Public Offer Shares to be deposited directly in CCASS
“Yunnan Xuanpeng”	Yunnan Xuanpeng Building Materials Co., Ltd. (雲南軒鵬建材有限公司), a company incorporated under the laws of the PRC with limited liability on September 7, 2011 and an indirect wholly-owned subsidiary of our Company
“Zibo Kapuer”	Zibo Kapuer Ceramics Co., Ltd. (淄博卡普爾陶瓷有限公司), a company incorporated under the laws of the PRC with limited liability on August 30, 2010 and an indirect wholly-owned subsidiary of our Company
“%”	per cent

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “insider”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, in particular, in the sections headed “Business” and “Financial Information” to this prospectus, are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects, including development plans for our existing and new business;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business and operating strategies and our ability to implement such strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets;
- the general economic trend of the PRC;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our business operations and/or financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected.

Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

RISK FACTORS

In addition to other information in this prospectus, you should carefully consider the following risk factors before making an investment in the Shares. Our business, prospects, financial condition or results of operations could be materially and adversely affected by any of these risks. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we currently deem to be immaterial, could also materially and adversely affect our business, prospects, financial condition and results of operations. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.

There are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (a) risks relating to our business and industry, (b) risks relating to conducting business in the PRC, and (c) risks relating to the Global Offering and our Shares.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We may not be able to derive the desired benefits from our product development efforts.

Our competitiveness is dependent on our ability to develop new products. We place significant emphasis on product development, in particular, to improve the quality of our products and expand our new product offerings, which we believe are factors crucial for our future growth and prospects. We cannot assure you that our future product development projects will be successful or be completed within the anticipated time frame or budget, or that our newly developed products will achieve wide market acceptance. Even if such products can be successfully commercialized, there is no guarantee that they will be accepted by the market.

In addition, we cannot assure you that our existing or potential competitors will not develop products which are similar or superior to our products. It is often difficult to project the time frame for developing new products and the duration of market demand for these products, there is a substantial risk that we may have to abandon a potential product that is no longer commercially viable, even after we have invested significant resources in the development of such product. If this occurs, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Failure to respond to changes in consumer preferences, perception or consumption pattern may materially and adversely affect our business, prospects, financial condition and results of operations.

The markets of home decoration and improvement products in general and ceramic tile products and bathroom products in particular are subject to rapid changes in consumer preferences, perception and consumption pattern.

We primarily sell our products to our tier-one distributors who sell our products through their tier-two distributors or directly to end customers. We have no direct control over the sales of our products by our tier-one distributors or their tier-two distributors, other than certain pricing and general sales policies which we enforce through all of our distributors through contractual arrangements. In addition, we do not maintain a system to monitor our tier-one distributors' inventory levels on real-time basis. As a result, we

RISK FACTORS

may not be able to assess accurately whether our sales to tier-one distributors correlate to sales of our products to their tier-two distributors and to end consumers. If we are not able to track sales of our products to end customers accurately, we may not be able to assess changes in market trends and preferences in a timely and accurate manner.

Our future success will depend partly on our ability to predict accurately the trends of interior designs and other factors affecting our consumer preferences and demands, anticipate or adapt to such changes in consumption pattern and to offer, on a timely basis, new products that meet changes in consumer preferences. We cannot assure you that our new products will gain market acceptance. In particular, in 2010, 2011, 2012 and the first half of 2013, we generated approximately 98.4%, 98.9%, 98.8% and 95.6% of our revenue from sales of our ceramic tile products, respectively, and we expect to continue to depend upon sales of these products for a substantial portion of our revenue in the foreseeable future. Therefore, changes in consumer preferences in favor of wood flooring, paint, stone marble, carpet and other alternative decoration products may have a material adverse impact on us. There can be no assurance that our ceramic tile products will hold long-term consumer appeal. Consumer preferences change, and our products may fail to meet the particular preferences of consumers. Our failure to anticipate, identify or react to these particular preferences or changes may limit the demand for any new products we introduce, which may result in us not being able to recover our development, production and marketing costs. If this occurs, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We may face difficulties as we expand our sales network to new regions.

We intend to expand our sales network by further enhancing our existing geographical coverage and penetrating new regions in the PRC. As we expand our business to new regions, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay our ability to start our operations or expand our sales network. We may also face difficulties in identifying distributors that satisfy our criteria. There is also a substantial risk that any new markets to which we introduce our products may not accept, or be as receptive to, our products as our existing markets. As a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our growth strategies depend in part on our ability to successfully expand in the bathroom products market, which we may not be able to achieve.

While our focus historically has been the design, production and sales of ceramic tiles, we are increasingly investing in the bathroom products market. In order to take advantage of the growth opportunities presented by the bathroom products market in general and the cross-selling opportunities to our customers of ceramic tile products in particular, we acquired the bathroom products business from certain related parties as part of our reorganization in May 2013. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”. Dongpeng Sanitary Ware, a company focuses on ceramic bathroom products that we acquired in May 2013, incurred net loss of RMB3.1 million and RMB3.0 million in 2012 and the five months ended May 31, 2013, respectively, prior to our acquisition. There is no guarantee that we will be able to turn Dongpeng Sanitary Ware into a profitable business or that our attempts to expand into the bathroom products market will be successful.

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In addition, we may not be able to successfully manage the distribution networks for bathroom products. Our experiences in developing ceramic tile products business may not be applicable to the bathroom products business. Furthermore, our plan of production expansion for bathroom products, including construction of production facilities, may not be completed as scheduled. Finally, our bathroom products may not achieve broad customer acceptance. If we are unsuccessful in managing the risks and uncertainties associated with expanding our bathroom products, our growth strategy may be negatively impacted, resulting in reduced potential future sales as well as potential dilution to the strength of our brands.

We rely on our “Dongpeng” brand. If we fail to build and promote our brand image, our business, prospects, financial condition and results of operations would be materially and adversely affected.

Substantially all of our products are marketed and sold under the “Dongpeng” brand. As a result, our brand image is crucial for our success as market perception and acceptance of a brand is a determining factor for customers in making their purchasing decisions for ceramic tile products and bathroom products. Our success in building and promoting our brand image depends on a number of factors, including:

- the success of our advertising and other marketing activities;
- our ability to manage our sales network and our distributors’ ability to manage their sales network to sell and market our products;
- our ability to ensure the quality of our product;
- our ability to ensure quality of services provided in all retail outlets selling our products; and
- our ability to protect our brand from counterfeit products sold under our brand name.

If our efforts to build and promote our brand image are not effective for any reason, the market recognition of our products may deteriorate, which in turn could adversely affect our business, prospects, financial condition and results of operations.

We have experienced significant growth in the past but cannot assure you that we can maintain similar rate of growth in the future.

During the Track Record Period, we expanded significantly and our revenue increased from RMB974.6 million in 2010 to RMB1,979.0 million in 2011, and to RMB2,497.9 million in 2012. In the first half of 2013, our revenue further increased to RMB1,274.7 million compared to RMB1,069.1 million in the same period in 2012.

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We expect to continue expanding our sales and operations. However, our expansion strategy may be hindered and there is no assurance that we would be able to manage our future expansion effectively. Our ability to grow our business is subject to other risks and uncertainties, including our ability to:

- compete effectively with our competitors in the market sectors of ceramic tile products and bathroom products, some of them may have longer operating histories and greater financial resources than we do;
- offer commercially successful and wide range of products to attract a larger base of consumers;
- increase sales and marketing activities and promote consumer awareness and acceptance of our products;
- competitively price our products;
- continue our existing arrangements with suppliers or distributors and enter into new arrangements with additional suppliers or distributors;
- manufacture and deliver products in a timely manner and in sufficient quantities;
- expand our production capacities and obtain all necessary approvals and permits for our expansion projects;
- manage our raw material supplies and sourcing costs;
- maintain sufficient cash and financing to fund our expansion plans and business operations; and
- retain our management and skilled staff in product development, production line operations and sales and marketing and attract additional key qualified personnel in order to keep pace with our growth.

If we are unsuccessful in addressing any of these risks and uncertainties, our business, prospects, financial condition and results of operations will be materially and adversely affected.

Our success depends on our ability to effectively manage our sales network, including our distributors.

We sell a majority of our products to our tier-one distributors. As of June 30, 2013, we had an extensive network of 826 tier-one distributors covering all provinces, autonomous regions and municipalities in China, for our ceramic tile products and bathroom products. In 2010, 2011, 2012 and the first half of 2013, sales to tier-one distributors amounted to RMB644.6 million, RMB1,552.3 million, RMB1,736.0 million and RMB910.3 million, respectively, representing 66.1%, 78.4%, 69.5% and 71.4%, respectively, of our total revenue. Our tier-one distributors further sell our products through their retail outlets or to their tier-two distributors and/or third party retail outlets. We rely on our tier-one distributors to manage their respective retail outlets and tier-two distributors and to ensure their compliance with our sales and distribution policies and guidelines including those on pricing, service level and decoration.

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Our tier-one distributors are also responsible for conducting regional marketing and promotional activities and transporting our products from our warehouses to its tier-two distributors and retail outlets. Accordingly, our success depends on our ability to effectively manage our tier-one distributors and such distributors' performance in marketing and selling our products.

If our tier-one distributors fail to comply with the terms of their distribution agreements, or fail to effectively oversee their tier-two distributors and retail outlets, the distribution network for our products may be disrupted. Our reputation and the market recognition of our products may, as a result, deteriorate, which in turn could adversely affect our sales volume, revenue, profitability and growth prospects.

In addition, the term of our distribution agreements is generally one year and renewable annually. Our direct sales arrangements with direct corporate customers are generally project based. If any of our key distributors and direct sales customers were to substantially reduce the size or number of orders they place with us or were to terminate their business relationship with us entirely, we may not be able to obtain orders from other distributors and direct sales customers to replace any such lost sales on comparable terms or at all, and as a result, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We are affected by the level of demand in the real estate development industry, which may experience a significant downturn.

Our ceramic tile products and bathroom products are widely used in commercial and residential real estate development projects and property remodeling. Therefore, the demand for our ceramic tile products and bathroom products is affected by the growth of the commercial and residential real estate development industries as well as the real estate transaction volumes in China, which could in turn be affected by a number of factors, such as the strength of the commercial and residential property markets, the level of disposable income, consumer confidence, unemployment rate, interest rates, credit availability and volatility in the stock markets. Recently, for instance, to ensure the availability of affordable housing, the PRC Government implemented a series of measures to discourage speculation in the property market in China, which have affected the growth of the real estate development industry in China.

Any decrease in commercial or residential real estate development or real estate transaction volumes as result of the above regulatory measures and policies could result in a decrease in demand and associated decrease in sales volume or selling prices of our products, reduced profit margin and tightened liquidity available to us, any of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We face significant competition which may affect our market share and profit margins.

The markets of both ceramic tile products and bathroom products are highly competitive and fragmented. Our competitors may have a longer operating history in these markets, greater production, financial, product development, and marketing capabilities than us. We cannot assure you that our current or potential competitors will not provide products comparable to or superior than ours, offer

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products at more competitive prices or adapt more quickly than we do to evolving industry trends or changing market conditions. There is also the possibility that there will be consolidation among our competitors or that alliances may develop among our competitors whereby such competitors may acquire significant market share rapidly.

Furthermore, our competitors may increase substantially their advertising expenses and promotional activities or engage in irrational or predatory pricing behavior. We cannot assure you that our competitors will not actively engage in activities designed to undermine our brand or to influence consumer confidence in our products. Increased competition may result in price reduction, reduced profit margins and a loss of our market share, any of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We are dependent on our SAP system and other information technology systems. A system failure or breakdown may cause interruptions of our business and operation.

Our business and operations depend on our information technology systems. Since 2007, we have implemented the SAP enterprise resource planning system to vertically integrate our business operations of our ceramic tile products. Our management relies on our SAP system to have clear visibility on each subsidiary's sales, inventory, profit, and other key financial and logistic data on a real time basis. In addition, our customers also rely on our SAP enterprise portal to access real time inventory details in our warehouses and complete the ordering process on-line and we also rely on the SAP system to manage customer orders. We have an in-house IT team responsible for maintaining our systems, and rely on reputable information technology companies to construct and improve our information technology infrastructure. Despite these efforts, however, any malfunction in a particular part of our information technology system for an extended period of time may result in a breakdown throughout our network. In addition, we may experience interruptions to our operations during future upgrades, and there may be inherent risks to our future integration with other existing network systems. If any of these events occur, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We may not be successful in maintaining an effective quality control system at our production facilities.

The quality of our products is crucial to the success of our business. Our product quality depends significantly on the effectiveness of our quality control system, which, in turn, depends on a number of factors, including the design and implementation of our quality control policies and guidelines. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection, may seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which may, in turn, lead to reduced orders in the future, harming our business, prospects, financial condition and results of operations.

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Our success depends to a large extent on our intellectual property rights and failure to protect such intellectual property rights may materially and adversely affect our ability to compete.

Our trade secrets, trademarks, trade names, patents and other intellectual property rights are important to our business. As of the Latest Practicable Date, we had 130 trademarks and 95 patents registered in the PRC. All of our patents relate to our production process and our product design. Under PRC law, invention patents are granted only for a term of 20 years and utility model patent and design patents are granted only for a term of 10 years, all of which cannot be renewed upon expiration. Upon expiration of our patents, we will cease to enjoy any protection afforded by the patent against third parties applying the relevant production process in the PRC.

We seek to protect our proprietary technology, trademarks, production processes, documentation and other written materials primarily through intellectual property laws and contractual restrictions. We also require employees and consultants with access to our proprietary information to enter into confidentiality agreements. However, we cannot assure you that these measures are effective, or that infringement of our intellectual property rights by other parties does not exist now or will not occur in the future. In addition, our intellectual property rights may not be adequately protected because:

- other parties may still misappropriate our technologies despite the existence of laws or contracts prohibiting it;
- policing unauthorized use of our intellectual property may be difficult, expensive and time consuming, and we may be unable to determine the extent of any unauthorized use; and
- enforcement under intellectual property laws in China may be slow and difficult in light of the application of such laws and the uncertainties associated with the PRC legal system.

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies may enable third parties to benefit from our technologies without paying us for doing so. Any inability to adequately protect our proprietary rights may have a material negative impact on our ability to compete, to generate revenue and to grow our business.

To protect our intellectual property rights and maintain our competitiveness, we may file suits against parties who we believe are infringing upon our intellectual property rights. Such litigation may be costly and may divert management attention and our other resources away from our business. In certain situations, we may have to bring lawsuits in foreign jurisdictions, in which case we are subject to additional risks as to the result of the proceedings and the amount of damages that we can recover. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. In the past, we have been involved in legal proceedings with regard to certain of our patented technology and our registered trademark, and such legal proceedings have considerably diverted our corporate resources. See “Business — Intellectual Property”.

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In addition, our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that we will not be subject to claims of infringement upon the intellectual property rights of third parties. The validity and scope of any potential claims relating to our production technology and know-how involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we are a party may subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, or redesign our products or subject us to injunctions prohibiting the manufacture and sales of our products or the use of our technologies. Protracted litigations may also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigations.

Our products and brand name may be subject to counterfeiting or imitation, which could materially and adversely affect our reputation and lead to a loss of consumer confidence and reduced sales.

Counterfeiting and imitation of branded products occur in the PRC from time to time. The counterfeit products may be of inferior quality than our products. In the past, there have been counterfeit of our products in the market place. We cannot assure you that counterfeiting or imitation of our products will not occur again in the future or that if it does occur, we will be able to detect and address such incidences effectively. Any occurrence of counterfeiting or imitation could bring negative impacts on our reputation and brand names and lead to a loss of consumer confidence. Furthermore, counterfeiting and imitation products could result in a reduction of our market share, a decline in our sales and profitability as well as an increase in our administrative costs in respect of detection and prosecution, any of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may require additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to expand our business.

We may require additional capital to finance our operations and to support our expansion plans, and to that end, we may need to issue additional equity or debt securities or obtain credit facilities. The sale of additional equity securities may have a dilution effect to the percentage of ownership of our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and we may be required to agree to operating and financing covenants that may restrict our operations. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows, general market conditions for capital-raising activities by China-based companies, as well as economic, political and other conditions in China and elsewhere.

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There is no assurance that we will be able to obtain the necessary capital that we require on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product offerings to respond to market demand or competitive challenges. In these circumstances, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Payment defaults by the customers to whom we extend credit would harm our cash flows, financial condition and results of operations.

Our financial position and profitability is dependent on the creditworthiness of our customers. Therefore, we are exposed to the credit risks of our direct corporate customers. Our provision for allowance of doubtful debt was RMB2.4 million, RMB9.1 million, RMB13.9 million and RMB20.3 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. Included in our trade receivable balance are debts with aggregate carrying amount of RMB20.7 million, RMB26.4 million, RMB37.5 million and RMB59.2 million which were past due as at December 31, 2010, 2011, 2012 and June 30, 2013, respectively, for which we have not provided for impairment loss. The significant trade receivable balances that were past due during the Track Record Period were primarily trade receivables due from direct corporate customers, most of whom are real estate developers. There is no assurance that we will not record additional doubtful or bad debts or that we may collect our trade receivables on time in the future. Should we experience any unexpected delay or difficulty in collecting receivables from our customers, our cash flows, financial condition and results of operations may be adversely affected.

Some of our owned and leased properties and production facilities have title defects and non-compliance.

We do not have the land use right for a parcel of land in Qingyuan, Guangdong province totaling 353,980 square meters where certain of our current production facilities are located. Our production facilities on this parcel of land have an aggregate floor area of approximately 226,000 square meters and are used for the production of unglazed tiles. We do not have proper title and other approvals and permits including building ownership certificates and completion and acceptance certificates for the production facilities because we do not have the land use right for the underlying land. This parcel of land has been included in the local property reform project that aims to improve land use efficiency. Our current use of this parcel of land is consistent with the purpose of the local property reform project and therefore was made part of the project by the government of Qingyuan city in June 2011. Approval from the Land Department of Guangdong province for the reform plan with respect to this parcel of land is a pre-requisite for us to obtain the land use right certificate for this parcel of land. We cannot predict when the Land Bureau of Guangdong province will grant its approval and in turn when we will be able to obtain the land use right for this parcel of land, or at all. As a result, our use of this parcel of land and our production facilities located thereon are not in compliance with the relevant PRC laws and we may be subject to monetary fines or governmental or third party actions and may be forced to terminate operating on such property. If we were required to pay a fine, under PRC law, the fine would be up to RMB30 per square meter for this parcel of land. The aggregate production capacity of the production facilities located on this parcel of land accounted for 9.1% and 19.1% of our total production capacity for ceramic tile products in 2012 and the first half of 2013, respectively. Revenue from such facilities accounted for approximately 2.7% and 9.3% of our total revenue in 2012 and the first half of 2013, respectively.

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In January 2011, we took over the ceramic chip business from Shandong Jialiya as part of our reorganization. See “History — Reorganization — Injection of onshore businesses”. Shandong Jialiya is a related company controlled by certain members of our Controlling Shareholders. Since January 2011, we have been leasing the production facility of an aggregate floor area of approximately 79,173 square meters from Shandong Jialiya for our production of ceramic chip products. The parcel of land where this production facility is located is a collectively owned land. Shandong Jialiya, in turn, has been leasing this parcel of land from Shuangyang Economic Development Office, which acted on behalf of Jinma Village Committee. Historically, none of Shandong Jialiya, Shuangyang Economic Development Office and Jinma Village Committee has proper title to this parcel of land and production facility, and as a result this production facility does not have other approvals and permits including the building ownership certificate and completion and acceptance certificate. Jinma Village Committee recently obtained the land use right (industrial use) for this parcel of land in October 2013 and we are cooperating with Shandong Jialiya and Jinma Village Committee to rectify the title defects of the production facility. However, there can be no assurance that such efforts will be successful. The production capacity of the production facility accounted for 16.2% and 17.2% of our total production capacity for ceramic tile products in 2012 and the first half of 2013, respectively. Revenue from such production facility accounted for approximately 10.8% and 10.0% of our total revenue in 2012 and the first half of 2013, respectively.

Furthermore, we lease from certain related parties and Independent Third Party lessors a number of properties with title defects totaling 271,696 square meters to use as warehouses and other ancillary facilities. Our right to use these leased properties as a lessee is subject to uncertainty as a result of the title defects of the lessors.

We also have not obtained all necessary approvals and permits and made all necessary filings in connection with the construction of certain of our production facilities for ceramic tile products and bathroom products, including various construction and environment related permits, or filings with the local NDRC offices. Our failures to obtain such approvals and permits or to make such filings may subject us to monetary fines or governmental, third party or other actions and we may be forced to terminate the operation of such facilities.

If we are required to terminate our production at any of these facilities, our business, prospects, financial condition and results of operations could be materially and adversely affected.

Any disruption of our current facilities could reduce or restrict sales and materially and adversely affect our business, financial condition, cash flows and results of operations.

As of the Latest Practicable Date, we had five production facilities for our ceramic tile products, each dedicated to produce a specified group of ceramic tile products, and two production facilities for our bathroom products. We produce and store our raw materials, work-in-progress and finished products at our production facilities. We depend on these facilities for the continued operation of our business.

Our machinery and equipment may be subject to breakdowns. There is no assurance that we will not require periodic machinery and equipment replacement or that replacements will be readily available. We may also require maintenance services of our machinery and equipment from external vendors who may or may not provide timely maintenance services. Under such circumstances, our financial resources will need to be employed or diverted to the servicing and replacement of machinery and equipment, which, in turn, may cause disruption to our usual business operations.

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Natural disasters or other unanticipated catastrophic events, including storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land underlying our facilities, could significantly impair our ability to manufacture our products and operate our business. Our facilities and equipment would be difficult and costly to replace or relocate on a timely basis. In addition, the production of our ceramic tile products requires our ceramic kilns operate constantly at a specific temperature and be shut down only once a year during scheduled maintenance. If we experience any unanticipated catastrophic events that force us to shut down our kilns at any production facilities, our production will be severely disrupted. In addition, restarting our ceramic kilns will require significant amount of time and cost, which may in turn materially and adversely affect our business and results of operations. Catastrophic events could also destroy any inventory located in our production facilities. For example, our production facilities of ceramic tile located in Foshan was destroyed in a catastrophic flood in 1994, as a result of which our production was suspended. We cannot assure you that similar event will not occur in the future. The occurrence of any catastrophic event could result in the temporary or long-term closure of our production facilities and other business facilities, severely disrupt our business operations and materially and adversely affect our results of operations and financial condition.

We are subject to certain risks associated with the transportation of our products.

We have a network of five central warehouses located at the premises of our production facilities and a network of 20 regional warehouses at strategic locations across China. We engage third-party transportation companies to deliver products from our central warehouses to our regional warehouses for pickup by our distributors. We also engage third-party transportation companies to deliver products from our warehouses to our self-owned retail outlets, direct corporate customers and our preferred dealers. We rely on these third-party transportation companies to deliver our products safely and in accordance with our requested timetable. However, we cannot guarantee that these third-party transportation companies will always deliver our products according to our requirement. If any unforeseen events which are beyond our control occur during transportation, such as poor handling and damage to our products, transportation bottlenecks, natural disasters or labor strikes, the delivery services could be suspended, which in turn could interrupt the supply of our products to our distributors or direct sales channels (especially during our peak season for sales). If our products are not delivered to our distributors on time, our market reputation and profitability could be materially and adversely affected. We may also face lawsuits arising from our failure to comply with our distribution agreements as a result. In addition, if a substantial number of these third-party transportation companies increase their transportation charges, our transportation costs will increase accordingly and if we are not able to pass the increased costs to our customers, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We rely heavily on fuel and partially on public electricity supply to provide power for our production.

We rely heavily on fuel (including coal and to a lesser extent, natural gas) to provide power for our production. We generally purchase our coal pursuant to supply contracts with a term of up to one year at market price. Fuel prices in China are directly affected by changes in supply and demand in the China market and, to a lesser extent, fluctuations in fuel prices in the international market. Our costs on fuel for 2010, 2011, 2012 and the first half of 2013 was RMB203.1 million, RMB325.9 million, RMB339.5 million and RMB168.4 million, respectively, representing 20.8%, 16.5%, 13.6% and 13.2%, respectively, of our

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revenue during the same periods. In addition, we also partially rely on the public power grid for our electricity needs. Our costs on electricity for 2010, 2011, 2012 and the first half of 2013 was RMB77.2 million, RMB113.5 million, RMB137.2 million and RMB66.0 million, respectively, representing 7.9%, 5.7%, 5.5% and 5.2%, respectively, of our revenue during the same periods. See “Financial Information — Description of Certain Income Statement Items — Cost of Goods Sold”. As result, any increase in domestic prices for coal or electricity as well as any electricity outage for a prolonged period could materially and adversely affect our business, prospects, financial condition and results of operations.

We depend on a stable and adequate supply of quality raw materials which are subject to price volatility and other risks.

For 2010, 2011, 2012 and the first half of 2013, our cost of raw materials accounted for approximately 31.9%, 31.5%, 29.5% and 26.9%, respectively, of our total revenue. As a result, our production volume and production costs depend on our ability to source quality raw materials, such as clay, chemicals and packaging materials at competitive prices. We procure our raw materials mainly from the domestic suppliers that are in close proximity to our production facilities. If we are unable to obtain raw materials in the quantities, of a quality or at the price that we require, our production volume, quality of products and profit margins may be adversely affected. In addition, raw materials used in our production are subject to price volatility caused by external conditions, such as market supply and demand, commodity price fluctuations, currency fluctuations, fluctuations in transportation costs, changes in governmental policies and natural disasters. Our ability to pass on increased raw material costs to our customers may be limited by competitive pressure. We cannot assure you that we will be able to raise the prices of our products sufficiently to cover increased costs resulting from increases in the cost of our raw materials or overcome the interruption of sufficient supply of qualified raw materials for our products. As a result, any significant price increase of our raw materials may have an adverse effect on our profitability and results of operations.

Loss of service of our Chairman and other key personnel or any failure to attract and retain necessary talents may materially and adversely affect our business, prospects, financial condition and results of operations.

The success of our business has been and will continue to depend on the continuing service of our key employees. In particular, we rely on the expertise and experience of Mr. He, our Chairman, who has over 30 years of experience in the ceramic tile industry in the PRC. If we lose the services of Mr. He, we may not be able to find a suitable replacement for him with comparable knowledge and experience, and our business, prospects, financial condition and results of operations may be materially and adversely affected. In addition, members of our senior management team also have extensive industry experience and play a pivotal role in our daily operations and formulating our business strategies. The loss of the services of any of our key executives could have a material adverse effect on our business and operations.

Our success also depends on our ability to attract and retain talented key personnel, in particular, our front-line sales representatives as well as product development personnel. We may not be able to attract or retain all the key personnel we need. We may also need to offer better remuneration and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs or that our costs and expenses will not increase significantly

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as a result. Our failure to attract and retain competent personnel, and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business. If this occurs, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our insurance coverage may not be adequate to cover all the risks related to our business and operations.

Our insurance coverage may not adequately protect us against all risks relating to our business and operations. We do not possess certain types of insurance in relation to our business operations, such as business interruption insurance, account receivable insurance, and environmental damage insurance. There is no assurance that we will be able to maintain sufficient insurance coverage in the future. As a result, losses incurred as a result of any defective product claim, business interruption, litigation or natural disaster may have a material adverse effect on our business, prospects, financial condition and results of operations.

Defects in our products may cause us to incur warranty expenses, damage our reputation and cause our sales to decline.

Our ceramic tile products sold in China typically have a warranty period of two years. Our ceramic bathroom products sold in China typically have a warranty period of five years for ceramic parts and one to two years for other parts. Our non-ceramic bathroom products sold in China typically have a warranty period of two years. During the warranty period, our end customers are generally entitled to return and exchange the products with material quality defects. See “Business — Sales and Distribution — Ceramic Tile Products — Product Return and Warranty Policies” and “Business — Sales and Distribution — Bathroom Products — Product Return and Warranty Policies” for details. As a result, we bear the risk of extensive warranty claims long after our products and sold and revenues recognized. We have not been subject to any material claims or incurred any material costs in relation to warranties during the Track Record Period and have not made provisions for potential warranty liabilities. However, because our products have relatively long warranty periods, we may incur significant repair and replacement costs associated with such claims in the future. Furthermore, widespread product defects would damage our reputation and customer relationships and may cause our sales to decline which in turn could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our Controlling Shareholders have significant influence over our management and affairs and could exercise this influence against the best interests of our other Shareholders.

Immediately following the completion of the Global Offering, a group of eight persons including Mr. He will remain the ultimate Controlling Shareholders of the Company with substantial control over its issued share capital. Therefore, the Controlling Shareholders will have significant influence over our business and affairs, including, but not limited to, decisions with respect to: (i) mergers or other business combinations; (ii) acquisition or disposition of assets; issuance of additional shares or other equity securities; (iii) timing and amount of dividend payments; and (vi) appointment of managers. Our Controlling Shareholders may cause us to, or prevent us from, entering into certain transactions, the result of which might not be in, or may conflict with, the best interests of our other Shareholders. We cannot assure you that our Controlling Shareholders will vote on Shareholders’ resolutions in a way that will benefit all of our Shareholders.

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Failure to comply with existing or future environmental laws and regulations could adversely affect us.

Our operations subject us to various national and local environmental laws and regulations in the areas where we operate, including those governing the use, storage, discharge and disposal of hazardous substances. For example, if a company does not have the pollution discharge permit required for its operation, it may be prohibited from discharging certain of its industrial waste and be subject to monetary penalties. In the past, certain of our subsidiaries had operated without pollution discharge permits. See “Business — Legal Proceedings and Compliance — Non-compliance” of this prospectus for further details. There is no assurance that similar non-compliance will not reoccur in future or that the PRC authorities will not impose additional or more stringent environmental requirements that would require us to incur significant expense or expend a considerable amount of management and other resources.

If we fail to manage our liquidity situation carefully, our ability to expand and, in turn, our results of operations may be materially and adversely affected.

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had net current liabilities of RMB323.3 million, RMB458.8 million, RMB716.5 million and RMB783.0 million, respectively. See “Financial Information — Discussion of Certain Balance Sheet Items - Net Current Assets/(Liabilities)”. In addition, we had negative operating cash flows of RMB48.3 million in 2010. See “Financial Information — Liquidity and Capital Resources — Cash Flows”.

There is no assurance that our business will generate sufficient cash flows from operations in the future to serve our debts and fund our capital expenditures. If we are unable to do so, we may be required to seek additional financing, dispose of certain assets or seek to refinance some or all of our existing debts. We may also in the future seek to enter into additional debt facilities. If we are unable to repay any of our existing or future debts when they become due, our creditors may take action to recover such debts. If we are unable to raise additional funding or there is a delay in obtaining such funding, our business, prospects, financial condition and results of operations may be materially and adversely affected.

Our production activities are dependent upon availability of skilled and unskilled labor.

Our production activities are labor intensive and dependent on the availability of a large number of skilled and unskilled labor. Shortage of labor, inefficient labor management or any labor disputes may result in disruption of our business operations, which may in turn have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, labor costs in China have been increasing in recent years and our labor costs in the PRC could continue to increase as well. If labor costs in the PRC continue to increase, our production costs will increase which may in turn affect the selling prices of our products. We may not be able to pass on these increased costs to consumers by increasing the selling prices of our products in light of competitive pressure in the markets where we operate. In such circumstances, our profit margin may decrease.

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Our business is subject to fluctuations, which makes our results of operations difficult to predict and may cause our results of operations to fall short of expectations.

Our semi-annual revenue and other operating results have fluctuated in the past and may continue to fluctuate depending upon a number of factors, many of which are beyond our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Substantially all of our revenue are derived from sales in China. Traditionally, business activities, including construction and home renovation, are reduced during January and February around New Year and Chinese New Year holidays. As such, we typically generate more revenue in the second half of the year than in the first half. Such seasonality also varies across different regions in China. These factors may make our results of operations difficult to predict and cause our semi-annual results of operations to fall short of expectations.

We face risks associated with the marketing and sales of our products internationally.

Our international sales accounted for 5.2% and 4.6% of our revenue for 2012 and the first half of 2013, respectively. The marketing and sales of our products to international markets expose us to a number of risks, including when it comes to fluctuations in foreign currency exchange rates; increased costs and difficulty associated with understanding the market trend and developing and maintaining an effective marketing and distribution presence in the various countries; costs associated with providing services and support in overseas markets; and failure to obtain or maintain qualifications for our products overseas. Furthermore, there are difficulty and costs relating to compliance with different commercial and legal requirements overseas, including unanticipated changes in prevailing economic conditions and regulatory requirements and trade barriers such as export requirements, tariffs, taxes and other restrictions. For example, the European Union (which accounted for approximately 1.0% of our total revenue in 2012) started to impose anti-dumping duties of up to 30.6% on ceramic tile products originated in the PRC in 2011, and as a result exports of Chinese ceramic tile products to the European Union have been significantly decreased in recent years. Our business in foreign markets requires us to respond timely and effectively to rapid changes in market conditions in the relevant countries and to the above challenges. Any change in one or more of the factors described above may have a material adverse effect on our business, growth prospects, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Adverse changes in political, social and economic policies of the PRC Government could have a material adverse effect on the overall economic growth of China.

We conduct substantially all of our business operations in China. China's economic growth can affect construction industry, which in turn will affect our business. Therefore, our results of operations are sensitive to the economic, political and legal environment in China, and China's overall GDP growth. The Chinese economy differs from the economies of most developed countries in many respects, including that it:

- has a high level of government involvement;
- is in the early stages of development of a market-oriented economy;

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- has experienced rapid growth;
- has a tightly controlled foreign exchange policy; and
- is characterized by inefficient allocation of resources.

While the Chinese economy has undergone significant growth during the past 30 years, the growth has been uneven across different regions and among various economic sectors. A substantial portion of productive assets in China remain state-owned and the PRC Government exercises a high degree of control over these assets. In addition, the PRC Government continues to play a significant role in regulating industrial development by imposing industrial policies and regulating allocation of resources by means of setting monetary policy and providing preferential treatment to particular industries or companies. The financial market in China could also be unpredictable. The PBOC's statutory deposit ratio and lending guideline imposed on commercial banks may restrain loan market and materially affect our liquidity and access to capital.

Our results of operations and financial condition could also be adversely affected by governmental control over capital investment or changes in environmental protection, health, labor and tax regulations applicable to us.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions may be cited for reference but have limited value as precedents, if at all. Since 1979, PRC legal system evolves rapidly and a lot of laws and regulations governing economic matters in general such as foreign investment, corporate organization and governance, commerce, taxation and trade are promulgated by competent authorities. Some of these laws and regulations are relatively new, so the volume of published cases in relation to these laws and regulations are limited. In addition, the interpretations of many laws, regulations and rules are not always consistent and uniform and the enforcement of these laws, regulations and rules involves uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors. Furthermore, any litigation in China may be protracted, resulting in substantial costs and diversion of our resources and management attention. As Chinese legal system continues to evolve, we cannot predict the future development in PRC legal system, including promulgation of new laws, changes to existing laws or the interpretation and enforcement thereof.

There may be difficulties in effecting service of process or seeking recognition and enforcement of foreign judgments in the PRC.

Our business operations are conducted in the PRC and substantially all of our assets are located in the PRC. In addition, most of our Directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the U.S. or elsewhere outside of China upon some of our Directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Furthermore, our PRC legal advisor has advised us that the PRC does not have treaties with the U.S. or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

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On July 3, 2008, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under this arrangement, which came into effect on August 1, 2008, whenever a designated People's Court of the PRC or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. However, the rights under the arrangement may be limited and the interpretation of and cases decided under the arrangement have not been fully developed, and, therefore, there is uncertainty with respect to the outcome and effectiveness of any action brought under the arrangement.

Government control of currency conversion and fluctuation in the exchange rate between the Renminbi and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.

Substantially all of our revenue is denominated and settled in Renminbi. The PRC Government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE or its local counterparts provided that we satisfy certain procedural requirements. However, capital account transactions, such as capital contributions and loans, must be approved by or registered with the SAFE or its local branch.

Since a significant amount of our future cash flows from operations will be denominated in Renminbi, any fluctuation in exchange rate between RMB and other currencies may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies. Although Renminbi has appreciated 34% against the U.S. dollar from July 2005 to June 2013, there remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As substantially all of our costs and expenses are denominated in Renminbi, the revisions in exchange rate policy commenced in July 2005 have increased, and potential future revisions could further increase, our costs and expenses in U.S. dollar terms. In addition, our proceeds from overseas financings, such as the Global Offering, will decrease in value if we choose not to or are unable to convert the proceeds into Renminbi and the Renminbi appreciates against the U.S. dollar, which may reduce the value of a shareholder's investment in our Shares. In addition, if the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders, which would adversely affect the value of your investment.

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Compliance with the PRC Labor Contract Law and other employment laws and regulations may increase our labor costs.

The *PRC Labor Contract Law* (中華人民共和國勞動合同法) became effective on January 1, 2008 and was amended on December 28, 2012. Compliance with the requirements under the *PRC Labor Contract Law*, in particular the requirements to make severance payments and to conclude non-fixed term employment contracts, may increase our labor costs.

Pursuant to the *PRC Labor Contract Law*, we are required to enter into non-fixed term employment contracts with employees who have worked for us for ten consecutive years and, unless otherwise provided in the *PRC Labor Contract Law*, those with whom we have consecutively entered into fixed term employment contracts twice. We may not be able to efficiently terminate non-fixed term employment contracts under the *PRC Labor Contract Law* without cause. We are also required to make severance payments to fixed term contract employees when the term of their employment contracts expire, unless such employee voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in circumstances where the employee's monthly wage is three or more times greater than the average monthly wage in the relevant district or locality, in which case the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by a maximum of twelve years. A minimum wage requirement has also been incorporated into the *PRC Labor Contract Law*. Liabilities such as damages or fines may be imposed for any material breach of the *PRC Labor Contract Law*.

As the result of our reorganization, certain employees originally employed by Guangdong Dongpeng Ceramics were transferred to Foshan Hua Sheng Chang, a wholly owned PRC subsidiary of our Company. These employees, however, have not entered into labor contracts with Foshan Hua Sheng Chang as required under PRC laws. As a result, Foshan Hua Sheng Chang could be required to make additional payment to these employees as penalties under the PRC laws.

In addition, the PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the PRC Labor Contract Law. For example, there are regulations which require that annual leave ranging from five to 15 days be made available to employees and that employees be compensated for any unused annual leave days at a rate of three times their daily salary, subject to certain exceptions. As the interpretation and implementation of these regulations are still evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

Under the *Social Insurance Law* and the *Administrative Measures on Housing Fund* (住房公積金管理條例), employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and employers are required, together with their employees or separately, to pay the social insurance premiums and housing funds for their employees. During the Track Record Period, certain of our PRC subsidiaries did not make full contribution to the social insurance and the housing funds. We estimate

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that the total contribution shortfalls amounted to approximately RMB9.0 million as of June 30, 2013. Our historical non-compliance may subject us to legal actions brought by our employees demanding full payment of the shortfalls and/or penalties imposed by the relevant government authorities. See “Business — Legal Proceedings and Compliance — Non-compliance” for details.

We rely mainly on dividends and other distributions on equity paid by our subsidiaries to fund any cash and financing requirements we have, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

Our Company is a holding company incorporated in Cayman Islands under the Companies Law and we rely mainly on dividends from Foshan Hua Sheng Chang for our cash requirement. Current PRC regulations permit Foshan Hua Sheng Chang to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, Foshan Hua Sheng Chang is required to set aside at least 10% of after-tax profits each year, if any, to fund certain statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. Foshan Hua Sheng Chang may also allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed to us. These reserves, however, are not allowed to be distributed as cash dividends. Furthermore, if Foshan Hua Sheng Chang or our other subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. The inability of Foshan Hua Sheng Chang or our other subsidiaries to distribute dividends or other payments to us could materially and adversely affect the value of your investment.

Any outbreak of widespread contagious diseases may have a material adverse effect on our business operations, financial condition and results of operations.

The outbreak, or threatened outbreak, of any severe communicable diseases (such as severe acute respiratory syndrome, avian influenza or H7N9 influenza) in China could materially and adversely affect the overall business sentiments and environment in China, particularly if such outbreak is inadequately controlled. This, in turn, could materially and adversely affect domestic consumption, labor supply and, possibly, the overall GDP growth of China. As our revenue is currently derived from our operations in China, any labor shortages could materially and adversely affect our business and the business of our customers. In addition, if any of our employees are affected by any severe communicable diseases, it could adversely affect or disrupt those areas in which we have operations and materially and adversely affect our financial condition and results of operations as we may be required to close our facilities to prevent the spread of the disease.

There are significant uncertainties under the EIT Law regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiary. The EIT Law also contains uncertainties regarding possible PRC withholding tax on any dividends we pay to our overseas corporate Shareholders and gains realized from the transfer of our shares by our overseas corporate Shareholders.

According to the EIT Law passed on March 16, 2007 and the EIT Implementation Rules promulgated on December 6, 2007, dividends distributed by FIEs to their foreign shareholders are subject to up to 10% withholding tax. However, according to the HK-Mainland Taxation Arrangement, if

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the beneficiary of dividends is a Hong Kong tax resident which holds directly at least 25% equity interests in a tax resident enterprise in China, the dividends distributed by the tax resident enterprise in the mainland to its Hong Kong shareholder may be reduced to 5%. Therefore, the dividends distributed by Foshan Hua Sheng Chang to HK Co may be subject to such HK-Mainland Taxation Arrangement and therefore be subject to a withholding tax in China at a rate of 5%, which can be credited against Hong Kong taxes, if any, payable by HK Co.

According to the *Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties* (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated on February 20, 2009, to apply the dividend provision in relevant tax treaties, including the HK-Mainland Taxation Arrangement, certain requirements shall be satisfied, among which: (i) the taxpayer shall be the beneficial owner of relevant dividends; and (ii) for corporate recipients that enjoy the tax treatment under the relevant tax treaties as direct owners of a certain proportion of the share capital of a PRC enterprise (usually such certain proportion shall be 25% or 10%, and under the HK-Mainland Taxation Arrangement, it is 25%), such corporate recipients must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Furthermore, SAT promulgated SAT Circular 601 on October 27, 2009, which defines the “beneficial owner” as individuals, enterprises or other organizations normally engaged in substantive operations and sets forth certain adverse factors on the recognition of such “beneficial owner”. SAT Circular 601 provides that a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits will not be regarded as beneficial owner and will not qualify for treaty benefits such as preferential dividend withholding tax rates. If HK Co is, in the light of SAT Circular 601, considered to be a non-beneficial owner for purposes of the HK-Mainland Taxation Arrangement, any dividends paid to it by Foshan Hua Sheng Chang would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to the usual EIT Law rate of 10%. On August 24, 2009, the SAT issued the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)), which became effective on October 1, 2009 and requires that the non-resident enterprises obtain the approval from, or file registration with, competent tax authorities for enjoying the treatments under tax treaties. No assurance can be given that we can satisfy all the requirements set forth by above laws and regulations and obtain necessary approvals to enjoy the preferential treatment under the HK-Mainland Taxation Arrangement.

Under the EIT Law and the EIT Implementation Rules, enterprises established under the laws of foreign jurisdictions other than the PRC may nevertheless be considered as PRC tax-resident enterprises for tax purposes (the “TRE”) if these enterprises have their “de facto management organization” within the PRC and be subject to the enterprise income tax on their global income at the rate of 25%. Under the EIT Implementation Rules, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise.

We believe the Company and HK Co are not TREs, but it is not clear whether the Company and HK Co will be deemed to be TRE under the EIT Law. The tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body”. On April 22, 2009, the SAT issued SAT Circular 82, which

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provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. Under SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. If the Company or HK Co is considered as a TRE under the EIT law by the PRC tax authorities, the global income of the Company or HK Co will be subject to corporate income tax at a rate of 25%, except that dividend income paid from one qualified TRE to another due to direct investments is exempted income under the EIT Law.

In addition, should both HK Co and the Company be considered as TREs, then shareholders which are not TREs and which receive dividends distributed by the Company for earnings derived and sourced within China would be subject to a PRC income tax applicable to such dividends and the Company would be obliged under the EIT Law to withhold PRC income tax on dividends payable to such non-TRE shareholders. A lower withholding tax rate may apply if a non-TRE investor (non-individual) or a non-tax resident individual is from a jurisdiction that has entered into an income tax treaty or agreement with China that allows a lower withholding. Similarly, if both HK Co and the Company are considered TREs, any gain realized on the transfer of Shares in the Company by non-TRE investors or non-tax resident individuals may be also subject to PRC income tax if such gain is regarded as income derived from sources within China, unless the applicable income tax treaty provides otherwise.

If any of the aforementioned risks materializes, the value of an investment in the Shares may be materially and adversely affected.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident Shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries’ ability to distribute profits to us, or otherwise adversely affect our financial position.

On October 21, 2005, the SAFE issued the SAFE Circular No. 75 which came into force on November 1, 2005, requiring PRC residents who establish or control an offshore company and inject assets or equity interests in their PRC entities into such offshore company for the purposes of overseas equity financing to register with competent local SAFE branch before establishing or controlling such offshore company, referred to as an “offshore special purpose company”. Under the SAFE Circular No. 75, Mr. He and 21 other shareholders, who are PRC domestic residents, are required to register with the local SAFE branch their ownership in us. It is also required by the SAFE Circular No. 75 that any PRC resident that is the shareholder of an offshore special purpose company shall amend its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, share exchange, merger,

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division, long-term investment with equity investment, creditor's right investment, external guarantee and other material capital alteration. In the event that any PRC shareholder of an offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer, the principal and interests of shareholder's loans, advance recovery of investment or liquidation to the offshore special purpose company. Furthermore, restrictions on capital inflows from offshore entities to the PRC subsidiaries may also be imposed. Uncertainties also remain as to what constitutes a transfer of domestic capital out of PRC by deception, which is also prohibited under PRC foreign exchange regulations.

Failure to comply with foreign exchange regulations described above may result in liability under PRC laws for evasion of applicable foreign exchange restrictions. If any of our Shareholders or beneficial owners who is a PRC resident fails to amend his SAFE registrations in a timely manner pursuant to the SAFE Circular No. 75, if any of our future Shareholders or beneficial owners who is a PRC resident fails to comply with the registration procedures set forth in the SAFE Circular No. 75, or if we are deemed to have otherwise violated any PRC foreign exchange regulations, such Shareholders or beneficial owners or we may be subject to fines and legal sanctions, our PRC subsidiaries' ability to distribute profits or liquidation assets to us and to remit funds into or out of China may be limited and our business may be otherwise materially and adversely affected.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the *Administrative Measures on Individual Foreign Exchange* (個人外匯管理辦法) promulgated on December 25, 2006, the *Implementation Rules of the Administration Measure for Individual Foreign Exchange* (個人外匯管理辦法實施細則) promulgated on January 5, 2007, all foreign exchange transactions involving an employee share incentive plan, share option plan or similar plan participated in by PRC citizens may be conducted only with the approval of the SAFE, and under the Offshore Share Incentives Rule, which was issued by the SAFE in February 2012, PRC residents who are granted incentive shares or share options under a share plan by an overseas publicly listed company must register with the SAFE and comply with a series of other procedural requirements. The Offshore Share Incentives Rule also provides procedures for registration of incentive plans, the opening and use of special accounts for the purpose of participation in incentive plans, and the remittance of funds for exercising share options and gains realized from such exercises and sales of such options or the underlying shares, both outside and inside the PRC. If we, or any of our PRC employees or members of or board of directors, who receive or hold share options, restricted share units or restricted shares, fail to comply with these registration and other procedural requirements, we may be subject to fines and other legal or administrative sanctions.

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PRC regulations pertaining to loans and direct capital investments by offshore parent companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering.

In utilizing the proceeds of the Global Offering to finance our business, the Company, as a holding company, or HK Co may make loans or additional capital contributions to Foshan Hua Sheng Chang, the PRC subsidiary of the Company which qualifies as an FIE under PRC law, which may further finance the operation or expansion of our operating subsidiaries. Any loans by an offshore parent company to an FIE established by it are subject to registration requirements and must be within the margin between the FIE's total investment amount and registered capital. In addition, if the Company or HK Co finances the operating entities of the Group in China through additional capital contributions to Foshan Hua Sheng Chang, the amount of these capital contributions must be approved by and registered with the competent government authorities. There can be no assurance that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by the Company or HK Co to Foshan Hua Sheng Chang in China. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Global Offering and our ability to fund and expand the operational business in China could be adversely affected, which could have material adverse effects on our business, prospects, financial condition and results of operations.

The General Affairs Department of SAFE promulgated SAFE Circular 142, regulating the conversion by an FIE of its foreign currency registered capital into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE recently increased its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without the SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 will result in severe penalties, such as significant fines. We may therefore not be able to use the proceeds of the Global Offering to acquire Chinese companies.

If we fail to receive the necessary registrations or approvals, our ability to use the proceeds of the Global Offering and our ability to fund and expand the operating business in China could be adversely affected, which could have material adverse effects on our business, prospects, financial condition and results of operations.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to SAT Circular 698 issued by the SAT on December 10, 2009 with retroactive effect from January 1, 2008, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this indirect transfer under SAT Circular 698. Using a "substance over form" principal, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such indirect transfer under SAT Circular 698 may be subject to PRC

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withholding tax at a rate of up to 10% according to the EIT Implementation Rules. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

The SAT released SAT Public Notice 24, which became effective on April 1, 2011, to clarify several issues related to Circular 698. Under SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from the disposition of equity interests of an overseas holding company; and the term “does not impose income tax” refers to cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the country or region where the overseas holding company is a resident.

There is uncertainty as to the application of SAT Circular 698. For example, while indirect transfer under SAT Circular 698 is not clearly defined, it is understood that the relevant PRC tax authorities are authorized to request information from a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions on the process and format of the reporting of an indirect transfer under SAT Circular 698 to the competent tax authority of the relevant PRC resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. SAT Circular 698 may be determined by PRC tax authorities to be applicable to our historical reorganization, if any of the steps in our reorganization were determined by PRC tax authorities to lack a reasonable commercial purpose. As a result, the transfer of the shares of our Company and our overseas subsidiaries by certain Shareholders to other parties may be subject to income tax on capital gains generated from such transfers of the shares, and PRC tax authorities might, at their discretion, adjust any capital gains and impose tax return filing obligations on the transferring shareholders or require us to provide assistance for an investigation by PRC tax authorities. In the case of failure to comply with these circulars by such shareholders, the PRC tax authorities may take actions, including requesting us to provide assistance for their investigation, which could have a negative impact on our business operations. In addition, since we may pursue acquisitions as one of our growth strategies, and may conduct acquisitions involving complex corporate structures, PRC tax authorities might, at their discretion, adjust the amount of capital gains or request that we submit additional documentation for their review in connection with any potential acquisitions, which may cause us to incur additional acquisition costs or delay our acquisition timetable.

On January 9, 2009, the SAT promulgated the *Interim Measures for the Administration of Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises* (非居民企業所得稅源泉扣繳管理暫行辦法), pursuant to which the PRC resident enterprise the equity of which is indirectly transferred shall report such indirect transfer under SAT Circular 698 to competent tax authority where the transferor and transferee of an indirect transfer under SAT Circular 698 are both non-resident enterprises. As a result, we may be required to expend valuable resources to comply with SAT Circular 698 and such interim measures promulgated by the SAT on January 9, 2009, which may have a material adverse effect on our financial condition and results of operations.

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Our business benefits from certain government tax preferential treatment, expiration or discontinuation of which will increase our tax burden and reduce our net income.

Four wholly-owned onshore subsidiaries of our Group, Linzhi Yuhe, Deqing Heying, Deqing Yuwei and Dongpong Sanitary Ware, currently enjoy tax reduction or exemption. Linzhi Yuhe, Deqing Heying and Deqing Yuwei are incorporated in Tibet and therefore eligible for a lower tax rate of 15% until 2020 according to the Notice regarding Enterprise Income Tax Rate (《西藏自治區人民政府關於我區企業所得稅稅率問題的通知》) issued by the People's Government of Tibet autonomous region on January 25, 2011. Under the EIT Law, the statutory rate of enterprise income tax is 25%. However, the EIT Law and the Implementing Rules permit qualified "high and new technology enterprises" to enjoy a reduced enterprise income tax rate of 15%. Dongpong Sanitary Ware qualifies as a high and new technology enterprise under the EIT Law and its high and new technology enterprise license will expire after the taxable year of 2014. We cannot assure you that Dongpong Sanitary Ware will obtain a renewed license and continue to qualify as a high and new technology enterprise under the EIT Law after the expiration of its high and new technology enterprise license. If Dongpong Sanitary Ware is not able to renew its high and new technology enterprise license or in the event of a change of policy in Tibet, our tax burden will increase and our net income will reduce accordingly, which will materially and adversely affect our financial condition and results of operations.

Changes in legal requirements and governmental policies concerning environmental, health and safety laws could impact our business.

Our revenue is dependent on the continued operation of our production facilities. Such production activities are subject to environmental, health and safety laws and regulations in the PRC that impose controls on our air, water and waste discharges, on our storage, handling, use, discharge and disposal of chemicals, and on exposure of our employees to hazardous substances. These laws and regulations are complex and constantly evolving and are becoming more stringent. We may not always be able to quantify the cost of complying with such laws and regulations. We are also required to obtain certain licenses and permits, such as the pollution discharge permit and the China compulsory certification, to comply with these laws and regulations. Any violation of the PRC environmental protection or health and safety regulations could subject us to a substantial fine, damage our reputation, result in delays in production or result in a temporary or permanent closing of some or all of our production facilities.

We are also subject to future events, including changes in existing laws or regulations or enforcement policies, or further investigation or evaluation of the potential health hazards of some of our products or business activities, which may result in additional compliance and other costs. More stringent laws and regulations, or more stringent interpretations of existing laws or regulations, may impose new liabilities on us, require us to reduce operating hours or alter our production processes, require additional investment by us in pollution control equipment, or impede the opening of new or expansion of existing plants or facilities. We could be required to invest in preventive or remedial action, like pollution control facilities, which could incur substantial costs. Such costs, liabilities or disruptions in operations could materially and adversely affect our business, prospects, financial condition and results of operations. We cannot assure you that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. Therefore, any significant environmental protection liability or health and safety violation would harm our business, prospects, financial condition and results of operations.

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We face uncertainties in the interpretation and enforcement of PRC anti-monopoly law.

Under PRC Anti-Monopoly Law (中華人民共和國反壟斷法), the setting of a minimum price of a product sold by a distributor is prohibited. There is significant uncertainty as to how the law is interpreted and enforced, particularly in a relatively fragmented industry such as ours. Historically, most of our distribution agreements and dealership agreements require our distributors and preferred dealers to sell our products above certain minimum prices. By September 2013, we have amended all existing agreements with our distributors and preferred dealers to delete provisions on mandatory minimum prices and only give guidance on suggested retail prices. Nevertheless, we cannot assure you that we will not be subject to any government anti-monopoly investigations. In addition, we cannot assure you that our previous distribution agreements and dealership agreements that contain minimum price requirement will not be deemed as a violation of the law or subject us to penalties. If any of these events occur, our business, prospects, financial condition and results of operations may be adversely affected.

Inflation in the PRC may have a material adverse effect on our business, prospects, financial condition and results of operations.

While the PRC economy has experienced rapid growth, such rapid growth can lead to increase in money supply and inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs, our business, prospects, financial condition and results of operations may be materially and adversely affected. To control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austerity policies can lead to a slowdown in the economic growth and may materially adversely affect our business, prospects, financial condition and results of operations.

Our business and results of operations may be adversely affected by a severe and prolonged global economic downturn and corresponding slowdown of the Chinese economy.

Recent global market and economic conditions have been unprecedented with recession persisting in many major economies and significant market volatility. Continued concerns about the systemic impact of a potentially long-term and widespread recession, downgrade of the U.S. credit rating and the sovereign debt crisis in Europe, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook has negatively affected business and consumer confidence and contributed to unprecedented volatility levels. There remain substantial uncertainties in the current and future conditions of global economies. The Chinese economy also faces challenges. Since we conduct our operations mainly in China, any prolonged slowdown in the Chinese economy may negatively impact our business and results of operations. Further disruptions in the financial markets could also significantly restrict our ability to obtain financing in the capital markets or from financial institutions, if and when such financing is needed.

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RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares, and an active trading market may not develop after the Global Offering.

Prior to the Global Offering, there has been no public market for our Shares. The initial Offer Price range for our Shares is the result of negotiations between the Joint Bookrunners (on behalf of the Underwriters) and us, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. Furthermore, there can be no assurance that there will be an active trading market for our Shares, or if it exists, that it can be sustained following the completion of the Global Offering, or that the price at which our Shares may be traded will not fall below the Offer Price which as a result may cause adverse effects on the market price and liquidity of our Shares.

The trading price of our Shares may be volatile.

Following the Global Offering, various factors may affect the trading price of our Shares, including, but not limited to:

- actual or anticipated fluctuations in our interim or annual results of operations;
- changes in financial estimates by securities analysts;
- investor perceptions of us and the investment environment in the U.S., the European Union and Asia, including Hong Kong and the PRC;
- changes in policies and developments related to the home improvement industry;
- changes in pricing policies adopted by us or our competitors;
- any announcements made by us or our competitors;
- the employment or departure of our key personnel;
- the liquidity of the market for our Shares;
- the demand for and supply of our Shares; and
- general economic, social and other conditions.

These broad market and industry fluctuations may be caused by factors that are out of our Group's control but may, despite being unrelated to our performance, affect the market price of our Shares.

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Future issuances or sales, or perceived issuances or sales, of substantial amounts of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares and the Company's ability to raise capital in the future.

The market price of the Shares could decline as a result of future sales of substantial amounts of the Shares or other securities relating to the Shares in the public market by the Company's substantial shareholders, or the perception that such sales may occur, which, in turn, could adversely affect the value of your investment in our Shares. Future sales, or perceived sales, of substantial amounts of the Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favorable to it.

The Shares held by certain of our existing shareholders are subject to lock-up beginning on the date on which trading in our Shares commences on the Stock Exchange. While we are not aware of any intentions of our existing shareholders to dispose of significant amounts of their shares upon expiry of the relevant lock-up periods, we are not in a position to give any assurances that they will not dispose of any Shares they may own. In the event that any of our existing shareholders disposes of Shares upon expiry of the relevant lock-up periods, this would lead to an increase in the number of our Shares in public hands, and could negatively impact the market price of our Shares or lead to volatility in the market price or trading volume of our Shares, affecting the value of your investment.

As the Offer Price is higher than the net tangible book value per Share, investors will experience immediate dilution.

The Offer Price of our Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, investors of our Shares in the Global Offering will experience an immediate dilution in the pro forma consolidated net tangible book value of HK\$1.11 per Share based on the maximum Offer Price of HK\$4.55 per Share.

In addition, we may consider issuing additional new Shares in the future. Investors of our Shares may experience further dilution in the net tangible book value per Share if we issue additional new Shares in the future at a price which is lower than the net tangible book value per Share.

We will incur increased costs as a result of being a public company.

Upon completion of the Global Offering, we will become a public company and expect to incur significant legal, accounting and other expenses that we did not incur as a private company. For example, as a result of becoming a public company, we will need to increase the number of independent directors and adopt policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be more difficult for us to find qualified persons to serve on our Board or as executive officers. We are currently evaluating and monitoring developments with respect to these rules and regulations, and we cannot predict or estimate with any degree of certainty the amount of additional costs we may incur or the timing of such costs.

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You may face difficulties in protecting your interests under Cayman Islands laws.

Our corporate affairs are governed by, among other things, the Memorandum, the Articles and the Companies Law and common law of the Cayman Islands and the Articles. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

The costs of share options to be granted under the Share Option Scheme will adversely affect our results of operations and any exercise of the options granted may result in dilution to our Shareholders.

We have adopted the Share Option Scheme pursuant to which we will in the future grant to our employees options to subscribe to Shares. Such options, if granted and exercised in full, may represent up to 10% of the issued share capital of the Company immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised. The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation which may have a negative effect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus may result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share.

Investors should not place undue reliance on statistics and industry or market information that are contained in this prospectus that are derived from various government or official sources.

Certain statistics, industry data or other information contained in "Industry Overview" is derived from various government or official sources or commissioned report. While our Directors have taken all reasonable care to ensure that the facts and statistics are accurately reproduced from such sources, such information has not been independently verified by our Group, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates, directors, employees and advisors, or any other parties involved in the Global Offering. Such information may be inconsistent, inaccurate, incomplete or out-of-date. None of our Group, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective affiliates, directors, employees and advisors, or any other parties involved in the Global Offering makes any representation as to the accuracy or completeness of such information. Investors should give careful consideration as to the amount of weight or importance placed on such statistics, industry data and other information relating to the economy and the industry.

RISK FACTORS

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering. Some of these articles may include, among other things, certain financial information, projections, valuations and other information about the Global Offering that do not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any information that is not sourced from or authorized by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information reported by the press or other media, nor the fairness, appropriateness or reliability of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. To the extent that any such information appearing in publications other than this Prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility for it and you should not rely on it. Accordingly, you should rely solely upon the information contained in this prospectus, the application forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. By applying to purchase the Offer Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than the information contained in this prospectus and the Application Forms.

WAIVERS FROM STRICT COMPLIANCE WITH LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provision of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Our business operations are located in China. Due to the business requirements of our Group, none of our executive Directors is or will be based in Hong Kong.

We have applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules on the following grounds:

- (a) our principal business operations are located in the PRC;
- (b) members of our senior management are, and expect to continue to be, based in the PRC; and
- (c) for the purposes of the management and operations of our Group, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would not only increase our administrative expenses, but also reduce the effectiveness and responsiveness of our Board in making decisions for our Group, especially when business decisions are required to be made within a short period of time. In addition, by appointing a new executive Director, who may not be familiar with the operations of our Group, to our Board for the sole purpose of satisfying the requirement of Rule 8.12 of the Listing Rules may not be in the best interest of our Company and our shareholders as a whole.

We have received from the Stock Exchange a waiver from strict compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we will appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Bao Jianyong, our executive Director and one of our joint company secretaries and Ms. Yuen Wing Yan, our joint company secretary. The authorized representatives will provide their usual contact details to the Stock Exchange and will be readily contactable by telephone, facsimile and email by the Stock Exchange, if necessary, to deal with enquiries from the Stock Exchange from time to time;
- (b) each of the authorized representatives has the means to contact all the Directors (including the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters;
- (c) all the Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and meet with the Stock Exchange within a reasonable period;

WAIVERS FROM STRICT COMPLIANCE WITH LISTING RULES

- (d) Quam Capital Limited, our compliance advisor, will act as an additional channel of communication with the Stock Exchange; and
- (e) each Director will provide their respective mobile phone numbers, office phone numbers, e-mail addresses and fax numbers to the Stock Exchange.

QUALIFICATION OF COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the secretary of our Company must be a person who has the requisite academic or professional qualifications or relevant experience to discharge the functions of a company secretary.

We have appointed Mr. Bao Jianyong as one of the joint company secretaries. Mr. Bao Jianyong does not possess a qualification as stipulated in Rule 3.28 of the Listing Rules, and therefore he does not meet all the requirements under Rules 8.17 and 3.28 of the Listing Rules. We have appointed Ms. Yuen Wing Yan, Winnie, who possesses the qualification required under Rule 3.28, to act as another joint company secretary to provide assistance to Mr. Bao Jianyong for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Yuen Wing Yan, Winnie will work closely with Mr. Bao Jianyong to jointly discharge duties and responsibilities as joint company secretaries and assist Mr. Bao Jianyong to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, we will ensure Mr. Bao Jianyong has access to relevant training and support to familiarize himself with the Listing Rules and the duties required for a company secretary of a company listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date. Upon the expiry of such three year period, the Stock Exchange will reevaluate the experience of Mr. Bao Jianyong to consider whether he will then have acquired the relevant experience within the meaning of Rules 3.28 and 8.17 of the Listing Rules and decide whether a further waiver will be necessary.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions under the Listing Rules upon Listing. We have received from the Stock Exchange a waiver from strict compliance with the announcement requirement set out in Rule 14A.42(3) of the Listing Rules for such continuing connected transactions. Please refer to the section headed "Continuing Connected Transactions" for details of such continuing connected transactions.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Public Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering", and the procedures for applying for Hong Kong Public Offer Shares are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Bookrunners (on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Placing is expected to be entered into on or about the Price Determination Date, subject to the Offer Price being agreed. The Global Offering is managed by the Sole Global Coordinator.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed among us and the Joint Bookrunners (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Application Forms.

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme).

No part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, November 29, 2013. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 03386.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar, Appleby Trust (Cayman) Ltd., in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option are set out under the sections headed "Structure of the Global Offering — Over-allotment Option" and "— Stabilization" in this prospectus.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 37,410,000 Shares from Profit Strong pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rule 10.07(3).

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for Hong Kong Public Offer Shares is set out in the section entitled "How to Apply for the Hong Kong Public Offer Shares" and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

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

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

RMB0.7966 to HK\$1.00

RMB6.1374 to US\$1.00

HK\$7.7560 to US\$1.00

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
He Xinming (何新明)	Room 903, 14 Houlong Second Street Chancheng district Foshan, Guangdong PRC	Chinese
Chen Kunlie (陳昆列)	Room 402, 7 Meigui Avenue Chancheng district Foshan, Guangdong PRC	Chinese
Bao Jianyong (包建永)	8 Jiangwan Third Road Chancheng district Foshan, Guangdong PRC	Chinese
Non-executive Directors		
Su Sen (蘇森)	Room 506, 29 Meigui Avenue Yingyin Road Chancheng district Foshan, Guangdong PRC	Chinese
Sun Qian (孫謙)	67 Beili Road Luohu district Shenzhen, Guangdong PRC	Hong Kong
Sun Limei (孫麗梅)	Room 1007, Building 2 26 Jihua Fifth Road Chancheng district Foshan, Guangdong PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent Non-Executive Directors		
Yin Hong (尹虹)	Room 204, Building 13 Nanxiu Village South China University of Technology Tianhe district Guangzhou, Guangdong PRC	Chinese
Hsieh H., Lily (謝慧雲)	4B, Linden Height No. 11 Boyce Rd. Jardine's Lookout Hong Kong	Hong Kong
Wu Haibing (吳海兵)	Room 602, No. 14 Lane 386, Shui Dian Road Shanghai, 200083 PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator and
Sole Sponsor**

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**Joint Bookrunners and Joint Lead
Managers**

Goldman Sachs (Asia) L.L.C.
68/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Hong Kong

Legal Advisors to Our Company

As to Hong Kong law:
Chen & Associates
(in association with Wilson Sonsini Goodrich & Rosati, P.C.)
Unit 1001, 10/F, Henley Building
5 Queen's Road Central
Hong Kong

As to U.S. law:
Wilson Sonsini Goodrich & Rosati, P.C.
(in association with Chen & Associates)
Unit 1001, 10/F, Henley Building
5 Queen's Road Central
Hong Kong

As to PRC law:
Jun He Law Offices
20/F, China Resources Building
8 Jianguomenbei Avenue, Beijing
PRC 100005

As to Cayman Islands law:
Appleby
2206-19, Jardine House
1 Connaught Place
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisors to the Underwriters	<i>As to Hong Kong and U.S. law:</i> Simpson Thacher & Bartlett 35/F, ICBC Tower 3 Garden Road Central, Hong Kong <i>As to PRC law:</i> Haiwen & Partners 21/F Beijing Silver Tower 2 Dong San Huan North Road Chaoyang district, Beijing PRC 100027
Auditors and Reporting Accountants	Deloitte Touche Tohmatsu 35/F Pacific Place I 88 Queensway Hong Kong
Independent Property Valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong
Receiving Bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Principal Place of Business and Head Office in the PRC	No. 8 Jiangwan Third Road Chancheng district Foshan, Guangdong PRC
Principal Place of Business in Hong Kong	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Registered Office	Floor 4, Willow House Cricket Square P.O. Box 2804 Grand Cayman KY1-1112 Cayman Islands
Company's Website	www.dongpeng.net <i>(The information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Bao Jianyong (包建永) Yuen Wing Yan, Winnie (袁穎欣) <i>FCIS, FCS</i>
Authorized Representatives	Bao Jianyong (包建永) 8 Jiangwan Third Road Chancheng district Foshan, Guangdong PRC Yuen Wing Yan, Winnie (袁穎欣) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Audit Committee	Wu Haibing (吳海兵) <i>(chairman)</i> Hsieh H., Lily (謝慧雲) Su Sen (蘇森)
Remuneration Committee	Hsieh H., Lily (謝慧雲) <i>(chairman)</i> Yin Hong (尹虹) He Xinming (何新明)
Nomination Committee	He Xinming (何新明) <i>(chairman)</i> Yin Hong (尹虹) Wu Haibing (吳海兵)

CORPORATE INFORMATION

Compliance Committee	Bao Jianyong (包建永) (<i>chairman</i>) Wu Haibing (吳海兵) Su Sen (蘇森)
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong
Principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Compliance Advisor	Quam Capital Limited 18/F China Building 29 Queen's Road Central Hong Kong
Principal Banks	Industrial and Commercial Bank of China Ltd., Shiwan Branch 13 Jiangwan Third Road Chancheng district Foshan, Guangdong PRC Bank of China Limited, Shiwan Branch 7 Central Second Road Shiwan, Chancheng district Foshan, Guangdong PRC

REGULATION

FOREIGN INVESTMENT

According to the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) jointly promulgated by NDRC and MOFCOM on June 28, 1995, March 11, 2002, November 30, 2004, October 31, 2007, December 24, 2011, respectively, the production and sales of ceramics and bathroom products has been included in the foreign investment program as permitted or encouraged industry in the PRC.

The Law on Foreign-invested Enterprises, which was promulgated on April 12, 1986 and amended on October 31, 2000, forms the fundamental legal basis for the Chinese government to regulate a wholly foreign-owned enterprise. According to the Law on Foreign-invested Enterprises, in order to establish a wholly foreign-owned enterprise, the investor must apply to the Ministry of Foreign Trade and Economic Cooperation under the State Council (currently, the MOFCOM) or other administrations authorized by the State Council for approval. In the event of a split, merger or other major events of change, such event must be submitted to the approving authorities for approval, and the change shall be registered with the state or local administration for industry and commerce.

According to the Rules for the Implementation of the Law of the People's Republic of China on Foreign-invested Enterprises (《中華人民共和國外資企業法實施細則》), promulgated on December 12, 1990 and amended on April 12, 2001, foreign-invested enterprises may pay dividends only out of their accumulated profits, determined in accordance with PRC accounting standards and regulations. Foreign-invested enterprises are also required to set aside at least 10% of their respective after-tax profits each year, if any, to fund certain statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of their registered capital and to allocate a discretionary portion of their respective after-tax profits to staff welfare and bonus funds. These reserves are not distributable as cash dividends.

FOREIGN EXCHANGE

The principal regulations governing foreign currency exchange in the PRC are the *Foreign Exchange Administration Regulations* (《中華人民共和國外匯管理條例》) adopted by the State Council on April 1, 1996 and amended on January 14, 1997 and August 5, 2008, respectively. Under the Foreign Exchange Administration Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. However, the RMB is not freely convertible for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. On August 29, 2008, the SAFE promulgated the SAFE Circular 142 regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. SAFE Circular 142 requires that the registered capital of a foreign-invested company settled in RMB converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in RMB converted from foreign currencies. Violations of SAFE Circular 142 will result in severe penalties, such as heavy fines.

REGULATION

Under SAFE Circular No. 75, issued by the SAFE and became effective on October 21, 2005, prior registration with the local SAFE branch is required for PRC residents to establish or control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company, the raising of overseas funds by such offshore company, or any other material change involving a change in the capital of the offshore company. Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including any increase in its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and any capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

IMPORT OR EXPORT OF GOODS

The Foreign Trade Law of the People's Republic of China (《中華人民共和國對外貿易法》) (the "Foreign Trade Law") was promulgated on May 12, 1994 and amended on April 6, 2004 by the Standing Committee of the National People's Congress to develop foreign trade in areas such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of China's economy. The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) which were promulgated by the Ministry of Commerce on June 25, 2004, require enterprises engaged in foreign trade to register with the relevant authorities in charge of foreign trade under the State Council and obtain permissions for their foreign trade operations, if necessary. In addition, the Foreign Trade Law addresses such issues as intellectual property infringement, unfair competition, tax evasion and civil and criminal liabilities for violations of the foreign trade orders.

The Provisions of the Customs of the People's Republic of China for the Administration of Registration of Declaration Entities (《中華人民共和國海關對報關單位註冊登記管理規定》) was promulgated on March 31, 2005 by the General Administration of Customs of the PRC and became effective from June 1, 2005. Under the above provisions, the consignee or consignor of import or export goods shall register at the local customs office, and obtain the Declaration Registration Certificate for Consignee or Consignor of Import or Export Goods issued by the Customs of the People's Republic of China (《中華人民共和國海關對進出口貨物收發貨人報關註冊登記證書》). After registering with relevant PRC Customs, the consignee or consignor of import or export goods may handle their own declarations at any customs port or office for customs supervisory affairs within the customs territory of the PRC. The Declaration Registration Certificate for Consignee or Consignor of Import or Export Goods issued by the Customs of the People's Republic of China shall be valid for a period of three years.

PRODUCT QUALITY

Product liability may arise if the products sold have any harmful effect on the consumers. The injured party may claim for damages or compensation. The General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which became effective in January 1987, state that the manufacturers and sellers of defective products causing property damage and personal injury shall incur civil liabilities for such damage or injuries.

REGULATION

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was enacted in 1993 and amended in 2000 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufacturers and retailers who produce or sell defective products shall be liable for any personal or property damages resulted from the defective products, may be subject to administrative penalties such as the confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liabilities. A quality accreditation system for enterprises is adopted in the PRC according to the generally adopted international quality management standards. Enterprises can apply voluntarily to departments authorized by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC for enterprise quality system accreditation. An accreditation certificate for enterprise quality system shall be issued by the accreditation agency if the application has been approved.

The Law of the PRC on Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and became effective on January 1, 1994 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers.

The PRC Tort Liability Law (《中華人民共和國侵權責任法》), which became effective on July 1, 2010, provides where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

TAXATION

Enterprise Income Tax

On January 1, 2008, the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) entered into force, income derived from the PRC by enterprises or other organizations is subject to a unified enterprise income tax rate of 25%. The enterprise income tax on high- and new-tech enterprises that are necessary to be supported by the state shall be levied at the reduced tax rate of 15%.

According to the Notice about Implementation of Preferential Policies of the State Council on Transition of Enterprise Income Tax (《關於貫徹落實國務院關於實施企業所得稅過渡優惠政策有關問題的通知》) promulgated by the Ministry of Finance and State Administration of Taxation on February 4, 2008, all enterprises that apply the enterprise income tax rate at 15% and enjoy the transition preferential treatment — reduction of half of the enterprise income tax within a certain time period should, pay half of the payable tax amount calculated at a tax rate of 18% for the year 2008, half of the payable tax amount calculated at a tax rate of 20% for the year 2009, half of the payable tax amount calculated at a tax rate of 22% for the year 2010, half of the payable tax amount calculated at a tax rate of 24% for the year 2011 and half the payable tax amount calculated at a tax rate of 25% for years as of 2012.

Value-added Tax

According to the Interim Regulations of the People's Republic of China on Value-added Tax (《中華人民共和國增值稅暫行條例》), which was promulgated on December 13, 1993 and amended on

REGULATION

November 10, 2008, VAT is payable on the sale or import and export of goods and the provision of processing and repairing services in the PRC. VAT is generally levied at a rate of 17% in the PRC, however a rate of 13% is applicable to the sale or import of certain categories of goods and a rate of 0% is applicable to the export of goods except as otherwise provided by the State Council.

Taxation of Dividends

According to the Enterprise Income Tax Law and Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), dividends payable by foreign-invested enterprises established in the PRC to their foreign investors that are not regarded as PRC resident for tax purposes are subject to a withholding tax of 10%, unless otherwise provided in accordance with tax treaties between the jurisdiction of such foreign investor and the PRC.

According to the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the dividend withholding tax rate may be reduced to 5%, if a Hong Kong resident enterprise is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%.

ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated and became effective on December 26, 1989, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and any damage caused to the environment, such as waste gas, waste water, waste residues, dust and noises generated during manufacturing or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council. Units which are involved in manufacture, storage, transportation, sale and use of toxic chemicals and materials containing radioactive substances shall comply with the relevant regulations to prevent environmental pollution. The relevant authorities are authorized to impose various types of penalties on persons or entities in violation of the environmental regulations.

The penalties which could be imposed include issue of a warning, suspension of operation or installation of facilities which are incomplete or fail to meet the prescribed standard, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against officer-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties.

REGULATION

According to the Law of the PRC on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) which came into effect on September 1, 2003, the PRC government has set up a system to appraise the environmental impact of construction projects, and to classify and administer environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report thoroughly appraising the potential environmental impact is required. If the construction project may result in a slight impact on the environment, an environmental impact record analyzing or appraising the specific potential environmental impact is required. If the construction project may result in minor impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report shall be prepared by construction units and shall be approved by the relevant PRC authority before construction commences.

According to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), promulgated on November 29, 1998 and effective from the same day, and the Regulations on Administration Measures of Inspection and Acceptance of the Environmental Protection of the Completed Construction Projects (《建設項目竣工環境保護驗收管理辦法》), promulgated on December 27, 2001 and amended on December 22, 2010, installations for the prevention and control of pollution in construction projects must be designed, constructed, and put into use simultaneously with the main body. Upon the completion of the construction projects, inspection by the local departments of environmental protection administration shall be performed before the constructed units can be formally put into production.

In addition, according to the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》), with effect from November 1, 1984 and amended on May 15, 1996 and February 28, 2008 respectively, Administration Provisions Regarding the Collection and Application of Waste Disposal Fee (《排污費徵收使用管理條例》), which became effective from July 1, 2003, and other provisions of relevant laws and regulations of the PRC, manufacturers that discharge pollutants into water shall pay a pollutant discharge fee according to the type and volume of the pollutants discharged and the collection standard of discharge fees.

LABOR

Under the PRC Labor Law (《中華人民共和國勞動法》) promulgated on July 5, 1994 and became effective on January 1, 1995, and the PRC Labor Contract Law (《中華人民共和國勞動合同法》) promulgated on June 29, 2007, became effective on January 1, 2008, and amended on December 28, 2012, a written labor contract must be executed between an employer and an employee. Labor-related regulations and rules of the PRC also stipulate the maximum number of working hours per day and per week as well as minimum wage standards. In addition, an employer is required to establish occupational safety and sanitation systems, implement the national occupational safety and sanitation rules and standards, and provide employees with workplace safety training.

SOCIAL INSURANCE AND HOUSING ACCUMULATION FUNDS

The Social Insurance Law was promulgated on October 28, 2010 and became into force from July 1, 2011. Pursuant to the Social Insurance Law, employees should participate in the basic pension insurance, basic medical insurance, unemployment insurance, which shall be paid jointly by the employers and employees in accordance with relevant regulations. Employees should participate in

REGULATION

occupational injury insurance and maternity insurance, which should be paid only by the employer in accordance with relevant regulations. An employer shall declare and make social insurance contributions in full and on time. The employees' contributions should be paid and withheld by the employer on the employees' behalf.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) implemented on January 22, 1999 and the Interim Measures on the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) implemented on March 19, 1999, employers in the PRC should register for social insurance with the local social insurance authorities and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees. If the employer fails to pay or withhold the social insurance fees, the relevant authority could order payment of the outstanding social insurance fees within the prescribed period and if the employer fails to make such payment within the prescribed period, a fine may be imposed by the relevant authority for the delayed payment.

According to the Regulation on Occupational Injury Insurance (《工傷保險條例》) which took effect from January 1, 2004 and was amended on December 20, 2010, and the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (《企業職工生育保險試行辦法》) which was promulgated on December 14, 1994 and took effect from January 1, 1995, Chinese enterprises should pay occupational injury insurance fees and maternity insurance fees for their employees. If the employer fails to pay the occupational injury insurance fees, the relevant authority could order payment of the outstanding insurance fees within the prescribed period and impose a fine for the delayed payment.

According to the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) implemented on April 3, 1999 and amended on March 24, 2002, employers in the PRC must register with the competent housing fund management centre. Employers will then have to open housing fund accounts with entrusted banks for their employees and contribute to the fund at an amount of not less than 5% of each employee's average monthly salary in the previous year.

LAND

According to the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) which was promulgated on June 25, 1986 and amended on December 29, 1988 and August 28, 2004, respectively; and the Regulation on the Implementation of the Land Administration Law of the Peoples Republic of China (《中華人民共和國土地管理法實施條例》) which was promulgated on December 27, 1998 and amended on January 8, 2011, land should be used strictly in line with the purposes of land use defined in the general plan for the utilization of the land whether by units or individuals. Land owned by the State and land collectively owned by peasants may be allocated to be used by units or individuals according to law. People's government at the county level shall register and put on record the use of land collectively owned by peasants for non-agricultural construction and issue certificates to certify the right to use the land for construction purposes. Whereas land collectively owned by peasants is contracted out for operation to those not belonging to the corresponding collective organizations, a consent is required from the over two-thirds majority vote of the villagers' congress or over two-thirds of the villagers' representatives with the resulted contract being submitted to the township (town) people's government for approval.

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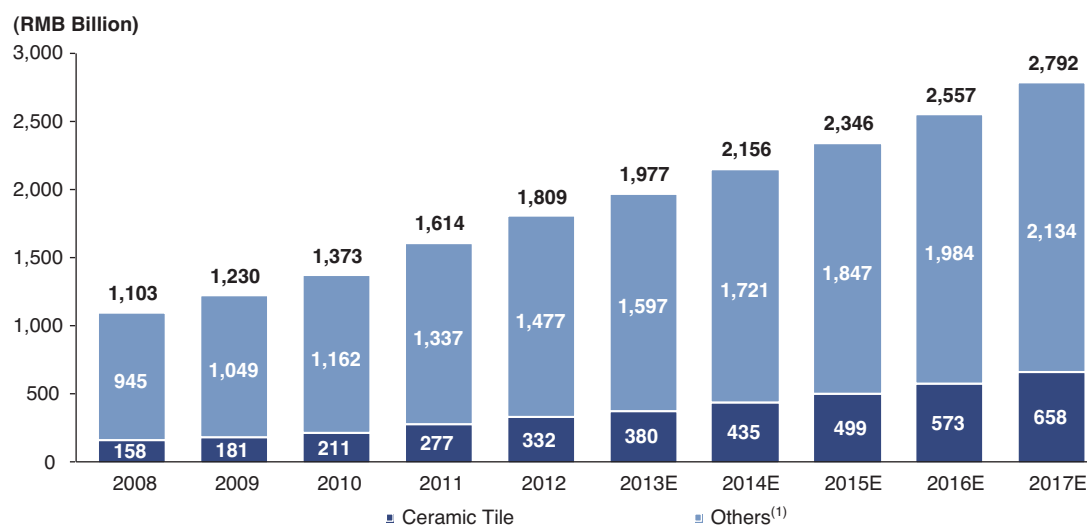
Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the prospectus contains information extracted from a report commissioned by us, or the F&S Report, prepared by Frost & Sullivan for purposes of this prospectus. See “— About This Section”. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the Underwriters or any other party involved in the Global Offering. Such information should not be unduly relied upon.

THE HOME DECORATION AND IMPROVEMENT MARKET IN CHINA

Overview

The home decoration and improvement market in China consists of flooring products, bathroom products, cabinets, paint, lighting products and others. With the strong backdrop of the China marcoeconomy, continued growth of the housing market driven by inelastic demand and consumer upgrade, China’s home decoration and improvement market is expected to increase from RMB1,977 billion in 2013 to RMB2,792 billion in 2017, representing a CAGR of 9.0%.

China Home Decoration and Improvement Market Size



⁽¹⁾ “Others” include stone marbles, wood floors, carpets, paint, lighting products, bathroom products among others.

Source: China Building Decoration Industry Association, NBS, and Frost & Sullivan

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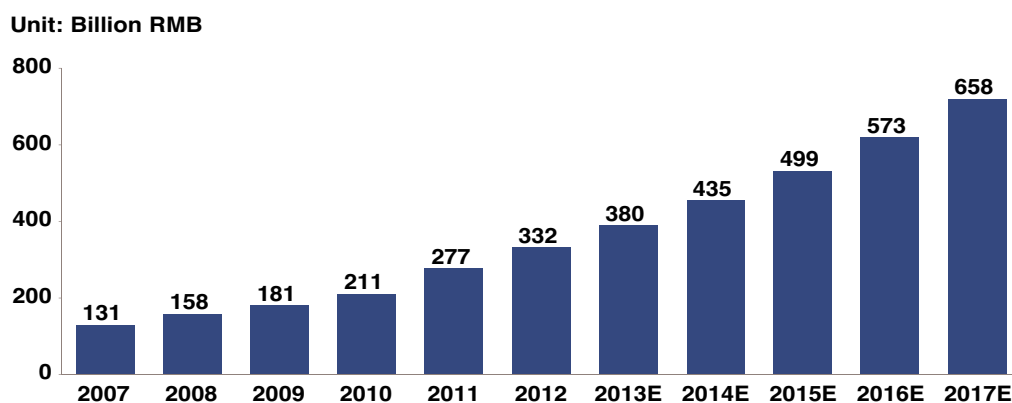
The Ceramic Tile Market in China

Ceramic tile is manufactured from hard-wearing ceramic through heating and subsequent cooling. It is generally used for floors, walls and showers in home decoration and improvement. Typically, ceramic tile products are classified into high-end, mid-range and mass-market categories based on quality, design, brand positioning and price. Ceramic tiles can also be categorized into exterior and interior use products, and can be categorized into glazed tiles (including glossy glazed tiles, antique-inspired tiles, ceramic chips, crystal tiles and ultra-thin tile) and unglazed tile.

For the past five years, China has been the largest ceramic tile market, accounting for approximately 38.6% of the global consumption in 2011. China has also been the largest producer of ceramic tiles, accounting for approximately 45.7% of the global production in 2012.

Driven by the growth in housing market, China's ceramic tile market increased from RMB131 billion in 2007 to RMB332 billion in 2012 with a CAGR of 20.5%, and is expected to increase further to RMB658 billion in 2017 with a CAGR of 14.8% from 2013 to 2017. It is also forecasted that China's ceramic tile market will continue to experience sustained growth thereafter.

China Ceramic Tiles Market Size



Source: Frost & Sullivan

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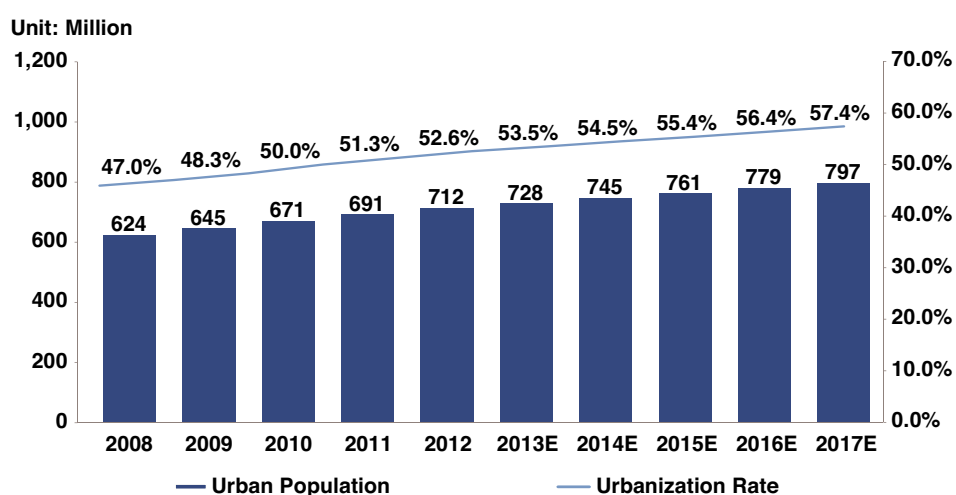
KEY GROWTH DRIVERS

Urbanization

China's significant economic growth has resulted in an accelerated urbanization process, spurring significant increase in disposable income and rapid growth of the property market. The urbanization rate, calculated as urban population divided by total population, increased from 47.0% in 2008 to 52.6% in 2012, and is expected to reach 57.4% in 2017.

China's increasing urbanization rate is expected to result in an urban population of 1,050 million in 2030, accounting for approximately two-thirds of the total population at that time. The urban population is expected to increase by 69 million from 2013 to 2017.

Urbanization in China



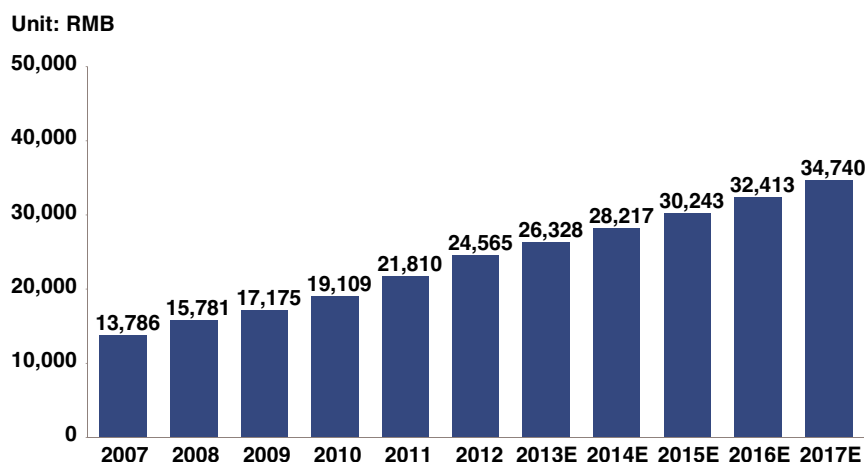
With increasing urbanization rate, many plots of arable lands are transformed for commercial use, resulting in sizable compensations for land owners and creating job opportunities. Urbanization also increases demand for housing and associated consumptions. Consequently, the ongoing urbanization has substantially influenced consumer spending patterns, and urban residents have become increasingly willing to spend on discretionary goods, including home decoration and improvement products such as ceramic tiles and bathroom products.

Increase in Per Capita Disposable Income

Generally, people who live in urban areas in China have stronger purchasing power than those who live in rural areas. Most urban residents in China are willing to spend more on discretionary consumer products to upgrade their working conditions and lifestyle. This is expected to stimulate sales of consumer goods. With the growth in nominal GDP and continuing urbanization, the per capita disposable income of urban households has increased from RMB15,781 in 2008 to RMB24,565 in 2012, representing a CAGR of 11.7%, and is expected to increase to RMB34,740 in 2017, representing a CAGR of 7.2% from 2013 to 2017.

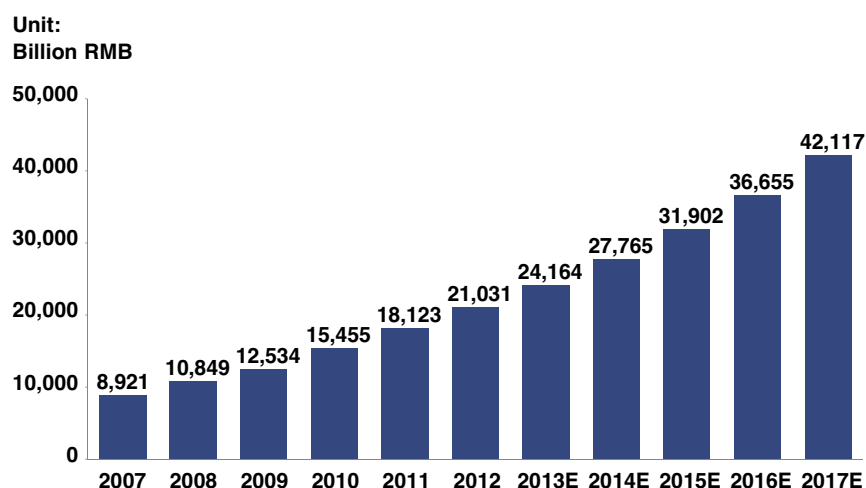
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Per Capita Annual Disposable Income in China



As a result of increasing per capita disposable income, domestic consumption grew significantly, which has resulted in the increase of total retail sales of consumer goods. Due to ongoing urbanization, the growth in total retail sales of consumer goods has outpaced the growth in nominal GDP, increasing from RMB8,921 billion in 2007 to RMB21,031 billion in 2012, representing a CAGR of 18.7%, and is expected to increase further to RMB42,117 billion in 2017, representing a CAGR of 14.9% from 2013 to 2017.

Total Retail Sales of Consumer Goods in China



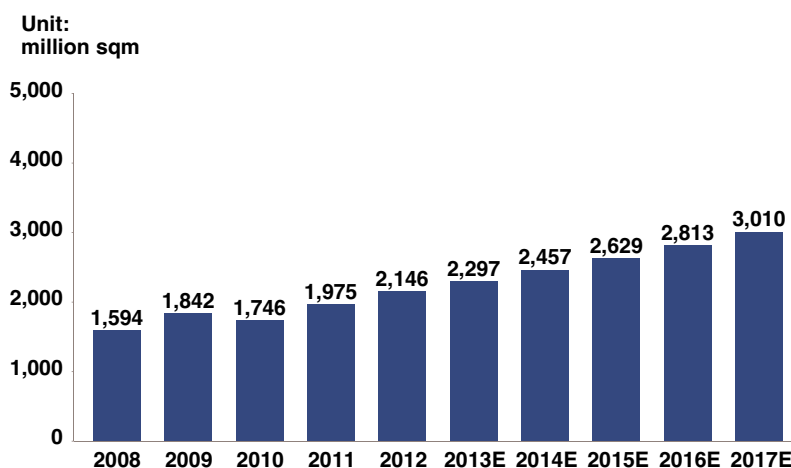
Growth of the PRC Housing Market

China's rapid economic growth and urbanization has created strong demand for housing. Gross floor area of residential properties under construction and completed in China increased from 1,463 million square meters in 2007 to 2,146 million square meters in 2012 with a CAGR of 8.0%. Although the PRC government has implemented a series of property market tightening measures including home-buying restrictions, the aim is not to limit housing purchases but to curb speculative investment and prevent the overheating of the real estate market. Demand for housing from home purchasers is

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expected to continue to grow, resulting in an expected increase in gross floor area of residential properties under construction or completed to 3,010 million square meters in 2017, representing a CAGR of 7.0% from 2013 to 2017. As most of the newly constructed or completed residential properties in China are undecorated, such continued increase in the availability and demand for new homes is expected to further the demand for home decoration and improvement products such as ceramic tiles and bathroom products.

Gross Floor Area of Residential Properties under Construction and Completed in China



Demand from First Time Purchasers

Demand from first time home purchasers is expected to foster growth of the PRC housing market despite the government's measures to tighten China's property market.

Demand from newlyweds

Newlyweds in China will traditionally purchase new homes for their marriages. It is expected that the number of registered marriages will increase from 10.5 million couples in 2008 to 17.8 million couples in 2017. Driven by such increase in the number of marriages and the associated inelastic demand, gross floor area sold as housing to newlyweds increased from 92.6 million square meters in 2008 to 126.8 million square meters in 2012, representing a CAGR of 8.6%, and is expected to increase from 139.8 million square meters in 2013 to 161.7 million square meters in 2015, representing a CAGR of 7.5%. Such increases in gross floor area is expected to stimulate the purchase of home decoration and improvement products.

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Social welfare housing

The PRC government is responsible for social welfare housing to meet the housing demand from low-income individuals and families. China's Ministry of Land and Resource have constructed social welfare and small- and mid-sized housing for low-income households in second- and third-tier cities. The total volume of low-income and social welfare housing under construction is expected to increase from 3.9 million units in 2009 to 6.4 million units in 2015, representing a CAGR of 8.6%. The impact on demand that social welfare housing projects will have is expected to further increase in the long term.

Upgrade Demand

Traditional Chinese family values believe in keeping the family together and respecting the elderly, and often has several generations living under the same roof or are willing to purchase properties for the benefit of their family. As a result, when a new child is born or when there are elderly parents or relatives in the family, the Chinese will often purchase additional residential properties or upgrade their existing home to accommodate and/or better take care of their family members. In addition, parents are often willing to purchase properties for their children as they grow up, to assure that there will be adequate space for them to start a family, as well as to provide their children with a peace of mind and not having to worry about their living conditions. This is the case even for many of the non-affluent population in China as such behavior is deeply ingrained in their historical traditions.

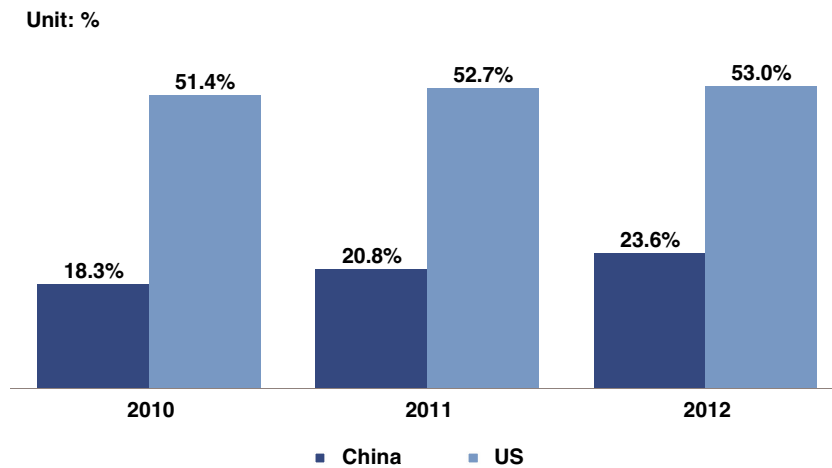
As a result, although the PRC Government has recently implemented various measures to discourage speculation in the property market in China, the PRC Government has also recently issued several policies that aim to improve the living condition of families resulting from the need of additional space. These policies, issued in selected cities, stipulate that if a household has a per capita residential floor area below a certain average, then such household can purchase a second residential property with preferential interest rate. These policies have become key drivers in the continued growth of the residential property development industry in the PRC, and will also lift demand for home decoration and improvement products as a result.

Increasing Remodeling Activities

Purchases of second-hand properties is one of the factors that stimulates the remodeling rate of residential properties. Remodeling rate is calculated as second-hand properties remodeled floor space divided by total residential floor space sold. It is estimated that the remodeling rate of such previously owned properties increased from 18.3% to 23.6% from 2010 to 2012. In addition, as compared to countries such as the United States, China's remodeling rate of residential properties from 2010 to 2012 is relatively low, indicating significant growth potential as China's economy, per capita GDP and urbanization rate continue to increase. Given that remodeling rate is considered one of the most important drivers for the home decoration and improvement market, demand for decoration products such as ceramic tiles, paint, carpets and wood floors is expected to further increase as a result.

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Remodeling Rate of Residential Floor Area, U.S. vs China, 2010-2012

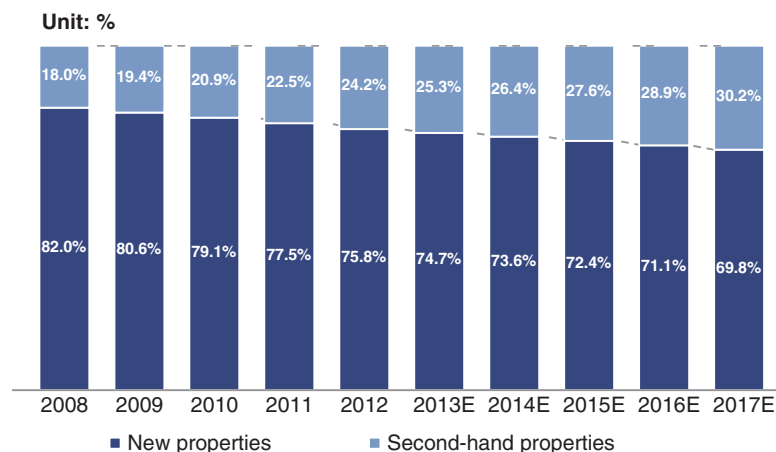


Source: NBS, Houzz & Home 2013 Report and Frost & Sullivan

Remodeling rate = GFA of properties being resold and remodeled/GFA sold in the primary and second property markets

Specifically, demand for ceramic tiles due to remodeling of second-hand properties increased from 0.5 billion square meters in 2008 to 0.7 billion square meters in 2012, and is expected to further increase to 1.2 billion square meters in 2017 from 0.8 billion square meters in 2013. Furthermore, consumption of ceramic tiles due to remodeling of second-hand properties is expected to become a greater portion of overall ceramic tiles consumption in the residential housing market as well, outpacing the growth of ceramic tiles consumption in new residential properties from 2013 to 2017.

Consumption of Ceramic Tiles in Residential Property Market in China



Source: Frost & Sullivan

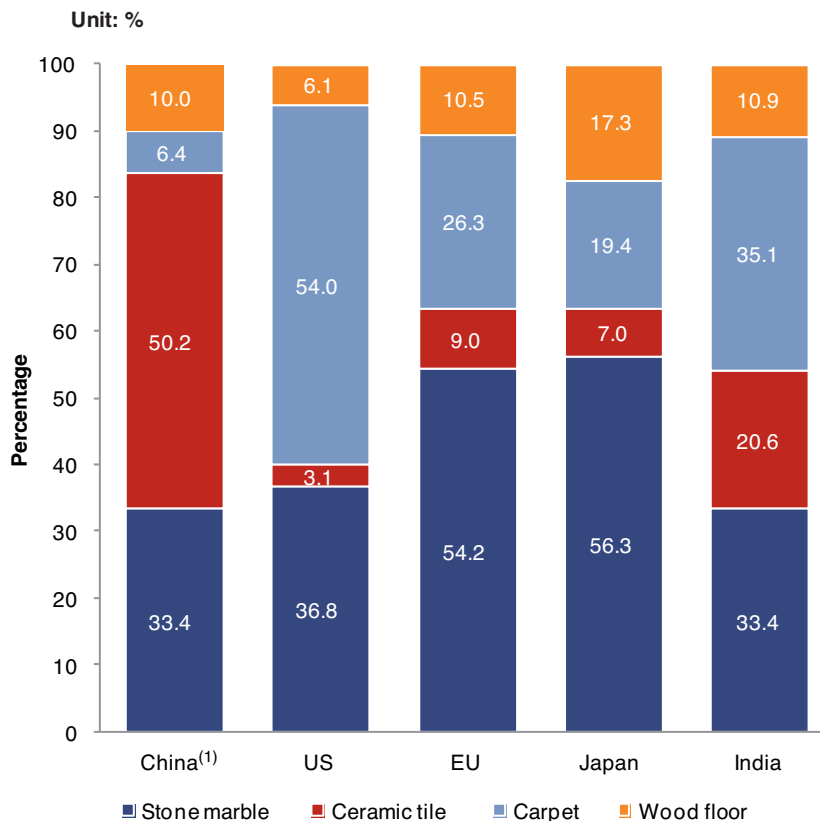
INDUSTRY OVERVIEW

Chinese Preference for Ceramic Tiles

The production and use of ceramic ware in China can be traced as far back as approximately 3,000 years ago. In Chinese traditional culture, people place strong value and importance on their residence and home decoration. Many Chinese believe that the level of opulence at his/her home serves as a status symbol. The use of ceramic tiles in decoration offers a number of benefits, including durability; versatility in ability to be designed to closely resemble natural and wood material; multiple textures and colors; fire and moisture resistance; resistance to abrasion and tread wear; frost, thermal, and chemical shock resistance; easy maintenance and color permanence. As a result, the Chinese have a traditional preference to use ceramic tiles in home decoration and improvement.

As a result of their affinity for ceramic tiles, the Chinese has the highest per capita consumption of ceramic tiles as compare to other countries and regions such as the United States, the European Union, Japan and India. In addition, ceramic tiles represent the preferred choice in China when compared to other flooring products such as wood floors, stone marbles or carpets.

Global Flooring Products Market Size Breakdown, 2012



(1) The source of China's annual ceramic consumption is World Ceramic Review.

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COMPETITIVE LANDSCAPE

China's ceramic tile production market is fragmented and the top ten producers accounted for less than 10% of the total market share in terms of retail sales value in 2012. Dongpeng is ranked first in terms of retail sales value of ceramic tile products in the PRC in 2012, with a market share of 1.74% of the entire PRC ceramic tile market and 9.77% of its high-end segment. The top ten producers in terms of retail sales value in 2012 are set forth in the table below.

Rank	Company	Retail Sales Value (RMB billion)	Market Share (%) in 2012
1	Dongpeng	5.77	1.74%
2	Nabel	5.12	1.54%
3	Marco Polo	4.85	1.46%
4	Hongyu	3.60	1.09%
5	Guanzhu	3.12	0.94%
6	New Zhong Yuan	2.71	0.82%
7	Oceano	2.31	0.70%
8	Summit	1.88	0.57%
9	Bode	1.66	0.50%
10	Eagle Ceramic	1.61	0.49%
Top ten total		<u>32.63</u>	<u>9.85%</u>

Source: Frost & Sullivan

The major industry participants in China's high-end ceramic tile production market in terms of retail sales value in 2012 are set forth in the table below.

Rank	Company	Retail Sales Value (RMB billion) in 2012	Market Share (%) in 2012
1	Dongpeng	5.77	9.77%
2	Nabel	5.12	8.67%
3	Marco Polo	4.85	8.21%
4	Oceano	2.31	3.91%
5	Bode	1.66	2.81%
Top five total		<u>19.71</u>	<u>33.37%</u>

Source: Frost & Sullivan

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The definitions of market segments are listed below:

Grade	Average Retail Selling Price ⁽¹⁾ of Ceramic Tile (RMB per Square Meter)
High-end.....	Above 260
Mid-range	155-260
Mass market	Below 155

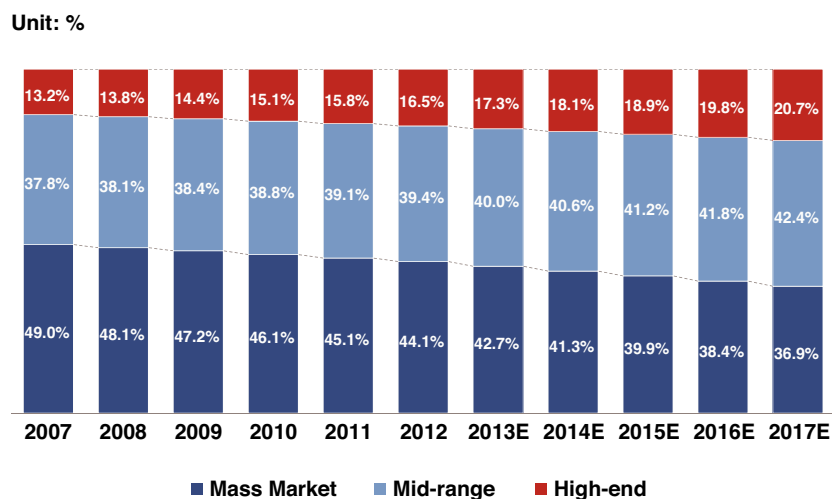
Source: Frost & Sullivan

KEY TRENDS AND SUCCESS FACTORS

Continuing Consumer Upgrade

In China's ceramic tile market, the high-end segment accounts for an increasing percent of the market in recent years. From 2007 to 2012, the market share of the high-end segment increased from 13.2% to 16.5%, and the segment is expected to increase from 17.3% in 2013 to 20.7% in 2017. This trend is primarily caused by increasing disposable income in China. Today, more and more consumers in China prioritize quality over price when choosing ceramic tiles. Most of them prefer to purchase ceramic tiles that are aesthetically pleasing, culturally suited, texturally interesting and environmental friendly, all of these are qualities of high-end tiles.

Market Share of Ceramic Tiles Market Breakdown by in China



Source: Frost & Sullivan

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Ability to Innovate

China's ceramic tile market is significantly affected by product innovation because meeting consumers' varied preferences is a key factor to being successful in the market. Most leading players have continuously introduced "hit" new products that have influenced market trends. When a company successfully develops a new product that influences the market trend, not only is it able to capture a larger market share, but it will also have the power to better price its new product and increase profit margins. As such, many of the leading companies, including Dongpeng, Nabel, and Marco Polo, invest heavily in their research and development capabilities by applying for patents, building research facilities, and cooperating with other institutions. Among the major industry participants, Dongpeng's product portfolio is the most complete, with 150 product series and over 2,500 individual ceramic tile products. Chinese consumers often prefer to make purchases at a single store for their remodeling needs in various living quarters, i.e. bathroom, living room and others, thus benefitting industry participants with full product portfolios.

Emergence of the New Mainstream Consumer and Increasing Brand Concentration

With China's strong GDP growth and urbanization rate, a new group of consumers, those with an annual disposable household income between RMB106,000 and RMB229,000, or the so called "new mainstream consumers", is expected to account for an increasingly greater proportion of total consumer spending. Compared with mass consumers, i.e. those with an annual disposable household income between RMB37,000 to RMB106,000, these new mainstream consumers are willing to spend more on discretionary consumer goods to satisfy personal preference, improve living condition, and pursue better lifestyle. As a result, these new mainstream consumers in the aggregate will have significant purchasing power and will be an important factor in driving domestic consumption, including when it comes to engaging in home decoration and improvement and choosing the relevant products that will fit their preference and lifestyle.

It is common for Chinese shoppers to make last minute purchasing decisions. Most of the consumers decide on their purchases in the store. Therefore a good way to convince consumers is to engage in-store marketing with promotions and to invest in sales people that can influence the consumers' purchasing decision effectively.

Entrenchment in Smaller Cities

Considering the fast urbanization rate, most leading companies are now concentrating on increasing penetration in third-tier and other cities by building a nationwide network covering different city tiers across several provinces, autonomous regions and municipalities. In addition, they see the market size of third-tier and other cities as a new driver for their business expansion.

There are two key capabilities that are important for increasing penetration rate — a comprehensive logistic system and effective enterprise resource planning system. The first component requires that a company builds a nationwide logistic system that includes regional warehouses and

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transportation services that will enable faster and cheaper shipping to distributors. This logistic system will also help distributors when opening additional retail outlets, particularly in third- and fourth- tier cities. Dongpeng has the largest logistics network in China, with five central warehouses and 20 regional warehouses.

With respect to effective enterprise resource planning system, the implementation of professional ERP software (for example, SAP), is crucial. By being able to timely review data collected in the ERP system, such as real time information on warehouse inventory, subsidiary's sales, profits, and other key financial and logistic data, the management team can better control logistics efficiently and effectively.

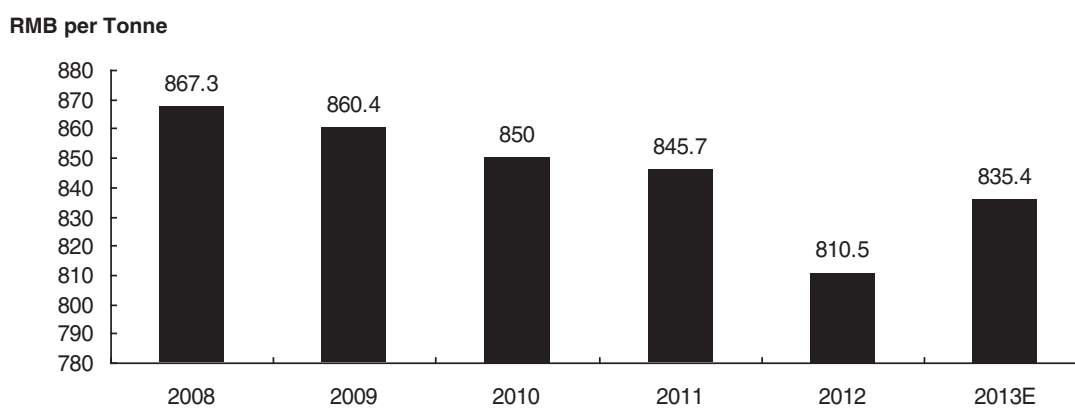
Trend of Consolidation

Although China's ceramic tile market is currently relatively fragmented, the concentration rate of the top ten brands increased from 7.1% in 2010 to 9.9% in 2012, implying a trend of consolidation. With advanced technologies, continual optimization of distribution channel and enhanced research and development capacity as competitive edges, market leaders are likely to herald more consolidation in the industry.

Price of Key Raw Materials

Key raw materials used in the production of ceramic tile products include clay, coal and various types of chemicals. The average selling price of clay in the PRC remained relatively steady in the past five years and is expected to increase moderately in 2013.

Average Selling Price of Clay, China, 2008-2013E

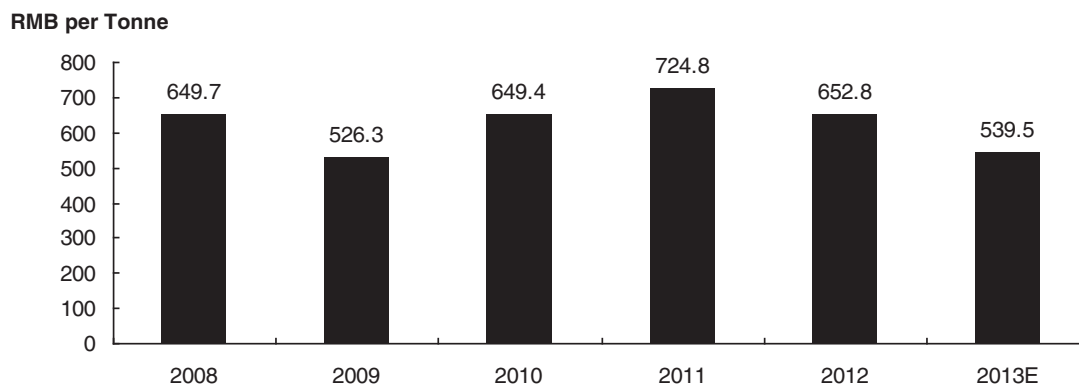


Source: Shanghai Chemical Industry Association, Wind and Frost & Sullivan

INDUSTRY OVERVIEW

The average selling price of coal in the PRC fluctuated during the past five years with a downward trend since 2011 and is expected to be stable in 2013.

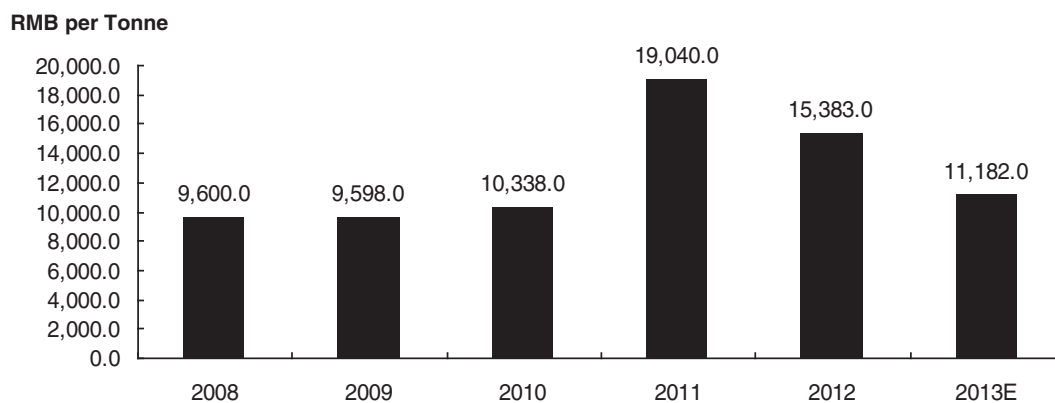
Average Selling Price of Thermal Coal, China, 2008-2013E



Source: Wind and Frost & Sullivan

The average selling prices of various types of key chemicals, such as zirconium, silicate, frit and ink, fluctuated in the PRC during the past five years with a general downward trend since 2011 and are expected to decrease further in 2013.

Average Selling Price of Zirconium Silicate, China, 2008-2013E



Source: Shanghai Chemical Industry Association, Wind and Frost & Sullivan

INDUSTRY OVERVIEW

OVERVIEW OF BATHROOM PRODUCT MARKET IN CHINA

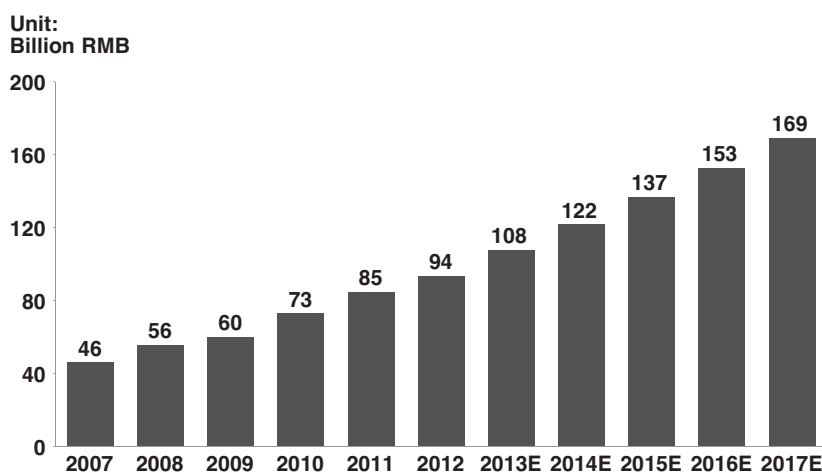
Overview of Market Size and Growth

Bathroom products are typically divided into two categories: ceramic bathroom products and non-ceramic bathroom products. Ceramic bathroom products include toilet, basin, urinal, squat pan, bidet, mop sink and other similar products. Non-ceramic bathroom products include bath tub, bath cabinet, show room products, faucets, flusher, hand dryer and electronic parts, etc. Ceramic bathroom products are further classified into premium, mid-to-high and mass market product categories based on quality, design, brand positioning and pricing.

China has become one of the largest markets of ceramic bathroom products, accounting for 37.0% of the global output in 2012. Residential households are the largest target consumers, while commercial and public properties also account for a significant market share.

Driven by economic growth, urbanization, rising disposable income and growing demands for housing, China's bathroom product market increased from RMB46 billion in 2007 to RMB94 billion in 2012 with a CAGR of 15.4%, and is expected to further increase to RMB169 billion in 2017 with a CAGR of 11.9% from 2013 to 2017. It is also expected that the bathroom product market will continue to experience sustained growth, due to the current low level of per capita bathroom product expenditure in China compared with more developed regions.

China Bathroom Products Market Size

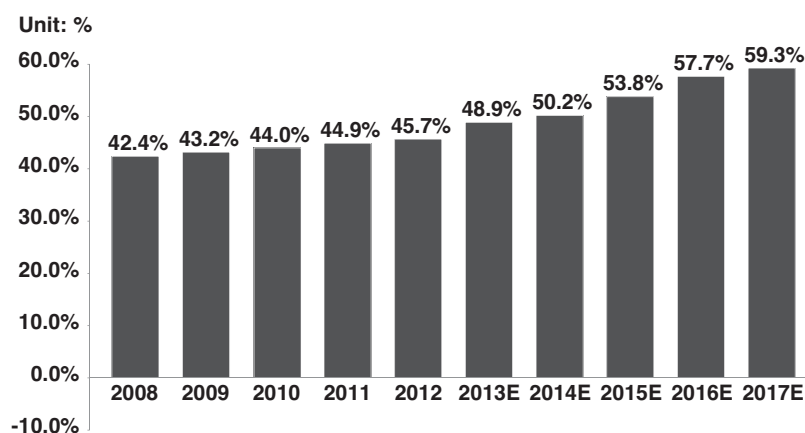


Rising Penetration Rate

The penetration rate of ceramic bathroom products in China lags behind that of more developed regions due to a lower urbanization rate. Each Chinese consumes 0.13 unit of ceramic bathroom products annually while each American consumes 0.26 unit in 2012. In addition, the penetration rate of ceramic bathroom products in China was 42.4% in 2008, and increased to 45.7% in 2012. As the urbanization rate increases in China, the penetration rate of ceramic bathroom products is expected to increase from 48.9% in 2013 to 59.3% in 2017. Such penetration growth is expected to continue to drive the growth of China's bathroom product market.

INDUSTRY OVERVIEW

Penetration Rate of Ceramic Bathroom Products in China



Source: Frost & Sullivan

Major Industry Participants

The top ten brands accounted for 20.4% of the total ceramic bathroom product market, with Dongpeng ranking tenth. China's mid-range to high-end ceramic bathroom product market is relatively consolidated as the top ten brands accounted for approximately 41.4% of the total market share in terms of retail sales value in 2012, with Dongpeng ranking tenth. The major brands in China's ceramic bathroom product market are set forth in the table below.

Rank	Company	Retail Sales Value (RMB billion)	Market Share in the Ceramic Bathroom Product Market (%)	Market Share in the mid-range to high-end Ceramic Bathroom Product Market (%)
1	Kohler	2.79	5.36%	10.90%
2	Toto	2.30	4.42%	8.99%
3	Arrow	1.36	2.61%	5.31%
4	Faenza	0.84	1.61%	3.28%
5	Hegii	0.73	1.40%	2.85%
6	Bolina	0.71	1.36%	2.77%
7	Annwa	0.50	0.96%	1.95%
8	HCG	0.47	0.90%	1.84%
9	Ying	0.46	0.88%	1.79%
10	Dongpeng	0.45	0.86%	1.76%
Top ten total		<u>10.61</u>	<u>20.36%</u>	<u>41.44%</u>

INDUSTRY OVERVIEW

ABOUT THIS SECTION

General

This “Industry Overview” section contains information extracted from a commissioned report, or the F&S Report, prepared by Frost & Sullivan, an independent global consulting company, for purposes of this prospectus. Other than this F&S Report, no other information disclosed in this prospectus is extracted from reports commissioned by us or the Sole Sponsor. We paid a total of RMB750,000 to Frost & Sullivan for the preparation and use of the F&S Report, and we believe that such fees reflect market rate. The F&S Report includes information on the PRC ceramic tile and bathroom product market such as market share and ranking of manufacturers, retail sales value and other economic data, which have been quoted in this prospectus.

Research Methodology

Frost & Sullivan’s independent research was undertaken through both primary and secondary research obtained from various sources within the PRC ceramic tile and bathroom product industries. Primary research involves interviewing leading industry participants while secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers. Revenue of Dongpeng has been based on its accountant’s report. Operating data of Dongpeng has been provided by the Company.

Forecasting Assumptions

The forecasts in the F&S Report are based on the following assumptions:

- the social, economic and political environment of the PRC is assumed to remain stable in the forecast period, allowing for a stable development of the PRC ceramic tile and bathroom product markets;
- PRC’s economy is assumed to maintain a steady growth rate in the next decade; and
- the total retail sales value of consumer goods in the PRC is assumed to increase steadily over the forecast period, based on the increasing per capita annual disposable income of urban households in the PRC.

About Frost & Sullivan

Frost & Sullivan is an independent industry consultant founded in 1961 which has over 35 global offices and employs over 1,800 analysts and experts worldwide. The firm covers a number of industries, including aerospace, defense, automotive, transportation, chemicals, energy and power systems, environmental technologies, electronics, information and communication technologies and healthcare.

HISTORY AND CORPORATE DEVELOPMENT

OVERVIEW

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on March 12, 2012. Dongpeng is the largest ceramic tile company in the PRC in terms of 2012 retail sales value. Foshan Hua Sheng Chang, Guangdong Yuhe and Guangdong Dongpeng Holdings are the onshore holding companies of our Group to hold our PRC operating subsidiaries.

Our ultimate Controlling Shareholders are Mr. He (our Chairman), Mr. Chen Kunlie (an executive Director), Mr. Su Sen (an non-executive Director), Mr. He Xinzhong (an employee), Mr. Chen Yezhi, Mr. Ou Haoquan (an employee), Mr. Luo Siwei (an employee) and Mr. Zhong Baomin (an employee).

Business Milestones

The following table sets forth the key milestones in our history:

- | | |
|------|--|
| 1972 | • Our predecessor, Shiwan Town Civil Administration Multi-Products Factory (石灣鎮民政綜合廠), was established |
| 1991 | • Our predecessor became Dongping Group |
| 1994 | • Mr. He, one of our ultimate Controlling Shareholders and our Chairman, became the head of Shiwan Central Factory |
| | • Dongpeng Sanitary Ware was established and commenced its bathroom products business |
| 1995 | • Shiwan Central Factory took over Shiwan Huatai |
| 1996 | • Shiwan Central Factory rebranded its Dongping (東平) products as Dongpeng (東鵬) products |
| 2000 | • Mr. He and other employees obtained control over our business |
| 2010 | • Sequoia invested in an affiliated entity of our Group |
| 2012 | • Our Company was established |
| 2013 | • Our corporate reorganization was completed |

EARLY HISTORY (1972 - 2001)

Our history can be traced back to Shiwan Town Civil Administration Multi-Products Factory (石灣鎮民政綜合廠), which was established in 1972 as a collectively owned enterprise to manufacture refractory material and metal parts. Part of the business that focused on refractory material became Shiwan Central Factory in 1990, which combined with other nine entities and became Dongping Group in 1991. In March 1994, Shiwan Central Factory separated from Dongping Group and Mr. He, one of our ultimate Controlling Shareholders who joined Dongping Group's predecessor in 1981, became head of Shiwan Central Factory.

HISTORY AND CORPORATE DEVELOPMENT

In April 1994, Foshan Hua Sheng Chang, an onshore holding company of our Group was established in the PRC as a sino-foreign joint venture and owned as to 30% by Dongping Group and 70% by Eagle Brand (H.K.) Industrial Co., Limited (鷹牌(香港)實業有限公司), an Independent Third Party that represented interest of the People's Government of Shiwan town. Foshan Hua Sheng Chang did not have substantive business operation at the time. In December 1995, Shiwan Central Factory took over Shiwan Huatai, a failing business at the time.

Restructuring into Private Enterprise

In November 1997, Shiwan Central Factory, Shiwan Huatai, Dongpeng Sanitary Ware (established in December 1994 to focus on ceramic bathroom products business), Shiwan Decorative Tile Factory, an affiliate of Shiwan Central Factory, and Dongpeng Ceramic Factory Storage and Transportation Department, an affiliate of Shiwan Central Factory, consolidate their business and established Dongpeng Group under the laws of the PRC as a limited liability company.

Takeover by Xinli Asset Management Company

In December 1998, Eagle Brand (H.K.) Industrial Co., Limited transferred 70% of the equity interest in Foshan Hua Sheng Chang to Xinli (Hong Kong) Co., Ltd. (信力(香港)有限公司), an entity that represented interest of the People's Government of Shiwan town, for nominal consideration.

In December 1999, Xinli Asset Management Company, an entity that represented the interests of the People's Government of Shiwan town, acquired 16.4% and 20% equity interest in Dongpeng Group from Shiwan Central Factory and Shiwan Decorative Tile Factory, respectively, for nil consideration. On the same date, Xinli Asset Management Company acquired 60% and 1.6% equity interest in Dongpeng Group from Huatai and Dongpeng Sanitary Ware, respectively, each for a nominal consideration. After these transactions, Dongpeng Group was owned as to 98% by Xinli Asset Management Company and 2% by Dongpeng Ceramic Factory Storage and Transportation Department.

Privatization

In December 1999, Dongpeng Group acquired 45% and 30% of equity interest in Foshan Hua Sheng Chang from Xinli (Hong Kong) Co., Ltd. and Dongping Group for a consideration of US\$150,000 and US\$1.5 million, respectively. Dongpeng Group also assumed the obligation of Xinli (Hong Kong) Co., Ltd. to contribute US\$2.1 million to Foshan Hua Sheng Chang's registered capital.

In October 2001, Xinli (Hong Kong) Co., Ltd. transferred 25% of equity interest in Foshan Hua Sheng Chang to Hong Kong Flying, a company then controlled by Guangdong Dongpeng Ceramics for nominal consideration. We received a confirmation letter from the People's Government of Shiwan Subdistrict Office (石灣街道辦) in July 2013, confirming that it had been aware of and agreed with this transfer. In addition, we received a confirmation letter from the People's Government of Chancheng district (禪城區政府) in August 2013 confirming that it agreed with the opinion of the People's Government of Shiwan Subdistrict Office. Our PRC legal advisor, Jun He Law Offices, advised us that (i) the People's

HISTORY AND CORPORATE DEVELOPMENT

Government of Shiwan Subdistrict Office, as the beneficial owner of Xinli Asset Management Company, is a competent authority to provide confirmation on such matter, and (ii) the People's Government of Chancheng district, as the supervising authority of the People's Government of Shiwan Subdistrict Office, is also a competent authority to provide confirmation on such matter.

In June 2000, Xinli Asset Management Company and Dongpeng Ceramic Factory Storage and Transportation Department transferred an aggregate of 48.9% equity interest in Dongpeng Group to six of our employees for an aggregate consideration of RMB52.8 million. These six employees were Mr. He, Mr. Chen Kunlie and Mr. Su Sen, three of our ultimate Controlling Shareholders, and Mr. Zhao Zancheng, Mr. Xu Ping and Mr. Feng Chu, who were employees of Dongpeng Group at the time. The consideration was determined based on an appraisal report issued around the time of this transfer. This transfer was approved by the People's Government of Shiwan town in the same month. Also in June 2000, Xinli Asset Management Company transferred the remaining 51.1% equity interest in Dongpeng Group to Lianli Factory. The 51.1% equity interest was held by Lianli Factory for the benefit of the labor union of Dongpeng Group, which in turn held the interest for Dongpeng Group's employees. This transfer was approved by Shiwan Town Collectively Owned Assets Management Office in the same month. After these transfers, Mr. He, Mr. Chen Kunlie, Mr. Su Sen and other employees of Dongpeng Group beneficially owned 12.04%, 8.33%, 5.56% and 74.07% equity interest, respectively, in Dongpeng Group. In July 2013, we received a confirmation letter from the People's Government of Shiwan Subdistrict Office confirming that there was no dispute between the People's Government of Shiwan Subdistrict Office and the relevant parties with respect to such transfers, and that Guangdong Dongpeng Ceramics was not collectively-owned by Shiwan Subdistrict Office at the time of the letter. In addition, we have received a confirmation letter from the People's Government of Chancheng district in August 2013 confirming that it agreed with the opinion of the People's Government of Shiwan Subdistrict Office. Our PRC legal advisor, Jun He Law Offices, has advised us that (i) the People's Government of Shiwan Subdistrict Office, as the beneficial owner of Xinli Asset Management Company, is a competent authority to provide confirmation on such matter, and (ii) the People's Government of Chancheng district, as the supervising authority of the People's Government of Shiwan Subdistrict Office, is also a competent authority to provide confirmation on such matter.

Additional Investment by Local Government

In November 2000, Foshan Nanfeng Guzao Tourism Development Co., Ltd. (佛山市南風古灶旅遊發展有限公司) ("Nanfeng Guzao"), a company owned by the People's Government of Shiwan town, acquired 10.0% equity interest in Dongpeng Group from Dongpeng Group's existing shareholders (i.e., Lianli Factory, Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. Zhao Zancheng, Mr. Xu Ping and Mr. Feng Chu) for an aggregate consideration of RMB18 million. The transfer by Lianli Factory to Nanfeng Guzao was approved by Shiwan Town Collectively Owned Assets Management Office in November 2000. At the same time, Luo Xinjia, an employee of Dongpeng Group, also acquired 2.22% equity interest in Dongpeng Group from Dongpeng Group's existing shareholders for an aggregate consideration of RMB4 million. After the completion of these transactions, Nanfeng Guzao, Mr. He, Mr. Chen Kunlie, Mr. Su Sen and other Employees of Dongpeng Group beneficially owned 10.0%, 10.57%, 7.31%, 4.88% and 67.24% equity interest, respectively, in Dongpeng Group.

HISTORY AND CORPORATE DEVELOPMENT

Conversion into Company Limited by Shares

In June 2001, the People's Government of Guangdong province and Economic and Trade Commission of Guangdong province approved the conversion of Dongpeng Group from a limited liability company into a company limited by shares. After the conversion, Dongpeng Group changed its name to Guangdong Dongpeng Ceramics. After the conversion, the shareholders of Guangdong Dongpeng Ceramics were Lianli Factory (as to 44.86%, holding such equity interest for the benefit of the labor union of Dongpeng Group), Nanfeng Guzao (as to 10.0%) and seven employees (as to 45.14%). Among the seven employees, Mr. He, Mr. Chen Kunlie and Mr. Su Sen owned 10.57%, 7.31% and 4.88%, respectively, of Guangdong Dongpeng Ceramics.

HISTORY FROM 2001 TO 2010

From 2001 to 2010, the major developments of our business include the following.

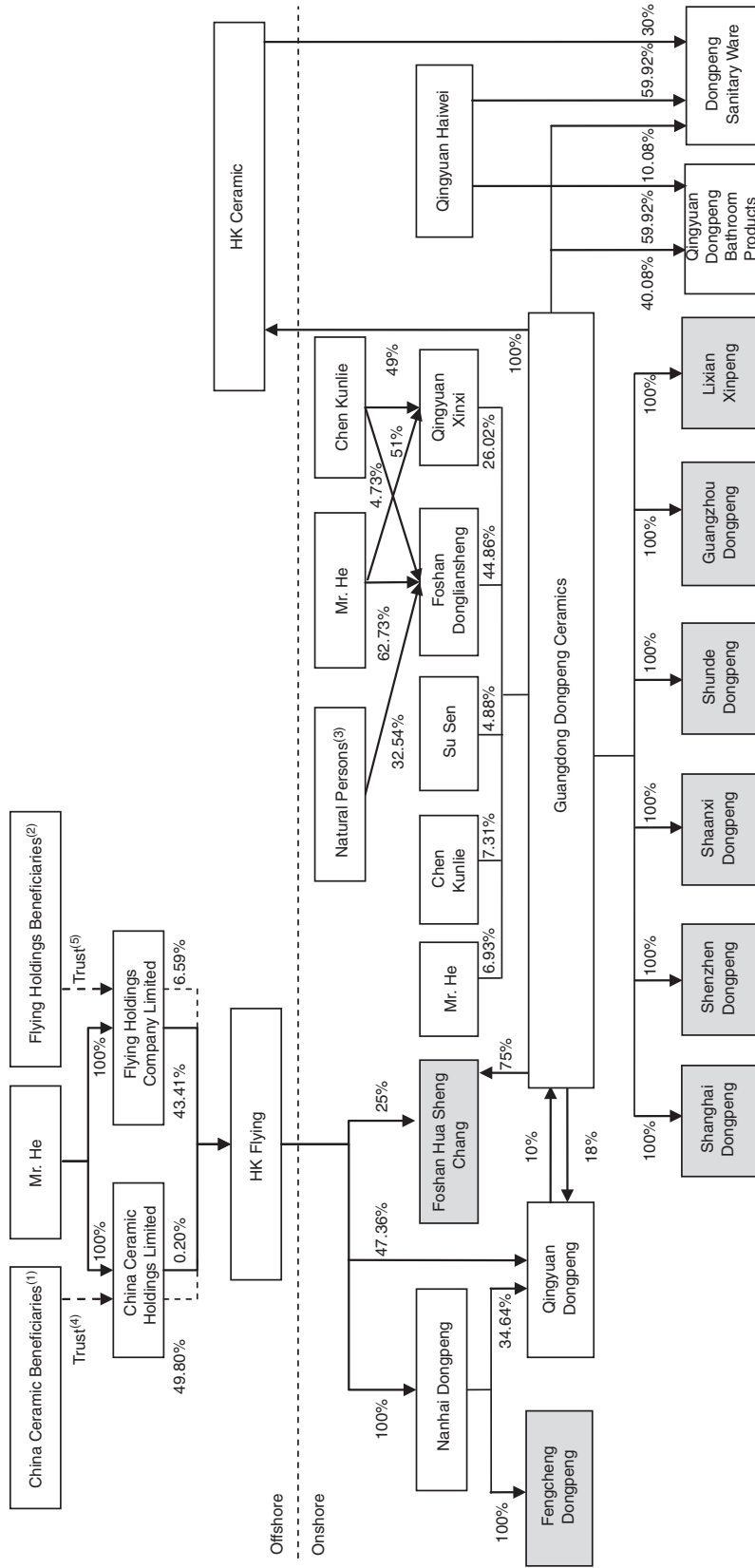
- *Business expansion.* Our business expanded significantly during this period. In October 2003, July 2007 and September 2009, we established Qingyuan Dongpeng, Fengcheng Dongpeng and Lixian Xinpeng, respectively, to hold our new production facilities. In order to expand our distribution network, from March 2007 to September 2008, we established a number of subsidiaries focusing on sales of our products, including Shanghai Dongpeng, Shenzhen Dongpeng, Shaanxi Dongpeng, Shunde Dongpeng and Guangzhou Dongpeng.
- *Separation of ceramic bathroom products business.* In early to mid 2000's, both our ceramic tile and ceramic bathroom businesses were at a relatively early stage and were competing for corporate resources and management attention. The business separation allowed the two business segments to each have its own dedicated senior management team and be supported by its own corporate structure, thereby increasing management focus on and resources for each business segment. Accordingly, in 2006, we made a strategic decision to separate our ceramic bathroom products business from our ceramic tile business. At that time, our ceramic bathroom products business was conducted through Dongpeng Sanitary Ware. In September 2006, Qingyuan Haiwei, a company owned as to 51.38% by Mr. He, 41.96% by Mr. Feng Chu and 6.66% by Mr. Lin Chi Feng, was introduced to Dongpeng Sanitary Ware as a new shareholder in connection with this business separation. After the completion of Qingyuan Haiwei's investment in Dongpeng Sanitary Ware, the shareholding of HK Flying, Guangdong Dongpeng Ceramics and Qingyuan Haiwei in Dongpeng Sanitary Ware became 30%, 10.08%, 59.92%, respectively. The transaction was approved by the Bureau of Foreign Trade and Economic Cooperation of Chancheng District, Foshan (佛山市禪城區對外貿易經濟合作局) and the People's Government of Guangdong province in the same month. In April 2007, HK Flying transferred its 30% equity interest in Dongpeng Sanitary Ware to HK Ceramic for a consideration of RMB4.2 million, with reference to the register capital. HK Ceramic also assumed HK Flying's obligation to contribute RMB8.3 million to Dongpeng Sanitary Ware.

HISTORY AND CORPORATE DEVELOPMENT

- *Increase of Controlling Shareholders' shareholding.* In July 2006 and March 2007, Mr. He and four other employee-shareholders of Guangdong Dongpeng Ceramics transferred an aggregate of 26.02% equity interest in Guangdong Dongpeng Ceramics to Qingyuan Xinxi, a company owned as to 51% by Mr. He and 49% by Mr. Chen Kunlie. After these transfers Mr. He and Qingyuan Xinxi became 6.93% and 26.02% shareholder of Guangdong Dongpeng Ceramics, respectively. From 2006 to 2010, the number of beneficial owners of Guangdong Dongpeng Ceramics had decreased. When an employee-shareholder ceased to be our employee, such employee sold his/her shares to our existing employees. In August 2007, Lianli Factory transferred 44.86% equity interest in Guangdong Dongpeng Ceramics to Foshan Dongliansheng for nominal consideration. At the time Foshan Dongliansheng was owned as to 62.73% by Mr. He, 4.73% by Chen Kunlie and 32.54% by 29 other employees. This transfer was approved by the Public Assets Management Office of the People's Government of Chancheng district, Foshan city, in May 2007.

HISTORY AND CORPORATE DEVELOPMENT

Our corporate structure as of January 1, 2010, the start of our Track Record Period, was as follows:



(1) Consisting of Chen Kunlie (17.86%), Su Sen (9.23%) and 8 other employees or former employees of our Group.

(2) Consisting of 11 employees or former employees of our Group.

(3) Consisting of 29 employees or former employees of our Group.

(4) On April 7, 2006, Mr. Chen Kunlie, Mr. Su Sen and 8 other employees or former employees of our Group entered into a trust arrangement with China Ceramic Holdings Limited, under which China Ceramic Holdings Limited held approximately 49.80% of equity interest in HK Flying for the benefit of these individuals. This trust arrangement was documented in a confirmation agreement signed on June 2, 2010.

(5) On April 7, 2006, 11 employees or former employees of our Group entered into a trust arrangement with Flying Holdings Company Limited, under which Flying Holdings Company Limited held approximately 43.41% of equity interest in HK Flying for the benefit of these individuals. This trust arrangement was documented in a confirmation agreement signed on June 2, 2010.

☐ Represents members of our Group

HISTORY AND CORPORATE DEVELOPMENT

REORGANIZATION

Historically, Guangdong Dongpeng Ceramics was our principal onshore holding company. In November 2011, a new onshore holding company, Guangdong Dongpeng Holdings, was established to hold our PRC operating subsidiaries. This was done principally to facilitate our pre-IPO investment and put in place our current group structure. In addition, Guangdong Dongpeng Ceramics had certain unrelated businesses such as real estate investments, which made it unsuitable as the holding company of a ceramic tile focused company seeking a listing on the Hong Kong Stock Exchange. Accordingly, in preparation for our proposed Global Offering and listing on the Hong Kong Stock Exchange, we undertook the reorganization, which consisted of the following major steps:

- *Establishing offshore structure.* From September to November 2011, Profit Strong, Superb Idea, Cosmo Ray, High Ride and Rich Blossom were incorporated in the British Virgin Islands as offshore holding companies for Mr. He, Mr. Chen Kunlie, Mr. Su Sen and two groups of our employees, respectively. On March 12, 2012, the Company was incorporated under the laws of the Cayman Islands. Through a series of share issuances and transfers, the Company was owned as to 43.61%, 17.86 %, 9.23%, 24.29% and 5.00% by Profit Strong, Superb Idea, Cosmo Ray, High Ride and Rich Blossom, respectively, as of September 28, 2012. Following the incorporation of our Company, BVI Co was incorporated on April 11, 2012 under the laws of the British Virgin Islands as a wholly owned subsidiary of the Company, and HK Co on May 4, 2012 under the laws of Hong Kong as a wholly owned subsidiary of BVI Co.
- *Establishing onshore holding companies.* In January 2011, Guangdong Yuhe was incorporated under the laws of the PRC by Nanhai Dongpeng, a wholly-owned subsidiary of HK Flying at the time. On September 26, 2011, Foshan Hua Sheng Chang acquired 100% equity interest in Guangdong Yuhe from Nanhai Dongpeng for a consideration of RMB20 million. In November 2011, Guangdong Dongpeng Holdings was incorporated under the laws of the PRC and owned as of 90% by Foshan Hua Sheng Chang and 10% by Guangdong Yuhe. In January 2013, HK Co acquired 25% and 75% equity interest in Foshan Hua Sheng Chang from HK Flying and Guangdong Dongpeng Ceramics, respectively, for a consideration of US\$3.1 million and US\$9.3 million, respectively, with reference to the registered capital of Foshan Hua Sheng Chang.
- *Injection of onshore businesses.* From October 2012 to February 2013, Guangdong Dongpeng Ceramics transferred to Guangdong Dongpeng Holdings all of its wholly owned subsidiaries, all of which are in the business of manufacturing or sales of ceramic tile products. Since Guangdong Dongpeng Ceramics had other unrelated business such as real estate investments, our Directors at the time were of the view that it would be more cost effective to transfer Guangdong Dongpeng Ceramics's subsidiaries into our Group as compared to acquiring the equity interest in Guangdong Dongpeng Ceramics. Shanghai Dongpeng, Shenzhen Dongpeng, Shaanxi Dongpeng, Shunde Dongpeng, Guangzhou Dongpeng, Guangxi Yuepeng, Beijing Dongpeng, Yunnan Xuanpeng, Qingdao Ruipeng and Foshan Dongpeng Development were transferred to Guangdong Dongpeng Holdings for a consideration of RMB500,000, RMB500,000, RMB5 million, RMB1 million, RMB3.0 million, RMB2 million, RMB1 million, RMB2 million, RMB2 million and RMB12 million, respectively, each with reference to its registered capital. Fengcheng Dongpeng, Lixian Xinpeng, Qingyuan Nafuna and Zibo Kapuer were transferred to Guangdong Dongpeng Holdings for a

HISTORY AND CORPORATE DEVELOPMENT

consideration of RMB69 million, RMB12 million, RMB27 million and RMB23 million, respectively, each with reference to its independent assets appraisal report. As a result of these transfers, the only material business retained by Guangdong Dongpeng Ceramics is real estate investments business as of the Latest Practicable Date. We do not expect to have any related party transaction with Guangdong Dongpeng Ceramics after the Listing.

In January 2011, we took over the businesses from Shandong Dongpeng and Shandong Jialiya. At that time, Shandong Dongpeng, a wholly owned subsidiary of Nanhai Dongpeng, primarily engaged in the production and sales of unglazed ceramic tile products. We were aware at that time that the parcel of land upon which the production facility of Shandong Dongpeng was located may be reclassified as land for commercial purposes in the near future, and could no longer be used for industrial purposes after such reclassification. Given the production facility was the main asset of Shandong Dongpeng, our Directors at the time were of the view that it would be more cost effective for us to take over the business of Shandong Dongpeng with a lease of its production facility until such time of the land reclassification as compared to acquiring the equity interest in Shandong Dongpeng. Shandong Jialiya, a company owned as to 90% by Qingyuan Xinxi and 10% by Foshan Dongliansheng, primarily engaged in the production and sales of ceramic chip products. The production facility of Shandong Jialiya, which is its main asset, was found to have title defects. Given the risks associated with such title defects, our Directors at the time were of the view that it would be more beneficial to our Group to take over the business of Shandong Jialiya with a lease of its production facility as compared to acquiring the equity interest in Shandong Jialiya. In January 2011, Shandong Dongpeng and Shandong Jialiya ceased the business of manufacturing and sales of ceramic tiles. Employees of these businesses had been terminated and customers and suppliers of these businesses had been informed of the business termination. All the raw material and finished products of ceramic tiles from Shandong Dongpeng and Shandong Jialiya were sold to Zibo Kapuer. Employees of Shandong Dongpeng and Shandong Jialiya were invited to join Zibo Kapuer at their own will. Zibo Kapuer also discussed and negotiated with the relevant customers and suppliers as to new contractual terms. Property, plant and equipment remained under the title of Shandong Dongpeng and Shandong Jialiya, but were leased to Zibo Kapuer under long term agreements from January 2011. Zibo Kapuer later terminated its lease arrangement with Shandong Dongpeng and ceased its production at the production facility of Shandong Dongpeng as of December 31, 2012 in anticipation of the land reclassification which took place in early 2013.

In December 2010, Qingyuan Dongpeng transferred all of its assets to Qingyuan Nafuna except certain factory buildings and related parcels of land. At the time of such transfer, our Directors were keen to expand our production capacity quickly. However, Qingyuan Dongpeng has historically failed to make timely filing of work safety assessment and did not make full contribution to the social insurance and housing funds. In addition, at the time of the asset transfer, Qingyuan Dongpeng was in possession of a parcel of land in Qingyuan Guangdong province totaling 353,980 square meters with title defects and there was great uncertainty as to the nature of the land, and as a result, no clear procedure for rectification and the process of application for the land use right at the time. At the same time, we were reorganizing our corporate structure in preparation for the Global Offering. Taking into account

HISTORY AND CORPORATE DEVELOPMENT

these factors, our Directors, in structuring this transaction, elected to acquire assets rather than stock of Qingyuan Dongpeng. After the asset transfer, however, we learned that the title defect associated with the parcel of land located in Qingyuan, Guangdong province may be rectified as such land became part of the local property reform project in early 2011. In order to fully utilize this parcel of land and benefit from the local reform plan, Qingyuan Dongpeng then nominated Qingyuan Nafuna to apply for the land use right, which nomination was consistent with parties' original intention of transferring all assets of Qingyuan Dongpeng to Qingyuan Nafuna. For more details on the title defects associated with this parcel of land, see "Business — Our Properties — Owned Land and Buildings — Facilities at Qingyuan — Title Defects".

For our commitment to enhancing legal compliance and internal control, see "Business — Legal Proceedings and Compliance".

From December 2011 to April 2013, in order to develop our internal sales force, Guangdong Dongpeng Holdings incorporated a number of wholly owned subsidiaries, namely, Foshan Dongpeng Ceramics, Jiangxi Fengyu, Hunan Dongpeng, Linzhi Yuhe and Deqing Heying, under the laws of the PRC.

- *Acquisition of bathroom products business.* As we developed into a more mature business, we refined our business strategy with respect to bathroom products and planned to expand our product offering to include more bathroom products and to capitalize on the brand synergy and cross-selling opportunities between the ceramic tile and bathroom products business segments. As a result, in September 2012, Dongpeng Sanitary Ware acquired 50% and 20% equity interest in Gaoming Furniture from Mr. Lu Lecheng and Ms. Li Fujiao, both Independent Third Parties, for a consideration of RMB257,500 and RMB103,000, respectively, with reference to the net assets of Gaoming Furniture. Immediately after such acquisition, Gaoming Furniture is owned as to 70% by Dongpeng Sanitary Ware, 20% by Mr. Jiang Yuehua and 10% by Mr. Tang Bo. Gaoming Furniture primarily engages in the production of bathroom cabinets. In May 2013, Guangdong Dongpeng Holdings acquired 59.92% and 30% equity interest in Dongpeng Sanitary Ware from Qingyuan Haiwei and HK Ceramic, a wholly owned subsidiary of Guangdong Dongpeng Ceramics, for a consideration of RMB35.5 million and RMB17.8 million, respectively, with reference to Dongpeng Sanitary Ware's independent assets appraisal report and taking into account the adjustment made based on audited net assets. On the same date, Guangdong Yuhe acquired 10.08% equity interest in Dongpeng Sanitary Ware from Guangdong Dongpeng Ceramics for a consideration of RMB6.0 million with reference to an independent assets appraisal report and taking into account the adjustment made based on audited net assets. Deqing Yuwei, one of our wholly owned subsidiaries also took over the business of Qingyuan Dongpeng Bathroom Products, a company controlled by Qingyuan Haiwei and a connected person of our Company. Qingyuan Dongpeng Bathroom Products was primarily a trading company that sourced non-ceramic bathroom products from third party suppliers and sold such products to its customers. Other than inventories, Qingyuan Dongpeng Bathroom Products did not have any substantial tangible assets. As such, our Directors at the time were of the view that it would be more cost effective to take over its business as compared to acquiring its equity interest. In May 2013,

HISTORY AND CORPORATE DEVELOPMENT

Qingyuan Dongpeng Bathroom Products ceased its business of selling non-ceramic bathroom products. Customers and suppliers of this business had been informed of the business termination, and Deqing Yuwei discussed and negotiated with the relevant customers and suppliers as to new contractual terms.

- *Disposal of Beijing Dongpeng.* Beijing Dongpeng primarily engaged in design and sales of products under the Datang Hesheng brand. It was initially transferred to our Company in November 2012 as part of the reorganization where Guangdong Dongpeng Ceramics injected all of its ceramic tile related subsidiaries into our Company. In March 2013, in order to streamline our corporate structure and focus on products under the “Dongpeng” brand, Guangdong Dongpeng Holdings transferred 100% of its equity interest in Beijing Dongpeng to Datang Hesheng for a consideration of RMB1 million with reference to Beijing Dongpeng’s registered capital. Datang Hesheng was a PRC company beneficially owned by Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. Zhong Baomin and Mr. Bao Jianyong through Foshan Yuanheng as to 45.72%, 17.86%, 9.23%, 22.19% and 5.00%, respectively.
- *Introduction of pre-IPO investor.* We introduced Sequoia as our pre-IPO investor. See “— Pre-IPO Investment from Sequoia” below.
- *Minority investment by existing Shareholders.* In July 2013, Foshan Yuanheng acquired 9.99% and 7.69% equity interest, in Qingyuan Nafuna and Foshan Dongpeng Development, respectively, for a consideration of RMB550 million and RMB300 million, respectively. These transactions were carried out primarily to satisfy the obligation of Mr. He and certain other Controlling Shareholders under the pre-IPO investment arrangement of maintaining the Company’s net asset at the level based on which Sequoia negotiated the consideration of its pre-IPO investment. See “— Pre-IPO Investment from Sequoia”. Proceeds from Foshan Yuanheng’s investments were used to increase the registered capital and capital reserves of Qingyuan Nafuna and Foshan Dongpeng Development.
- *Acquisition of certain land and production premises in Qingyuan, Guangdong.* As part of our reorganization, in December 2010, we acquired all of the assets of Qingyuan Dongpeng except certain factory buildings totaling 102,441 square meters and related land totaling 274,592 square meters. We completed our acquisition of these properties by the end of October 2013. Based on third-party valuation, these factory buildings and parcels of land have a market value of approximately RMB134.9 million. Our acquisition of these factory buildings and parcels of land will be carried out through the following steps: (i) injection by Qingyuan Dongpeng of such properties into Qingyuan Nafuna in exchange for 2.37% of the newly issued equity interest of Qingyuan Nafuna and (ii) acquisition by Guangdong Dongpeng Holdings of such 2.37% equity interest of Qingyuan Nafuna held by Qingyuan Dongpeng at a consideration of approximately RMB134.9 million. Immediately after the completion of the above transactions, Qingyuan Nafuna will be owned as to 90.35% by Guangdong Dongpeng Holdings and 9.65% by Foshan Yuanheng.

HISTORY AND CORPORATE DEVELOPMENT

PRE-IPO INVESTMENT FROM SEQUOIA

In order to raise funds to support our long-term growth, and to benefit from Sequoia's knowledge and experience in the development of business strategy, we first introduced Sequoia as an investor.

Principal Terms of the Investment

Sequoia's Investment in Dongpeng International

Historically, Guangdong Dongpeng Ceramics was our principal onshore holding company. Sequoia initially invested in Guangdong Dongpeng Ceramics through its then offshore holding company, Dongpeng International in August 2010. For a consideration of US\$30 million, Sequoia purchased (i) an aggregate of 162,588,000 series A preferred shares of Dongpeng International, representing 8.3% of Dongpeng International's then issued and outstanding share capital upon completion of such issuance, and (ii) warrants with an aggregate face value of US\$15 million to purchase an additional 3.0% of Dongpeng International's then issued and outstanding share capital assuming the full exercise of such warrants and certain exchange rate between U.S. dollar and Renminbi. The consideration paid by Sequoia in this transaction was determined based on arm's length negotiation.

Subsequently, Dongpeng International redeemed all of its series A preferred shares and warrants held by Sequoia at the original purchase price in June 2013 after further negotiation with Sequoia.

Sequoia's Investment in our Company

In June 2013, our Company completed the issuance to Sequoia of an aggregate of 195,105,600 Series A preferred shares of par value US\$0.000001 each, representing approximately 9.8% of the then issued and outstanding share capital of the Company upon completion of such issuance for a consideration of US\$30 million. In November 2013, our Company conducted a two-to-one share consolidation. See the section headed "Further Information about our Group — Changes in the Share Capital of Our Company" in Appendix IV of this prospectus. As a result, the number of Series A preferred shares held by Sequoia was reduced to 97,552,800 with par value of US\$0.000002 each. The investment cost associated with the shares issued to Sequoia was approximately US\$0.3075 per share taken into consideration the two-to-one share consolidation, representing a 57.89% discount to the mid-point of the indicative price range of the Offer Price. The consideration for the Series A preferred shares were paid on June 21, 2013 and was used for general corporate purposes. The consideration paid by Sequoia in this transaction was determined based on arm's length negotiation.

As part of Sequoia's investment in the Company, the Company, Profit Strong, Superb Idea, Cosmo Ray, High Ride, Rich Blossom, Mr. He, BVI Co, HK Co, Foshan Hua Sheng Chang, Guangdong Yuhe, Guangdong Dongpeng Holdings and Sequoia entered into a shareholders' agreement, pursuant to which Sequoia is, subject to certain limitations, entitled to certain preferred shareholders' rights including (i) right to appoint a representative on the board of directors of the Company, (ii) veto rights over certain significant corporate matters, (iii) customary information and inspection rights, (iv) redemption right in the event that a qualified initial public offering does not occur by August 13, 2015, (v) preemptive right with respect to certain share issuance by the Company and (vi) right of first refusal and co-sale right with respect to certain share transfers by other shareholders of the Company. All of the preferred shareholders' rights will terminate upon the completion of a qualified initial public offering, which is

HISTORY AND CORPORATE DEVELOPMENT

defined as the closing of an firm commitment underwritten public offering of the Company's ordinary shares where (i) the ordinary shares are listed on an internationally recognized stock exchange (including the Stock Exchange in Hong Kong); (ii) the market value of the Company reaches US\$700 million based on the offer price per share; and (iii) the aggregate gross proceeds to the Company (before payment of underwriters' discounts, commissions and offering expenses) exceed US\$175 million. This Global Offering may not be a qualified initial public offering based on such definition. Nevertheless, Sequoia has agreed that this Global Offering shall be deemed a qualified initial public offering and all of the preferred shareholders' rights will terminate upon the completion of this Global Offering. In addition, as part of Sequoia's investment arrangement with the Company, Mr. He, and certain other Controlling Shareholders, Foshan Yuanheng acquired 9.99% and 7.69% equity interest in Qingyuan Nafuna and Foshan Dongpeng Development, respectively, for a consideration of RMB550 million and RMB300 million, respectively. See "— Reorganization — Minority investment by existing Shareholders".

Pursuant to the shareholders' agreement, the Series A preferred shares issued to Sequoia will automatically be converted into ordinary shares of the Company on a one-to-one basis immediately prior to the closing of the Global Offering. Upon conversion, the Shares to be held by Sequoia will be considered as part of the public float for the purposes of Rule 8.08 of the Listing Rules on the basis that (i) Sequoia is not a connected person of the Company, (ii) Sequoia's investment was not financed directly or indirectly by a connected person of the Company, and (iii) Sequoia is not accustomed to take instructions from a connected person of our Company in relation to the acquisition, disposal, voting or other disposition of the securities held by Sequoia in our Company.

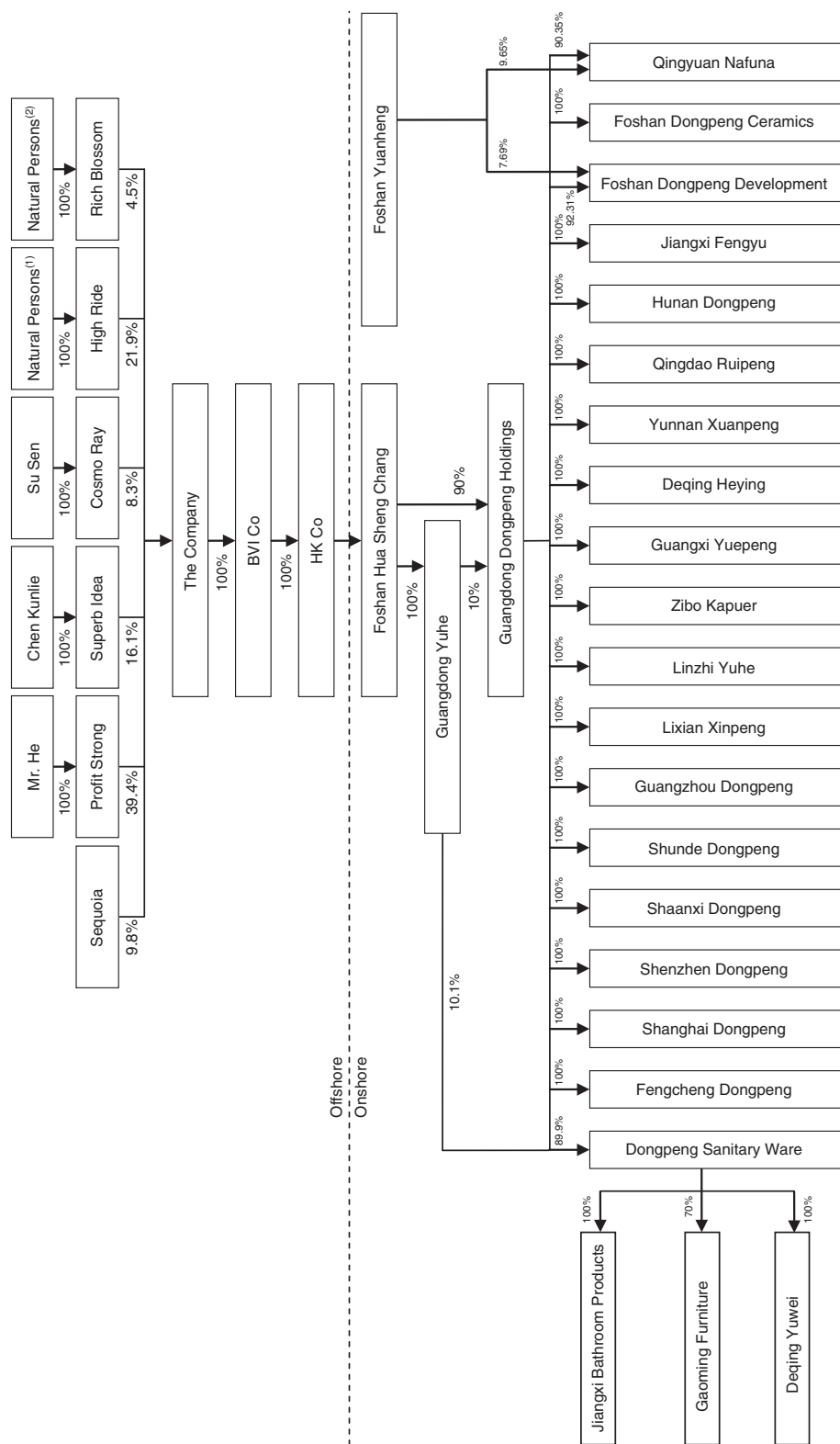
About Sequoia

Each of Sequoia Fund, Sequoia Partners and Sequoia Principals is an exempted limited partnership organized under the laws of the Cayman Islands, all of which are Independent Third Parties. They invest in growing stage companies in China. Their general partner is Sequoia Management, an exempted limited partnership organized under the laws of Cayman Islands, whose general partner is Sequoia Holding, a limited company incorporated under the laws of Cayman Islands and is a wholly-owned subsidiary of SNP China Enterprises Limited which was incorporated under the laws of the BVI. Mr. Shen Nanpeng, an Independent Third Party, is the sole shareholder of SNP China Enterprises Limited.

HISTORY AND CORPORATE DEVELOPMENT

OUR CORPORATE STRUCTURE

Set forth below is our corporate structure as of the Latest Practicable Date:

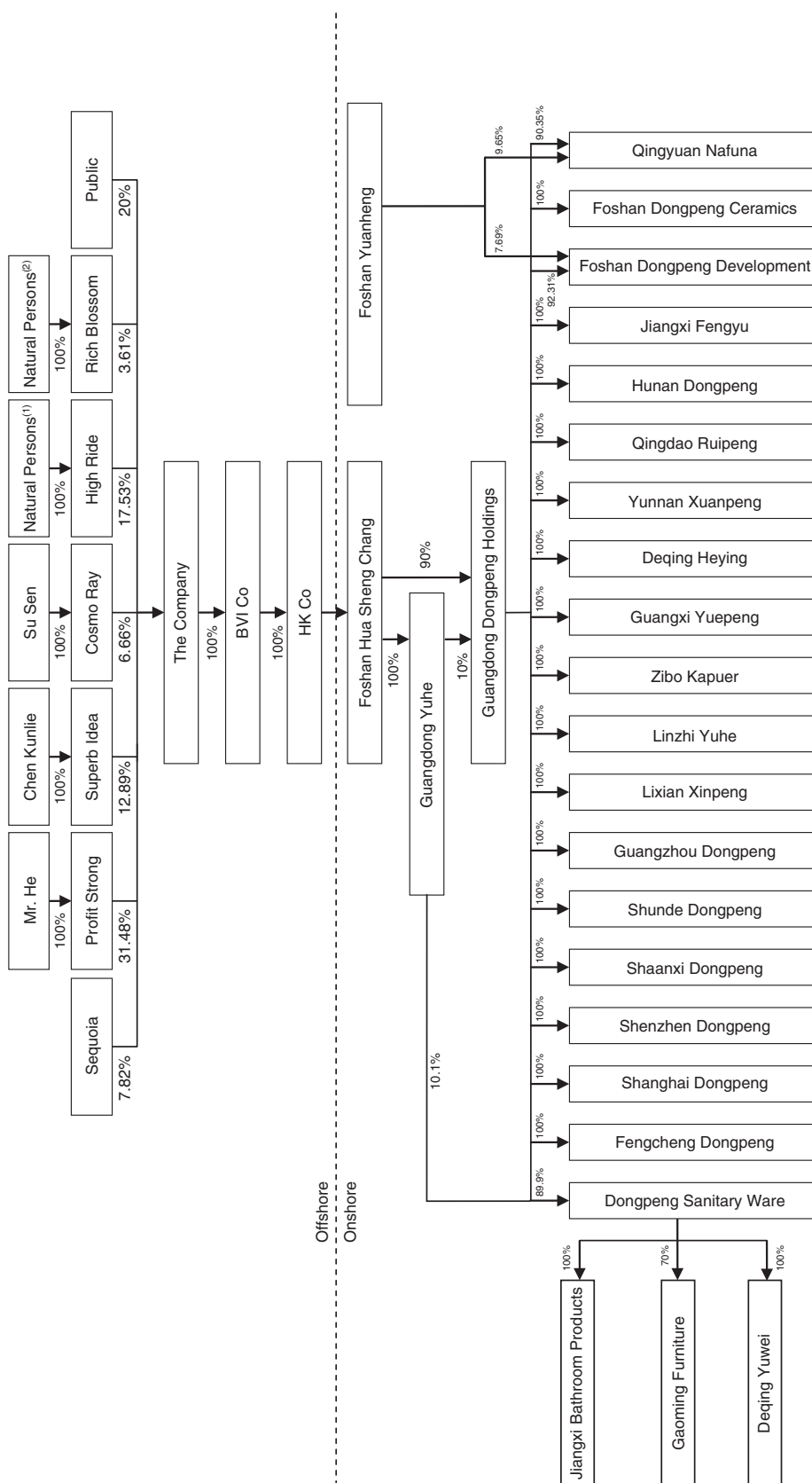


(1) He Xinzong (19.98%), Chen Yezhi (19.53%), Ou Haoquan (17.64%), Luo Siwei (13.19%), Zhong Baomin (8.05%), Jiang Anning (5.76%), Sun Limei (5.51%), Kuang Zhijun (3.81%), He Yaochi (3.61%) and Wang Siping (2.92%), all of whom are our employees or former employees of our Group.

(2) Bao Jianyong (31.82%), Feng Zihua (11.74%), Zhao Haobiao (10.17%), Chen Haihong (10.07%), Lin Zhihua (10.06%), Chen Susong (7.69%), Zhong Guoxiong (6.15%), Long Xiang (6.15%) and Li Weixuan (6.15%), all of whom are our employees or former employees of our Group.

HISTORY AND CORPORATE DEVELOPMENT

Set forth below is our corporate structure following completion of the Global Offering (assuming the Global Offering is based on an Offer Price at the mid-point of the indicative Offer Price range, and the Over-allotment Option is not exercised):



(1) He Xinzong (19.98%), Chen Yezhi (19.53%), Ou Haoquan (17.64%), Luo Siwei (13.19%), Zhong Baomin (8.05%), Jiang Anning (5.76%), Sun Limei (5.51%), Kuang Zhijun (3.81%), He Yaochi (3.61%) and Wang Siping (2.92%), all of whom are our employees or former employees of our Group.

(2) Bao Jianyong (31.82%), Feng Zihua (11.74%), Zhao Haobiao (10.17%), Chen Haihong (10.07%), Lin Zhihua (10.06%), Chen Susong (7.69%), Zhong Guoxiong (6.15%), Long Xiang (6.15%) and Li Weixuan (6.15%), all of whom are our employees or former employees of our Group.

HISTORY AND CORPORATE DEVELOPMENT

PRC LEGAL COMPLIANCE

On October 21, 2005, the SAFE issued the SAFE Circular No. 75 which came into force on November 1, 2005, requiring PRC residents who establish or control offshore companies and inject assets or equity interests in their PRC entities into offshore companies for the purposes of overseas equity financing to register with competent local SAFE branch before establishing or controlling any company outside China, referred to as an “offshore special purpose company”. Under the SAFE Circular No. 75, Mr. He and 21 other shareholders, who are PRC domestic residents, are required to register with the local SAFE branch their ownership in us. SAFE Circular No. 75 also requires that any PRC resident that is the shareholder of an offshore special purpose company shall amend its SAFE registration with the local SAFE branch with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, share exchange, merger, division, long-term investment with equity investment, creditor’s right investment, external guarantee and other material capital alteration. Our ultimate Controlling Shareholders who are PRC residents have completed all required filings under SAFE Circular No. 75 on July 17, 2013.

On August 8, 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the M&A Regulation, which became effective on September 8, 2006 and was revised by the MOFCOM in June 2009. Our PRC legal advisor, Jun He Law Offices, is of the opinion that the Company has not made any merger and acquisition since August 2006 as specified under the M&A Regulation and therefore, the Listing requires no approvals from the MOFCOM or CSRC as required by the M&A Regulation.

Our PRC legal advisor, Jun He Law Offices, has also confirmed that except as disclosed in “— Early History (1972-2001) — Restructuring into Private Enterprise — Privatization” and “Business — Legal Proceedings and Compliance — Non-compliance”, we have obtained all material approvals and permits required, if any, from PRC authorities in connection with the reorganization and share transfers of our PRC subsidiaries as disclosed in this section, and such reorganization and share transfers comply with applicable PRC Laws and regulations in all material respects.

COMPLIANCE WITH INTERIM GUIDANCE

On the basis that the investment by Sequoia was completed on June 21, 2013, which was more than 28 clear days before the date of the first submission of the first listing application form in respect of the Listing, the Sole Sponsor confirms that the Pre-IPO investment complied with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee on October 13, 2010.

BUSINESS

OVERVIEW

Dongpeng is the largest ceramic tile company in the PRC in terms of 2012 retail sales value. We are also the largest industry participant in the high-end ceramic tile segment⁽¹⁾ with a market share of 9.77%, according to the F&S Report. Ceramic tile is the preferred choice of material used for interior decoration in China.

Our market leadership represents a culmination of the experience and capabilities gained from a history of more than 40 years of operations. Our products have been used in high profile projects such as the 2008 Beijing Olympic Games, the National Center for the Performing Arts in Beijing and China's Ministry of Commerce building. Our brand has been recognized by China Brand Research Institute as an Industry Landmark Brand, which is awarded to one brand in each industry, each time this award has been granted since 2006.

We design, develop, produce, market and sell a wide variety of ceramic tile products and bathroom products under the "Dongpeng" brand. Our principal business is our ceramic tile business, with products categorized into unglazed tiles and glazed tiles. Our bathroom products primarily consist of ceramic bathroom products such as toilets and wash basins.

The following table sets forth our revenue by product segment for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Ceramic tiles										
Unglazed tiles.....	626,120	64.2%	1,157,579	58.5%	1,370,249	54.9%	592,386	55.4%	621,810	48.8%
Glazed tiles ...	333,392	34.2	798,992	40.4	1,096,088	43.9	465,467	43.5	596,900	46.8
Subtotal	959,512	98.4	1,956,571	98.9	2,466,337	98.8	1,057,853	98.9	1,218,710	95.6
Bathroom products.....	15,115	1.6	22,382	1.1	31,587	1.2	11,235	1.1	56,039	4.4
Total.....	<u>974,627</u>	<u>100.0%</u>	<u>1,978,953</u>	<u>100.0%</u>	<u>2,497,924</u>	<u>100.0%</u>	<u>1,069,088</u>	<u>100.0%</u>	<u>1,274,749</u>	<u>100.0%</u>

Backed by our strong innovation and development capabilities, we have continuously developed and brought to market "hit" new products that have helped us to influence industry trends in China and enhance our pricing power. Our trend-setting products include Perlato Svevo ("金花米黄") series, Travertine ("洞石") series, Navona ("納福娜") series and Italian Wood ("義大利木紋") series. These products have rapidly gained acceptance among consumers and remained on our best-selling products list for a number of years after launch.

(1) According to the F&S Report, the high-end ceramic tile segment, as widely accepted by major participants in the PRC ceramic tile industry, is the market segment with an average retail selling price of ceramic tiles above RMB260 per square meter.

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We market and sell our ceramic tile products through a nationwide sales network of 1,514 retail outlets covering 388 cities across all provinces, autonomous regions and municipalities in China, as of June 30, 2013. In 2012, 70.4% of our ceramic tile products in terms of revenue were sold through our tier-one distributors, with the remaining 29.6% sold through direct sales channels (including 16.9% through direct corporate sales).

Our logistics network and information technology system play a pivotal role in supporting our market expansion and penetration efforts. We operate the largest logistics network in China's ceramic industry, according to the F&S Report. This logistics network currently consists of five central warehouses located at close proximity to our production facilities and a network of 20 regional warehouses at strategic locations across China. We believe this logistics network has enabled us to provide faster shipping and lower transportation cost for our distributors, as well as supports our sales and production planning. In addition, we have implemented a comprehensive SAP enterprise resource planning system in stages since 2007 to support our business operation. This system has helped to improve our operational and management efficiencies in facilitating real time information access, expediting ordering and delivery process, and improving management and control process.

Historically, our bathroom products business consisted of resale of finished products purchased from related parties. In May 2013, to further expand this business segment, we acquired the bathroom products business from certain related parties as part of our reorganization. See "History and Corporate Development — Reorganization — Acquisition of bathroom products business". We intend to fully exploit the brand synergy and cross-selling opportunities between our ceramic tile and bathroom products.

In 2010, 2011, 2012 and the first half of 2012 and 2013, we generated revenue of RMB974.6 million, RMB1,979.0 million, RMB2,497.9 million, RMB1,069.1 million and RMB1,274.7 million, respectively, gross profit of RMB200.6 million, RMB568.4 million, RMB888.4 million, RMB355.3 million and RMB473.4 million, respectively, and net profit of RMB7.3 million, RMB147.9 million, RMB172.8 million, RMB56.3 million and RMB121.2 million, respectively.

COMPETITIVE STRENGTHS

We believe that the following strengths of our Company have enabled us to compete effectively in the marketplace.

Leader with strong brand recognition in key segment of the PRC home improvement industry

Dongpeng is the largest ceramic tile company in the PRC in terms of 2012 retail sales value. We are also the largest industry participant in the high-end ceramic tile segment with a market share of 9.77%, according to the F&S Report. The ceramic tile market represents 18.3% of China's RMB1.8 trillion home decoration and improvement market in 2012. Fostered by factors such as continuing urbanization, income growth, home remodeling activities and rising home ownership, the PRC home improvement market is expected to continue its growth at a CAGR of 9.0% from 2013 to 2017, according to the F&S Report.

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Our market leadership represents a culmination of the experience and capabilities gained from a history of more than 40 years of operations. We believe the strength of our brand can be demonstrated through the following aspects:

- *Landmark projects.* Our products have been used in many of the highest-profile projects in China, including various venues of the 2008 Beijing Olympic Games, the National Center for the Performing Arts in Beijing and China's Ministry of Commerce building.
- *Awards and recognition.* Our "Dongpeng" brand has received a number of distinguished awards and recognition. Our brand has been recognized by China Brand Research Institute as an Industry Landmark Brand, which is awarded to one brand in each industry, each time this award has been granted since 2006. Furthermore, among China's 500 Most Valuable Brands, the "Dongpeng" brand has been recognized as the most valuable brand in our industry by the World Brand Laboratory for eight consecutive years.
- *Setting industry standards.* We are a standard bearer of the ceramic products industry, having been selected to participate in the drafting of 11 industry standards — the highest number in the industry according to the F&S Report — for ceramic tile and bathroom products in recognition of our market leadership.
- *Recognized product quality.* Product quality and durability are critical factors affecting consumers' purchase decisions for ceramic tile products. In addition to being recognized in China for their high quality, our products are also sold in 66 countries, and our largest export destinations include countries with high quality standards such as Canada, Australia and the United States. Among our current products, 111 have received the CE mark, signifying that they meet the requirements of the European Economic Area.

As consumers increasingly focus on brand and its association with quality, functionality and innovation, leading industry participants such as our Company are expected to further solidify their leading market positions.

Industry trendsetter with comprehensive product offerings through persistent focus on innovation

We have continuously developed and brought to market "hit" new products that have helped us to influence industry trends in China and enhance our pricing power. For instance, our Perlato Svevo ("金花米黄") series, launched in 1999, set a trend of using "beige yellow" color stone products in interior design. In 2006, we developed our patented technology to create an organic texture on porcelain surface to closely resemble natural stone surface, thus creating our Travertine ("洞石") series. In 2008, we introduced the Navona ("纳福娜") series, which applied our proprietary liquid rock technology to vitrified tiles to resemble navona travertine natural stones. Our Italian Wood ("意大利木纹") series launched in 2011 features elegant wood-like surface textual with crystal granules embedded in between. These products rapidly gained acceptance among consumers, were frequently imitated by our peers, and remained on our best-selling product list for a number of years after their launch. The success of these and other "hit" products has contributed to our strengthening brand recognition and enhanced pricing power.

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Our ability to continuously introduce successful new products to the market is significantly attributable to our commitment to product innovation and development. As of the Latest Practicable Date, we have received a total of 95 issued patents in China, including 15 invention patents, 44 exterior design patents and 36 utility model patents. Backed by research and development teams of 204 members for ceramic tile products, we have launched more than 100 new products each year for the past three years. As a result of these efforts, with a total of 150 series and over 2,500 individual ceramic tile products as of June 30, 2013, our product portfolio is the most complete among the major industry players, according to the F&S Report, which allows us to meet different market demands and offers a one-stop solution to consumers shopping for ceramic tile products.

Nationwide sales network and effective control of distribution channels

We market and sell our ceramic tile products through an extensive nationwide network with effective penetration into lower-tier cities. Our nationwide network covering 388 cities across all provinces, autonomous regions and municipalities in China, through both distributors and direct sales channels. Our wholesale distribution network consisted of 514 tier-one distributors as of June 30, 2013, which further distribute to 1,351 third-party retail outlets. In addition, we directly sell our products through 163 retail outlets (including 115 retail outlets of preferred dealers) as of the same date. As of December 31, 2012, 27.4% of the total retail outlets for our products are located in first- and second-tier cities (representing over half of our revenue in 2012) and the remaining 72.6% in third- and fourth- tier cities, which we believe demonstrates that our geographic presence is balanced and well-entrenched. Distributor sales are complemented by our direct sales channels, which enable us to maintain direct contact with consumers to ascertain market trends first-hand. We believe that the mix we maintain between distributor sales and direct sales reduces our reliance on any particular sales channel and helps us to better manage our overall sales network.

We believe that finding an appropriate balance in our relationship with our distributors is critical to our ability to effectively manage our distributor network. To that end, while we seek to engage distributors with in-depth experience and resources, none of our distributors covers an entire province, autonomous region or municipality. The effectiveness of our management of our distributor network can be illustrated through the following:

- *High stability.* We maintain a highly stable relationship with our tier-one distributors, with an average of 12 years of relationship with our twenty largest distributors, which collectively accounted for approximately 19.8% and 18.1% of our revenue in 2012 and the first half of 2013, respectively. In 2010, 2011, 2012 and the first half of 2013, only 13, 22, 58 and 15, respectively, of our ceramic tile distributor relationships were terminated.
- *Product exclusivity.* All of the retail outlets under our tier-one and tier-two distributors and over 88% of such distributors are required to carry our products exclusively, which demonstrates the confidence level and reliance that our distributors have in our products and our support.
- *Timely payment.* We generally require full payments upon delivery from our distributors. We grant on a case by case basis a credit term of generally no more than 90 days to selected

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distributors. To encourage upfront full payment, we also charge our distributors an interest for any outstanding receivable. As a result, our accounts receivable turnover (excluding direct corporate sales) has been maintained at a relatively low level of 10 days and 14 days in 2012 and the first half of 2013, respectively.

Unique logistics network that strengthens distributor relationship and supports market expansion

Our logistics network is the largest in China's ceramic industry, according to the F&S Report. This logistics network currently consists of five central warehouses located at close proximity to our production facilities and a network of 20 regional warehouses at strategic locations across China. We believe this logistics network has enabled us to strengthen support for our distributors in the following aspects:

- *Faster shipping.* The scale of our nationwide regional warehouses allows faster shipping time to our distributors, which enables our distributors to shorten order lead time and order in smaller volumes. This in turn helps them to better manage their inventory and cash flow, as well as reduces the need for having their own warehouses.
- *Lower transportation cost.* The cost of our transportation services provided to distributors is generally lower for small- and medium- sized distributors than if they were to make their own transportation arrangements. This is primarily due to our ability to centrally provide transportation services and reduce cost through greater economies of scale.

In addition, this logistics network also has number of major benefits to our own business operation and strategic development, including:

- *Support for market penetration.* Our logistics network provides support for distributors in opening additional retail outlets, particularly in third- and fourth- tier cities where further expansion and entrenchment is an important aspect of our growth strategy.
- *Enhanced sales and production planning.* Pre-orders, which may be stored at our regional warehouses, are required to be picked up by our distributors within a limited time period. This incentivizes our distributors to better forecast their sales, which in turn provides us with more visibility as to our sales pipeline and enables us to plan our production schedule more effectively.

Effective implementation of SAP system driving operational efficiencies

We have distinguished from our competitors in having implemented a comprehensive SAP enterprise resource planning system to support our market expansion and penetration efforts. This system, which we have implemented in stages since 2007, has helped to improve our efficiencies in various aspects including:

- *Real time information access.* SAP databases of our subsidiaries is connected with our headquarters, which allows our management team to have clear visibility on each subsidiary's sales, inventory, profit, and other key financial and logistic data on a real time basis.

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- *Expediting ordering and delivery process.* Customers can access our SAP enterprise portal on any computer with web access to view real time inventory details in all of our warehouses, and complete the ordering process on-line rather than through phone calls and faxes. This effectively reduces order processing time and the number of days from the time order is placed to being ready for delivery or pickup from an average of 16 days before 2011 to one day thereafter.
- *Improving management and control process.* Each customer, including distributors and retail customers, will have their credit limits set up in our system. The ordering process is automatically blocked if a pre-order customer does not maintain sufficient fund deposited in our bank account, or a credit customer has overdue receivables or insufficient credit limit. In addition, the budget for all of our spending is set up in our system and any unauthorized spending will be automatically blocked.
- *High scalability.* With a dedicated and experienced internal SAP team, our SAP system can be implemented quickly at new retail outlets, subsidiaries, warehouses and production facilities to support their operations thereby providing a strong and scalable infrastructure for our business growth.

Experienced, dedicated and visionary management team with a proven track record

We have an experienced, dedicated and visionary management team with extensive operational expertise and an in-depth understanding of the PRC home improvement industry. Mr. He, our founder and Chairman, has spent his entire career of 32 years with us and in the ceramic tile industry. He is currently the vice chairman of China's Ceramic Tile and Sanitary Ware Association (“中國建築衛生陶瓷協會副會長”), which is the official industry association of our industry. It was under Mr. He's leadership that we reorganized, expanded (including by acquiring other failing companies), increased profitability and became the Dongpeng of today. Our other management members have also made great contributions to our Company, with an average of 16 years of experience in their respective fields, and seven of whom have been with us for an average of 17 years. In addition, we benefit from significant support from Sequoia, our pre-IPO investor, in refining our corporate governance structure and developing our growth strategy. Under the leadership of our management team, we believe we will continue to deliver sustainable growth for our Company in the future.

BUSINESS STRATEGY

Our long term objective is to become a dominant leader in the PRC home improvement industry with a focus on ceramic tiles and bathroom products. We intend to achieve this goal by implementing a business strategy with the following key aspects:

Continue to strengthen our brand to solidify leading market position

We intend to continue to strengthen our brand recognition to solidify our leading market position in the PRC ceramic tile market. Our planned initiatives include the following:

- *Expand joint marketing efforts.* Our Champion Alliance (冠軍聯盟) brings together leading household brands to participate in joint marketing and promotional events. Capitalizing on the

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brand synergy among participants, such joint marketing initiatives have been a cost effective method of promoting our brand and increasing sales at the same time. We currently organize nationwide Champion Alliance campaigns approximately three to four times a year, and will seek to increase that frequency to once a month. In addition, as our current geographic focus for these campaigns has been on first- and second- tier cities, we plan to lead the effort in expanding them to third- and fourth- tier cities as well.

- *Increase media exposure.* We intend to selectively increase our profile in traditional media through advertising on television and print media. We also plan to expand our marketing efforts through online media by placing advertisement with home improvement websites, promoting brand awareness through social networking websites and discussion forums and organizing online group promotional activities.
- *Further collaboration with leading international designers.* We have collaborated with internationally recognized design firms and designers in the past to develop a number of our popular products, such as our collaboration with Bedesign di Bacci Enio, a well-recognized Italian design firm, for our Amazon (“亞馬遜”) series in 2013. We believe these collaborative efforts strengthen our leading position in the PRC ceramic tile market and increase our brand profile and plan to increase our collaboration with these global industry leaders in the future.
- *Site selection for retail outlets.* In selecting sites for new retail outlets, we, together with our distributors, will increase our focus on high-end home improvement shopping centers such as Red Star Macalline and B&Q Home Improvement, and within these shopping centers, locations with high visibility and potential foot traffic.

Continue to expand our sales network and enhance distributor management

The continuing expansion of our sales network is essential to our future growth. During the Track Record Period, we expanded our retail networks for ceramic tile products from a total of 987 retail outlets (both self-owned and owned by third parties) at the end of 2010 to 1,366 by the end of 2012. In the next phase of our expansion, we intend to continue to both increase penetration in first- and second- tier cities and expand further into smaller cities. Our objective is to add a total of approximately 250 retail outlets (both self-owned and owned by third parties) for ceramic tile products in each of 2013 and 2014, respectively, to reach a total of more than 1,600 and 1,850 such retail outlets by the end of 2013 and 2014, respectively. In terms of geographic distribution, we plan to add 107, 82 and 69 retail outlets in Northern China, Central China and Southern China regions, respectively in 2013. In the first half of 2013, we and our distributors had a net increase of 148 retail outlets, including 61, 32 and 55 retail outlets in Northern China, Central China and Southern China regions, respectively. As of the Latest Practicable Date, we together with our distributors and preferred dealers had identified 132 potential locations for our planned retail outlets.

In first- and second-tier cities, we plan to add a total of approximately 75 retail outlets (both self-owned and owned by third parties) for ceramic tile products in each of 2013 and 2014, respectively, to reach a total of more than 440 and 510 such retail outlets by the end of 2013 and 2014, respectively, increasing from 365 at the end of 2012. In addition, we believe that there is a large and untapped market for high-end home improvement products such as ours in smaller cities in China. Accordingly, we plan to further expand into third- and fourth-tier cities as well as county-level regions, focusing on the

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economically well-developed markets such as those in Zhejiang, Sichuan and Hebei provinces. At the end of 2012, we had a total of 1,001 retail outlets (both self-owned and owned by third parties) for our ceramic tile products in third-tier and smaller cities, and our plan is to add a total of approximately 180 retail outlets in each of 2013 and 2014.

We intend to achieve these goals through the following initiatives:

- *Leverage logistics network.* With the expansion of our logistics network, we are now better positioned to expand into smaller cities in China than before. Our next objective is to fully utilize this logistics network to support our expansion into such smaller cities.
- *Increase distributors' market penetration.* We plan to encourage and help our tier-one distributors to expand their tier-two network by providing greater training as to sales and marketing strategy in third- and fourth- tier cities. In areas where our current distributors are unable to fully exploit, we also plan to engage additional distributors to help deepen our market penetration.
- *Increase flagship showrooms.* Although we primarily sell our products through distributors, it is important for our brand image and consumer experience to have self-owned flagship showrooms to showcase a full range of our products. Given our scale of operations and financial condition, we will actively seek to open a significant number of flagship showrooms at selective cities in the next five years to support our growth.
- *Empower local sales management.* We intend to further increase the resources and responsibilities of our sales teams at our regional sales management offices, as they will be increasingly relied upon to provide training and management to our distributors and retail outlets in smaller cities.

Enhance store-level productivity

We will seek to continue to enhance our store-level productivity — at our self-owned retail outlets as well as those owned and operated by third parties — through the following measures:

- *Further enhance quality of in-store service.* We believe high quality in-store service is a key factor for Chinese consumers in making their purchase decisions. We, together with our distributors, are increasing training to the sales personnel at our retail outlets on topics such as product knowledge and sales etiquette, and plan to increasingly offer in-store services of professional designers to provide design ideas.
- *Introduce virtual showrooms.* We also plan to develop a virtual showroom with a comprehensive products database so that products that are not physically displayed in our retail outlets can also be shown to our customers through iPads and other interactive displays placed in our retail outlets.

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- *Increase consistency in design and decor.* We have recently updated our manual for distributors which sets out in greater detail our required design and layout guidelines relating to color, merchandise display, price display and furnishings to ensure that the “Dongpeng” brand convey a consistent image.
- *Increase customer visits.* We and our tier-one distributors plan to increasingly offer free shuttle services between residential communities and Dongpeng retail outlets and engage in other localized marketing initiatives to increase customer visits and purchases.
- *Increase cross-selling opportunities.* We intend to continue to exploit brand synergy and cross-selling opportunities derived from our unique market leading position in ceramic tile products. We will seek to incentivize distributors of our ceramic tile and bathroom products to cross-sell our other products through their distribution channels.

Further expand our bathroom products business

We recently acquired the bathroom products business from certain related parties as part of our reorganization in May 2013. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”. We intend to further expand this business through the following efforts:

- *Expansion of sales channels.* Our objective is to open approximately 200 and 300 retail outlets (both self-owned and owned by third parties) for bathroom products in 2013 and 2014, respectively, to reach more than 880 and 1,180 such retail outlets by the end of 2013 and 2014, respectively, increasing from 698 at the end of 2012. In terms of geographic distribution, we plan to add 82, 43 and 75 outlets in Northern China, Central China and Southern China regions, respectively, in 2013.
- *Increase production capacity.* We currently have two production facilities for bathroom products in Foshan, Guangdong province, with a combined annual production capacity of 33,000 tonnes. We plan to construct a new production facility located at Fengcheng, Jiangxi province, with a total planned annual production capacity of 72,000 tonnes to be completed in four phases. Construction of phase one with a planned annual capacity of 20,000 tonnes is expected to be completed in 2014, with the remaining three phases of planned annual capacity of 20,000, 16,000 and 16,000 tonnes to be completed by the end of 2016, 2018 and 2020, respectively.
- *Strengthen quality control through in-sourcing.* We currently purchase certain parts and accessories of our bathroom products and/or outsource some parts of our production process to third parties. To strengthen our ability to control the quality of our products, we plan to expand the capacity of one of our production facility in Foshan, Guangdong province, to manufacture these components in-house.

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Continue to enhance product mix and operational efficiency

We will seek to continue optimizing our product mix and operational efficiency through the following:

- *Optimize product mix.* We will continue to optimize our product mix to improve our margin performance. To this end, we plan to further enhance our research and development efforts, including setting up a new research and development center to focus on the development of popular higher-margin products.
- *Strengthen ability to forecast sales and procurement.* Our logistics network currently consist of five central warehouses located at close proximity to our production facilities and 20 regional warehouses at strategic locations across China. We will continue to increase the utilization of our regional warehouses by incentivizing our distributors to place greater pre-orders, which will in turn provide us with greater visibility into future sales and inventory requirement, and help us better manage our production planning and procurement purchases.
- *Centralize procurement.* We will seek to further centralize the procurement of chemical raw materials and packaging to lower our production cost.
- *Enhance manufacturing efficiency.* We will continue seek to improve our manufacturing techniques in order to reduce wastage during the manufacturing process. We are also investing a significant amount of proceeds from the Global Offering towards the purchase of more technologically advanced production lines.

Selectively pursue acquisition and investment opportunities

We believe that China's highly fragmented home improvement market presents significant opportunities for consolidation. We have a record of successfully taking over, integrating and turning around failing businesses. Although we currently do not have any specific acquisition target, we believe successfully implementing a disciplined acquisition approach will help us continue to solidify our market position and access new markets. In the future, we intend to continue to seek acquisition opportunities that complement our existing product portfolios, brands and distribution channels. In selecting future acquisition targets, we intend to carefully consider and balance some or all of the following criteria: (i) the synergies between us and our potential targets; (ii) geographic proximity to our existing operations; and (iii) whether the acquisition can enhance the overall sustainability of our existing and future business. We believe our relationship with industry participants and our knowledge of, and experience in, the ceramic tile and bathroom products industries allow us to understand industry trends and technological developments, which will assist us in making decisions regarding potential acquisitions.

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OUR PRODUCTS

We design, develop, produce, market and sell a wide variety of ceramic tile products and bathroom products under the “Dongpeng” brand. Our product segments consist of:

- *Ceramic tile products*, consisting of unglazed tiles and glazed tiles:
 - Unglazed tiles are hard, dense and fine grained porcelain tiles with an unglazed and sharply formed surface. Some of our popular product series in this category during the Track Record Period include the Travertine (“洞石”) series, the Navona (“納福娜”) series, the Italian Wood (“義大利木紋”) series and the Amazon (“亞馬遜”) series.
 - Glazed tiles have a layer of glaze on the tile biscuit and therefore have great stain and soil resistance. These tiles can be further divided into antique-inspired tiles, glossy glazed tiles, crystal tiles and ceramic chips.
- *Bathroom products*, consisting of ceramic bathroom products (such as toilets and wash basins) and non-ceramic bathroom products (such as bathroom cabinets, bath tubs, faucets, shower heads and floor drains).

Historically, our bathroom products business consisted of resale of finished products purchased from related parties. In May 2013, as part of our expansion, we acquired the bathroom products business from certain related parties as part of our reorganization. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”.

Ceramic Tile Products

We are the largest ceramic tile company in the PRC in terms of 2012 retail sales value, according to the F&S Report. The following table sets forth the revenue of our ceramic tile products by product category and sub-category where applicable.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Unglazed tiles	626,120	65.3%	1,157,579	59.2%	1,370,249	55.6%	592,386	56.0%	621,810	51.0%
Glazed tiles										
Antique-inspired tiles	253,182	26.3	381,769	19.5	391,386	15.8	178,249	16.9	174,056	14.3
Glossy glazed tiles	20,725	2.2	58,500	3.0	194,962	7.9	70,082	6.6	156,170	12.8
Crystal tiles	1,927	0.2	84,975	4.3	147,137	6.0	61,861	5.8	79,059	6.5
Ceramic chips.....	57,558	6.0	273,748	14.0	362,603	14.7	155,275	14.7	187,615	15.4
Subtotal	333,392	34.7	798,992	40.8	1,096,088	44.4	465,467	44.0	596,900	49.0
Total for ceramic tiles	<u>959,512</u>	<u>100.0%</u>	<u>1,956,571</u>	<u>100.0%</u>	<u>2,466,337</u>	<u>100.0%</u>	<u>1,057,853</u>	<u>100.0%</u>	<u>1,218,710</u>	<u>100.0%</u>

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The following table sets forth certain information on the key products launched in our recent history.

Products category and sub-category	Key product series	Year of launch	Price range/end market ⁽¹⁾
Unglazed tiles			
Unglazed tiles.....	Perlato Svevo (“金花米黃”)	1999	High-end and mid-range
	Galaxy Stone (“銀河石”)	2001	
	Tianshan Stone (“天山石”)	2002	
	Travertine (“洞石”)	2006	
	Navona (“納福娜”)	2008	
	Italian Wood (“義大利木紋”)	2011	
	Royal Jade (“皇家玉”)	2013	
	Amazon (“亞馬遜”)	2013	
Glazed tiles			
Antique-inspired tiles ...	Peony (“花樣年華”)	2007	High-end and mid-range
	Fanina (“賓利法尼亞”)	2008	
	Elegant Wood (“優木”)	2011	
Ceramic chips.....	Oriental Art Abode (“東方藝墅”)	2006	Mass-market and mid-range
	Splendid World (“繽紛世界”)	2009	
	Inkjet Chips (“噴墨瓷片”)	2011	
	Aventurine (“凌玉”)	2011	
Glossy glazed tiles	Cloud Jade (“雲海玉”)	2011	High-end and mid-range
	Palissandro Classico (“貝金砂岩”)	2011	
	Roman Marble (“羅馬大理石”)	2011	
Crystal tiles.....	Portoro (“黑金花”)	2010	High-end
	Jade Stone (“玉石”)	2011	

(1) According to the F&S Report, high-end ceramic tile products means ceramic tile products with average retail selling price over RMB260 per square meter; mid-range ceramic tile products means ceramic tile products with average retail selling price between RMB155 and RMB260 per square meter; and mass-market ceramic tile products means ceramic tile products with average retail selling price below RMB155 per square meter.

Unglazed Tiles

Unglazed tile products are hard, dense and fine grained porcelain tiles with unglazed and sharply formed surfaces. They are made from porcelain clays and share the general physical and chemical features of porcelain tiles, having a water absorption rate of less than 0.5% and great acid, alkali, corrosion and frost resistance. Substantially all of our unglazed tile products are half-body tiles that carry the surface color and pattern through approximately half of the thickness of the tile and therefore are impervious to wear from foot traffic and other uses.

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Our unglazed tiles comprise a wide variety of designs, textures, colors, patterns and sizes with both glossy and matte finishes. A large portion of our unglazed tile products are designed to mimic natural materials such as marble, wood and stone in terms of color and pattern, and sometimes even texture, but with more affordable prices than most of those natural materials and attractive physical and chemical features unique to porcelain. We also offer other products with pure colors and graphic patterns. These products are widely used in all areas of residential and commercial spaces for floor, wall and other surface finishes.

As of June 30, 2013, we had a total of 19 series of unglazed tile products. During the Track Record Period, some of our popular unglazed tile products include:

- *Travertine (“洞石”) series.* This series uses our patented technology to create an organic texture on porcelain surface to closely resemble the stone surface of natural travertine. We launched this series in 2006 and were the first to introduce this product to the market.
- *Navona (“納福娜”) series.* This series of products closely resembles natural navona travertine in terms of color, pattern and surface grain. Our proprietary liquid rock technology was applied to vitrified tiles to resemble navona travertine natural stones. This was a significant technical accomplishment because creating natural stone-like textures and patterns on vitried tiles was difficult due to their low porosity. We launched this series in 2008, and in 2012 and the first half of 2013, revenue of this series contributed to approximately 14.0% and 11.8% of our total revenue, respectively.
- *Italian Wood (“義大利木紋”) series.* This series of products features elegant wood-like surface texture with crystal granules embedded in between. We launched this series in 2011.
- *Amazon (“亞馬遜”) series.* This series of product was created through a collaboration between our research and development team and Bedesign di Bacci Enio, a well-recognized Italian design firm, this series of products combines the firmness of unglazed tiles with rich transparency and resembles natural Amazon stones. We launched this series in 2013.

The following illustrate the product series described above.



Travertine

Navona

Italian Wood

Amazon

Glazed Tiles

Our glazed tile products are further divided into four sub-categories: antique-inspired tiles, glossy glazed tiles, crystal tiles and ceramic chips. Our antique-inspired tiles, glossy glazed tiles and crystal tiles share the general physical and chemical features of porcelain tiles, except they have a layer of glaze over the tile biscuit. Ceramic chips are made from different types of clay than porcelain tiles and generally are softer and have higher water absorption rate comparing to porcelain tiles.

The patterns of our glazed tile products are usually printed on the glazed surface using advanced inkjet printing technology, which allows us numerous options of pattern designs. Our antique-inspired tile, glossy glazed tile and crystal tile products have similar applications as those of our unglazed tile products. Our ceramic chip products are used exclusively for interior walls.

Antique-inspired tiles

Our antique-inspired tile products consist of porcelain tiles with matte finish featuring antique, vintage as well as modern designs. These products are catered toward customers with a taste for old-world charm and looking to add a distinctive personal style to their renovation projects. With advanced inkjet printing technology on glazed surface, we offer a wide variety of ready-made antique-inspired tiles as well as individualized made-to-order services to customers with innovative design ideas.

As of June 30, 2013, we offer a total of 23 series of antique-inspired tile products.

During the Track Record Period, our most popular antique-inspired tile products include:

- *Fanina* (“賓利法尼亞”) series. With advanced dry glazing technology, this series of products features intertwined glossy and dark surface areas in rich colors. We launched this series in 2008.
- *Peony* (“花樣年華”) series. With flowery motifs, this series of products creates the pattern of vintage wallpaper reminiscent of the Renaissance period.

The following illustrate the product series described above.



Fanina



Peony

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Glossy glazed tiles

Glossy glazed tiles feature rich patterns printed on the base tile with a glazed surface coating and high glossy finish. This sub-category of products was a recent addition to the ceramic tile market and have gained increased popularity since its introduction. We commenced commercial production and sales of glossy glazed tiles in the second half 2010. As of June 30, 2013, we had a total of 20 series of glossy glazed tile products.

During the Track Record Period, our most popular glossy glazed tile products include:

- *Cloud Jade (“雲海玉”) series.* This series of products features cloud-like natural pattern and high glossy finish that closely resemble marbles. We launched this series in 2011.
- *Roman Marble (“羅馬大理石”) series.* This series of products features marble texture with elegance and grandeur that are characteristic of the classical architecture in Rome. We launched this series in 2011.

The following illustrate the product series described above.



Cloud Jade



Roman Marble

Crystal tiles

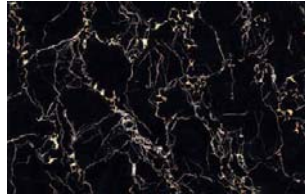
Crystal tile products combine the advantages of glazed porcelain tile with micro-crystal glass. With approximately two millimeter thick of micro-crystal glass on top of the tile panel, our crystal tiles subtly reflect light and create a striking visual effect. Their jade like glossy surface has higher stain resistance than other types of porcelain and ceramic tiles. The production of crystal tiles requires advanced printing and glazing technologies and our leading position of producing and sales of these products manifest our superior technology capability. We commenced commercial production and sales of crystal tiles in the second half of 2010. As of June 30, 2013, we had a total of 26 series of crystal tile products. The number of products in this sub-category, which is entirely positioned for the high-end market, demonstrates our success in branching into this market.

During the Track Record Period, our most popular crystal tile products include:

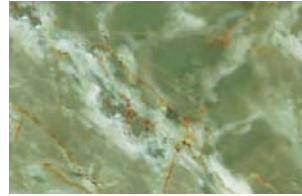
- *Portoro (“黑金花”) series.* With crystal-like glossy finish, this series of products enhances the ebony marble pattern with delicate golden veins to resemble the look of natural portoro stone. We launched this series in 2010.
- *Jade Stone (“玉石”) series.* Also with crystal-like glossy finish, this series of products resembles jade permeated by mineral veins. We launched this series in 2011.

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The following illustrate the product series described above.



Portoro



Jade Stone

Ceramic chips

Ceramic chips are made from different types of clay than porcelain tiles and generally are softer and have higher water absorption rate comparing to porcelain tiles. Our ceramic chips are generally offered in smaller sizes with both glossy and matte surfaces. As of June 30, 2013, we had a total of 62 series of ceramic chip products, which are positioned for the mid-range and mass market.

During the Track Record Period, our most popular ceramic chip products include:

- *Splendid World* (“*繽紛世界*”) series. This series of products was inspired by the splendid variety of colors in the world. We launched this series in 2009.
- *Inkjet Chip* (“*噴墨瓷片*”) series. Using high-definition inkjet printing technology, this series of products depicts a wide variety of graphic patterns in vivid details and fine texture. We launched this series in 2011.

The following illustrate the product series described above.



Splendid World



Inkjet Chips

Bathroom Products

Our bathroom products sold under our “Dongpeng” brand are divided into ceramic bathroom products and non-ceramic bathroom products. These products target the mid to high end market and are widely used in bathrooms of residential and commercial properties.

Historically, our bathroom products business consisted of resale of finished products purchased from related parties. In May 2013, as part of our expansion, we acquired the bathroom products business from certain related parties as part of our reorganization. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”. We intend to fully exploit the brand synergy and cross-selling opportunities between our ceramic tile and bathroom products.

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Our ceramic bathroom products include the following:

- *Toilets.* Our toilet products consist of one-piece and two piece toilets in various designs. Our toilets employ features such as a powerful but quiet flushing system, efficient water-conservation features and easy-cleaning surface design. In addition, we also offer intelligent toilets and seats, which feature sensor-controlled functions. As of June 30, 2013, we had a total of 48 models of toilets.
- *Wash basins.* Our wash basin products include pedestal, above-counter, under-counter, wall-mount and vessel wash basins in various designs. As of June 30, 2013, we had a total of 22 models of wash basins.
- *Other products.* We also offer other ceramic bathroom products such as urinals and flush tanks.

In addition to ceramic bathroom products, we also offer a wide variety of non-ceramic bathroom products:

- *Bath tubs.* Our bath tub products include free standing and embedded bath tubs in various designs and dimensions. We offer bath tubs with features ranging from water massage, air bubble massage, steaming, intelligent control to multi-media entertainment. As of June 30, 2013, we had a total of 101 models of bath tubs.
- *Bathroom cabinets.* Our bathroom cabinet products in various designs provide functional and stylish complement to our wash basins and other bathroom products. As of June 30, 2013, we had a total of 12 series of bathroom cabinets.
- *Accessories.* In addition to the main products described above, we also offer a wide array of bathroom accessories ranging from floor drains, shower heads, tubes, towel racks, bathroom heat lamps, water tanks to soap dispensers and other accessories.

In addition to domestic sales of our branded products, we sell a portion of our bathroom products under OEM arrangements overseas.

SALES AND DISTRIBUTION

Ceramic Tile Products

Substantially all of our ceramic tile products are sold under our “Dongpeng” brand in China. Our wholesale distribution for our ceramic tile products in China is primarily made to tier-one distributors. In addition to sales made through tier-one distributors, we also sell our ceramic tile products in China through our self-managed direct sales channels, to (a) retail customers through our self-owned retail outlets, (b) direct corporate customers such as real estate developers, interior design and decoration companies and construction companies and (c) preferred dealers who operate their own retail outlets for our products and with whom we have a sales relationship that more closely resembles that of other direct sales channels than with tier-one distributors in terms of the services and support we provide, and gross profit margin we have.

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The following table sets forth our revenue of ceramic tile products by sales channel and as percentage of total revenue for ceramic tile products for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Distributors	644,600	67.2%	1,552,330	79.3%	1,736,033	70.4%	752,132	71.1%	910,297	74.7%
Direct sales										
Self-owned retail outlets .	80,779	8.4	111,336	5.7	185,061	7.5	75,240	7.1	77,108	6.3
Corporate sales	170,140	17.7	203,860	10.4	415,833	16.9	182,022	17.2	157,774	13.0
Preferred dealers	63,993	6.7	89,045	4.6	129,410	5.2	48,459	4.6	73,531	6.0
Subtotal	314,912	32.8	404,241	20.7	730,304	29.6	305,721	28.9	308,413	25.3
Total for ceramic tiles	<u>959,512</u>	<u>100.0%</u>	<u>1,956,571</u>	<u>100.0%</u>	<u>2,466,337</u>	<u>100.0%</u>	<u>1,057,853</u>	<u>100.0%</u>	<u>1,218,710</u>	<u>100.0%</u>

The following table sets forth our revenue of all products by region and as percentage of total revenue for period indicated.

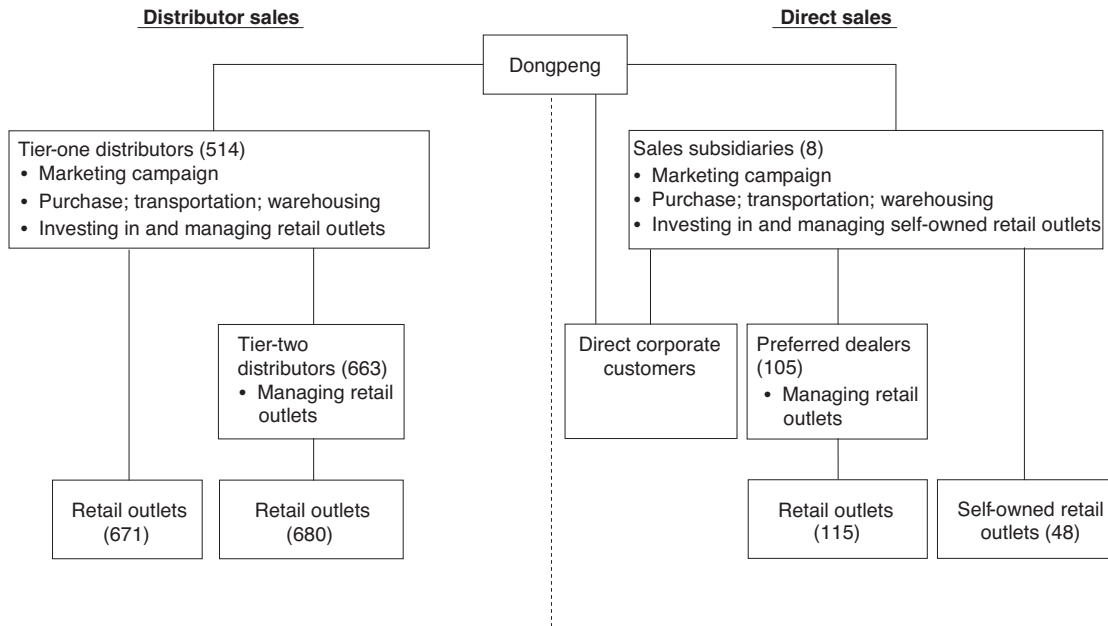
	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Northern China ⁽¹⁾	119,955	12.3%	381,841	19.3%	657,749	26.3%	273,074	25.5%	365,087	28.6%
Central China ⁽²⁾	172,412	17.7	463,997	23.4	762,761	30.5	329,787	30.9	404,869	31.8
Southern China ⁽³⁾	682,260	70.0	1,133,115	57.3	949,366	38.0	414,575	38.8	445,669	35.0
International ⁽⁴⁾	—	—	—	—	128,048	5.2	51,652	4.8	59,124	4.6
Total	<u>974,627</u>	<u>100.0%</u>	<u>1,978,953</u>	<u>100.0%</u>	<u>2,497,924</u>	<u>100.0%</u>	<u>1,069,088</u>	<u>100.0%</u>	<u>1,274,749</u>	<u>100.0%</u>

Notes:

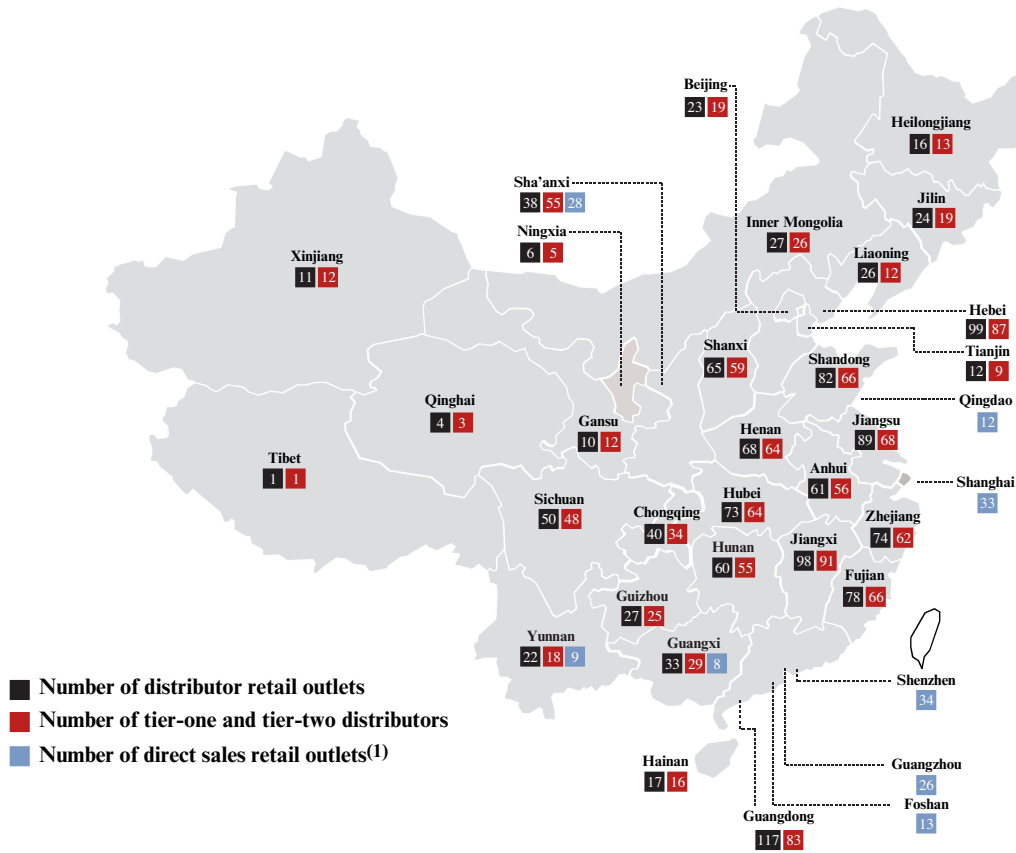
- (1) Includes Beijing and Tianjin municipalities and Gansu, Hebei, Heilongjiang, Jilin, Liaoning, Qinghai, Shaanxi, Shandong and Shanxi provinces and Inner Mongolia, Ningxia, Tibet and Xinjiang autonomous regions.
- (2) Includes Chongqing and Shanghai municipalities and Anhui, Henan, Hubei, Jiangsu, Sichuan and Zhejiang provinces.
- (3) Includes Fujian, Guangdong, Guizhou, Hainan, Hunan, Jiangxi and Yunnan provinces and Guangxi autonomous region.
- (4) Includes regions that are outside of China.

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The following diagram illustrates the distribution model for our ceramic tile products as of June 30, 2013.



The following diagram illustrates the geographic distribution of our sales network in China as of June 30, 2013:



(1) Direct sales retail outlets consist of self-owned retail outlets and retail outlets operated by preferred dealers.

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Sales to Tier-one Distributors

We sell a majority of our ceramic tile products to our tier-one distributors. As of June 30, 2013, we had an extensive network of 514 tier-one distributors in all provinces, municipalities and autonomous regions in China. In 2010, 2011, 2012 and the first half of 2013, sales to tier-one distributors amounted to RMB644.6 million, RMB1,552.3 million, RMB1,736.0 million and RMB910.3 million, respectively, representing 67.2%, 79.3%, 70.4% and 74.7%, respectively, of our total revenues for ceramic tile products during the same periods.

The following table sets forth the changes in the number of our tier-one distributors for ceramic tile products for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
Total at the beginning of the period....	292	351	412	446
Additions	72	83	92	83
Terminations	13	22	58	15
Total at the end of the period	351	412	446	514

In 2010, 2011, 2012 and the first half of 2013, we terminated distribution agreements with 13, 22, 58 and 15 tier-one distributors, respectively, due to their failure to meet their performance targets. Other than the aforementioned termination, there were no material breach of distribution agreements or material disputes between tier-one distributors and our Company during the Track Record Period and up to the Latest Practicable Date.

Our tier-one distributors generally sell our products through their tier-two distributors and/or retail outlets that are directly operated by such tier-one distributors. The primary responsibilities of the tier-one distributors include the following:

- *Managing tier-two distributors and retail outlets.* Tier-one distributors are responsible for selecting tier-two distributors, and establishing retail outlets within their respective geographic territories in accordance with our sales and distribution policies and guidelines. Tier-one distributors are also responsible for overseeing the operations of its tier-two distributors and retail outlets to ensure their compliance with our sales and distribution policies and guidelines.
- *Marketing and promotions.* With guidance and support from our regional sales management divisions, our tier-one distributors are responsible for organizing marketing and promotional activities in their respective geographic territories and bear at least half of the costs for such activities.
- *Transportation and logistics.* Tier-one distributors are responsible for transporting our products from our warehouses to its tier-two distributors and retail outlets.

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We consider a range of factors when selecting our tier-one distributors, including (i) industry experience; (ii) capacity of managing tier-two distributors and retail outlets; (iii) track record of sales and distribution; (iv) ability in developing and operating a network of retail outlets in a designated geographic territory; and (v) financial resources.

Management of tier-one distributors

The following summarizes the key aspects of our management of tier-one distributors:

- *Geographical territory.* Our tier-one distributors are prohibited from distributing our products beyond their assigned geographic territories. Tier-one distributors are also required to establish distribution networks in such territories within an agreed timeline.
- *Product exclusivity.* A substantial majority of our tier-one distributors are prohibited from selling or promoting any products similar to or competing with our products. A limited number of tier-one distributors are allowed to carry other competing products on the condition that our products are managed by a separate sales team from those for the competing products.
- *Performance targets and bonus points.* Our tier-one distributors are required to meet minimum sales targets which are set by the distribution agreements. Bonus points would be awarded to the tier-one distributors if they achieve certain sales targets, and such bonus points could be used as discount in future purchases from us.
- *Pricing.* Our tier-one distributors are required to comply with our pricing policies for all of our products sold by them. We generally provide our distributors with suggested retail price for each product. Our products are sold to our tier-one distributors at a discount to the suggested retail prices set forth in our distribution agreements.
- *Order and delivery.* Our tier-one distributors are encouraged to order our products by placing an advanced order with a deposit of 30% of the purchase price but may also purchase our products through spot sales transactions depending on the availability of the products. Our tier-one distributors are generally required to pick up their orders from the relevant warehouse located in the closest proximity to them. If such warehouse is a regional warehouse, we will charge the distributor a fee for shipping the order from our central warehouse to the regional warehouse, which will be included in the selling prices of our products. We sometimes allow a tier-one distributor to pick up its order from a central warehouse on a case by case basis. Tier-one distributors are responsible for arranging transportation for their orders from our warehouses.
- *Payment and credit terms.* We generally require full payments before delivering orders to our distributors. We grant on a case by case basis a credit term of generally no more than 90 days to selected distributors. To encourage upfront full payment, we also charge our distributors an interest for any outstanding receivables. We recognize sales to our distributors when the products are despatched from our warehouses and the titles to these products are passed to our distributors without recourse.

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- *Performance deposit.* Our tier-one distributors are required to make a cash deposit with us as security for the performance of their obligations under the distribution agreements.
- *Inventory management.* Our tier-one distributors in general maintain inventories sufficient for approximately three months of sales based on historical sales volume. We generally require them to provide us with monthly inventory reports about our products and conduct random inventory inspection to ensure adequate inventory level. These procedures, combined with our general requirement for full payment of purchase prices before delivery as discussed above and general policy of no return/exchange as discussed below, are designed to effectively ensure that our sales to our tier-one distributors reflect genuine market demand rather than accumulation of inventory at distributor level.
- *Return and exchange.* Tier-one distributors are required to inspect products at the time of pickup at our warehouses and are not allowed to return or exchange their purchases unless for material product defects. During the Track Record Period, we did not experience any material products return or exchange by the tier-one distributors. See “— Product Return and Warranty Policies”.
- *Compliance with policies.* Tier-one distributors are required to ensure that all of its tier-two distributors and retail outlets comply with our policies and guidelines in various aspects including brand image maintenance, outlet layout, product pricing, customer services and after-sales services.
- *Performance evaluation.* Our tier-one distributors are subject to monthly evaluation of their sales performance. Failure to pass the performance evaluation for three consecutive months could lead to forfeiture of performance deposits and/or termination of distribution agreements.
- *Intellectual property rights.* Our tier-one distributors are only allowed to use our trademarks and trade names in connection with the sales of our products and are not permitted to sell any products that may infringe upon our intellectual property rights.
- *Term and termination.* Our agreements with tier-one distributors generally have a term of one year, renewable on an annual basis, subject to, among other things, the satisfactory performance by the tier-one distributors of their obligations under the agreements.

Tier-two distributors and retail outlets managed by tier-one distributors

Tier-one distributors for our ceramic tile products generally sell our products to tier-two distributors, or to end-customers through retail outlets that are directly operated by such tier-one distributors within their respective geographic territories. As of June 30, 2013, under the 514 tier-one distributors for our ceramic tile products, there were a total of 663 tier-two distributors and 1,351 retail outlets.

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The following table sets forth the changes in the number of our tier-two distributors for ceramic tile products for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
Total at the beginning of the period....	339	385	495	595
Additions	69	136	145	97
Terminations	23	26	45	29
Total at the end of the period	385	495	595	663

In 2010, 2011, 2012 and the first half of 2013, 23, 26, 45 and 29 tier-two distributorships were terminated respectively. A majority of such terminations were due to the relevant tier-two distributors' failure to meet their performance targets set by their respective tier-one distributors. A small portion of these terminations were a result of the relevant tier-two distributors being promoted to tier-one distributors due to their outstanding performance. Other than the aforementioned termination, we are not aware of any material breach of distribution agreements or material disputes between tier-two distributors and their respective tier-one distributors during the Track Record Period and up to the Latest Practicable Date.

Tier-two distributors are primarily operators of retail outlets and are generally only responsible for basic sales and distribution functions and are not responsible for marketing and promoting our products. They place order with and purchase the products from their respective tier-one distributors. We generally manage our tier-two distributors through tier-one distributors which is in line with general industry practice. Since 2012, we have encouraged our tier-one distributors to include our Company in their contractual arrangements with tier-two distributors, thereby forming tripartite agreements. This two-tier structure provides us with direct contact with and influence over our tier-two distributors without incurring significant expenses on establishing and maintaining the tier-two distribution network. As of June 30, 2013, 13.3% of our tier-two distributors have entered into such tripartite agreements. We plan to further this practice with more tier-two distributors in the future.

The following summarizes the key aspects of the management of our tier-two distributors.

- *Product exclusivity.* All of the retail outlets operated by our tier-two distributors and substantially all of such distributors sell our products exclusively. Members of our regional and local sales management staff perform onsite inspections periodically to ensure that this requirement is met.
- *Deposit.* Tier-two distributors are required to provide tier-one distributors with a performance deposit as security for the performance of their obligations under the tripartite agreements.
- *Pricing and payment.* Tier-two distributors are required to comply with our pricing policies for all of our products sold by them.

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- *Compliance with policies.* Tier-two distributors are required to ensure that all retail outlets under their operation or management comply with our policies and guidelines in various aspects including brand image maintenance, retail outlet layout, product pricing, customer service and after-sales services.
- *Term and termination.* The agreements between tier-one distributors and tier-two distributors usually have a term of one year, and the distributorship of a tier-two distributor may be terminated for its failure to perform its obligations.

International sales

In addition to domestic sales, we sell a small portion of our ceramic tile products overseas to 66 countries, including Canada, Australia, United States, Mexico and Brazil. We sold our products to local distributors in each country, who further distribute our products through their wholesale and retail networks. We sold our products internationally through Guangdong Dongpeng Ceramics in 2010 and 2011. We began selling to third party distributors internationally in 2012, and international sales accounted for 5.2% and 4.6% of our 2012 and the first half 2013 revenue, respectively.

Direct Sales

We began expanding our direct sales channels in 2007. Our strategy for direct sales channels aims to: (i) expand into new markets in third-tier and smaller cities not well-covered by our tier-one distributors, and (ii) effectively establish a strong presence in strategic markets of tier-one cities, including Shanghai, Shenzhen and Guangzhou, which are critical to our efforts to enhance our brand image and to keep direct contact with the latest consumer preference and design trends.

Our self-managed direct sales channels consist of (a) self-owned retail outlets, (b) preferred dealers (these are retail outlets operators with whom we have a sales relationship that closely resembles that of other direct sales channels in terms of services, support and gross profit margin) and (c) direct corporate customers such as real estate developers, interior design and decoration companies and construction companies. These direct sales channels enable us to maintain direct contact with consumers to ascertain market trend first-hand.

We have established eight sales subsidiaries, each covering the cities of Shanghai, Guangzhou, Shenzhen, Foshan and Qingdao and Yunnan, Guangxi and Shaanxi provinces, respectively, to oversee the direct sales efforts of our self-owned retail outlets and preferred dealers within these regions. Our direct sales channels have been focused on the urban areas within these regions.

Self-owned retail outlets

We own and operate retail outlets within our direct sales regions. These retail outlets are in general larger in size and offer a wide range of our ceramic tile products. In 2010, 2011, 2012 and the first half of 2013, revenue derived from direct sales of ceramic tile products to retail customers amounted to RMB80.8 million, RMB111.3 million, RMB185.1 million and RMB77.1 million, respectively, representing 8.4%, 5.7%, 7.5% and 6.3%, respectively, of our total revenues for ceramic tile products during the same periods.

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As part of our continued efforts to optimize sales channel mix within our direct sales network to improve operational efficiency, we transferred ten self-owned retail outlets to certain preferred dealers during the first half of 2013 for an aggregate consideration of RMB1.5 million. Such transfers were made based on the book value of these ten retail outlets plus a reasonable profit and we recognized a gain of approximately RMB 0.4 million from such transfers. The aggregate amount of investment we made in these retail outlets were approximately RMB4.2 million. As of June 30, 2013, we had 48 self-owned retail outlets for ceramic tile products. All of our self-owned retail outlets are located on leased premises.

Preferred dealers

A substantial portion of our direct sales are made through our preferred dealers. Our preferred dealer are primarily operators of retail outlets. Our sales subsidiaries undertake responsibilities similar to those of tier-one distributors with respect to the preferred dealers and their retail outlets. Our preferred dealers manage their retail outlets, but unlike our distributors, they are otherwise supported by us through our sales subsidiaries in most aspects during the sales process such as marketing, inventory management and transportation. For example, our preferred dealers rely on us to organize marketing and promotional campaigns. In addition, our preferred dealers do not maintain any inventories. Once a preferred dealer receives an order from an end customer, it will place an corresponding order in our SAP system and we are responsible for delivering such order directly to the end customer. These arrangements with preferred dealers result in our close management of their sales process as well as high gross margin from sales made to them which more closely resemble sales made through our other direct sales channels than those made to tier-one distributors.

The following table sets forth the changes in the number of our preferred dealers for ceramic tile products for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
Total at the beginning of the period....	47	55	78	83
Additions	22	36	15	24
Terminations	14	13	10	2
Total at the end of the period	55	78	83	105

In 2010, 2011, 2012 and the first half of 2013, we terminated dealership agreements with 14, 13, 10 and 2 preferred dealers, respectively, due to their failure to meet their performance targets. Other than the aforementioned termination, there were no material breach of preferred dealer agreements or material disputes between preferred dealers and our Company during the Track Record Period and up to the Latest Practicable Date.

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The following summarizes the key aspects of our management of preferred dealers:

- *Geographical territory.* Our preferred dealers are prohibited from selling our products beyond their assigned geographic territory.
- *Product exclusivity.* All of our preferred dealers are prohibited from selling or promoting any products similar to or competing with our products.
- *Performance targets.* Our preferred dealers are required to meet the monthly sales targets set by us.
- *Pricing.* Our preferred dealers are required to comply with our pricing policies for all of our products sold by them. We generally provide our preferred dealers with suggested retail price for each product. Our products are sold to our preferred dealers at a discount to the suggested retail prices. Sales made to preferred dealers have a substantially higher gross margin than that of sales made to tier-one distributors which primarily represents the additional services, in particular shipping and marketing services, we provide to our preferred dealers.
- *Marketing and promotions.* Our preferred dealers rely on us to organize marketing and promotional activities in the direct sales regions.
- *Order and delivery.* Once a preferred dealer receives an order from an end customer, the preferred dealer places a corresponding order directly in our SAP system. We deliver the order directly to end customers, and shipping costs are included as part of the purchase prices we charge our preferred dealers.
- *Payment and credit terms.* We generally require full payment before delivering an order placed by a preferred dealer.
- *Performance deposit.* Our preferred dealers are required to make a cash deposit with us as security for the performance of their obligations under the dealership agreements.
- *Inventory.* Our preferred dealers do not maintain any inventories. Once a preferred dealer receives an order from an end customer, the preferred dealer places a corresponding order in our SAP system. We believe that this effectively prevents accumulation of inventories at the preferred dealer level.
- *Compliance with policies.* Preferred dealers are required to ensure all of its retail outlets comply with our policies and guidelines in various aspects including brand image maintenance, outlet layout, product pricing, customer services and after-sales services.
- *Terms and termination.* Our agreements with preferred dealers generally have a term of one year, renewable on an annual basis, subject to, among other things, the satisfactory performance by the preferred dealers of their obligations under the agreements.

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In 2010, 2011, 2012 and the first half of 2013, revenue derived from direct sales of ceramic tile products to preferred dealers amounted to RMB64.0 million, RMB89.0 million, RMB129.4 million and RMB73.5 million, respectively, representing 6.7%, 4.6%, 5.2% and 6.0%, respectively, of our total revenues for ceramic tiles during the same periods.

Corporate sales

We also sell our ceramic tile products directly to certain direct corporate customers such as real estate developers, interior design and decoration companies and construction companies. In 2010, 2011, 2012 and the first half of 2013, revenue derived from direct sales of ceramic tile products to direct corporate customers amounted to RMB170.1 million, RMB203.9 million, RMB415.8 million and RMB157.8 million, respectively, representing 17.7%, 10.4%, 16.9% and 13.0%, respectively, of our total revenues for ceramic tile products during the same periods.

The following is a summary of the key terms in our typical sales agreements with direct corporate customers:

- *Pricing.* Our products are sold to direct corporate customers at a discount to the suggested retail prices. Price includes charges for modifying or customizing products where applicable.
- *Order and delivery.* Our direct corporate customers may purchase our products through spot sales transaction or place an advance order with us. We are generally responsible for transporting our products to the construction site or other location designated by the customers. Transportation expenses are borne by us.
- *Payment and credit terms.* The majority of our corporate customers may pay in installments based on certain milestones of their construction project. In most cases, the last installment of 5% to 10% of the full payment will only be paid at the end of the warranty period, which is generally one to two years following the completion of construction.
- *Return and exchange.* Our corporate customers are entitled to return or exchange their purchase for material product defects. Some corporate customers are also allowed to return remainder unused products at the end of construction. During the Track Record Period, we did not experience any material product returns or exchanges by our corporate customers. See “— Product Return and Warranty Policies”.
- *Term and termination.* Once executed, these agreements will generally remain effective until the end of performance or end of the warranty period. Either the corporate customer or we may terminate the agreement upon material breach of the other party.

Sales Management and Support

We manage and support our extensive sales and distribution networks for our ceramic tile products through our regional sales management divisions, local sales management teams and sales subsidiaries. As of June 30, 2013, we had three regional sales management divisions managing and

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supporting the tier-one distributors in Northern China, Central China and Southern China. We have an additional 18 local sales management teams operating under our regional sales management divisions, with five in Northern China, six in Central China and seven in Southern China, to further enhance sales efficiency and optimize decision making.

Regional sales management divisions are primarily responsible for determining regional pricing and sales policies and coordinating regional marketing and promotional activities. Under the direction of regional sales management divisions, local sales management offices are primarily responsible for setting sales targets for each tier-one distributor, coordinating products order, shipment, logistics and payment, general supervision over distributors and third-party retail outlets to ensure their compliance with our sales policies and guidelines and evaluating performance of distributors and third-party retail outlets.

Our eight sales subsidiaries directly manage and support preferred dealers as well as tier-one and tier-two distributors within their respective regions.

Product Return and Warranty Policies

Our return policy for our ceramic tile products requires our distributors to inspect products at the time of pickup at our warehouses and does not allow product return unless due to material quality defect of the products which are not reasonably discoverable by inspections at pickup.

With respect to end customers, our standard operating procedures require retail outlets that sell our ceramic tile products to handle claims regarding defective products from end customers in accordance with applicable consumer protection laws, which generally require defective products to be accepted for return if claimed within certain prescribed time periods. In addition, we launched our “Sun Angel” customer service program in 2003, where we established a free nationwide hotline for customer services and provide free onsite services such as product return and replacement for our end customers.

Bathroom Products

Historically, we purchased “Dongpeng” branded bathroom products from related parties for resale. After our acquisition of the bathroom products business in May 2013, we now sell majority of our bathroom products under our “Dongpeng” brand in China with a portion sold under OEM arrangement overseas. The domestic distribution model for our branded bathroom products is similar to that of our ceramic tile products.

We sell a majority of our branded bathroom products to tier-one distributors. As of June 30, 2013, we had 312 tier-one distributors, who further distribute our products through 345 tier-two distributors and 789 third party retail outlets. The primary functions, responsibilities, selection criteria and management of tier one distributors for our bathroom products are similar to those of tier one distributors for our ceramic tile products. In addition to sales made to tier-one distributors, we also sell our branded bathroom products through our self-managed direct sales channels. Our OEM sales of bathroom products are primarily made to overseas markets.

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Sales Management and Support

We manage and support our extensive sales and distribution networks of bathroom products through our regional sales management teams. As of June 30, 2013, we had six regional sales management teams, managing and supporting Northern China, Central China, Eastern China, Northwestern China, Southwestern China and Southern China. Within each regional sales management team, we typically have one sales manager or one sales representative covering each province to further enhance sales efficiency and optimize decision making.

Product Return and Warranty Policies

Our return policy for our bathroom products are similar to that for our ceramic tile products. With respect to end customers, our ceramic bathroom products sold in China typically have a warranty period of five years for ceramic parts and two years for other parts. Our non-ceramic bathroom products sold in China typically have a warranty period of two years. Our “Sun Angel” program also covers bathroom products.

MARKETING AND PROMOTION

Marketing and promotional activities are a crucial aspect of our operations and have significantly contributed to our brand image and sales. We have developed targeted marketing and promotional activities aimed at our distributors and end customers.

Marketing and promotional activities for our products are carried out at both national and regional levels. We directly undertake nationwide marketing campaigns. At the regional level, we directly undertake marketing and promotional activities in regions covered by our sales subsidiaries for ceramic tile products, and in Foshan region for bathroom products. In other regions, we rely primarily on our tier-one distributors for marketing and promotional activities and our distributors also bear at least half of the costs for such activities. In addition, our regional sales management divisions coordinate marketing campaigns across different regions and provide guidance and assistance to distributors in developing their advertising strategy and marketing programs.

Our principal marketing and promotional activities for our ceramic tile products include:

- *Joint marketing activities.* In 2009, we initiated the “Champion Alliance” (“冠軍聯盟”) which now comprises eight household brands in China, each in the leading position in its own industry sector. The other members of Champion Alliance are NVC (“雷士”) (lighting), Nature (“大自然”) (wood flooring), Sogal (“索非亞”) (wardrobe), Vanward (“萬和”) (gas appliance), de RUCCI (“慕思”) (mattress), Midea (“美的”) (electrical appliance) and Youpon (“友邦”) (ceiling). The members of this alliance organize joint marketing campaigns and promotional events throughout China on a regular basis. These promotional events typically allow purchasers of any one member’s products to purchase products from other members at a discount. The Champion Alliance capitalizes on the purchasing pattern of consumers with home

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improvement projects who typically need to purchase a great number of household items from lighting to tiles within a short span of time. As such, the joint marketing campaigns offer us great cross-selling opportunities targeted to customers who are already looking to purchase products that we offer. In addition, since all members of the Champion Alliance are leading companies in their respective industry sectors, these joint marketing campaigns create a strong branding synergy that further strengthens our brand image. In 2012, the Champion Alliance hosted three nationwide joint marketing campaigns and regional ones on a quarterly basis.

- *New products promotion.* We have two new products promotion campaigns each year. One in early spring and the other in mid-fall. During these campaigns, we organize media conferences, distributor meetings and remodel our showrooms to promote our new products.
- *Celebrity endorsement.* Celebrity endorsement is an important part of our branding strategy. Xue Shen and Hongbo Zhao, world champions and Olympics gold medalists of figure skating, served as our spokes persons from 2010 to 2012. Since December 2012, Carlo Beltramelli, former chairman of Italian Interior Design Association, has been our brand representative.

Our ceramic tile products are marketed and promoted through a number of different media channels:

- *Showroom displays.* Our in-store showrooms feature kitchen, bathroom, living room and other settings finished with our products, which allow our customers to experience our products in a real life setting. The decorations and displays in these showrooms are changed seasonally to promote new products. We believe our showroom displays provide us with vital consumer exposure which we would not be able to achieve solely through media marketing campaigns and constitute a key contributing factor to our success.
- *Television.* We place advertisements on national and local TV programs, including leading channels such as China Central Television and Phoenix TV, to broaden the exposure for our brand name.
- *Print.* Marketing materials such as product catalogs are distributed in all of our retail outlets (both self-owned and owned by third parties) and at professional conferences and trade shows. We also place advertising billboards and posters in a variety of locations as well as advertise on newspapers, professional and life style magazines.
- *Virtual showroom.* In addition to advertising on portal/consumer websites and search engines, we also plan to develop a virtual showroom with a comprehensive products database so that products that are not physically displayed in our retail outlets can also be shown to our customers through iPads and other interactive displays placed in our retail outlets.
- *Corporate sponsorship.* We sponsor community activities, such as charitable donations, to improve our brand awareness.

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In 2010, 2011, 2012 and the first half of 2013, our total advertisement and promotion expenses were approximately RMB17.9 million, RMB50.2 million, RMB85.9 million and RMB31.0 million, respectively.

Our bathroom products are marketed and promoted through substantially the same media channels as those for our ceramic tile products.

CUSTOMER BASE

Our largest customers are generally tier-one distributors and direct corporate customers. Our top five customers (including certain related party of our Company) accounted for approximately 43.5%, 33.4%, 8.5% and 7.0%, respectively, of our total revenues, and the largest customer (including certain related party of our Company) accounted for approximately 36.4%, 28.5%, 2.1% and 2.1%, respectively, of our total revenues in 2010, 2011, 2012 and the first half of 2013. See “Financial Information — Impact of Reorganization and Related Party Transactions”. Our top five customers (excluding any related party of our Company) accounted for approximately 8.5%, 5.9%, 8.5% and 7.0%, respectively, of our total revenues, and the largest customer (excluding any related party of our Company) accounted for approximately 2.2%, 1.5%, 2.1% and 2.1% of our total revenues, respectively, in 2010, 2011, 2012 and the first half of 2013.

Guangdong Dongpeng Ceramics, one of our top five customers and tier-one distributors in 2012 and 2011, is a related party of ours and is controlled by our ultimate Controlling Shareholders. Revenue from sales to Datang Hesheng, another related party controlled by certain of our Shareholders, was also recognized under sales to tier-one distributors during the Track Record Period. For our historical relationship with Datang Hesheng, see “Financial Information — Description of Certain Income Statement Items”. Other than the foregoing, none of our Directors, our chief executive or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five customers, our tier-one distributors, tier-two distributors or preferred dealers for our ceramic tile products and bathroom products, during the Track Record Period.

SAP ENTERPRISE RESOURCE PLANNING SYSTEM

We have implemented the SAP enterprise resource planning system in stages since 2007 to improve operational efficiency in the following aspects:

- *Sales and customer orders.* Our SAP system allows our customers to access our SAP enterprise portal on any computer with web access to view our real-time inventory details in all of our warehouses and complete the ordering process on-line rather than through phone calls and faxes, thereby reducing order processing time and the number of days from the time order is received to being ready for delivery or pick up from an average of 16 days prior to 2011 to one day. If we have sufficient inventory for the product being ordered, delivery of the order will be promptly arranged. If we do not have inventory readily available for such product at our warehouses, an advanced order will then be placed in our SAP system, which requires a deposit of 30% of the purchase price to be paid by the party placing the order with us.

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- *Production.* All advance orders received by us are recorded in our SAP system on a real-time basis. We set our production schedule based on our analysis of all orders received, existing inventory level for all products, our prediction of market trends as well as availability of our production lines at different production facilities. Backed by our SAP system, we closely track the utilization rate of all of our production facilities to maximize production efficiency.
- *Inventory and logistics.* The SAP system significantly streamlines the delivery process. Once a distributor places an order through our SAP system, its transporter can automatically prepare packing list and schedule the pickup time in advance, while the Company's shipping department will also simultaneously prepare the relevant products that are ready to be picked up. Such streamlined process reduces the typical product loading process from several days to less than a couple of hours. Our SAP system also provides our management team with clear visibility on the sales, inventory, profit and other key financial and logistic data of our various production facilities and sales companies on a real time basis. With this system in place, our management is able to arrange for the most cost efficient way to allocate and transport finished products and other inventories between different warehouses and subsidiaries.

After our acquisition of bathroom products business in May 2013, we have started to streamline the sales, production, inventory, transportation and logistics systems of bathroom products and plan to integrate them into the existing systems of ceramic tile products by 2014.

INVENTORY

We closely monitor our inventory level through our SAP system on a real time basis to maintain a low inventory to sales ratio, which is determined as being the average level of inventory held compared with the revenue within a particular period. We believe that by monitoring our inventory to sales ratio, we are able to ascertain whether we have effective inventory management controls in place. In addition to reducing our inventory levels, we also strive to anticipate the composition of our inventory that will most closely reflect future sales patterns. We have our regional/local sales managers help our tier-one distributors and preferred dealers to estimate the amount and type of products to be sold in the following month and make monthly orders accordingly. The tier-one distributors and preferred dealers may also make supplementary orders between monthly orders to address any increase in demand. We analyze past sales performance, the specifications of supplementary orders, any planned promotional activities and general consumer trend in order to forecast the composition of inventory required to meet future sales.

TRANSPORTATION AND LOGISTICS

We believe an effective logistics management system is essential to our business performance. We have a centralized logistics system designed to optimize product replenishment, shipment coordination and inventory control. Our logistics network is the largest in China's ceramic tile industry, according to the F&S Report. This logistics network currently consists of five central warehouses located at close proximity to our production facilities, a network of 20 regional warehouses at strategic locations across China.

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Due to the nature of the ceramic tile products, which are heavy products often ordered in large volumes, long distances shipping can be costly and time consuming and therefore an important consideration for our customers when they place orders. We are responsible for delivering products to preferred dealers, direct corporate customers and retail customers that have a direct sales relationship with us, and we include the shipping costs as part of the selling prices to these customers. Our tier-one distributors are generally required to pick up their orders from the warehouse located in the closest proximity to them. If such warehouse is a regional warehouse, we will charge the distributor a fee for shipping the order from our central warehouse to the regional warehouse, which will be included in the selling prices of our products. We sometimes allow a tier-one distributor to pick up its order from a central warehouse on a case by case basis. Tier-one distributors are responsible for arranging transportation for their orders from our warehouses.

Our distributors are encouraged to place pre-orders with us. Pre-orders for our products need to be placed at least 15 days prior to the designated pick up time. Once we ship the products to the designated warehouse, we will notify the distributor, and such pre-order are required to be picked up by our distributors within 90 days. This incentivizes our distributors to better forecast their sales, which in turn provides us with more visibility in our sales management and helps us to plan our production more effectively.

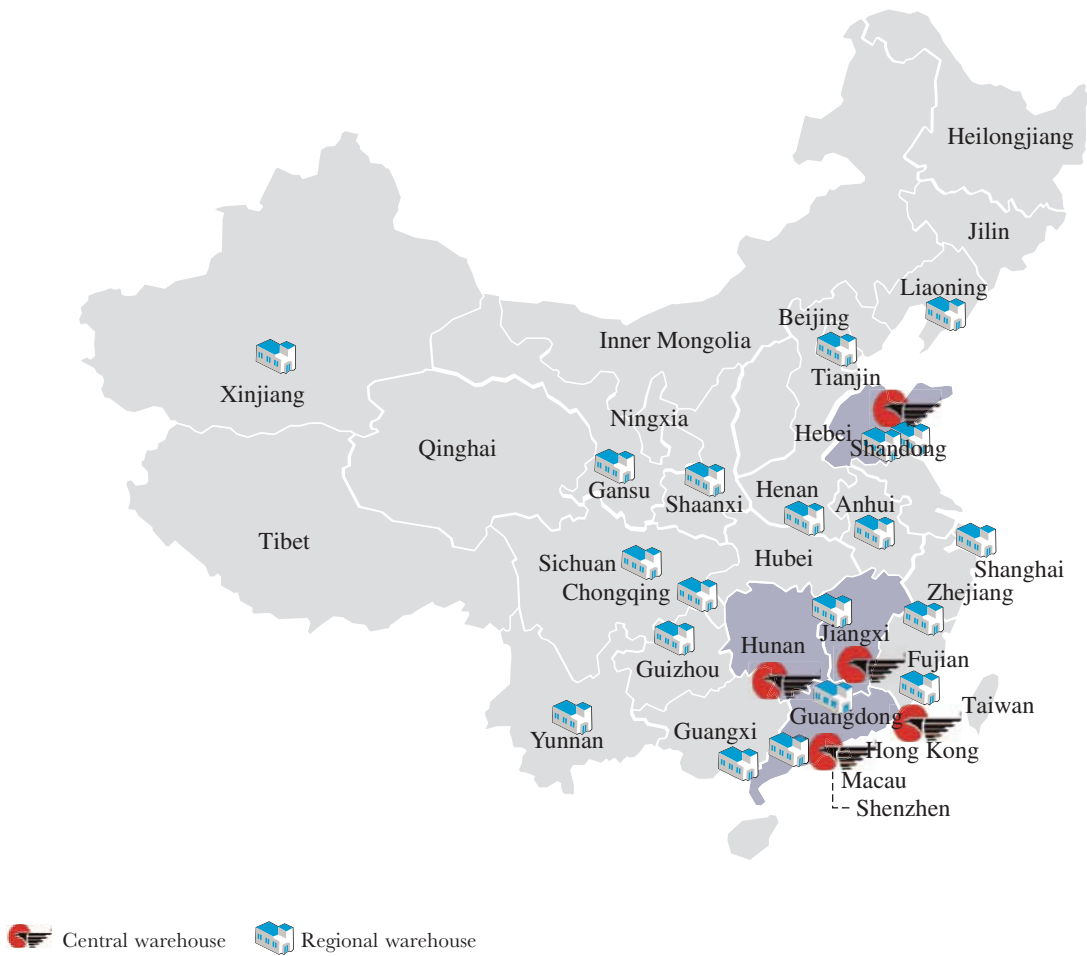
In addition, our transportation and logistics system allows our distributors to shorten shipping distance, which in turn enables our distributors to shorten order lead time and enable them to place order in smaller volumes. This helps them better manage their inventory and cash flow, as well as reduces the need for having their own warehouses. The cost of our transportation services is generally lower for small- and medium-sized distributors because we are able to centrally provide transportation services to one of our regional warehouses located closer to such distributors and are able to better manage our cost through greater economies of scale.

Furthermore, our logistics network provides support for distributors to open additional retail outlets, particularly in third- and fourth- tier cities where further expansion and entrenchment is an important aspect of our growth strategy, by reducing the logistic costs typically associated with opening retail outlets and transporting products into such cities.

With the extensive logistics network, centralized logistics system and optimized transportation arrangement, our Directors are of the view that our transportation and logistics systems are adequate to support our existing business operations and future expansion plans.

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The following map illustrates the geographic distribution of our warehouses as of June 30, 2013:



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PRODUCTION

Ceramic Tile Products

Production Facilities

As of June 30, 2013, we had five production facilities for ceramic tile products with a total gross floor area of approximately 1,613,070 square meters and a production team of approximately 3,400 workers. We have expanded our production capacity significantly during the Track Record Period, however, the utilization rates at our production facilities remained relatively high. The following table sets out the production capacity and utilization rate of our ceramic tile production facilities for the period indicated.

Production facilities	Key products	For the year ended December 31,						For the six months ended June 30,	
		2010		2011		2012		2013	
		Production capacity ⁽¹⁾	Utilization rate	Production capacity ⁽¹⁾	Utilization rate	Production capacity ⁽¹⁾	Utilization rate	Production capacity ⁽¹⁾	Utilization rate
(in million square meters, except for percentages)									
Qingyuan, Guangdong ⁽²⁾ ...	Unglazed ceramic tiles	10.00	62.6%	12.00	93.2%	16.00	87.8%	9.06	82.2%
Foshan, Guangdong ⁽³⁾	Unglazed, glossy glazed and antique-inspired ceramic tiles	6.90	92.6%	6.90	98.8%	5.80	95.7%	2.04	77.9%
Lixian, Hunan ⁽⁴⁾	Antique-inspired ceramic tiles	3.35	90.4%	4.80	92.7%	5.00	92.3%	2.27	86.9%
Zibo, Shandong ⁽⁵⁾	Ceramic chips, unglazed and antique-inspired ceramic tiles	—	—	13.63	79.5%	13.63	94.9%	3.25	82.6%
Fengcheng, Jiangxi ⁽⁶⁾	Crystal, glossy glazed and unglazed ceramic tiles	2.58	91.0%	3.61	91.0%	3.62	95.6%	2.25	75.0%
Total	N/A	<u>22.83</u>	78.7%	<u>40.94</u>	89.3%	<u>44.05</u>	92.2%	<u>18.87</u>	81.5%

(1) Production capacity is calculated based on the production facilities operating 24 hours a day and based on 330 days in each year and 150 days in the first half of a year where applicable. The conventional unit of production capacity for ceramic tile productions is square meter.

(2) As part of our reorganization, in December 2010, we acquired all of the assets of Qingyuan Dongpeng except certain factory buildings and related land. We completed our acquisition of these properties by the end of October 2013 and have been leasing them from Qingyuan Dongpeng in the meantime. See “History and Corporate Development — Reorganization”.

(3) We retired certain aged and inefficient production lines at this production facility in 2012 and 2013 as part of our overall technology upgrade to improve our production efficiency.

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- (4) This production facility is leased from Hunan Jinpeng, a related company controlled by our ultimately Controlling Shareholders.
- (5) The two production facilities in Zibo, Shandong province were leased from Shandong Jialiya and Shandong Dongpeng, each a related company controlled by certain members of our Controlling Shareholders. The lease with Shandong Dongpeng with respect to one production facility, which produces unglazed tiles and antique-inspired tiles, was terminated as of December 31, 2012. Therefore, the Zibo facilities ceased producing unglazed and antique-inspired ceramic tiles in 2013.
- (6) The Fengcheng facilities ceased producing unglazed ceramic tiles in 2012.

Our leased production facilities (excluding the one located in Qingyuan, Guangdong province that is in the process of being transferred to us) accounted for proximately 14.7%, 45.0%, 42.3% and 29.3% of our total ceramic tile production capacity and 8.0%, 27.4%, 28.8% and 17.3% of our total revenue from ceramic tile products in 2010, 2011, 2012 and the first half of 2013, respectively. The Directors are of the view that (i) the leased production facilities are not crucial to our business, (ii) in case our Group is required to relocate from the facilities leased from the Controlling Shareholders, replacement properties for these facilities are readily available at comparable terms, (iii) the total relocation cost is estimated to be RMB7.0 million; (iv) relocating each of these leased production facilities may take approximately three months; and (v) rental costs under a new lease will be similar to the current ones.

Expansion Plan

We plan to further expand our production capacity for ceramic tiles as follows:

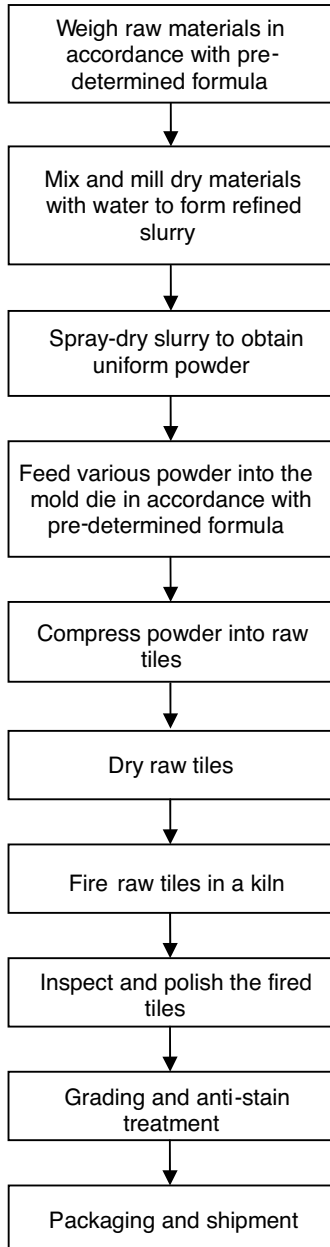
Production facilities	Key products	Planned capacity expansion	Estimated capital expenditure					Expected timeline
			2013	2014	2015	2016	total	
		(million square meters)	(RMB'000)					
Qingyuan, Guangdong ...	Unglazed ceramic tiles	6.6	—	40,000	50,000	10,000	100,000	Two production lines of 3.3 million square meters each are expected to commence operation in 2014.
Fengcheng, Jiangxi	Glossy glazed ceramic tiles	5.9	—	30,000	40,000	10,000	80,000	One production line of 2.6 million square meters and one production line of 3.3 million square meters are expected to commence operation in 2014 and 2016, respectively.
Lixian, Hunan	Antique-inspired ceramic tiles	6.0	—	30,000	30,000	—	60,000	Two production lines of 3.0 million square meters each are expected to commence operation in 2014 and 2015, respectively.
Zibo, Shandong	Ceramic chips	5.0	25,000	25,000	10,000	—	60,000	One production line of 5.0 million square meters is expected to commence operation in 2014.
Total		23.5	25,000	125,000	130,000	20,000	300,000	

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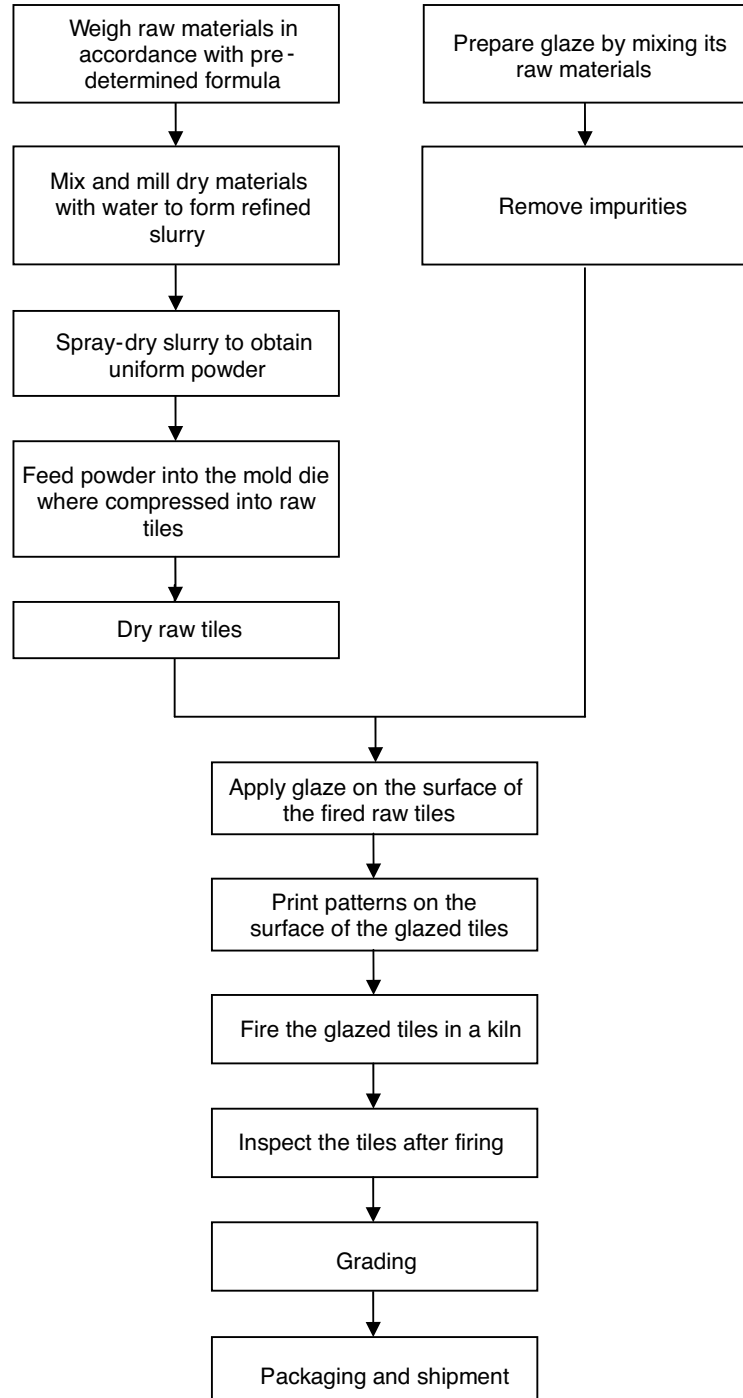
Production Process

The diagrams below illustrate the major production steps for our ceramic tile products.

Unglazed Tiles



Glazed Tiles



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Production outsourcing

During the Track Record Period, we source a small portion of mass market ceramic tile products from third party manufacturers. Such outsourced manufacturing accounted for approximately 9.0%, 8.0%, 10.2% and 10.4% of our total sales volume in 2010, 2011, 2012 and the first half of 2013, respectively, among which an aggregate of approximately 6.2% and 1.2% of our total sales volume in 2010 and 2011, respectively, were sourced from Shandong Jialiya and Shandong Dongpeng, two of our related companies, and the remaining from Independent Third Parties directly or through related parties during the Track Record Period. See “Financial Information — Impact of Reorganization and Related Party Transactions — Related Party Transactions — Purchases”. We generally provide the contract manufacturer with the design and specification of the outsourced products. We monitor the quality of the outsourced products closely to ensure that products manufactured externally meet our quality control standards.

Major Production Machinery and Equipment

Major production machinery and equipment used in our facilities for ceramic tile products include spray tower, ball mill, press, kiln and polish line. As our production requires stable temperature and humidity, our kilns operate 24 hours a day. We have comprehensive internal operational standards, which are formulated after taking into account the technical, engineering and other specific requirements and procedures set out in the operation manual for the relevant machinery and the relevant ISO standards. These measures are in place to avoid unexpected stoppage and to maximize 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. Key technologies required for production of ceramic tiles include proprietary liquid rock technology, inkjet printing technology and micro-crystal melting application.

Bathroom Products

Production Facilities

Historically, our bathroom products business consisted of resale of finished products purchased from related parties. In May 2013, as part of our expansion, we acquired the bathroom products business, including the production facilities, from certain related parties as part of our reorganization. As of June 30, 2013, we had two production facilities located at Foshan for bathroom products with a total gross floor area of approximately 49,351 square meter and a combined production team of approximately 1,050 employees. The combined annual production capacity of these facilities are 33,000 tonnes⁽¹⁾.

Expansion Plan

We plan to increase our production capacity through the construction of a new production facility located at Fengcheng, Jiangxi, which will have a total planned annual production capacity of 72,000 tonnes to be completed in four phases. Construction of phase one with an annual production capacity

(1) The conventional unit of production capacity for bathroom products is tonne.

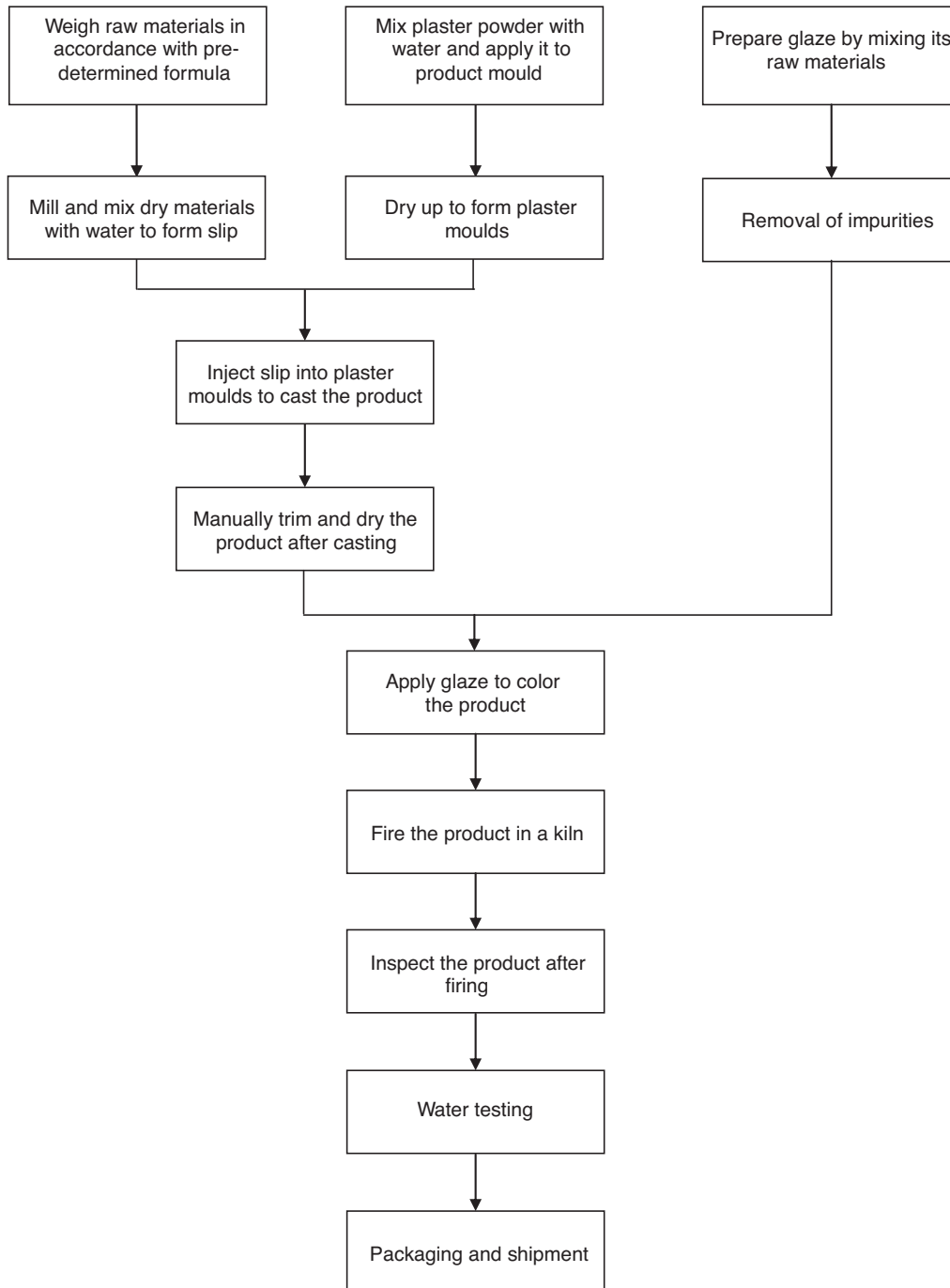
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of 20,000 tonnes is planned to be completed in 2014, with the remaining three phases of 20,000, 16,000 and 16,000 tonnes to be completed by the end of 2016, 2018 and 2020, respectively. The capital expenditures for this expansion project are estimated to be RMB82.0 million and RMB40.0 million in 2013 and 2014, respectively.

Production Process

Ceramic Bathroom Products

The diagram below illustrates the major production steps for our ceramic bathroom products:



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Non-ceramic Bathroom Products

The production of our non-ceramic bathroom products are primarily outsourced to third party manufacturers. We generally provide the contract manufacturers with the design and specification of the outsourced products. We monitor the quality of the outsourced products closely to ensure that products manufactured externally meet our quality control standards.

Major Production Machinery and Equipment

Major production machinery and equipment used in our facility for bathroom products include low battery line, automatic glazing robots, quick dry machines and tunnel kilns. We expect to continue to upgrade our machinery and equipment to manage increasing production demands in the future. Key technologies required for production of ceramic bathroom products include one-time slip-injection molding technology, continuous glazing technology and one-time firing technology.

QUALITY CONTROL

Ceramic Tile Products

We have developed a comprehensive and effective quality management system for our ceramic tile products, which is evidenced by our obtaining ISO 9001:2000 quality management system certificate from WIT Assessment in 2003, ISO 9002:94 quality system certificate from BQR of U.S. in 1999, and Certificate for Product Exemption from Quality Surveillance Inspection from the General Administration for Quality Supervision, Inspection and Quarantine (“國家質量監督檢驗檢疫總局”) from 2003 to 2009, when such certificates were no longer issued to any company. As of June 30, 2013, we had approximately 73 employees performing quality control functions, all of which had relevant experience with respect to ceramic tile products. Our total product returns were less than 1% of our total revenue during the Track Record Period.

Our quality control process for the ceramic tile products starts at an early stage of the research and development process where we consider production conditions, processes, facilities and choice of raw materials to ensure stability of product quality. We seek to carefully inspect raw materials (including various physical and chemical parameters when necessary) at the purchasing stage. During each step of the production process, on-site inspections were carried out by both operating staff and quality control staff. At key production steps, production conditions, parameters and any abnormality are regularly monitored and recorded. Finally, all of the finished products are subject to inspection and grading.

In addition to being recognized in China for their high quality, our products are also sold in 66 countries, and our largest export destinations include countries with relatively high quality standards such as Canada, Australia and the United States. Among our current products, 111 have received the CE mark, signifying that they meet the requirements of the European Economic Area.

Bathroom Products

As of June 30, 2013, we had approximately 58 employees performing quality control functions for bathroom products, all of which had relevant experience with respect to bathroom products.

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Quality control process for our bathroom products is generally similar to that for our ceramic tile products, covering stages from research and development to final inspection. Specifically for bathroom products, our quality control staff conduct on-site visual inspection and performance tests (such as ageing and reliability tests) on substantially all semi-finished components. In addition, we have also established proper procedures (including sample tests) to ensure no deterioration of product quality during storage and transportation process.

During the Track Record Period, we did not receive any notification in respect of any sample reviews undertaken by the General Administration of Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局) or any notice of penalty for failure to pass any sample reviews.

RESEARCH AND DEVELOPMENT

We devote significant resources to technological innovation, new product design and development. As of June 30, 2013, our research and development team consisted of 204 professional staff, the majority of whom are educated in industrial design, material science and mechanical engineering. To augment our product research and development capabilities, we have established a postdoctoral training laboratory in 2006, which we believe is the first postdoctoral training laboratory in the ceramic tile industry in China. In 2010, 2011, 2012 and the first half of 2013, our total expenditures for research and development amounted to approximately RMB2.4 million, RMB5.8 million, RMB10.5 million and RMB5.7 million, respectively.

Ceramic Tile Products

Our research and development efforts on ceramic tile products are demand driven, and our sales representatives from all markets maintain in close contact with our research and development team. This enables our research and development team to respond quickly to changes in consumer demand and product trends identified by our sales representatives and develop products that best cater to market demands and needs. Our research and development team also keeps up with global trend and improves technologies and product qualities on its own initiatives.

During the Track Record Period, our research and development efforts on ceramic tile products has been focused on (i) new product design, (ii) new powder formula and production process development, (iii) new production machinery and equipment development and (iv) interdisciplinary applications and products research.

After a design 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 sales and marketing team. If the new idea is approved internally, we enter into the project planning stage, including cost, production difficulties and lead time estimates for the new products. If the planning and various estimates indicate that production of the product is feasible, we will enter the trial production stage, testing and composing powder formula and designing production machinery and equipment if necessary. The trial production is aimed at identifying production difficulties and is intended to enhance production efficiency and ensure high product quality before commercial production begins.

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Our research and development efforts vary based on product category. Development of unglazed tile products typically involve developing new production process, new powder formula and new production devices, especially those for powder pigment gumming and feeding. We often collaborate with machinery and equipment suppliers of porcelain tile production machinery and equipment, principally Foshan Getao Machinery Manufacture Co., Ltd. (佛山市格陶機械製造有限公司), for developing these new machinery and equipment. Under our equipment supply agreements, such suppliers are not allowed to supply other porcelain and ceramic tile producers with the same machinery and equipment or technology during an exclusivity period ranging from one to two years. In addition, within two years starting from the effective date of the supply agreement, such suppliers are prohibited to supply other porcelain and ceramic tile producers with machinery and equipment which could produce similar products. Development of ceramic chip products typically involves new graphics designs reflecting latest market trend and the improvement of glazing and/or crystallization technologies.

We have collaborated with internationally recognized design firms and designers in the past to develop a number of our popular products, such as our collaboration with Bedesign di Bacci Enio, a well recognized Italian design firm, for our Amazon (“亞馬遜”) series in 2013. We believe these collaborative efforts strengthen our leading position in the PRC ceramic tile market and increase our brand profile and we plan to increase our collaboration with international designers in the future.

Our research and development efforts currently focus on developing environmental friendly products and production process such as ceramic tiles that can disintegrate formaldehyde pollution. We will continue to optimize our product mix to improve our margin performance. To this end, we plan to further enhance our research and development efforts, including setting up a new research and development center to focus on the development of popular higher-margin products.

During the Track Record Period, our dedication to research and development has enabled us to launch more than 400 new products. For instance, we developed the technology to create an organic texture on porcelain surface that closely resemble the stone surface of natural travertine. This technology was patented in 2006 and contributed to the success of our Travertine products. One of our Travertine products won Silver Award in the first China Italy Ceramic Design Award, sponsored by Italian Trade Commission, Association of Italian Manufactures of Machinery and Equipment for Ceramics and Ceramic Town Weekly.

Bathroom Products

Our research and development efforts on bathroom products are focused on developing (i) energy-saving, water-conserving and environment-friendly products; and (ii) products with anti-bacteria, anti-corrosive and self-cleaning functions.

RAW MATERIALS AND SUPPLIERS

The principal raw materials used in the production of our ceramic tile products and bathroom products are very similar, which include clay, fuel and chemicals. In addition, principal raw materials for the production of our bathroom products also include metal parts.

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We source our raw materials mainly from domestic suppliers which are in close proximity to our production facilities to reduce procurement costs. We select raw material suppliers based on their financial profile and ability to provide good quality supplies at a reasonable price. We usually make a preliminary selection of the candidates by requiring them to provide us with relevant production licenses, following which we conduct a site visit to evaluate their production facilities and quality control systems.

We have developed stable relationships with our key suppliers over the years. We retain at least two suppliers for each principal raw material for each production facility. We have not encountered any material disruption of our business as a result of a shortage of raw materials and we do not expect any material difficulties in procuring raw materials for our requirements.

Our largest suppliers are generally suppliers of clay, chemicals and fuel. During the Track Record Period, our top five suppliers also included certain related parties from which we purchased certain finished products. See “Financial Information — Impact of Reorganization and Related Party Transactions”. In 2010, 2011, 2012 and the first half of 2013, our five largest suppliers accounted for approximately 22.4%, 19.3%, 13.8% and 18.0%, respectively, of the aggregate amount of purchases from all suppliers and our largest supplier accounted for approximately 5.8%, 5.5%, 3.9% and 4.2%, respectively, of the aggregate amount of purchases from all suppliers.

We typically enter into supply arrangements with several suppliers of clay, fuel and other key raw materials for each of our production facility to ensure sufficient supply for our current operation and proposed expansion. The term of our supply contracts typically renews every year. While the prices of raw materials are usually negotiated beforehand, our raw material suppliers may discuss price adjustment with us based on certain market fluctuations. We have been granted credit periods of between 30 to 180 days by our major raw suppliers.

In order to minimize our exposure from fluctuation in raw material prices, we have adopted the following measures: (i) timely adjusting the selling price of our products based on raw material price changes, and (ii) based on our estimation of the market price trend, selectively entering into long-term supplier contracts of certain materials to secure favorable prices.

Save as otherwise disclosed in this prospectus, none of our Directors, our chief executive officer or any person who, to the knowledge of our Directors owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five customers, during the Track Record Period.

Seasonality

Seasonal fluctuations have affected, and are likely to continue to affect, our business. Substantially all of our revenue are derived from sales in China. Traditionally, business activities, including construction and home renovation, are reduced during January and February around New Year and Chinese New Year holidays. As a result, we usually generate more revenue in the second half of the year than in the first half.

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COMPETITION

The market for ceramic tile products in the PRC is highly fragmented as the top ten manufacturers accounted for less than 10% of the market share in terms of 2012 retail sales value, while the PRC ceramic bathroom product market is more concentrated, with the top ten brands accounted for 20.4% of the total market share and 41.4% for the mid to high market in terms of 2012 retail sales value. We compete in both markets with a number of domestic and international companies in China for brand recognition, market share, product variety, product quality, marketing and promotion, product price, distribution and retail channels.

Ceramic Tile Products

We are the largest developer and producer of ceramic tile products in the PRC in terms of 2012 retail sales value, accounting for 9.8% of its high-end segment, according to the F&S Report. Our major competitors are Nabel (“諾貝爾”) and Marco Polo (“馬可波羅”), who ranked as the second and the third largest ceramic tile producer in the PRC, respectively, and accounted for 8.7% and 8.2%, respectively, of the high-end segment in terms of 2012 retail sales value.

In addition, we have the largest logistics network in China’s ceramic tile industry, according to the F&S Report, which currently consists of five central warehouses located at close proximity to our production facilities and a network of 20 regional warehouses at strategic locations across China. We have also distinguished from our competitors in having implemented a comprehensive SAP enterprise resource planning system in stages since 2007 to support our business operation. We believe these strengths, together with our largest market share in the PRC ceramic tile market will enable us to continue to compete effectively in the marketplace.

Ceramic Bathroom Products

In terms of 2012 retail sales value, we ranked as tenth in the PRC ceramic bathroom product market, with a 0.86% market share, and as tenth in the market’s mid-range to high-end segment, with a 1.8% market share according to the F&S Report. Our major competitors include domestic brands such as Arrow (“箭牌”), Faenza (“法恩莎”), Annwa (“安華”) and Hegii (“恒潔”) and international brands such as Kohler and Toto. We believe that with a well-recognized brand and an efficient distribution system, we will be able to take advantage of the growing demand in the PRC ceramic bathroom product market and its mid-range to high-end segment.

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EMPLOYEES

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had a total of 3,882, 6,214, 6,577 and 7,434 full-time employees, respectively. The following table sets forth our full-time employees by function as of June 30, 2013.

	As of June 30, 2013	
	Number of employees	% of total
Production.....	4,329	58.2
Management/administration	1,191	16.0
Procurement/logistics	616	8.3
Sales/marketing/planning	773	10.4
Design/research/development	260	3.5
Finance	161	2.2
Others (including human resources, audit and information technology).....	104	1.4
Total	<u>7,434</u>	<u>100.0</u>

Remuneration of our employees includes basic wages, production unit allowances, bonuses and other staff benefits. For 2010, 2011, 2012 and the first half of 2013, we incurred staff costs of approximately RMB95.7 million, RMB196.1 million, RMB283.8 million and RMB134.5 million, respectively.

We have designed an evaluation system to assess the performance of our employees. This system forms the basis of our determination on employees' salaries, bonuses and promotions. We believe the salaries and bonuses that our employees receive are competitive with market rates. Under applicable PRC laws and regulations, we are subject to social insurance contribution plans, work-related injury insurance and maternity insurance schemes. We believe that we have complied with relevant national and local labor and social welfare laws and regulations in China in all material respects.

We place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards and work place safety standards. We also provide regular on-site and off-site training to help our employees improve their sales and marketing skills.

INSURANCE

We maintain different types of insurance policies, transport accident insurance, vehicle insurance, property casualty insurance and real estate insurance. We do not maintain product liability insurance as it is not required under PRC laws and we have not been subject to any material product liability claims or incurred any material costs in relation to product warranties during the Track Record Period. Our Directors are of the view that our insurance coverage is in line with the industry practice. During the Track Record Period and up to the Latest Practicable Date, we have not received any material insurance claims against us.

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INTELLECTUAL PROPERTY

Trademarks

We currently market and sell substantially all of our products under the “Dongpeng” brand. We recognize the importance of registering our brand names as trademarks for protection against infringement. As of the Latest Practicable Date, we had 130 registered trademarks and 39 applications for trademark registration in the PRC.

Patents and Domain Names

Our patents are principally related to the formula, technology, process, improvement, and design of our products. As of the Latest Practicable Date, we had obtained 15 PRC patents for invention, 44 PRC patents for exterior design and 36 PRC patents for utility models and four PCT (international) patents. We are also in the process of applying for registration of 46 patents in the PRC. Furthermore, as of the Latest Practicable Date, we were the registered owner of 11 domain names.

For details of our intellectual property portfolio, see “Appendix IV — Statutory and General Information — Further Information about Our Business — Intellectual Property Rights of the Group”.

Legal Proceedings Relating to Intellectual Properties

During the Track Record Period, other than disclosed below, no material claims or disputes were brought against us in relation to any infringement of trademarks, patents or other kinds of intellectual property rights.

In 2009, Foshan Jiajun Ceramic Co., Ltd. (佛山市嘉俊陶瓷有限公司) and Foshan Shiwan Eagle Ceramics Co., Ltd. (佛山石灣鷹牌陶瓷有限公司) challenged the validity of one of our utility model patents on creating an organic texture on porcelain surface that closely resembles that of natural travertine (“一種立體孔洞裝飾陶瓷磚”, Patent Number 200620154970.8) through administrative proceeding in front of the PRC State Intellectual Property Office (中華人民共和國國家知識產權局). This proceeding was concluded in the PRC Supreme Court, which upheld the validity of our patent in December 2011, and our dispute was settled in March 2012.

In 2011, we discovered that our Dongpeng trademark was infringed upon by Kaiping Dongpeng Bathroom Industry Co., Ltd. (開平市東鵬衛浴實業有限公司) and Guangzhou Nuoguan Metals Co., Ltd. (廣州市諾冠五金有限公司) and sued these parties for injunctive relief and damages. This litigation was concluded in the Intermediate People’s Court of Foshan, Guangdong province (廣東省佛山市中級人民法院), which ruled in our favor.

During the Track Record Period, the aforementioned disputes and proceedings did not have any material adverse effect on our business operation or financial condition as a whole. Based on the result of the aforementioned proceedings, our PRC legal advisor, Jun He Law Offices, advised us that (i) we are the sole legal owner of the disputed patent and trademark, (ii) such patent and trademark are valid

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and enforceable, (iii) we may use, license, pledge, transfer or otherwise dispose such patent and trademark without being subject to any third party right and (iv) based on our Directors' view, the results of such legal proceedings are in favor of our Company and will not adversely impact our business operation or financial condition going forward.

OUR PROPERTIES

Owned Land and Buildings

As of June 30, 2013, we owned 11 parcels of land with an aggregate site area of approximately 868.3 thousand square meters used for production facilities and offices to support our business activities and operations in the PRC. We have obtained the land use rights certificates for all parcels of land except as disclosed below.

As of June 30, 2013, we have obtained building ownership certificates for 25 buildings with a total gross floor area of approximately 273.6 thousand square meter, representing approximately 26.1% of the total gross floor area of all buildings located in the PRC owned or used by us.

As part of our reorganization, in December 2010, we acquired all of the assets of Qingyuan Dongpeng except certain factory buildings totaling 102,441 square meters and related land totaling 274,592 square meters. We completed our acquisition of these properties by the end of October 2013. See "History and Corporate Development — Reorganization".

Facilities at Qingyuan — Title Defects

We do not have the land use right for certain parcel of land in Qingyuan, Guangdong province totaling 353,980 square meters where certain of our production facilities are located. Our production facilities on this parcel of land have an aggregate floor area of approximately 226,000 square meters and are used for the production of unglazed tiles. We do not have proper title and other approvals and permits including building ownership certificates and completion and acceptance certificates for the production facilities because we do not have the land use rights for the underlying land. As a result, our use of this parcel of land and our production facilities located thereon are not in compliance with PRC law. If we were required to pay a fine, under the PRC Law, the fine would be up to RMB30 per square meter for this parcel of land.

This parcel of land is part of the local property reform project. Local property reform projects in Guangdong province are government-led redevelopment of obsolete towns, factories and villages in order to improve land use efficiency. Our current use of this parcel of land is consistent with the purpose of the local property reform project and therefore was made part of the project by the government of Qingyuan city in June 2011. As such, the reform plan with respect to this parcel of land has no adverse effect on our current use of this parcel of land. Instead, such reform plan, once approved by the competent government authorities, would validate our use of this parcel of land. To obtain the land use rights of this parcel of land we are required to (i) obtain the approval from the Land Department of Guangdong province (廣東省國土資源廳) for the reform plan with respect to this parcel of land and (ii) pay the land grant premium and penalties, if any. We are in the process of obtaining the approval from

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the Land Department of Guangdong province. In July 2011, we made a payment of RMB36.4 million to the People's Government of Yuantan town, Qingcheng district, Qingyuan, Guangdong province. This payment covers (a) land grant premium for this parcel of land and (b) a penalty of RMB707,960 for our historical use of this parcel of land without land use right.

We had at the time planned to construct a new production facility on this parcel of land in response to our business expansion. After we made our payment for land grant premium, we had oral communication with the Land Bureau of Qingyuan city on our expansion timeline and were given the understanding that there would not be material legal impediment for us to obtain the land use right for this parcel of land. As such, we commenced constructing our production facility on this parcel of land in early 2011 and operating at such production facilities located in 2012 before obtaining the land use right. The actual application and review process for the land use right, however, has taken longer than we expected.

In August 2012, the Land Department of Guangdong province issued us an official receipt for application, confirming that the Land Department of Guangdong province is in the process of reviewing the reform plan with respect to this parcel of land and our application for the land use right. In July 2013, the Land Bureau of Qingyuan city issued a confirmation letter to us confirming that (i) this parcel of land is state-owned land, (ii) the ownership of this parcel of land is clear and undisputed, (iii) our use of this parcel of land is consistent with local property reform plan, (iv) we have made full payment for the land grant premium and all other fees and taxes necessary for granting the land use right, (v) our application for land use right certificate is being reviewed and (vi) the Land Bureau of Qingyuan city is aware of the historical reasons that led to the title defect for this parcel of land and therefore will not impose any further penalty on our use of this parcel of land. Our PRC legal advisor, Jun He Law Offices, advised us that because the Land Bureau of Qingyuan city (i) is the land authority directly in charge of the area where this parcel of land is located, (ii) has actual knowledge of the historical reasons that led to the title defect and (iii) is the authority directly responsible for initial approval of the reform plan and implementation of the reform plan after final approval by the provincial government, and its view on this matter carries important weight and will substantially influence the outcome of our application for land use rights for this parcel of land. In August 2013, our PRC legal advisor, Jun He Law Offices, conducted an interview with the Land Department of Guangdong province, who orally confirmed that (i) the reform plan with respect to this parcel of land and our application for the land use right is being reviewed by the Land Department of Guangdong province and (ii) since we have already paid penalties for our historical use without land use right, our use of this parcel of land will not be subject to any further penalty. In September 2013, the Department of Housing and Urban-Rural Development of Guangdong province approved in principle the reform plan of this parcel of land. Based on the foregoing, our PRC legal advisor, Jun He Law Offices, has advised us that (i) the Land Department of Guangdong province is the competent authority on issues being confirmed by it, (ii) there is no legal impediment for us to obtain the land use right for this parcel of land, (iii) the risk of us being subject to further penalties for our use of this parcel of land is remote, and (iv) the risk of the government reclaiming this parcel of land and requiring us to terminate our operation on this parcel of land is remote. We expect to obtain the land use right for this parcel of land by the end of 2013.

The aggregate production capacity of the production facilities located on this parcel of land accounted for 9.1% and 19.1% of our total production capacity for ceramic tile products in 2012 and the first half of 2013, respectively. Revenue from such facilities accounted for 2.7% and 9.3% of our total

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revenue in 2012 and the first half of 2013, respectively. Our Directors are of the view that replacement properties for these facilities are readily available. Our Directors estimate that the total cost of relocating these facilities would be approximately RMB70 million and the ramp-up period for the relocated facilities to reach the current level of production would be approximately six months. As such, our Directors are of the view that in the unlikely event that we are required by the government to terminate our operation on this parcel of land, the facilities can be relocated to a new site and resume production without material interruption to our business or material adverse effect on our financial condition.

Our PRC legal advisor, Jun He Law Offices, has advised us that the existence of title defects will prevent us from selling this parcel of land and/or the production facilities located thereon or pledge such properties with banks as securities for mortgages. Our directors confirmed we currently have no intention of selling or pledging such properties.

Fengcheng — Late Payment of Land Grant Premium

According to a land use right transfer agreement for a parcel of land located at Fengcheng, Jiangxi province, we are required to pay the land grant premium of RMB44.8 million before March 20, 2012. However, we did not make such payment until July 2013 and may be subject to a penalty of 0.1% of the land grant premium per day for our late payment. We had an oral understanding with Land Bureau of Fengcheng city that our payment for the land grant premium was conditioned on the local government leveling the surface of and connecting the utility lines and local pave road to such parcel of land. Since these conditions were not satisfied until October 2013, our payment of the land grant premium was also delayed. Land Bureau of Fengcheng city has issued us a confirmation letter in July 2013 confirming that (i) it has consented to the late payment of the land grant premium with respect to this parcel of land, and (ii) it will not rescind the relevant land grant agreement or subject us to any penalty on the basis of such late payment. We obtained the land use right certificates for this parcel of land in August 2013. Based on the foregoing, our PRC legal advisor, Jun He Law Offices, has advised us that (i) the Land Bureau of Fengcheng city is a competent authority to give confirmation on this matter, (ii) the risk of us being subject to any penalty due to our late payment of the land use premium is remote and (iii) this parcel of land and the production facilities thereon may be bought, sold or being accepted by banks as security for mortgages.

Properties under Construction

As of Latest Practicable Date, we held two properties under construction with a total planned gross floor area of approximately 159,774 square meters. The development of these properties is scheduled to be completed in 2015.

Leased Properties

As of June 30, 2013, we had entered into 77 lease agreements, under which we leased land, buildings or units with a total gross floor area of approximately 546,713 square meters from certain related parties and independent third parties for production facilities, offices, warehouses and other purposes, representing approximately 52.3% of the total gross floor area of all buildings located in the PRC owned or used by us. As of June 30, 2013, all of our self-owned retail outlets were located on leased premises.

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Leased Facility from Shandong Jialiya — Title Defects

In January 2011, Shandong Jialiya transferred its ceramic chips business to us as part of our reorganization. Shandong Jialiya is a related company controlled by certain members of our Controlling Shareholders. As part of the transfer, we have been leasing the production facility of an aggregated floor area of 79,173 square meters from Shandong Jialiya for our production of ceramic chips products. See “History and Corporate Development — Reorganization — Injection of onshore business”. Shandong Jialiya, in turn, has been leasing this parcel of land from Shuangyang Economic Development Office, which acted on behalf of Jinma Village Committee. Historically, none of Shandong Jialiya, Shuangyang Economic Development Office and Jinma Village Committee has proper title to this parcel of land and production facility, and as a result this production facility does not have other approvals and permits including the building ownership certificate and completion and acceptance certificate for the production facility. Jinma Village Committee recently obtained the land use right (industrial use) for this parcel of land in October 2013. We are cooperating with Jinma Village Committee to rectify the title defects of the production facility.

This parcel of leased land is a part of Zibo Construction and Ceramic Industry Park, which is developed by the local government for the specific purpose of attracting ceramic manufacturers like our Company. In July 2013, Shuangyang Central Office of the Land Bureau of Zibo, Zichuan Branch (淄博市國土資源局淄川分局雙楊中心所), being the competent authority, issued us a confirmation letter, confirming that we may continue to use this parcel of land during the remaining lease period. In June 2013, the Shuangyang Economic Development Office also issued us a confirmation letter, confirming that (i) Shandong Jialiya may sublease this parcel of land together with the production facility thereon to our Company and (ii) we may continue to use this parcel of land during the remaining lease period. In addition, we have also obtained confirmations from relevant government authorities, including Zibo Municipal Bureau of Planning, Zichuan Branch (淄博市規劃局淄川分局) and Zibo Bureau of Residential and Construction Development, Zichuan Branch (淄博市淄川區住房和城鄉建設局), each confirming that (i) we may continue to use the production facility located on this parcel of land and (ii) it will not impose any penalty on us for our use of such properties.

Our PRC legal advisor, Jun He Law Offices, further advised us that (i) the risk of us being subject to penalties for our use of this parcel of land is remote and (ii) the risk of the government reclaiming this parcel of land and requiring us to terminate our operation on this parcel of land is remote.

In addition, Shandong Jialiya has agreed to indemnify us for all economic losses we may suffer as a result of the title defects of this parcel of land and the production facility located thereon. Our Directors are of the view that replacements for this leased facility are readily available. Our Directors estimate that the total cost of relocating the production of Shandong Jialiya to a different leased facility would be approximately RMB1.5 million and the ramp-up period for such replacement facility to reach the current level of production would be approximately three months. As such, our Directors are of the view that in case we are forced to terminate our operation at this location, such production facility can be relocated to a new site and resume production without material interruption to our business or material adverse effect on our financial condition.

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The production capacity of the facility accounted for 16.2% and 17.2% of our total production capacity for ceramic tile products in 2012 and the first half of 2013, respectively. Revenue from such facility accounted for 10.8% and 10.0% of our total revenue for 2012 and the first half of 2013, respectively.

Our Directors believe that if this property had no title defect, the rental payment would have been similar to our current rental payment.

Other Leased Properties — Warehouses and Other Ancillary Facilities

As of June 30, 2013, we lease from certain related parties and Independent Third Party lessors a number of properties with title defects totaling 271,696 square meters to use as warehouses and other ancillary facilities.

Our Directors are of the view that replacement properties for these warehouses and ancillary facilities are readily available and the total cost of relocation is not material. As such, our Directors are of the view that in case we are forced to terminate our usage of these properties, these warehouses and ancillary facilities can be relocated to a new site without material interruption to our business or material adverse effect on our financial condition.

Our Directors believe that had these properties had no title defects, the rental payment would have been similar to our current rental payment. Our Directors confirm that none of our owned and leased properties with title defect has any safety issue. Our Directors believe that these properties are not individually or collectively crucial to our operation, and that no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets as of June 30, 2013.

ENVIRONMENTAL AND SAFETY MATTERS

We are subject to environmental protection laws and regulations promulgated by the PRC Government. Our production facilities discharge pollutants such as waste water and solid wastes during our production process. We have implemented stringent waste treatment procedures in our production facilities. Waste produced by us is treated in compliance with applicable environmental standards in our production facilities. In particular, we have procedures in place and designated special staff to treat and dispose of any hazardous waste such as sulphur in compliance with applicable national waste treatment standards. In 2007, we obtained ISO14001:2004 environmental control certification showing that our environmental management system complies with international standards.

We have in place a system of recording and handling accidents, by relevant production team and administrative personnel, in accordance with relevant policies. During the Track Record Period, we did not record any material accidents. During the Track Record Period and up to the Latest Practicable Date, no material claim had been brought against us as a result of any accident.

Our expenses in respect of environmental and work-safety compliance matters amounted to approximately RMB6.2 million, RMB8.1 million, RMB6.7 million and RMB2.9 million in 2010, 2011, 2012 and the first half of 2013, respectively. We currently do not have any specific expenditure plan with respect to environmental and safety matters. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

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During the Track Record Period and up to the Latest Practicable Date, except as disclosed in “— Legal Proceedings and Compliance — Non-compliance”, we had complied with applicable PRC laws and regulations on environmental protection and health and work safety in all material respects and obtained all the required environmental permits and approvals for our production facilities. During the Track Record Period and up to the Latest Practicable Date, no environmental complaints or administrative penalties had been made against or imposed on us.

LEGAL PROCEEDINGS AND COMPLIANCE

We are involved, from time to time, in legal proceedings arising from the ordinary course of our operations. Except as disclosed in “— Our Properties — Owned Land and Buildings”, and “— Non-compliance” herein, during the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation or arbitration is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial conditions.

As confirmed by our PRC legal advisor, Jun He Law Offices, save as disclosed in “— Our Properties — Owned Land and Buildings”, and “— Non-compliance” herein, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the necessary licenses, approvals and permits from appropriate regulatory authorities for our business operations as disclosed in this prospectus in the PRC and have complied with the all the applicable PRC laws and regulations in relation to our business and operations in all material respects. See “Regulation” for the details of the relevant laws and regulations. We have not been materially penalized by national or local authorities for violations of PRC laws and regulations.

Non-Compliance

During the Track Record Period, we are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC. We have, from time to time, been involved in regulatory non-compliance incidents and received notices or warnings from the relevant regulatory authorities. We set out below the details of our non-compliance incidents and the primary remedial measures we adopted in response to these incidents:

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
During the Track Record Period, several of our wholly owned PRC subsidiaries did not make full contribution to the social insurance and housing funds. We estimate that the total contribution shortfalls amounted to approximately RMB9.0 million in total for the Track Record Period.	Our PRC legal advisor, Jun He Law Offices, advised that our non-compliance during the Track Record Period may subject us to legal actions being brought by our employees who may demand full payment of the shortfalls and/or penalties being imposed by the relevant authorities.	As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant authorities with respect to our non-compliance in connection with the social insurance and housing funds contribution requirements, and thus we have not settled our contribution shortfalls as of June 30, 2013.	We have fully comply with social insurance and housing funds contribution requirements since October 2013. We could not settle the historical social insurance and housing funds contribution shortfalls as the government in general does not allow retroactive payments of these contributions.

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>The contribution to the social insurance and housing fund requires participation of both employee and employer. Our contribution shortfalls were principally due to certain employees' reluctance in participating in social insurance and/or housing fund programs.</p>	<p>All of our 13 PRC subsidiaries that had historical social insurance contribution shortfalls have obtained confirmation letters from the relevant human resources and social securities bureau that they are of the view that these subsidiaries are not in violation of relevant regulations and there were no social insurance contribution shortfalls during the relevant periods. The aggregate amount of historical social insurance contribution shortfalls of these 13 subsidiaries totaled RMB4.0 million for the Track Record Period. Our PRC legal advisor, Jun He Law Offices, has advised us that (i) each of the aforementioned human resources and social securities bureau is a competent authority to provide confirmation on the relevant matter and, (ii) based on the confirmation letters, the risk of us being penalized or requested to pay the historical social insurance contribution shortfalls of these 13 subsidiaries is remote.</p>	<p>In addition, to prevent reoccurrence of similar incidents in the future, we have strengthened legal compliance training to our management team and adopted management policies regarding compliance of regulatory matters in October 2013. We have also hired one additional legal and compliance personnel in June 2013. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control”.</p>	

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
		<p>Four out of our 16 PRC subsidiaries that had historical housing fund contribution shortfalls have obtained confirmation letters from the relevant housing fund bureau that they are of the view that these subsidiaries are not in violation of relevant regulations and there were no housing fund contribution shortfalls during the relevant periods. The aggregate amount of historical housing fund contribution shortfalls of these four subsidiaries totaled RMB2.2 million for the Track Record Period. Our PRC legal advisor, Jun He Law Offices, has advised us that (i) each of the aforementioned housing fund bureau is a competent authority to provide confirmation on the relevant matter and, (ii) based on the confirmation letters, the risk of us being penalized or requested to pay historical housing fund contribution shortfalls is remote.</p>	

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
		<p>11 of the 16 PRC subsidiaries that had historical housing fund contribution shortfalls have obtained confirmation letters from the relevant housing fund bureau confirming that they have not been subject to any penalties in connection with housing fund contribution in the past. The aggregate amount of historical housing fund contribution shortfalls of these 11 subsidiaries totaled RMB2.4 million for the Track Record Period. Our PRC legal advisor, Jun He Law Offices, has advised us that each of the aforementioned housing fund bureau is a competent authority to provide confirmation on the relevant matter.</p> <p>The aggregate amount of historical housing fund contribution shortfalls of the one remaining PRC subsidiary totaled RMB0.3 million for the Track Record Period.</p> <p>Our Controlling Shareholders have agreed to jointly and severally indemnify our Company against any losses we may suffer as a result of the above mentioned historical social insurance and housing funds contribution shortfalls. Based on the foregoing, our Directors are of the view that the risk of us paying such contribution shortfall is remote and there is no need to make provision for such shortfall.</p>	

Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>Guangzhou Dongpeng, one of our PRC subsidiaries, initially paid value-added tax of RMB427,320 and RMB2,304,822 for 2008 and 2009, respectively. The tax authority later notified Guangzhou Dongpeng in March 2010 that the tax authority discovered a shortfall of RMB25,487 and RMB208,637 for its value-added tax reported in 2008 and 2009, respectively. These shortfalls were primarily a result of (i) different interpretations of tax regulations with respect to (a) amounts paid on behalf of customers, (b) incomes from transportation services and marketing materials, and (c) incomes from sales of ceramic tile product samples and free samples of ceramic tile products and (ii) certain unaccounted-for invoices.</p>	<p>Guangzhou Dongpeng paid a late payment penalty of RMB19,835 and a fine of RMB117,062 to the local SAT office of Tianhe district, Guangzhou city, Guangdong province in March 2010.</p> <p>We have been advised by our PRC legal advisor, Jun He Law Offices, that there will be no further administrative penalties from government authorities.</p>	<p>The local SAT office of Tianhe district, Guangzhou city, Guangdong province issued a confirmation letter on July 3, 2013, confirming that, other than this non-compliance incident, it was not aware of other non-compliance of Guangzhou Dongpeng with respect to national tax. Our PRC legal advisor, Jun He Law Offices, has advised us that the aforementioned local SAT office is a competent authority to provide confirmation on the relevant matter.</p>	<p>To prevent reoccurrence of similar incidents, we have engaged a tax specialist in 2012 to provide training to our management team and financial personnel with respect to the preparation of tax return and tax related laws and regulations and to formalize the relevant internal policies the Group had put into place since March 2010. As a result, we have not had any tax-related non-compliance incident since early 2012. In addition, we designated one senior officer experienced in tax matters to oversee tax-related compliances at the group level in May 2013. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control and legal compliance”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>Shenzhen Dongpeng, one of our wholly owned subsidiaries, failed to file its tax return of 2011 on time.</p> <p>The delay was primarily due to oversight of our employees.</p>	<p>Shenzhen Dongpeng paid a fine of RMB100 to the local SAT office of Futian district, Shenzhen city, Guangdong province.</p> <p>We have been advised by our PRC legal advisor, Jun He Law Offices, that there will be no further administrative penalties from government authorities.</p>	<p>The local SAT office of Futian district, Shenzhen city, Guangdong province issued a confirmation letter on May 17, 2013, confirming that, other than this non-compliance incident, it was not aware of other non-compliance of Shenzhen Dongpeng with respect to national tax. Our PRC legal advisor, Jun He Law Offices, has advised us that the aforementioned local SAT office is a competent authority to provide confirmation on the relevant matter.</p>	<p>To prevent reoccurrence of similar incidents, we engaged a tax specialist in 2012 to provide training to our management team and financial personnel with respect to the preparation of tax return and tax related laws and regulations and to formalize the relevant internal policies the Group had put into place since 2011. As a result, we have not had any tax-related non-compliance incident since early 2012. In addition, we designated one senior officer experienced in tax matters to oversee tax-related compliances at the group level in May 2013. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>In September 2011, certain advertisement of Guangxi Yuepeng, one of our wholly owned subsidiaries, was found to use puffery, which is prohibited by the Advertisement Law.</p> <p>The non-compliance was primarily due to oversight of our employees.</p>	<p>Guangxi Yuepeng paid an aggregate of RMB26,800 as penalties to the local SAIC office of Nanning city, Guangxi province in September 2011 and December 2011 for its non-compliance with the PRC Advertisement Law.</p> <p>We have been advised by our PRC legal advisor, Jun He Law Offices, that there will be no further administrative penalties from government authorities.</p>	<p>The local SAIC office of Nanning city, Guangxi province issued a confirmation letter on July 5, 2013, confirming that, other than this non-compliance incident, it was not aware of other non-compliance of Guangxi Yuepeng with respect to industry and commerce related laws and regulations. Our PRC legal advisor, Jun He Law Offices, has advised us that the aforementioned local SAIC office is a competent authority to provide confirmation on the relevant matter.</p>	<p>To prevent reoccurrence of similar incidents, we have been providing legal and compliance training with respect to preparing marketing materials to our management team and marketing personnel since late 2012 and have been formalizing the relevant internal policies the Group had put into place since September 2011. As a result, we have not had any advertisement and/or marketing related non-compliance since early 2013. In addition, we adopted supplemental policies regarding advertising and marketing management in October 2013. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control and legal compliance”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>In June 2012, Dongpeng Sanitary Ware, one of our wholly owned subsidiaries, launched a marketing campaign with a lottery prize of over RMB5,000, which is prohibited by the PRC Anti-Unfair Competition Law (中華人民共和國反不正當競爭法).</p> <p>The non-compliance was primarily due to oversight of our employees.</p> <p>In November 2012, certain advertisement of Dongpeng Sanitary Ware was found to use puffery, which is prohibited by the Advertisement Law.</p> <p>The non-compliance was primarily due to oversight of our employees.</p>	<p>Dongpeng Sanitary Ware, paid a penalty of RMB10,000 to the local SAIC office of Chancheng district, Foshan city, Guangdong province in June 2012 for its non-compliance with the PRC Anti-Unfair Competition Law.</p> <p>Further, in December 2012, Dongpeng Sanitary Ware paid a penalty of RMB70,000 to the local SAIC office of Chancheng district, Foshan city, Guangdong province for its non-compliance with the PRC Advertisement Law.</p> <p>We have been advised by our PRC legal advisor, Jun He Law Offices, that there will be no further administrative penalties from government authorities.</p>	<p>The local SAIC office of Chancheng district, Foshan city, Guangdong province issued a confirmation letter on June 19, 2013, confirming that, other than these non-compliance incidents, it was not aware of other penalties imposed on Dongpeng Sanitary Ware arising from non-compliance of industry and commerce laws and regulations. Our PRC legal advisor, Jun He Law Offices, has advised us that the aforementioned local SAIC office is a competent authority to provide confirmation on the relevant matter.</p>	<p>To prevent reoccurrence of similar incidents, we have been providing legal and compliance training with respect to preparing marketing materials to our management team and marketing personnel and have been formalizing the relevant internal policies since late 2012. As a result, we have not had any advertisement and/or marketing related non-compliance since early 2013. In addition, we adopted supplemental policies regarding advertising and marketing management in October 2013. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control and legal compliance”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>Zibo Kapuer, one of our wholly owned PRC subsidiaries, did not have compulsory authentication permit for its historical sales of certain ceramic tile products during the Track Record Period since its in caption in August 2010 as required by applicable laws.</p> <p>This non-compliance was primarily due to oversight of our employees when taking over the business of Shandong Dongpeng. Shandong Dongpeng had a compulsory authentication permit under its name but such permit could no longer be used by Zibo Kapuer after the business takeover.</p>	<p>Zibo Kapuer may be subject to a penalty ranging from RMB50,000 to RMB200,000 and may be subject to confiscation of illegal gain of up to RMB4.4 million for such historical non-compliance.</p>	<p>In May 2013, we have obtained a confirmation letter from Zibo Administration for Quality and Technical Supervision, Zichuan Branch (淄博市質量技術監督局淄川分局) which confirms that Zibo Kapuer is deemed as having complied with the relevant regulations on quality control in 2011 and 2012. In August 2013, Zibo Kapuer has obtained the compulsory authentication permit. Our PRC legal advisor, Jun He Law Offices, has advised us that (i) Zibo Administration for Quality and Technical Supervision, Zichuan Branch is a competent authority to provide confirmation on the relevant matter, and (ii) based on the foregoing, the risk of relevant government authority imposing penalty on Zibo Kapuer for such non-compliance is remote. Based on the foregoing, the Directors are of the view that the risk of us being fined is remote and there is no need to make provision for any potential penalty.</p>	<p>Zibo Kapuer has obtained the compulsory authentication permit in August 2013. In addition, to prevent reoccurrence of similar incidents in the future, we have strengthened legal compliance training to our management team and adopted management policies regarding compliance of regulatory matters in October 2013. We have also hired one additional legal and compliance personnel in June 2013 to, among other things, formalize the Group's relevant internal policies. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control and legal compliance”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>During the Track Record Period, Lixian Xinpeng and Fengcheng Dongpeng, two of our wholly owned subsidiaries, operated without obtaining the pollution discharge permit required for their operations.</p> <p>These non-compliances were primarily due to oversight of our employees.</p>	<p>Each of Lixian Xinpeng and Fengcheng Dongpeng may be prohibited from discharging certain of its industrial waste until obtaining the relevant pollution discharge permit.</p>	<p>The local MEP office of Lixian, Hunan province and the local MEP office of Fengcheng, Jiangxi province issued the confirmation letter on July 25, 2013 and July 11, 2013, confirming that it will not impose penalty on Lixian Xinpeng and Fengcheng Dongpeng, respectively, for its lack of pollution discharge permit. Our PRC legal advisor, Jun He Law Offices, has advised us that (i) each of the aforementioned local MEP offices is a competent authority to provide confirmation on the relevant matter, and (ii) based on these confirmation letters, the risk of Lixian Xinpeng and Fengcheng Dongpeng being subject to penalties imposed by the relevant governmental authorities is remote.</p>	<p>Each of Lixian Xinpeng and Fengcheng Dongpeng has obtained its pollution discharge permit in August 2013. In addition, to prevent reoccurrence of similar incidents in the future, we have strengthened legal compliance training to our management team and adopted management policies regarding compliance of regulatory matters in October 2013. We have also hired one additional legal and compliance personnel in June 2013 to, among other things, formalize the Group's relevant internal policies. We have also strengthened our internal control and compliance in general prior to the Listing. For details, see “— Measures for enhancing our internal control and legal compliance”.</p>

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Non-compliance incidents	Legal consequences and potential maximum penalties and other financial losses	Latest status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>In December 2012, one of Foshan Hua Sheng Chang's then shareholders, Guangdong Dongpeng Ceramics, contributed additional capital to Foshan Hua Sheng Chang. Such contribution was made in US dollar using fixed exchange rate between US dollar and Renminbi, which was lower than the then current exchange rate published by People's Bank of China, resulting in an effective contribution shortfall of RMB3.3 million. In January 2013, HK Co acquired all of the equity interest in Foshan Hua Sheng Chang from its then existing shareholders with the knowledge of such contribution shortfall.</p>	<p>In the event that the capital contribution made by Guangdong Dongpeng Ceramics is deemed to be defective by the relevant authorities, HK Co may be found jointly liable for the contribution shortfall of RMB3.3 million to Foshan Hua Sheng Chang. However, since we own all of the equity interest in Foshan Hua Sheng Chang, our PRC legal advisor, Jun He Law Offices, advised us that the historical capital contribution shortfall has no impact on our equity interest in Foshan Hua Sheng Chang.</p>	N/A	<p>We have communicated with the relevant government authority in an attempt to rectify this deficiency by paying the respective shortfall. However since Foshan Hua Sheng Chang has used up the amount of capital increase verified by the commerce department and the business licence of Foshan Hua Sheng Chang shows its capital contribution was fully paid-up, we were advised by the government authority in June 2013 that they cannot process any additional contribution to this capital increase by either Guangdong Ceramics, the original subscriber, or HK Co, the current sole shareholder. at this stage. If the government authority changes their view on this matter, we will make the capital contribution to make up the shortfall.</p>

Having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section and our rectification measures to avoid recurrence of these non-compliance incidents, our Directors are of the view that these past non-compliance incidents do not affect their suitability to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules and the Sole Sponsor concurs with the Directors.

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Measures for Enhancing Our Internal Control and Legal Compliance

The Directors are of the view that the above-mentioned internal control measures taken to prevent the reoccurrence of similar non-compliance incidents are effective on the basis that the Company have not had similar non-compliance incidents since the implementation of such measures. In addition, with a view to further enhancing our internal control, we also set up a compliance committee in November 2013, which shall comprise one executive director, one non-executive Director and one independent non-executive Director. The compliance committee has adopted terms of reference setting out in details its duties and obligations for ensuring compliance of regulatory matters and corporate governance requirements. The primary duties of the compliance committee are set out as follows:

- (a) to hold meetings in each quarter to review, investigate and plan for our legal and compliance matters;
- (b) to formulate management mechanisms for legal and compliance guidance and training, to provide legal and compliance training, to update information in respect of our overall and departmental legal and compliance environments, to improve the Directors' and employees' knowledge and awareness of relevant laws and regulations;
- (c) to observe and monitor important legal and compliance documents, approvals, certificates and contracts, especially in relation to rights or obligations for operations and compliance with statutory and regulatory requirements, and to ensure the validity, accuracy and safety of the important legal and compliance documents, approvals, certificates and contracts; and
- (d) to identify, correct and eliminate in a timely manner any inadequacies in compliance with laws and regulations regarding our operations.

Our internal audit department currently comprises seven members and is responsible for matters relating to internal control. The internal audit department provides relevant training to our management and employees. Employees may consult the internal audit department and report any potential violation directly to them. The internal audit department may take actions to prevent the potential violation and, after the establishment of the compliance committee, may report directly to the compliance committee, if necessary. In addition, the internal audit department has access to external professionals retained by our Company from time to time, including compliance advisor, external Hong Kong and PRC legal counsels, auditors and other advisors as necessary. We have added to this department two compliance officers with professionals experienced in internal control and legal compliance matters in October and November 2013, respectively. These compliance officers will conduct ongoing assessments in response to new legal and regulatory requirements, update compliance and internal control procedures and protocols, and oversee their implementation. The compliance officers will also conduct a review on any new project proposed by our Board and with the assistance of an executive Director, prepare a report detailing all necessary licenses, approvals and permits required for conducting operations which will then be submitted to the compliance committee for consideration.

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We engaged a professional internal controls consultant to perform certain agreed-upon procedures in connection with the internal controls of the Company and certain subsidiaries from May to June 2013. We took measures to remediate the deficiencies based on the findings of the review. The internal controls consultant performed a follow-up review from September to October 2013. On the basis of the Sole Sponsor's review of the findings in the follow-up review by the professional internal controls consultant, the due diligence discussions carried out with our executive Directors and PRC legal advisors on the reasons for and remedial measures that we have taken to prevent the recurrence of similar non-compliance incidents, the Sole Sponsor is not aware of any evidence suggesting that our enhanced internal controls system does not comply with paragraph (b)(v) in Appendix 19 to the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Our ultimate Controlling Shareholders, namely, Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, have been acquainted with each other since 1997 as colleagues of Shiwan Central Factory, our predecessor company. Mr. He and Mr. He Xinzhong are brothers. On April 7, 2006, they entered into an oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert. Pursuant to such oral agreement, Mr. He has taken the leading role in the decision-making, operation, and management of the member companies of our Group since April 7, 2006 or such later dates on which a member company is established by or acquired by our Group. The ultimate Controlling Shareholders, other than Mr. He, have supported Mr. He's decisions in relation to the operation and management of our Group by exercising their voting rights at the meetings of the shareholders and boards of the then member companies of our Group in accordance with the decision of Mr. He since then.

On June 6, 2013, our ultimate Controlling Shareholders entered into a confirmation and undertaking of acting in concert to confirm the existence of such acting-in-concert arrangement described above. The ultimate Controlling Shareholders other than Mr. He have further undertaken that, during the period when they (by themselves or together with their associates) remain in control of our Group, they will continue to fully comply with such acting-in-concert agreement.

As such, our Ultimate Controlling Shareholders, through their respective holding companies (together, our "**Controlling Shareholders**"), as a group of shareholders entitled to exercise more than 30% of the voting rights at general meeting of our Company, are together regarded as our Controlling Shareholders as defined under the Listing Rules. Upon completion of the Global Offering (assuming no exercise of the Over-allotment Option and any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), our Controlling Shareholders, will together control 68.56% of the total issued share capital of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their associates after the Global Offering.

Management Independence

Our management and operational decisions are made by our Board and senior management. The Board comprises three executive Directors, three non-executive Director and three independent non-executive Directors. Save for Mr. He and Mr. Chen Kunlie who are executive Directors and Mr. Su Sen who is a non-executive Director, none of our Controlling Shareholders holds directorship or senior management position in our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Board meets regularly to consider major matters affecting our operations. Each of our Directors is aware of his/her fiduciary duties as a director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum for the relevant Board meeting. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only.

Save for Mr. He and Mr. Chen Kunlie who are executive Directors, all our senior management members are independent from our Controlling Shareholder. They have substantial experience in the industry which we are engaged in and the majority of them have served our Group for a significant length of time during which period they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

Operational Independence

All our operating subsidiaries hold all relevant licenses and patents that are material in relation to our business operations in their own names. We have sufficient operational capacity in terms of capital, plants and machinery equipment, facilities, premises and employees to operate our business independently. Save for the lease arrangements by Zibo Kapuer and Lixian Xinpeng with companies controlled by some of our ultimate Controlling Shareholders, we do not share operational facilities and capabilities with the companies controlled by our ultimate Controlling Shareholders and do not expect to have any material transaction with the Controlling Shareholders after the Listing. Please refer to the section headed “Continuing Connected Transactions” of this prospectus for further details of the lease arrangements. Notwithstanding that production facilities operated by Zibo Kapuer and Lixian Xinpeng under the lease arrangements account for a significant portion of our total production capacity, our operational independence would not be adversely impacted as our Directors believe that it would not be difficult for us to obtain alternative production facilities from the market.

We also have independent access to suppliers and customers.

Based on the above, our Directors are satisfied that we have been operating independently from our ultimate Controlling Shareholders and any of their associates during the Track Record Period and will continue to operate independently.

Financial Independence

We have our own financial management system and ability to operate independently of the Controlling Shareholders from a financial perspective. As of the Latest Practicable Date, (i) we did not have any outstanding loans or borrowings from our Controlling Shareholders or any other related party; and (ii) none of our outstanding loans or borrowings was guaranteed by our Controlling Shareholders or any other related party. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Global Offering as we expect that our working capital will be funded by our operating income and bank borrowings.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Historically, some of our related party companies and the companies that currently form our Group regarded themselves as a member of the “Dongpeng” group and functioned as such. Sales, purchases and cash advances among these companies historically were conducted on a basis similar to intra-group transactions. When our Group was formed in anticipation of the Global Offering, however, these related party companies were left outside our Group as a result of reorganization and in accordance with Hong Kong accounting principles. As a result, these historical “intra-group” transactions became related party transactions, and we had net amounts due to our related parties of RMB814.9 million, RMB845.6 million, RMB1,012.9 million and RMB1,188.8 million, respectively, as of December 31, 2010, 2011, 2012 and June 30, 2013, of which RMB340.6 million, RMB479.7 million, RMB521.5 million and RMB704.7 million, respectively, were incurred in connection with our reorganization. The remaining amount consisted primarily of net trade payables due to related parties and interest-free advances from related parties.

For illustration purposes only, had we borrowed commercial loans to pay off the entire amount of net trade payables due to related parties and interest-free advances from related parties, the notional interest that would be charged on our Company could have amounted to RMB28.5 million, RMB23.2 million, RMB22.8 million and RMB14.6 million, respectively, in 2010, 2011, 2012 and the first half of 2013. Such amounts of notional interest are calculated based on the hypothetical scenario where the interest rate on such bank loans had been 6.00%, 5.35%, 5.31% and 6.00% for 2010, 2011, 2012 and the first half of 2013, respectively, which was the lower end of the interest rate range of our actual bank borrowings during the same period.

In practice, however, had we carried out relevant related party transactions on terms similar to those with Independent Third Parties, the impact on our net profit would vary significantly depending on the course of action our management decides to take. The mere application of notional interest to finance costs and a corresponding deduction from net profit would reflect neither history nor the reality of business management. For example, we might have sought additional equity financing, applied our existing cash and cash equivalents to pay for outstanding accounts payable, utilized the full credit periods agreed with suppliers and/or renegotiated with Independent Third Party suppliers to extend their credit terms.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

NON-COMPETITION UNDERTAKING

Our ultimate Controlling Shareholders confirm that, as of the Latest Practicable Date, none of them has any interest in any business which competes or is likely to compete, directly or indirectly, with our business and which would require disclosure under Rule 8.10 of the Listing Rules.

Our ultimate Controlling Shareholders, namely, Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, have entered into the Non-competition Deed in favor of us, pursuant to which the ultimate Controlling Shareholders have undertaken to us that they would not, and that their associates (except any member of our Group) would not, during the restricted period set out below, directly or indirectly, either on her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any Restricted Business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Such non-competition undertaking does not apply in relation to:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business which has first been offered or made available to our Company, and our Company, after review and approval by our Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which the ultimate Controlling Shareholders (or their relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those made available to our Company; or
- (b) any interests in the shares or equity interests of any member of the Group; or
- (c) interests in the shares of a company whose shares are listed on a recognized stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the ultimate Controlling Shareholders and their associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such ultimate Controlling Shareholders and their associates are not entitled to appoint a majority of the directors of that company.

The "restricted period" stated in the Non-competition Deed refers to the period during which (i) our Shares remain listed on the Stock Exchange; (ii) the ultimate Controlling Shareholders and their associates, individually or jointly, are entitled to exercise or control the exercise of no less than 30% of the voting power at general meetings of our Company; and (iii) any of the ultimate Controlling Shareholders remains as a director of any member of our Group.

The ultimate Controlling Shareholders have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity (the "**New Opportunity**") in the PRC relating to the Restricted Business identified by or offered to any of them or any of their associates, is first referred to us in the following manner:

- (a) the relevant ultimate Controlling Shareholder is required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) the relevant ultimate Controlling Shareholder will be entitled to pursue the New Opportunity only if (i) he has received a notice from us declining the New Opportunity and confirming that such New Opportunity would not constitute competition with our core business, or (ii) he has not received such notice from us within fifteen (15) Business Days (which may be extended for a reasonable period of time as and if requested by our Board committee comprising only independent non-executive Directors) from our receipt of the written notice to us of any New Opportunity. If there is a material change in the terms and conditions of the New Opportunity pursued by the ultimate Controlling Shareholder, he will refer the New Opportunity as so revised to us in the manner set out above.

Upon receipt of the written notice to us of any New Opportunity, we will seek opinions and decisions from our Board committee comprising only independent non-executive Directors who do not have a material interest in the matter, as to whether (i) such New Opportunity would constitute competition with our core business, (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity, and (iii) to pursue or decline the New Opportunity.

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity. Our Board committee comprising only independent non-executive Directors will also review, on an annual basis, the compliance with the Non-competition Deed by the ultimate Controlling Shareholder. In any event, the committee formed by our independent non-executive Directors may appoint financial advisors or professional experts to provide advice, at the cost of our Company, in connection with whether to take up any New Opportunity.

The ultimate Controlling Shareholders have further undertaken to:

- (a) procure that all relevant information relating to the implementation of the Non-competition Deed in the possession of the relevant ultimate Controlling Shareholder and/or his associates be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our advisors to have access to his financial and corporate records as may be necessary for us to determine whether the non-competition undertakings in the Non-competition Deed have been complied with by the relevant ultimate Controlling Shareholder and his associates;
- (c) provide us, within twenty (20) Business Days from the receipt of our written request, with a written confirmation in respect of his compliance and that of his associates with the non-competition undertakings in the Non-competition Deed and consent to the inclusion of such confirmation in our annual reports; and
- (d) provide all information necessary for the annual review by our Board committee comprising only independent non-executive Directors, and the enforcement of the Non-competition Deed.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The ultimate Controlling Shareholders (for themselves and on behalf of their associates (except for any member of our Group)) has also acknowledged that we may be required by applicable laws, regulations, rules of stock exchange(s) on which we may be listed and relevant regulatory bodies, to disclose, from time to time, information on any New Opportunity, including but not limited to disclosure in public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity and have agreed to such disclosure to the extent necessary to comply with any such requirement.

Each of our Directors has confirmed, as of the Latest Practicable Date, that he/she is not engaged in any business which competes or is likely to compete, either directly or indirectly, with our business.

CONTINUING CONNECTED TRANSACTIONS

We will continue to carry out certain transactions with certain connected persons (as defined under the Listing Rules) upon Listing. Such transactions will therefore constitute continuing connected transaction (as defined under the Listing Rules) of our Group under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

The following parties are our connected persons with whom we will continue to carry out transactions on a continuing basis upon Listing:

- (a) Hunan Jinpeng;
- (b) Shandong Jialiya; and
- (c) Guangdong Dongpeng Ceramics.

Each of Hunan Jinpeng, Shandong Jialiya and Guangdong Dongpeng Ceramics is controlled, directly and indirectly, by some of our ultimate Controlling Shareholders, including Mr. He Xinming and Mr. Chen Kunlie. As a result, each of Hunan Jinpeng, Shandong Jialiya and Guangdong Dongpeng Ceramics is a connected person of our Company as defined under Rule 14A.11(4) of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Trademarks Licensing Agreement

Guangdong Dongpeng Ceramics is in the process of transferring to the Company its overseas registered trademarks which are important to our business. It expects to complete the transfer procedures by the end of December 2013. In view of the time required to complete the transfer procedures, Guangdong Dongpeng Ceramics entered into an Exclusive Trademarks License Agreement with our Company on January 1, 2013. Pursuant to the Exclusive Trademarks License Agreement, our Company was granted the exclusive rights to use such overseas registered trademarks of Guangdong Dongpeng Ceramics at nil consideration for a period of three years ending on December 31, 2015. We may use the trademarks in relation to the production, distribution and sales of our products.

Given that our Company has been granted the exclusive rights by Guangdong Dongpeng Ceramics to use the trademarks at no cost, the transaction under the Exclusive Trademarks License Agreement is exempt from the reporting, disclosure, announcement, annual review and shareholders' approval requirements of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Lease Agreements

Shandong Lease Agreement

Zibo Kapuer, a subsidiary of our Group, has been leasing its production premises and production lines from Shandong Jialiya since January 1, 2011. The current lease agreement in relation to such production premises and production lines was entered into between Zibo Kapuer and Shandong Jialiya on June 30, 2013 (“Shandong Lease Agreement”). Major terms of the Shandong Lease Agreement are set out below:

Parties:	Shandong Jialiya (as the lessor); and Zibo Kapuer (as the lessee).
Properties:	Production premises (comprising a land parcel of approximately 164,316 square metres and buildings with a gross floor area of 79,173 square metres and three production lines located at Jinma village, Shuangyang town, Zibo city, Shandong province, the PRC.
Term:	From July 1, 2013 to December 31, 2015.
Rental:	RMB12.0 million per year.
Renewal:	Upon the expiry of the term mentioned above, if Shandong Jialiya continues to lease such production premises and such production lines, Zibo Kapuer has a right of priority to renew such lease. If Zibo Kapuer wishes to renew the lease, it shall give Shandong Jialiya a three-month written notice prior to the expiry of such term. Terms of the renewed lease are subject to negotiations between the parties.
Indemnity:	Such buildings are constructed on such land which is leased by Shandong Jialiya and it has not obtained the ownership certificates of such buildings. As a result, Shandong Jialiya has agreed to indemnify Zibo Kapuer all economic losses Zibo Kapuer may suffer as a result of the title defects of such land and such buildings.

In 2010, 2011, 2012 and the first half of 2013, the rental paid by Zibo Kapuer to Shandong Jialiya was nil, RMB13.5 million, RMB12.0 million and RMB6.0 million, respectively. Based on the terms under the Shandong Lease Agreement, the rental to be paid by Zibo Kapuer to Shandong Jialiya will not exceed RMB12 million for each of 2013, 2014 and 2015.

The purpose of the Shandong Lease Agreement is to enable our Group to continue to carry out its operations at the above premises.

CONTINUING CONNECTED TRANSACTIONS

Hunan Lease Agreement

Lixian Xinpeng, a subsidiary our Group, has been leasing its production premises from Hunan Jinpeng since September 1, 2009. This is because one of the shareholders of Hunan Jinpeng, an independent third party holding 30% of its total issued share capital, does not wish to transfer his equity interest in Hunan Jinpeng to our Group due to the disagreement between such minority shareholder and our Company with respect to the valuation of his equity interest. Under the PRC law, if the majority shareholders of Hunan Jinpeng, which are certain members of our Controlling Shareholders, would like to transfer their equity interests to us, they will have to provide the minority shareholder an opportunity to exercise his rights of first refusal. According to our communication with the minority shareholder, he may consider to exercise such rights in the event of a proposed equity transfer. As such, our Directors believe it is more beneficial to our Company to lease the production facility from Hunan Jinpeng instead of trying to acquire its equity interest. On August 28, 2009, Lixian Xinpeng entered into a lease agreement with Hunan Jinpeng in relation to the lease of such production premises for a term from September 1, 2009 to December 31, 2019. On October 8, 2013, Lixian Xinpeng entered into a supplemental lease agreement with Hunan Jinpeng to amend certain terms of the initial lease agreement (the initial lease agreement as amended by the supplemental agreement, the “**Hunan Lease Agreement**”). Major terms of the Hunan Lease Agreement are set out below:

Parties:	Hunan Jinpeng (as the lessor); and Lixian Xinpeng (as the lessee).
Properties:	Production premises (comprising a land parcel of approximately 171,378 square meters and building with a gross floor area of approximately 50,610 square meters) and production lines located at No. 59 Dayan Road, Qiao Jiao He, Linan town, Li county, Changde city, Hunan province, the PRC.
Term:	From January 1, 2013 to December 31, 2015.
Rental:	RMB11,025,000 for 2013 and RMB11,576,250 per year for each of 2014 and 2015.
Renewal:	Renewable at the request by Lixian Xinpeng by giving a one-month prior written notice to Hunan Jinpeng. Lixian Xinpeng also has a right of priority to renew such lease. Annual rental payable under the renewed lease agreement will be subject to negotiations between the parties by reference to the prevailing market rate for the lease of similar properties in the vicinity. In any event, the annual rental payable under the renewed lease agreement shall not be increased, in every two years by more than 5% of the annual rental payable for the year ending December 31, 2015.

In 2010, 2011, 2012 and the first half of 2013, the rental paid by Lixian Xinpeng to Hunan Jinpeng amounted to RMB10.5 million, RMB10.5 million, RMB11.0 million and RMB5.5 million, respectively. Based on the terms under the Hunan Lease Agreement, the rental to be paid by Lixian Xinpeng to Hunan Jinpeng will not exceed RMB11.1 million, RMB11.6 million and RMB11.6 million for 2013, 2014 and 2015, respectively.

CONTINUING CONNECTED TRANSACTIONS

The purpose of the Hunan Lease Agreement is to enable our Group to continue to carry out its operations at the above premises.

Foshan Lease Agreement

Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe, the subsidiaries of our Group, used the premises owned by Guangdong Dongpeng Ceramics for their headquarters offices and exhibition halls without a written lease agreement prior to July 1, 2013. On July 1, 2013, Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe entered into lease agreements with Guangdong Dongpeng Ceramics in relation to the lease of such premises, respectively. On October 8, 2013, Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe entered into supplemental agreements with Guangdong Dongpeng Ceramics, respectively, to amend certain terms of the initial lease agreements (the initial lease agreements as amended by the supplemental agreements, the “**Foshan Lease Agreements**”). Major terms of the Foshan Lease Agreements are set out below:

Parties:	Guangdong Dongpeng Ceramics (as the lessor); Foshan Dongpeng Ceramics (as the lessee); Foshan Dongpeng Development (as the lessee); and Guangdong Yuhe (as the lessee).
Properties:	The first floor to the ninth floor of No.8 Jiangwan Third Road, Chancheng district, Foshan city, Guangdong province, with an aggregate floor area of approximately 15,551 square metres.
Term:	From January 1, 2013 to December 31, 2015.
Rental:	RMB25/square metre/month which is payable on a quarterly basis.
Renewal:	Renewable at the request of Foshan Dongpeng Ceramics by giving a one-month prior written notice to Guangdong Dongpeng Ceramics. Rental payable under the renewed lease agreement will be subject to negotiations between the parties by reference to the prevailing market rate for the lease of similar properties in the vicinity.

During the Track Record Period, rental paid by Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe to Guangdong Dongpeng Ceramics for 2012 and the first half of 2013 was RMB4.7 million and RMB2.3 million, respectively. Based on the terms under the Foshan Lease Agreement, the rental to be paid by Foshan Dongpeng Ceramics, Foshan Dongpeng Development and Guangdong Yuhe to Guangdong Dongpeng Ceramics will not exceed RMB4.7 million for each of 2013, 2014 and 2015.

The purpose of the Foshan Lease Agreements is to enable us to continue to use the premises as our headquarters and exhibition halls at a cost which is less costly than constructing new premises or acquiring the premises from Guangdong Dongpeng Ceramics.

CONTINUING CONNECTED TRANSACTIONS

INDEPENDENT PROPERTY VALUER'S VIEW

As confirmed by Jones Lang Lasalle Corporate Appraisal and Advisory Limited, an independent third party property (including land, plant and equipment) valuer, the rentals under the Shandong Lease Agreement, Hunan Lease Agreement and Foshan Lease Agreements are fair and reasonable and in line with the prevailing market rates for leasing similar assets and properties in the locality that are used for similar purposes in the PRC at the relevant dates of leases.

DIRECTORS' VIEW

The Directors (including the independent non-executive Directors) are of the view that (i) it is in the interests of our Group to continue the transactions under the Shandong Lease Agreement, the Hunan Lease Agreement and Foshan Lease Agreement after the Listing; (ii) such transactions are entered into in the ordinary and usual course of business of our Group; (iii) the terms of Shandong Lease Agreement, the Hunan Lease Agreement and Foshan Lease Agreement are on normal commercial terms which are fair, reasonable and in the interests of the Shareholders as a whole; and (iv) the annual cap for the transactions under each of the Shandong Lease Agreement, the Hunan Lease Agreement and Foshan Lease Agreement is fair and reasonable and in the interests of the Shareholders as a whole.

SOLE SPONSOR'S VIEW

The Sole Sponsor is of the view that (i) the continuing connected transactions under the Shandong Lease Agreement, the Hunan Lease Agreement and the Foshan Lease Agreements are entered into in the ordinary and usual course of business (as defined in Chapter 14A of the Listing Rules) of the Group and on normal commercial terms (as defined in Chapter 14A of the Listing Rules), and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the annual caps for such transactions are fair and reasonable and in the interests of the Shareholders as a whole.

APPLICATION FOR WAIVER

Based on the applicable percentage ratios, the transactions under the Shandong Lease Agreement, the Hunan Lease Agreement and Foshan Lease Agreements, on an aggregate basis, constitute continuing connected transactions that are subject to announcement, reporting and annual review requirements, but are exempt from the requirement of independent Shareholders' approval under Chapter 14A of the Listing Rules. As these transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be burdensome and impractical. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements under Rule 14A.42(3) of the Listing Rules in respect of each of the continuing connected transactions contemplated under the Shandong Lease Agreement, the Hunan Lease Agreement and the Foshan Lease Agreements. We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to such continuing connected transactions.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of nine Directors, of whom three are independent non-executive Directors. The table below sets forth certain information of our Directors.

Name	Age	Position	Date appointed as Director
Executive Directors			
He Xinming (何新明).....	57	Chairman	March 12, 2012
Chen Kunlie (陳昆列).....	49	Executive Director	March 12, 2012
Bao Jianyong (包建永).....	42	Executive Director	November 5, 2013
Non-executive Directors			
Su Sen (蘇森).....	67	Non-executive Director	March 12, 2012
Sun Qian (孫謙).....	40	Non-executive Director	March 12, 2012
Sun Limei (孫麗梅).....	50	Non-executive Director	March 12, 2012
Independent Non-executive Directors			
Yin Hong (尹虹).....	55	Independent Non-executive Director	November 5, 2013
Hsieh H., Lily (謝慧雲).....	58	Independent Non-executive Director	November 5, 2013
Wu Haibing (吳海兵).....	41	Independent Non-executive Director	November 5, 2013

Executive Directors

Mr. He Xinming (何新明), aged 57, is the Chairman of the Board. He is primarily responsible for our strategic planning, overall management and business development. He was appointed to our Board on March 12, 2012. He has over 30 years of experience in the porcelain and ceramics manufacturing industry. Before founding Dongpeng Group in 1997, he was head of Shiwan Central Factory. Mr. He became chairman of the board of directors and general manager of Dongpeng Group in 1997 and has been leading our Group since.

Mr. He received a bachelor's degree in machinery and manufacture (long distance courses) from South China University of Technology (華南理工大學) in 1989. He is a senior engineer (高級工程師), and holds office as the vice president of China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), The Seventh Foshan Associations of Enterprises and Entrepreneurs and Foshan Chancheng District General Chamber of Commerce (佛山市禪城區總商會). He is also an honorary chairman of Foshan Ceramics Industry Association (佛山市陶瓷行業協會委員會), a council member of Chinese People's Political Consultative Conference in Foshan (佛山市政協) and a deputy to the Third People's Congress of Chancheng district in Foshan (佛山市禪城區第三屆人民代表大會). Mr. He was also voted "Person of the Year" at the seventh Ranking of Top Cutting-Edge Producers in China's Ceramics Industry (第七屆中國陶瓷行業新銳榜) in 2011 and "Representative Leader in Thirty Years of Reform of China's Construction Materials" by China Building Materials Association (中國建築材料聯合會) in 2009. Mr. He has not been a director for any public listed company during the three years preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Kunlie (陳昆列), aged 49, is an executive Director of the Company. He is primarily responsible for the management of our Group's strategic planning. He was appointed to our Board on March 12, 2012. Joining us in 1987, Mr. Chen has more than 20 years of experience in the porcelain and ceramics manufacturing industry. Mr. Chen received a bachelor's degree in ceramics engineering from South China University of Technology in 1987. Mr. Chen has not been a director for any publicly listed company during the three years preceding the date of this prospectus.

Mr. Bao Jianyong (包建永), aged 42, is an executive Director of the Company. He is primarily responsible for internal audit. He was appointed to our Board on November 5, 2013. Mr. Bao has more than 15 years of experience in auditing and accounting. He joined Guangdong Dongpeng Ceramics in 1999 as chief financial officer. Prior to that, he worked for Foshan Accounting Firm (佛山會計事務所). Mr. Bao received a bachelor's degree in environmental planning and management from Wuhan University (武漢大學) in 1992, and a master's degree in accounting from Sun Yat-Sen University (中山大學) in 2009. Mr. Bao has not been a director for any publicly listed company during the three years preceding the date of this prospectus.

Non-executive Directors

Mr. Su Sen (蘇森), aged 67, is a non-executive Director of the Company. He was appointed to our Board on March 12, 2012. Mr. Su has over 30 years of experience in the porcelain and ceramics manufacturing industry. From 1994 to 2006, he was the deputy general manager of the Shiwan Central Factory and Guangdong Dongpeng Ceramics. Before joining us, Mr. Su worked for Shiwan Ceramics Craftwork Factory (石灣陶瓷工藝廠) and Shiwan Third Factory of Ceramic Utility Products (石灣日用陶瓷三廠), and was responsible for technology and craftwork of ceramic manufacturing. He started his career as early as 1958. Mr. Su has not been a director for any publicly listed company during the three years preceding the date of this prospectus.

Mr. Sun Qian (孫謙), aged 40, is a non-executive Director of the Company. He was appointed to our Board on March 12, 2012. Mr. Sun is a managing director of Sequoia Capital China, where he focuses on consumer and technology related investment. Mr. Sun was a director of Bona Film Group Limited, a company listed on NASDAQ, from 2007 to 2011. Prior to joining Sequoia Capital China in 2006, Mr. Sun worked at General Atlantic from 2003 to 2005, focusing on technology related growth investment in China. He also worked as a management consultant at Monitor Group in Hong Kong from 1997 to 1999. Mr. Sun received a BA degree in applied mathematics from Harvard College in 1997, an MBA from Harvard Business School and a J.D. from Harvard Law School in 2003. Save as disclosed above, Mr. Sun has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Ms. Sun Limei (孫麗梅), aged 50, is a non-executive Director of the Company. She was appointed to our Board on March 12, 2012. Ms. Sun has more than 10 years of experience in the porcelain and ceramics manufacturing industry. She joined Guangdong Dongpeng Ceramics in 1999 as assistant to the general manager, and served as deputy general manager from 2009 to 2011 and executive vice president from 2011 to 2012. Before joining us, Ms. Sun gained significant experience in managing industrial factories while working for Foshan Copper Tube Company (佛山精細銅管公司), Foshan Electricity and Ceramic Factory (佛山電瓷廠), Dalian Magnetic Heads Factory (大連磁頭廠) and Star Light Mold Factory (星光模具廠). She received a bachelor's degree in machinery and manufacture (long distance courses) from South China University of Technology in 1988. Ms. Sun has not been a director for any publicly listed company during the three years preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Yin Hong (尹虹), aged 55, is an independent non-executive Director of the Company. He was appointed to our Board on November 5, 2013. Mr. Yin has been in academic research in the fields of material composition and manufacturing of ceramics for over 30 years and holds editorial positions with various academic journals on ceramics. Mr. Yin is an associate professor in inorganic materials with South China University of Technology. He currently serves as deputy secretary general of China Building Ceramic & Sanitary Ware Association (中國建築衛生陶瓷協會), vice chairman of National Technical Committee on Building and Sanitary Ceramics of Standardization Administration of China (全國建築衛生陶瓷標準化技術委員會), executive chief editor of *China Ceramics* magazine (中國陶瓷) and deputy director of the editorial boards of *Ceramics* magazine (陶瓷) and *Foshan Ceramics* magazine (佛山陶瓷). Mr. Yin served as economics advisor to the governments of Jiajiang county, Sichuan province (四川省夾江縣) and Chaling county, Hunan province (湖南省茶陵縣), as well as a business promotion advisor for Dangyang city, Hubei province (湖北省當陽市). Mr. Yin graduated from Jiangxi Jingdezhen Ceramic Institute (江西景德鎮陶瓷學院) majoring in ceramic engineering in 1979, and received a master's degree and a Ph. D. in inorganic materials with South China University of Technology in 1983 and 1992, respectively. He has been in the academia since 1980s. Mr. Yin has not been a director for any publicly listed company during the three years preceding the date of this prospectus.

Ms. Hsieh H., Lily (謝慧雲), aged 58, is an independent non-executive Director of the Company. She was appointed to our Board on November 5, 2013. She has over 30 years of experience in the auditing and accounting in various industries, including food retailing, manufacturing and processing, public utilities and airlines. Ms. Hsieh joined YUM! China in 1996 and was the chief financial officer of YUM! China from 2000 to 2012. Before joining YUM! China, she worked with Kraft Foods (Asia Pacific) Ltd., Pillsbury Canada, and China Airlines. Ms. Hsieh received an MBA from University of Toronto in 1980 and the title of Certified Management Accountant (CMA) in 1985. Ms. Hsieh served as a non-executive director of Little Sheep Group Limited (Stock code: 00968.HK) from November 2009 until it was delisted from the main board of the Stock Exchange in February 2012. Save as disclosed above, Ms. Hsieh has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Mr. Wu Haibing (吳海兵), aged 41, is an independent non-executive Director of the Company. He was appointed to our Board on November 5, 2013. Mr. Wu has over 10 years of experience in the financial field, and served as chief financial officer of 7 Days Group Holdings Limited, which was privatized and delisted from the New York Stock Exchange on July 18, 2013. Prior to that, Mr. Wu worked for PricewaterhouseCoopers in the United States and later in China from 2000 to 2007, and last held the position of senior manager, responsible for improvement of internal controls, risk management, corporate governance and audit support. Mr. Wu received a bachelor's degree from Shanghai Jiao Tong University (上海交通大學) and an MBA from Michigan State University. Mr. Wu has been an independent director of Country Style Cooking Restaurant Chain Co., Ltd. (NYSE: CCSC), a company listed on the New York Stock Exchange since September 2011. Save as disclosed above, Mr. Wu has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed herein, there are no other matters in respect of each of our directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matters relating to our directors that need to be brought to the attention of our shareholders.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

Name	Age	Group Position
Cai Chuyang (蔡初陽).....	49	President
Chen Kunlie (陳昆列).....	49	Vice President
Liang Huicai (梁慧才).....	38	Vice President
Lin Hong (林紅).....	42	Vice President
Shao Yu (邵鈺).....	38	Vice President and Chief Financial Officer
Shi Yufeng (施宇峰).....	38	Vice President
Jin Guoting (金國庭).....	46	Vice President

Mr. Cai Chuyang (蔡初陽), aged 49, is the president of our Group. He is responsible for our Group's overall business management. He has been serving as our president since July 2012. Mr. Cai has served as various positions, including deputy general manager of Guangdong Dongpeng Holdings and general manager of Dongpeng Sanitary Ware since joining us in December 2002. Prior to that, Mr. Cai was the deputy chief of Shiwan District Government of Foshan, Guangdong province (佛山市石灣區政府副區長). Mr. Cai graduated from Foshan Veterinary School (佛山獸醫專科學校) with a junior college degree in farm veterinary. Mr. Cai has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Mr. Chen Kunlie (陳昆列), aged 49, is a vice president of our Group. His biographical details are set out under the paragraph headed "Directors" above.

Mr. Liang Huicai (梁慧才), aged 38, is a vice president of our Group. He is primarily responsible for our Group's sales, marketing and logistics. Mr. Liang has more than ten years of experience in the sales and marketing of ceramics product. He has held various management positions with Guangdong Dongpeng Ceramics, as deputy general manager of the sales department from 2009 to 2012 and as head of the marketing and sales center for Southern regions from 2008 to 2009. He joined us as a salesman for Guangdong Dongpeng Ceramics in 2001. Mr. Liang received a bachelor's degree in inorganic non-metal materials from South China University of Technology in 1997. Mr. Liang has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Ms. Lin Hong (林紅), aged 42, is a vice president of our Group. She is primarily responsible for the management of our administrative functions. Since joining us in 2008, Ms. Lin served as lead assistant of the general manager's office from 2008 to 2011. Before joining us, Ms. Lin was head of business affairs with the Television Station of Foshan city, Guangdong province, an editor with the Television Station of Meizhou city, Guangdong province and a program host with the Television Station of Xingning city, Guangdong province. Ms. Lin received a college diploma in political education from Jiaying Teachers College (嘉應師範專科學校) in 1990. Ms. Lin has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Mr. Shao Yu (邵鈺), aged 38, is a vice president and chief financial officer of our Group. He is primarily responsible for financial and information technology matters. He was appointed our vice president on April 8, 2013. Mr. Shao has over 15 years of experience in financing and accounting fields. Before joining us, Mr. Shao was a director, company secretary and assistant general manager of Jiangsu Riyong Electronics Co., Ltd. (江蘇日盈電子股份有限公司) from 2011 to 2013. He worked for Procter &

DIRECTORS AND SENIOR MANAGEMENT

Gamble from 2009 to 2011 and was financial controller for the Business Unit of Salon Professional, greater China region. He was an investment banking associate with the New York office of Jefferies & Company in 2008. He was a corporate finance manager at the headquarters of Soletron Corporation in California from 2000 to 2006, and a finance manager of Soletron Technology (Suzhou) Co., Ltd. (旭電(蘇州)科技有限公司) from 1997 to 2000. Mr. Shao received an MBA from the University of Chicago, Booth School of Business in 2008 and a bachelor's degree in finance from Soochow University in 1997. Mr. Shao has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Mr. Shi Yufeng (施宇峰), aged 38, is a vice president of our Group. He is primarily responsible for manufacturing and product control. He has over 15 years of experience in ceramics manufacturing. Since joining us in 1996, Mr. Shi served as assistant to deputy executive vice president of Guangdong Dongpeng Holdings from February to December in 2012, general manager of the Shandong branch company of Guangdong Dongpeng Ceramics from 2011 to 2012 and general manager of Lixian Xinpeng from 2009 to 2011, as well as worked for the equipment department, the first workshop and the fifth workshop of Shiwan Huatai and the ninth workshop of Shiwan Decorative Tile Factory. Mr. Shi received a bachelor's degree in industrial automation from Nanjing University of Science & Technology (南京理工大學) in 1996. Mr. Shi has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

Mr. Jin Guoting (金國庭), aged 46, is a vice president of our Group. He is primarily responsible for manufacturing, research and development as well as quality control. He has more than 20 years of experience in ceramics manufacturing. Mr. Jin has held several management positions with our Group, as vice president from 2011 to 2012 and as general manager of the manufacture center from February to May in 2011 for Guangdong Dongpeng Ceramics, and as general manager from 2009 to 2011 for Foshan Hua Sheng Chang. Prior to that, Mr. Jin worked for Guangdong Dongpeng Ceramics from May to November in 2009, and held the position as assistant to general manager as well as manager of technology department with Guangdong Xin Run Cheng Ceramics Co., Ltd. (廣東新潤成陶瓷有限公司) from 2001 to 2009. He also worked for Shiwan Central Factory in the early 1990s. Mr. Jin received a master's degree in metalworking and resources from Central South University (中南工業大學) in 1992. Mr. Jin has not been a director for any other publicly listed company during the three years preceding the date of this prospectus.

JOINT COMPANY SECRETARIES

Ms. Yuen Wing Yan, Winnie (袁穎欣), aged 43, is a joint company secretary of our Company. She was appointed on November 5, 2013. She is a senior manager of the corporate services division of Tricor Services Limited (卓佳專業商務有限公司), a Chartered Secretary and a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She has over 20 years of company secretarial experience, working with private enterprises, multinationals and public companies listed on the Main Board of the Stock Exchange and non-Hong Kong offshore companies. Ms. Yuen currently serves as company secretary of UDL Holdings Limited (太元集團有限公司) and China First Chemical Holdings Limited (一化控股(中國)有限公司). Before joining Tricor Services Limited in 2002, Ms. Yuen was a manager of Corporate Secretarial Services at Ernst & Young PLL (安永會計師事務所) and Tengis Limited (登捷時有限公司) in Hong Kong. Ms. Yuen holds an Honors Diploma in company secretaryship and administration from Lingnan University (嶺南大學).

Mr. Bao Jianyong (包建永) is a joint company secretary of our Company. He was appointed on November 5, 2013. Mr. Bao is also an executive Director of the Company. His biographical details are set forth in the paragraph headed "Directors" above.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

The Company established an audit committee on November 5, 2013 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee has three members, namely Mr. Wu Haibing, Ms. Hsieh H., Lily and Mr. Su Sen. Mr. Wu Haibing, our independent non-executive Director, has been appointed as the chairman of the audit committee, and has the appropriate professional qualifications required under the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

The Company established a remuneration committee on November 5, 2013 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee has three members, namely Ms. Hsieh H., Lily, Mr. Yin Hong and Mr. He Xinming. Ms. Hsieh, our independent non-executive Director, has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to review, determine and make recommendations to our Board on the policy and structure of the remuneration (including bonuses and other compensation) payable to our Directors and senior management and make recommendations on employee benefit arrangements.

Nomination Committee

The Company established a nomination committee on November 5, 2013 with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. He Xinming, Mr. Yin Hong and Mr. Wu Haibing. Mr. He Xinming, our executive Director and chairman of the Board, has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

Compliance Committee

The Company established a compliance committee on November 5, 2013. The compliance committee consists of three members, namely Mr. Bao Jianyong, Mr. Wu Haibing and Mr. Su Sen. Mr. Bao Jianyong, our executive Director, has been appointed as the chairman of the compliance committee. The primary duties of the compliance committee are to plan for our legal and compliance matters, to oversee legal and compliance training, to observe and monitor important legal and compliance documents and to correct inadequacies in compliance.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

We have appointed Quam Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us, upon our consultation, on the following circumstances:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules and such appointment may be extended by mutual agreement.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for 2010, 2011, 2012 and the first half of 2013 was approximately RMB680,000, RMB760,000, RMB2.0 million and RMB973,000, respectively.

The aggregate amount of fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind paid to our five highest paid individuals of our Company, including Directors, during each of 2010, 2011, 2012 and the first half of 2013, were approximately RMB1.2 million, RMB1.7 million, RMB2.4 million and RMB1.2 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2013 is estimated to be approximately RMB2.0 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of 2010, 2011, 2012 and the first half of 2013. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of 2010, 2011, 2012 and the first half of 2013 by the Group to the Directors.

DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses relating to the performance of the Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

Each of our executive Directors has entered into a service contract with the Company dated November 5, 2013 and the Company has also entered into letters of appointment with each of our independent non-executive Directors. Further details of the terms of the above service contracts and letters of appointment are set out in “Statutory and General Information — Further Information about our Directors and Substantial Shareholders” in Appendix IV to this prospectus.

PRE-IPO SHARE OPTION SCHEME

In order to assist us in attracting, retaining and motivating our key employees and senior management, we have conditionally adopted a Pre-IPO Share Option Scheme on October 31, 2013, details of which are set out in Appendix IV headed “Statutory and General Information — Pre-IPO Share Option Scheme” to this prospectus.

SHARE OPTION SCHEME

We have also conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed “Statutory and General Information — Share Option Scheme” in Appendix IV to this prospectus.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Global Offering:

		Nominal or par value
		US\$
Authorized share capital		
<u>As of the date of this prospectus</u>		
24,850,000,000	Ordinary shares	49,700
150,000,000	Series A preferred shares <i>Note (1)</i>	300
Immediately prior to the completion of the Global Offering		
25,000,000,000	Ordinary shares	50,000
Issued and to be issued, fully paid or credited as fully paid		
In issue as of the date of this Prospectus		
900,000,000	Ordinary shares in issue as of the date of this prospectus	1,800.00
97,552,800	Series A preferred shares <i>Note (2)</i>	195.11
To be issued pursuant to the Global Offering (assuming no exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme)		
249,400,000	Shares	498.80
Total issued share capital upon completion of the Global Offering (assuming no exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme):		
1,246,952,800	Shares	2,493.91
To be issued upon full exercise of the Over-allotment Option		
37,410,000	Shares	74.82
Total issued share Capital upon completion of the Global Offering (assuming full exercise of the Over-allotment Option but no exercise of any option granted under the Pre-IPO Share Option Scheme)		
<u>1,284,362,800</u>	Shares	<u>2,568.73</u>
To be issued upon full exercise of all the options granted under the Pre-IPO Share Option Scheme		
47,500,000	Shares	95.00
Total issued share Capital upon completion of the Global Offering assuming full exercise of the Over-allotment Option and all the options granted under the Pre-IPO Share Option Scheme:		
<u>1,331,862,800</u>	Shares	<u>2,663.73</u>

Notes:

- (1) Immediately upon the conversion of the series A preferred shares into ordinary Shares and prior to the closing of the Global Offering, all the unissued 150,000,000 series A preferred shares of par value US\$0.000002 each be redesignated as ordinary shares of par value US\$0.000002 each, so that the authorized share capital of our Company shall become US\$50,000 divided into 25,000,000,000 ordinary shares of par value US\$0.000002 each;

SHARE CAPITAL

- (2) Such number of series A preferred shares held by Sequoia will be automatically converted into the same number of ordinary shares immediately prior to the completion of the Global Offering.

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Shares are ordinary shares in the share capital of our Company and will rank *pari passu* with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) a rights issue;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our By-laws;
- (c) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:
 - (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
 - (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “— General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or

SHARE CAPITAL

- (2) at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
 - (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,
- whichever is the earliest.

For further details of this general mandate, please see the section “Statutory and General Information — Further Information About our Group — Resolutions in Writing of the Shareholders of Our Company Passed on November 5, 2013” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section “Statutory and General Information — Further Information About our Group — Repurchase of Our Own Shares” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
 - (ii) at the end of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
 - (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,
- whichever is the earliest.

For further details of this general mandate, please see the section “Statutory and General Information — Further Information About our Group — Resolutions in Writing of the Shareholders of Our Company Passed on November 5, 2013” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or the chief executive of our Company, immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group and are therefore regarded as substantial shareholders of our Group under the Listing Rules:

Substantial Shareholder of Our Company

Name	Nature of interest	Shares held immediately following the completion of the Global Offering	
		Number	Percentage
Mr. He ⁽¹⁾⁽²⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Profit Strong ⁽²⁾	Beneficial owner	854,974,732	68.56%
Ms. Zhong Qinhu ⁽³⁾	Interests of spouse	854,974,732	68.56%
Mr. Chen Kunlie ⁽¹⁾⁽⁴⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Superb Idea ⁽⁴⁾	Beneficial owner	854,974,732	68.56%
Ms. Chen Haihong ⁽⁵⁾	Interests of spouse	854,974,732	68.56%
Mr. Su Sen ⁽¹⁾⁽⁶⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Cosmo Ray ⁽⁶⁾	Beneficial owner	854,974,732	68.56%
Ms. Lin Shiyi ⁽⁷⁾	Interests of spouse	854,974,732	68.56%
Mr. He Xinzhong ⁽¹⁾⁽⁸⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
High Ride ⁽⁹⁾	Beneficial owner	854,974,732	68.56%

SUBSTANTIAL SHAREHOLDERS

Name	Nature of interest	Shares held immediately following the completion of the Global Offering	
		Number	Percentage
Ms. Chen Shaokun ⁽¹⁰⁾	Interests of spouse	854,974,732	68.56%
Mr. Chen Yezhi ⁽¹⁾⁽¹¹⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Zhuang Kefang ⁽¹²⁾	Interests of spouse	854,974,732	68.56%
Mr. Ou Haoquan ⁽¹⁾⁽¹³⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Lin Jinzhi ⁽¹⁴⁾	Interests of spouse	854,974,732	68.56%
Mr. Luo Siwei ⁽¹⁾⁽¹⁵⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Huang Xiaoyuan ⁽¹⁶⁾	Interests of spouse	854,974,732	68.56%
Mr. Zhong Baomin ⁽¹⁾⁽¹⁷⁾	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Xu Jufang ⁽¹⁸⁾	Interests of spouse	854,974,732	68.56%
Sequoia ⁽¹⁹⁾	Beneficial owner	97,552,800	7.82%

Notes:

- (1) On June 6, 2013, our ultimate Controlling Shareholders, namely, Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, entered into an acting-in-concert confirmation and undertaking to, among other things, confirm their oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert on April 7, 2006. For more details, please refer to the section on “Relationship with our Controlling Shareholders — Our Controlling Shareholders Acting in Concert” of this prospectus. As such, our ultimate Controlling Shareholders together control the 68.56% interest in the share capital of our Company through Profit Strong, Superb Idea, Cosmo Ray and High Ride. As a result of the acting-in-concert agreement, each of our ultimate Controlling Shareholders is deemed to be interested in such 68.56% interest in the share capital of the Company.
- (2) Shares in which Mr. He is interested consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. He, and (ii) 462,456,269 Shares in which Mr. He is deemed to be interested as a result of the acting-in-concert agreement.
- (3) Ms. Zhong Qinhu is the spouse of Mr. He. Under the SFO, Ms. Zhong Qinhu is deemed to be interested in the same number of Shares in which Mr. He is interested.

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- (4) Shares in which Mr. Chen Kunlie is interested consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. Chen Kunlie, and (ii) 694,211,407 Shares in which Mr. Chen Kunlie is deemed to be interested as a result of the acting-in-concert agreement.
- (5) Ms. Chen Haihong is the spouse of Mr. Chen Kunlie. Under the SFO, Ms. Chen Haihong is deemed to be interested in the same number of Shares in which Mr. Chen Kunlie is interested.
- (6) Shares in which Mr. Su Sen are interested consist of (i) 83,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. Su Sen, and (ii) 771,899,766 Shares in which Mr. Su Sen is deemed to be interested as a result of the acting-in-concert agreement.
- (7) Ms. Lin Shiyi is the spouse of Mr. Su Sen. Under the SFO, Ms. Lin Shiyin is deemed to be interested in the same number of Shares in which Mr. Su Sen is interested.
- (8) Shares in which Mr. He Xinzhong are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. He Xinzhong is deemed to be interested as a result of the acting-in-concert agreement.
- (9) High Ride is collectively controlled by Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin. High Ride is owned by Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin as to 19.98%, 19.53%, 17.64%, 13.19% and 8.05%, respectively.
- (10) Ms. Chen Shaokun is the spouse of Mr. He Xinzhong. Under the SFO, Ms. Chen Shaokun is deemed to be interested in the same number of Shares in which Mr. He Xinzhong is interested.
- (11) Shares in which Mr. Chen Yezhi are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Chen Yezhi is deemed to be interested as a result of the acting-in-concert agreement.
- (12) Ms. Zhuang Kefang is the spouse of Mr. Chen Yezhi. Under the SFO, Ms. Zhuang Kefang is deemed to be interested in the same number of Shares in which Mr. Chen Yezhi is interested.
- (13) Shares in which Mr. Ou Haoquan are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Ou Haoquan is deemed to be interested as a result of the acting-in-concert agreement.
- (14) Ms. Lin Jinzhi is the spouse of Mr. Ou Haoquan. Under the SFO, Ms. Lin Jinzhi is deemed to be interested in the same number of Shares in which Mr. Ou Haoquan is interested.
- (15) Shares in which Mr. Luo Siwei are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Luo Siwei is deemed to be interested as a result of the acting-in-concert agreement.
- (16) Ms. Huang Xiaoyuan is the spouse of Mr. Luo Siwei. Under the SFO, Ms. Huang Xiaoyuan is deemed to be interested in the same number of Shares in which Mr. Luo Siwei is interested.
- (17) Shares in which Mr. Zhong Baomin are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Zhong Baomin is deemed to be interested as a result of the acting-in-concert agreement.
- (18) Ms. Xu Jufang is the spouse of Mr. Zhong Baomin. Under the SFO, Ms. Xu Jufang is deemed to be interested in the same number of Shares in which Mr. Zhong Baomin is interested.
- (19) Sequoia refers to Sequoia Fund, Sequoia Partners and Sequoia Principals, which will hold approximately 6.83%, 0.16% and 0.83%, respectively, of the outstanding shares immediately following the completion of the Global Offering.

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Substantial Shareholder of Other Member of Our Group

<u>Name</u>	<u>Name of other member of our group</u>	<u>Percentage of interest</u>
Mr. Jiang Yuehua	Gaoming Furniture	20%
Mr. Tang Bo	Gaoming Furniture	10%

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised and the options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme are not exercised), without taking into account the Offer Shares that may be taken up under the Global Offering, have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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You should read this section in conjunction with our audited consolidated financial statements, including notes thereto, as set forth in the “Accountant’s Report” in Appendix I to this prospectus, which have been prepared in accordance with HKFRS. The following discussion contains forward-looking statements concerning events that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” and elsewhere in this prospectus.

OVERVIEW

Dongpeng is the largest ceramic tile company in the PRC in terms of 2012 retail sales value. We are also the largest industry participant in the high-end ceramic tile segment with a market share of 9.77%, according to the F&S Report. We design, develop, produce, market and sell a wide variety of ceramic tile products and bathroom products under the “Dongpeng” brand. Our principal business is our ceramic tile business, with products categorized into unglazed tiles and glazed tiles. Our bathroom products primarily consist of ceramic bathroom products such as toilets and washing basins.

We market and sell our ceramic tile products through a nationwide sales network of 1,514 retail outlets covering 388 cities across all provinces, autonomous regions and municipalities in China as of June 30, 2013. In 2012, 70.4% of our ceramic tile products were sold through our tier-one distributors, with the remaining 29.6% sold through direct sales channels (including 16.9% through direct corporate sales).

In 2010, 2011, 2012 and the first half of 2012 and 2013, we generated revenue of RMB974.6 million, RMB1,979.0 million, RMB2,497.9 million, RMB1,069.1 million and RMB1,274.7 million, respectively, gross profit of RMB200.6 million, RMB568.4 million, RMB888.4 million, RMB355.3 million and RMB473.4 million, respectively, and net profit of RMB7.3 million, RMB147.9 million, RMB172.8 million, RMB56.3 million and RMB121.2 million, respectively.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by the following factors:

- *Product mix.* During the Track Record Period, we derived substantially all of our revenue from our ceramic tile products. We have traditionally focused on the production and sales of unglazed tile products, which remained as our largest revenue contributor during the Track Record Period. In recent years, we have been diversifying our product portfolio and expanding our production and sales efforts of glazed tile products, and revenue from these products increased steadily as a percentage of our total revenue. For instance, in the second half of 2010, we launched two new subcategories under glazed tiles, glossy glazed tile products and crystal tile products, which are primarily positioned for the high-end market. We also expanded the production and sales of ceramic chip products aimed at the mass market. The continued growth of the sales of these products both in absolute term and as a percentage of total sales during the Track Record Period contributed significantly to the

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growth of our revenue and overall gross profit margin. In addition, we acquired the bathroom product business from related parties as part of our reorganization in May 2013. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”. As a result, we expect the sales of bathroom products to increase in the future. As our product mix continues to change, we anticipate that our revenue, gross profit margin and net profit margin will continue to be affected accordingly.

- *Sales volume and pricing of our products.* Our results of operations are directly affected by our sales volume and the average selling prices of our products. Sales volume of our ceramic tile products increased significantly during the Track Record Period, which primarily reflected (i) the expansion of our sales channels and (ii) the increase of our production capacity as a result of both organic growth and takeover of certain related business previously controlled by certain of our shareholders as part of our reorganization. The average selling price of our ceramic tile products, which remained relatively stable during the Track Record Period, are affected by a number of factors, including (i) our ability to introduce new products with higher selling prices and market acceptance of such products, (ii) sales channel mix, (iii) product mix, (iv) the supply and demand for our products in local and national markets, and (v) the rising disposable income level in the PRC. See “— Sales channel mix” below.
- *Sales channel mix.* During the Track Record Period, we sold the majority of our ceramic tile products to tier-one distributors and the remaining through our direct sales channels. The gross profit margin for sales made through direct sales channels is generally higher than that of sales to tier-one distributors primarily due to the higher average selling price that we were able to charge through direct sales channels for our products. On the other hand, we incur higher selling and distribution expenses for direct sales channels as we (i) are responsible for providing certain additional services, such as transportation service, to our direct sales customers, and (ii) bear additional expenses, such as rental expenses for retail outlets. During the Track Record Period, we have been refining our sales channel mix to enhance our overall profit margin. The gross profit margin of each sales channel are primarily affected by product mix sold through such channel and our overall cost of goods sold. The net profit margin of each sales channel are primarily affected by the gross profit and the selling and distribution expenses of such channel.
- *Store-level productivity.* As we sell a portion of our products through self-owned retail outlets, store-level productivity at these retail outlets affect our revenue and net profit margin. Store-level productivity of the retail outlets for our products are affected by a number of factors, including (i) in-store services, shopping experience and environment; (ii) store location, visibility and potential foot traffic; and (iii) the range and mix of products offered. In addition, given retail consumers’ behavior patterns, the sales volume at a newly opened retail outlet requires at least a year to ramp up. Since a large portion of the selling and distribution expenses incurred by our self-owned retail outlets, such as rental costs and staff costs, are fixed, single store productivity of our self-owned retail outlets affects our net profit margin.

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- *Cost of raw material.* Raw materials, which primarily include clay, chemicals and packaging materials represent the largest component of our cost of goods sold. In 2010, 2011, 2012 and the first half of 2013, the costs of raw materials as a percentage of cost of goods sold were 40.2%, 44.3%, 45.8% and 42.7% , respectively. While the composition of raw materials used in our production is highly varied, cost of clay represented the largest component of raw material costs during the Track Record Period. During the Track Record Period, the cost of clay was affected by, among others, its transportation cost, which has been included in its purchase price. The cost of chemicals is affected by product mix (e.g. glazed tiles generally require more chemicals than unglazed tiles), and the country of origin (e.g. domestically made chemicals are less expensive than imports). As part of our strategy, we also plan to further centralize the procurement of chemicals and packaging materials to lower our cost.

IMPACT OF REORGANIZATION AND RELATED PARTY TRANSACTIONS

Our operating results during the Track Record Period have been affected by our reorganization and related party transactions. Historically, Guangdong Dongpeng Ceramics was our principal onshore holding company. In November 2011, a new onshore holding company, Guangdong Dongpeng Holdings, was established to hold our PRC operating subsidiaries. This was done principally to facilitate our pre-IPO investment and put in place our current group structure. In addition, Guangdong Dongpeng Ceramics had certain unrelated businesses such as real estate investments, which made it unsuitable as the holding company of a ceramic tile focused company seeking a listing on the Hong Kong Stock Exchange.

Reorganization

As part of our reorganization, we took over businesses of Shandong Dongpeng and Shandong Jialiya, entities controlled by certain members of our Controlling Shareholders, in 2011. For details, see “History — Reorganization — Injection of onshore businesses”. Shandong Dongpeng primarily engaged in the production and sales of unglazed ceramic tile products and Shandong Jialiya in the production and sales of ceramic chip products. Historically all of the products of these two companies were sold to either tier-one distributors or related parties. Such business takeover affected the comparability between our 2010 and 2011 operating results and financial condition. In 2011, revenue from Zibo Kapuer, our wholly-owned subsidiary that consisted of only the businesses taken over from Shandong Jialiya and Shandong Dongpeng, contributed a total of RMB358.6 million, representing 18.1% of our revenue.

Related Party Transactions

From 2010 to 2012, our related party transactions were primarily with Guangdong Dongpeng Ceramics, Shandong Jialiya and Shandong Dongpeng. Prior to the completion of our reorganization, some of the sales and production functions of our ceramic tile products business were supported and supplemented by Guangdong Dongpeng Ceramics, Shandong Jialiya and Shandong Dongpeng. For example, Guangdong Dongpeng Ceramics, which used to be the on-shore holding company of most of our operating subsidiaries, carried out functions similar to those of a tier-one distributor. We also supplemented our ceramic tile production capacity through purchasing finished products from Shandong Jialiya, Shandong Dongpeng as well as certain third party manufacturers sourced through Guangdong Dongpeng Ceramics. Starting from 2013, we ceased all material related party sales and purchase of ceramic tile products.

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Sales

In 2010, 2011 and 2012, we sold finished products in the aggregate amount of RMB362.4 million, RMB563.2 million and RMB40.3 million, respectively, to related parties, which primarily included Guangdong Dongpeng Ceramics, who carried out functions similar to those of a tier-one distributor. In November 2011, Guangdong Dongpeng Holdings was established to replace Guangdong Dongpeng Ceramics as our principal onshore holding company. If no reorganization was necessary, and Guangdong Dongpeng Holdings had been our onshore holding entity since the beginning of the Track Record Period, then sales would have occurred through this company and contracts with distributors would have been entered into through this company throughout the Track Record Period. In light of our reorganization, and to minimize the disruption to our business caused by the reorganization, Guangdong Dongpeng Holdings replaced Guangdong Dongpeng Ceramics as the party on distributor contracts as soon as the original contractual terms with Guangdong Dongpeng Ceramics expired during 2011 and 2012. As a result, sales to related parties as a percentage of total revenue decreased from 37.2% in 2010 to 28.5% in 2011 and further to 1.6% in 2012. Finished products we sold to Guangdong Dongpeng Ceramics and other related parties were primarily ceramic tile products we produced in-house.

In 2010, our selling prices to related parties were generally at a 15% to 20% discount off the selling prices to Independent Third Parties. Since 2011, such discounts have been terminated and we have sold to related parties at similar prices as to Independent Third Parties. Gross margins for sales made to related parties were approximately 3.0%, 17.7% and 27.0%, respectively, in 2010, 2011 and 2012, as compared to gross margins of approximately 23.5%, 28.5% and 31.2%, respectively, for sales made to tier-one distributors who were Independent Third Parties during the same periods. Such difference in gross profit margin in 2010 was primarily due to the 15% to 20% discount we provide to related parties, and the difference in gross profit margin in 2011 and 2012 was primarily due to the difference in product mix. Our purchase orders with related party customers were relatively simple and generally did not contemplate credit terms. Our actual historical turnover for receivables due from related parties were significantly longer than turnover for those due from Independent Third Parties. Please see “— Discussion of Certain Balance Sheet Items — Trade and Other Receivables — Trade Receivables” and “— Related Party Transactions” for more details.

Purchases

In 2010, 2011 and 2012, we purchased finished products in the aggregate amount of RMB136.2 million, RMB209.6 million and RMB69.2 million, respectively, from related parties. These purchases primarily included the following:

- *Ceramic tile products.* To supplement our production capacity, we purchased finished products of ceramic tiles from (i) Guangdong Dongpeng Ceramics and others in 2010 and 2011 in the amount of RMB62.8 million and RMB82.6 million, respectively; and (ii) Shandong Dongpeng and Shandong Jialiya in 2010 in the aggregate total of RMB62.8 million (consisting of RMB28.7 million in unglazed tile products from Shandong Dongpeng and RMB34.1 million in ceramic chip products from Shandong Jialiya). During the Track Record Period, finished products purchased from Guangdong Dongpeng Ceramics were primarily mass-market

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ceramic tile products Guangdong Dongpeng Ceramics sourced from third party manufacturers under processing arrangements. These purchases were generally mass market products which were readily available in the market from Independent Third Parties, and we made these purchases at prices higher than what an Independent Third Party supplier would have offered us. As part of our reorganization, we gradually replaced all of the processing arrangements entered into by Guangdong Dongpeng Ceramics after the end of their respective contract term with similar arrangements entered into directly by members of our Group. As a result, we no longer sourced ceramic tile products through Guangdong Dongpeng Ceramics since the beginning of 2012. Finished products we purchased from Shandong Dongpeng in 2010 were primarily its unglazed ceramic tile products. Finished products we purchased from Shandong Jialiya in 2010 were primarily its ceramic chip products. Our purchase orders to related party suppliers were relatively simple and generally did not contemplate credit terms. Similar to receivables from related parties, our actual historical turnover for payables due to related parties were significantly longer than turnover for those due to Independent Third Parties. Please see “— Discussion of Certain Balance Sheet Items — Trade and Other Payables — Trade Payables” and “— Related Party Transactions” for more details.

- *Inventory.* In 2011 and 2012, we purchased inventory of ceramic tiles from Shandong Dongpeng and Shandong Jialiya in the amount of RMB109.6 million and RMB0.3 million, respectively, as part of our takeover of their businesses. We have also purchased inventory of ceramic tiles from Guangdong Dongpeng Ceramics in the amount of RMB41.1 million in 2012. Such inventory of ceramic tile products was purchased at prices approximately the same as our cost of production and approximately the same as the purchase price an Independent Third Party supplier would have offered us. These purchases were generally mass market products which were readily available in the market from Independent Third Party suppliers.

Our operating results during the Track Record Period should be read in light of these transactions. We believe, however, that our net profit during the Track Record Period was not positively impacted by these transactions, because (i) our purchase prices from the related parties during the Track Record Period were no more favorable to us than what we could have obtained from an Independent Third Party supplier and (ii) our sales in 2010 were conducted on terms more favorable to our related parties. For more details as to these transactions, see “— Related Party Transactions” and note 34 of the Accountant’s Report in Appendix I of this prospectus.

EXPANSION INTO BATHROOM PRODUCTS BUSINESS

During the first half of 2013, we took over the bathroom products business from certain related parties to further expand this segment. As part of this process, we completed the acquisition of Dongpeng Sanitary Ware, a company focusing on ceramic bathroom products business, from certain Controlling Shareholders in May 2013. From the date of acquisition, Dongpeng Sanitary Ware contributed RMB45.4 million and RMB3.5 million, respectively, to our revenue and profit for the period in

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the first half of 2013. Had the acquisition of Dongpeng Sanitary Ware been completed on January 1, 2013, our revenue and profit in the first half of 2013 would have been RMB1,412.1 million and RMB117.6 million, respectively. Please see note 36 of the Accountant's Report in Appendix I of this prospectus for more details. Also in May 2013, we took over the non-ceramic bathroom products business from Qingyuan Dongpeng Bathroom Products. See "History and Corporate Development — Reorganization — Acquisition of bathroom products business".

The following is an overview of aspects of this business as they relate to our future financial performance:

- *Business model.* The acquired bathroom products business consists of ceramic bathroom products and non-ceramic bathroom products (such as cabinets and accessories). The ceramic bathroom products component has been operated under a vertically integrated business model similar to that of our ceramic tiles business with product design, development and production conducted in-house. The non-ceramic bathroom products are primarily sourced from third party manufacturers using our designs and specifications. Both ceramic and non-ceramic bathroom products of the acquired business are sold primarily to tier-one distributors. As of June 30, 2013, we had 312 tier-one distributors, who further distributed our bathroom products through 345 tier-two distributors and 789 third party retail outlets.
- *Financial overview.* In 2012 and the five months ended May 31, 2013, Dongpeng Sanitary Ware generated revenue of RMB263.8 million and RMB137.3 million, respectively, and incurred net loss of RMB3.1 million and RMB3.0 million, respectively. As of December 31, 2012 and May 31, 2013, Dongpeng Sanitary Ware had net assets of RMB85.0 million and RMB42.3 million, respectively, and net current assets of RMB22.0 million and RMB82.0 million, respectively. The key raw materials for the ceramic bathroom products include clay, chemicals and natural gas, which are similar to those for ceramic tile products. The profit margin of bathroom products business has historically been lower than that of our ceramic tiles business primarily due to its relatively lower selling prices, lower production efficiency and outsourcing arrangement.
- *Expansion plan.* We plan to further grow the bathroom products business and improve its profitability by exploiting brand synergy and cross-selling opportunities derived from our unique market leading position in ceramic tile products, expanding sales channels, improving production efficiency, and leveraging our existing corporate infrastructure for ceramic tile products. We also plan to construct a new production facility for bathroom products located at Fengcheng, Jiangxi province, with a total planned annual production capacity of 72,000 tonnes to be completed in four phases, with the construction of phase one of a planned annual capacity of 20,000 tonnes expected to be completed in 2014. See "Business — Business Strategy — Further expand our bathroom products business".

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BASIS OF PRESENTATION

Our Company was incorporated on March 12, 2012 and became the ultimate holding company of the companies now comprising our Group on January 29, 2013. The ultimate Controlling Shareholders controlled our Group prior to and after our reorganization. Accordingly, our Group resulting from the reorganization is regarded as a continuing entity. The financial information of our Group has been prepared under the common control by the Controlling Shareholders by applying the principles of merger accounting, in accordance with Hong Kong Accounting Guideline 5 Merger Accounting for Common Control Combinations, as if the group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where it is a shorter period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are set forth in note 3 to the Accountant's Report as set out in Appendix I to this prospectus. HKFRS requires that we adopt accounting policies and make estimates and assumptions that our management believes are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial condition. The preparation of our financial information requires us to make significant estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. We have identified below the accounting policies that we believe are the most critical to our consolidated financial information and that involve the most significant estimate.

Useful Lives of Property, Plant and Equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation and residual values, we estimate the useful lives of various categories of property, plant and equipment according to our experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives. As of December 31, 2010, 2011, 2012 and June 30, 2013, the carrying amount of property, plant and equipment was RMB450.1 million, RMB625.1 million, RMB878.3 million and RMB916.4 million, respectively.

Deferred Tax Asset

Deferred tax assets relating to certain temporary differences and tax losses are recognized when we consider to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different. The realizability of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. We determine the deferred tax assets based on the enacted or substantially enacted tax rates and our best knowledge of profit projections for coming years during which the deferred tax assets

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are expected to be utilized. We review the assumptions and profit projections on a regular basis. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognized in the profit or loss for the period in which such a recognition or reversal takes place. As of December 31, 2010, 2011, 2012 and June 30, 2013, the carrying amount of deferred tax assets was RMB20.3 million, RMB32.9 million, RMB34.9 million and RMB42.6 million, respectively.

Valuation of Inventories

We estimate the net realizable value of inventories based primarily on the latest market prices and current market conditions. We carry out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realizable values. Where the expectation on the net realizable value is lower than the cost, an additional write-off or write-down may arise. As of December 31, 2010, 2011, 2012 and June 30, 2013, the allowance for obsolete inventories was RMB38.0 million, RMB51.1 million, RMB53.7 million and RMB67.6 million, respectively.

Estimated Impairment of Trade Receivables and Other Receivables

When there is objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As of December 31, 2010, 2011, 2012 and June 30, 2013, the allowance for trade receivables was RMB2.4 million, RMB9.1 million, RMB13.9 million and RMB20.3 million, respectively. As of December 31, 2010, 2011, 2012 and June 30, 2013, the carrying amount of other receivables was RMB5.0 million, RMB6.1 million, RMB6.3 million and RMB10.7 million, respectively, and no allowance for impairment has been made.

Fair Value of Redeemable Convertible Preferred Shares

No quoted prices in an active market exist for the redeemable convertible preferred shares. The fair value of the redeemable convertible preferred shares is established by using valuation techniques. These techniques include discounted cash flow analysis and option pricing models. Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuers make the maximum use of market inputs and rely as little as possible on our specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require our estimates. Our estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions be changed, it may lead to a change in fair value of the redeemable convertible preferred shares. The fair value of the redeemable convertible preferred shares as of June 30, 2013 was approximately RMB188,394.

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DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

The following table sets forth a summary of our consolidated statement of profit and loss and other comprehensive income for the period indicated. This information should be read together with our consolidated financial statements and related notes, which have been prepared in accordance with HKFRS, and set out in Appendix I to this prospectus. Our operating results in any period are not necessarily indicative of results that may be expected for any future period.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
(RMB'000 except for percentages)										
(unaudited)										
Revenue	974,627	100.0%	1,978,953	100.0%	2,497,924	100.0%	1,069,088	100.0%	1,274,749	100.0%
Cost of goods sold	(774,012)	(79.4)	(1,410,580)	(71.3)	(1,609,554)	(64.4)	(713,776)	(66.8)	(801,395)	(62.9)
Gross profit	200,615	20.6	568,373	28.7	888,370	35.6	355,312	33.2	473,354	37.1
Other income.....	5,781	0.6	18,303	0.9	42,924	1.7	12,886	1.2	22,172	1.7
Other gains and losses	(3,420)	(0.4)	(9,564)	(0.5)	(6,540)	(0.3)	(4,528)	(0.4)	(6,561)	(0.5)
Distribution and selling expenses ...	(109,585)	(11.2)	(255,915)	(12.9)	(440,127)	(17.6)	(181,659)	(17.0)	(176,644)	(13.9)
Administrative expenses	(58,159)	(6.0)	(95,243)	(4.8)	(189,634)	(7.6)	(80,245)	(7.5)	(95,849)	(7.5)
Other expenses.....	(6,770)	(0.7)	(11,917)	(0.6)	(25,560)	(1.0)	(11,606)	(1.1)	(21,568)	(1.7)
Share of loss of a joint venture	(1,322)	(0.1)	—	—	—	—	—	—	—	—
Change in fair value of redeemable convertible preferred share	—	—	—	—	—	—	—	—	(3,363)	0.3
Finance costs	(14,257)	(1.5)	(16,372)	(0.8)	(29,235)	(1.2)	(13,799)	(1.3)	(20,255)	(1.6)
Profit before tax	12,883	1.3	197,665	10.0	240,198	9.6	76,361	7.1	171,286	13.4
Income tax expense.....	(5,599)	(0.6)	(49,723)	(2.5)	(67,358)	(2.7)	(20,024)	(1.9)	(50,053)	(3.9)
Profit for the year/period	<u>7,284</u>	<u>0.7%</u>	<u>147,942</u>	<u>7.5%</u>	<u>172,840</u>	<u>6.9%</u>	<u>56,337</u>	<u>5.3%</u>	<u>121,233</u>	<u>9.5%</u>

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

We derived substantially all of our revenue during the Track Record Period from sales of ceramic tile products. We also derived a small portion of our revenue from sales of bathroom products purchased from related parties. In May 2013, we acquired the bathroom products business as part of our reorganization. See “History and Corporate Development — Reorganization — Acquisition of bathroom products business”.

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Revenue by Product Category and Sub-category

The following table sets forth revenue by product category and sub-category where applicable and as percentage of total revenue for ceramic tiles for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Unglazed tiles	626,120	65.3%	1,157,579	59.2%	1,370,249	55.6%	592,386	56.0%	621,810	51.0%
Glazed tiles										
Antique-inspired tiles	253,182	26.3	381,769	19.5	391,386	15.8	178,249	16.9	174,056	14.3
Glossy glazed tiles	20,725	2.2	58,500	3.0	194,962	7.9	70,082	6.6	156,170	12.8
Crystal tiles.....	1,927	0.2	84,975	4.3	147,137	6.0	61,861	5.8	79,059	6.5
Ceramic chips	57,558	6.0	273,748	14.0	362,603	14.7	155,275	14.7	187,615	15.4
Subtotal	333,392	34.7	798,992	40.8	1,096,088	44.4	465,467	44.0	596,900	49.0
Total for ceramic tiles	<u>959,512</u>	<u>100.0%</u>	<u>1,956,571</u>	<u>100.0%</u>	<u>2,466,337</u>	<u>100.0%</u>	<u>1,057,853</u>	<u>100.0%</u>	<u>1,218,710</u>	<u>100.0%</u>

Sales volume by product category and subcategory

The following table sets forth the sales volume of our ceramic tile products by product category and subcategory where applicable and as percentage of total sales volume of ceramic tile products for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Area	% of total	Area	% of total	Area	% of total	Area	% of total	Area	% of total
(thousands square meters except percentages)										
Unglazed tiles	10,271	60.7%	18,217	52.7%	21,513	51.8%	9,555	51.7%	9,733	49.2%
Glazed tiles										
Antique-inspired tiles	5,268	31.1	8,290	24.1	7,774	18.7	3,691	20.0	3,162	16.0
Glossy glazed tiles	256	1.5	663	1.9	2,473	6.0	966	5.2	2,000	10.1
Crystal tiles.....	13	0.1	429	1.2	629	1.5	282	1.5	336	1.7
Ceramic chips	1,112	6.6	6,943	20.1	9,159	22.0	3,975	21.6	4,555	23.0
Subtotal	6,649	39.3	16,325	47.3	20,035	48.2	8,914	48.3	10,053	50.8
Total for ceramic tiles	<u>16,920</u>	<u>100.0%</u>	<u>34,542</u>	<u>100.0%</u>	<u>41,548</u>	<u>100.0%</u>	<u>18,469</u>	<u>100.0%</u>	<u>19,786</u>	<u>100.0%</u>

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Average selling price by product category and subcategory

The following table sets forth the average selling price of our ceramic tile products to our customers by product category and subcategory where applicable for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB per square meter)				
Unglazed tiles	61.0	63.5	63.7	62.0	63.9
Glazed tiles					
Antique-inspired tiles.....	48.1	46.1	50.3	48.3	55.0
Glossy glazed tiles.....	81.0	88.2	78.8	72.5	78.1
Crystal tiles.....	146.3	198.0	234.0	219.0	235.1
Ceramic chips	51.7	39.4	39.6	39.1	41.2
Subtotal	50.1	48.9	54.7	52.2	59.4
Total for ceramic tiles	56.7	56.6	59.4	57.3	61.6

The following summarizes the key trends in our revenue by product segment and category during the Track Record Period.

- *Accelerating growth of glazed products.* Within ceramic tile products, we have traditionally focused on the production and sales of unglazed tile products, which remained as our largest revenue contributor during the Track Record Period. In recent years, we have been diversifying our product portfolio and expanding our production and sales efforts of glazed tile products. As a result, revenue from glazed tile products increased as a percentage of our total revenue during the Track Record Period. As set forth below, our diversification strategy has led to significant revenue increases in both high-end and mass-market product lines:
 - *Successful launches of high-end products.* We launched glossy glazed tile products and crystal tile products, both are positioned for the high-end market, in the first half of 2010 and have rapidly ramped up their production and sales volume during the Track Record Period. To a lesser extent, the increased revenue was also attributable to the increase in average selling price as a result of improved product mix with higher portion of high-end products. The increase in the sales volume of glossy glazed tile products was partially offset by our strategic adjustment of their selling prices in 2012 to reach a broader customer base. The average selling price of crystal tile products continued to increase during the Track Record Period.
 - *Diversification into mass-market products.* As part of our strategy to diversify into mass-market products, in January 2011, we took over the business of Shandong Jialiya, a related company focused on ceramic chip products. As a result, revenue from ceramic chip products increased substantially in 2011 as compared to 2010. However, because Shandong Jialiya had primarily sold its ceramic chip products to tier-one distributors,

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which has lower average selling price than products sold through direct sales channels, which were our primary sales channels prior to the business takeover. As a result, the business takeover resulted in a decrease in the average selling price of these products in 2011 compared to 2010.

- *Steady growth of unglazed products.* Revenue from unglazed tile products also continued to increase during the Track Record Period, but at a slower pace than that of glazed tile products. Revenue from unglazed tile products increased in 2012 as compared to 2011 and in the first half of 2013 as compared to the same period in 2012, primarily reflecting a combination of our continuing sales and marketing efforts, the overall growth in market demand and the expansion of our sales channels. Revenue from unglazed tile products increased in 2011 as compared to 2010 primarily due to our takeover of the unglazed tile business from Shandong Dongpeng and expansion of facility at Qingyuan, Guangdong province.

Revenue by Sales Channel

The following table sets forth our revenue of ceramic tile products by sales channel and as percentage of total revenue for ceramic tile products for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
(RMB'000 except for percentages)										
Distributors	644,600	67.2%	1,552,330	79.3%	1,736,033	70.4%	752,132	71.1%	910,297	74.7%
Direct sales										
Self-owned retail										
outlets.....	80,779	8.4	111,336	5.7	185,061	7.5	75,240	7.1	77,108	6.3
Corporate sales.....	170,140	17.7	203,860	10.4	415,833	16.9	182,022	17.2	157,774	13.0
Preferred dealers ...	63,993	6.7	89,045	4.6	129,410	5.2	48,459	4.6	73,531	6.0
Subtotal	314,912	32.8	404,241	20.7	730,304	29.6	305,721	28.9	308,413	25.3
Total for ceramic tiles	959,512	100.0%	1,956,571	100.0%	2,466,337	100.0%	1,057,853	100.0%	1,218,710	100.0%

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Sales volume by sales channel

The following table sets forth the sales volume of our ceramic tile products by sales channel and as percentage of total sales volume of ceramic tile products for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Area	% of total	Area	% of total	Area	% of total	Area	% of total	Area	% of total
(thousands square meters except percentages)										
Distributors	12,837	75.9%	29,382	85.1%	32,440	78.1%	14,605	79.1%	15,812	79.9%
Direct sales										
Self-owned retail outlets...	733	4.3	941	2.7	1,644	4.0	760	4.1	659	3.3
Corporate sales	2,501	14.8	2,997	8.7	5,784	13.9	2,434	13.2	2,308	11.7
Preferred dealers	849	5.0	1,222	3.5	1,680	4.0	670	3.6	1,007	5.1
Subtotal	4,083	24.1	5,160	14.9	9,108	21.9	3,863	20.9	3,974	20.1
Total for ceramic tiles	<u>16,920</u>	<u>100.0%</u>	<u>34,542</u>	<u>100.0%</u>	<u>41,548</u>	<u>100.0%</u>	<u>18,469</u>	<u>100.0%</u>	<u>19,786</u>	<u>100.0%</u>

Average selling price by sales channel

The following table sets forth the average selling price of our ceramic tile products by sales channel for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB per square meter)				
Distributors	50.2	52.8	53.5	51.5	57.6
Direct sales					
Self-owned retail outlets.....	110.2	118.3	112.6	99.0	116.9
Corporate sales.....	68.0	68.0	71.9	74.8	68.4
Preferred dealers	75.4	72.9	77.0	72.4	73.0
Subtotal	77.1	78.3	80.2	79.1	77.6
Total for ceramic tiles	56.7	56.6	59.4	57.3	61.6

During the Track Record Period, we sold a majority of our ceramic tile products to tier-one distributors with the remaining through our direct sales channels. We have actively sought to expand our direct sales channels during the Track Record Period as such sales channels provide higher margin potential and keep us closely attuned to the changes in consumer preferences and the latest design trends.

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Revenue from direct sales channels increased continuously during the Track Record Period, with key trends summarized below:

- *Self-owned retail outlets.* The increased sales through self-owned retail outlets from 2010 to 2012 was primarily due to increased number of self-owned retail outlets, which grew from 36 as of January 1, 2010 to 58 as of December 31, 2012. The increased sales through self-owned retail outlets during the first half of 2013 compared to the same period in 2012 was primarily a result of improved store level productivity, partially off set by transfers of 10 self-owned retail outlets to certain preferred dealers during the first half of 2013. These transfers were part of our continued efforts to optimize the sales channel mix within our direct sales network to improve operational efficiency.
- *Preferred dealers.* The increased sales to preferred dealers were primarily due to the increased number of retail outlets operated by our preferred dealers, which grew from 49 as of January 1, 2010 to 93 as of December 31, 2012 and further to 115 as of June 30, 2013. Among the 22 retail outlets added to our preferred dealer network during the first half of 2013, 12 outlets were added through its organic growth and the remaining were transferred from our Company.
- *Corporate sales.* The increased corporate sales during 2010 to 2012 was primarily due to our enhanced selling efforts, including by establishing a dedicated sales department in 2011 to focus on direct corporate customers. The decreased corporate sales in the first half of 2013 compared to the same period of 2012 was primarily a result of our rigorous customer selection process as we refined our corporate sales strategy. As corporate sales remain one of our sales and distribution focuses, we expect revenue from corporate sales to increase in the second half of 2013 and future periods.

Revenue from tier-one distributors also increased during the Track Record Period, primarily due to the increased sales volume as a result of expansion of our tier-one distribution network. The number of our tier one distributors increased from 292 as of January 1, 2010 to 514 as of June 30, 2013. In addition, the increased revenue from tier-one distributors in the first half of 2013 compared to the same period of 2012 as a percentage of total revenue was also a result of decreased corporate sales which offset revenue growth from direct sales channels as a whole. Increased revenue from tier-one distributors in 2011 compared to 2010 both in absolute term and as a percentage of total revenue was also a result of the tier-one distributor arrangements we inherited from Shandong Jialiya and Shandong Dongpeng as part of the business takeover.

Certain key trends in the average selling prices of our ceramic tile products by sales channel are summarized below:

- *Corporate sales.* The products ordered by one of our corporate customers in 2012 required special processing and hence had significantly higher average selling price compared to that of products sold to other corporate customers. The sales transactions with this customer therefore contributed to a higher average selling price of corporate sales in 2012 compared to that in the previous years and the first half of 2013.

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- *Self-owned retail outlets.* In 2012, as part of our strategy to reach a broader customer base with a relatively new product, we lowered the selling prices of glossy glazed tiles, which contributed to a decrease in the average selling price of self-owned retail outlets from 2011 to 2012 as sales of glossy glazed tiles constituted a relatively large portion of total sales through self-owned retail outlets.
- *Preferred dealers.* In 2011, as part of our strategy to expand into the third- and fourth-tier cities of Yunnan and Guangxi provinces, we provided pricing support to a significant number of newly added preferred dealers, which contributed to a decrease in the average selling price of preferred dealers from 2010 to 2011. See also “— Gross Profit and Gross Profit Margin”.

Cost of Goods Sold

Cost of goods sold represents the direct costs of production. During the Track Record Period, substantially all of our cost of goods sold incurred was related to ceramic tile products. The following table sets forth the components of cost of goods sold for the period indicated.

	For the year ended December 31,						For the six months ended			
	2010		2011		2012		June 30,		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
(RMB'000 except for percentages)										
Ceramic tiles										
Raw materials										
Clay.....	105,568	10.8%	259,965	13.1%	327,068	13.1%	144,977	13.6%	157,545	12.4%
Chemicals.....	108,156	11.1	235,170	11.9	261,793	10.5	116,043	10.9	116,305	9.1
Packaging materials.....	56,454	5.8	87,165	4.4	102,927	4.1	45,623	4.2	49,730	3.9
Other raw material.....	41,001	4.2	42,026	2.1	45,459	1.8	20,150	1.9	18,780	1.5
Subtotal for raw materials	<u>311,179</u>	<u>31.9</u>	<u>624,326</u>	<u>31.5</u>	<u>737,247</u>	<u>29.5</u>	<u>326,793</u>	<u>30.6</u>	<u>342,360</u>	<u>26.9</u>
Fuel.....	203,083	20.8	325,903	16.5	339,522	13.6	150,497	14.0	168,387	13.2
Utilities.....	78,623	8.1	115,426	5.8	139,824	5.6	61,978	5.8	65,970	5.2
Labor.....	40,813	4.2	98,261	5.0	130,430	5.2	57,815	5.4	62,618	4.9
Rental and depreciation.....	40,300	4.1	69,916	3.5	85,095	3.4	37,719	3.5	51,852	4.1
Repair.....	22,896	2.3	37,658	1.9	38,591	1.5	17,106	1.6	21,163	1.7
Polishing costs.....	22,414	2.3	48,154	2.4	54,945	2.2	24,355	2.3	33,134	2.6
Impairment on inventory.....	12,600	1.3	13,087	0.7	2,536	0.1	2,678	0.3	8,909	0.7
Others.....	37,837	3.9	70,352	3.6	60,487	2.4	26,811	2.5	6,325	0.5
Subtotal for ceramic tiles.....	<u>769,745</u>	<u>79.0</u>	<u>1,403,083</u>	<u>70.9</u>	<u>1,588,677</u>	<u>63.6</u>	<u>705,752</u>	<u>66.0</u>	<u>760,718</u>	<u>59.7</u>
Bathroom products.....	<u>4,267</u>	<u>0.4</u>	<u>7,497</u>	<u>0.4</u>	<u>20,877</u>	<u>0.8</u>	<u>8,024</u>	<u>0.8</u>	<u>40,677</u>	<u>3.2</u>
Total.....	<u>774,012</u>	<u>79.4%</u>	<u>1,410,580</u>	<u>71.3%</u>	<u>1,609,554</u>	<u>64.4%</u>	<u>713,776</u>	<u>66.8%</u>	<u>801,395</u>	<u>62.9%</u>

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During the Track Record Period, the costs of raw materials primarily represented costs of clay, chemicals and packaging materials. The cost of fuel primarily represented cost of coal and, to a lesser extent, natural gas, which were incurred to operate power plants at our production facilities. The cost of utilities represented the costs of electricity and water. The cost of labor represented salaries and benefits paid to our production personnel.

During the Track Record Period, the cost of clay increased both in absolute terms and as a percentage of revenue. The average unit cost of clay was RMB259.8 per tonne, RMB284.2 per tonne, RMB302.2 per tonne and RMB321.0 per tonne in 2010, 2011, 2012 and the first half of 2013, respectively. Such increase was mainly due to the increased transportation cost which was included in the selling prices of clay. The increase in transportation cost primarily reflected a general market increase of oil prices. The cost of fuel decreased as a percentage of revenue as a result of production technology upgrade and our increased production scale. The average unit cost of coal was RMB830.2 per tonne, RMB886.4 per tonne, RMB870.2 per tonne and RMB838.0 per tonne and the average unit cost of natural gas was RMB3.85 per cubic meter, RMB3.80 per cubic meter, RMB3.75 per cubic meter and RMB3.55 per cubic meter in 2010, 2011, 2012 and the first half of 2013, respectively. Such price fluctuation was primarily affected by the changes in supply and demand in domestic and international fuel markets. The increase in the cost of labor was a combined effect of increased number of our production personnel and their average salaries and benefits.

Gross Profit and Gross Profit Margin

Our overall gross profit margin was 20.6%, 28.7%, 35.6% and 37.1% in 2010, 2011, 2012 and first half of 2013, respectively. The gross profit margin of our ceramic tile products was 19.8%, 28.3%, 35.6% and 37.6% in 2010, 2011, 2012 and the first half of 2013, respectively.

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Gross Profit and Gross Profit Margin by Product Category

The following table sets forth the gross profit and gross profit margin of our products by product segment, category and subcategory where applicable for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	(RMB'000 except for percentages)									
Ceramic tiles										
Unglazed tiles.....	134,359	21.5%	348,549	30.1%	451,601	33.0%	185,446	31.3%	215,561	34.7%
Glazed tiles										
<i>Antique-inspired tiles</i>	39,857	15.7	86,355	22.6	151,421	38.7	61,619	34.6	72,344	41.6
<i>Glossy glazed tiles</i>	6,564	31.7	21,864	37.4	76,770	39.4	24,895	35.5	63,044	40.4
<i>Crystal tiles</i>	177	9.2	29,451	34.7	78,217	53.2	30,542	49.4	41,648	52.7
<i>Ceramic chips</i>	8,810	15.3	67,269	24.6	119,651	33.0	49,599	31.9	65,395	34.9
<i>Subtotal for glazed tiles</i>	55,408	16.6	204,939	25.6	426,059	38.9	166,655	35.8	242,431	40.6
Subtotal for ceramic tiles	189,767	19.8	553,488	28.3	877,660	35.6	352,101	33.3	457,992	37.6
Bathroom products	10,848	71.8	14,885	66.5	10,710	33.9	3,211	28.6	15,362	27.4
Total	200,615	20.6%	568,373	28.7%	888,370	35.6%	355,312	33.2%	473,354	37.1%

The increase in the gross profit margin of our ceramic tile products across all product categories from 2011 to 2012 and from the first half of 2012 to the same period in 2013 primarily reflected (i) the continuing improvement in our production efficiency as a result of increased production scale; and (ii) enhanced sales channel mix for all product lines. In addition, with respect to crystal tile products, the gross profit margin increased significantly during the Track Record Period, primarily reflecting (i) the ramp up of these relatively new products, which were initially launched in 2010; and (ii) the introduction of new product series with higher margins and higher average selling prices, such as the Jade Stone in 2011.

The increase in the gross profit margin of our ceramic tile products from 2010 to 2011 primarily reflected a combination of (i) the termination of discounts on sales to related parties in 2011; (ii) the purchases of inventories of finished products at prices similar to the cost of production from Shandong Dongpeng and Shandong Jialiya, compared to purchases at prices above the cost of production in 2010; and (iii) the in-house manufacturing of unglazed tiles and ceramic chips previously produced by Shandong Dongpeng and Shandong Jialiya since the business takeover, thereby reducing the cost of goods sold on such products. See “— Impact of Reorganization and Related Party Transactions”.

The decrease in gross profit margin of bathroom products from the first half of 2012 to the same period in 2013 was primarily due to the change of our sales channel mix as a result of the reorganization. Dongpeng Sanitary Ware, a company focusing on ceramic bathroom products that we acquired in May

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2013, primarily relied on tier-one distributors. Sales to tier-one distributors have a lower gross profit margin than that of direct sales channels, which were our primary sales channels prior to the acquisition. The significant decrease in the gross profit margin of bathroom products from 2011 to 2012 primarily reflected the change in our principal sales channel from self-owned retail outlets to preferred dealers.

Gross Profit and Gross Profit Margin by Sales Channel

The following table sets forth our gross profit and gross profit margin by sales channel for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000 except for percentages)									
Ceramic tiles										
Distributor	78,207	12.1%	382,161	24.6%	493,910	28.5%	198,212	26.4%	297,944	32.7%
Direct sales										
<i>Self-owned retail outlets</i>	38,513	47.7	54,936	49.3	121,040	65.4	46,317	61.6	51,053	66.2
<i>Corporate sales</i>	48,995	28.8	81,545	40.0	196,709	47.3	83,874	46.1	72,648	46.0
<i>Preferred dealers</i>	24,052	37.6	34,846	39.1	66,001	51.0	23,698	48.9	36,347	49.4
<i>Subtotal for direct sales</i>	111,560	35.4	171,327	42.4	383,750	52.5	153,889	50.3	160,048	51.9
Subtotal for ceramic tiles	189,767	19.8	553,488	28.3	877,660	35.6	352,101	33.3	457,992	37.6
Bathroom products	10,848	71.8	14,885	66.5	10,710	33.9	3,211	28.6	15,362	27.4
Total	200,615	20.6%	568,373	28.7%	888,370	35.6%	355,312	33.2%	473,354	37.1%

The increase in our gross profit margin for ceramic tile products from 2011 to 2012 and from the first half of 2012 to the same period in 2013 for all sales channels reflected a combination of increased economies of scale in production and enhanced product mix across all sales channels. In addition, the increase in gross profit margin for sales to preferred dealers in 2012 compared to 2011 was also attributable to the reduction of pricing support we provided to our newly added preferred dealers in 2011 in the third- and fourth-tier cities of Yunnan and Guangxi provinces as part of our strategy in 2011 to expand into these regions. Such pricing support ended in 2012 as sales ramped up for many of these preferred dealers. The increase in gross profit margin from corporate sales during 2010 to 2012 also reflected the effect of our increased focus on direct corporate customers, including establishing our dedicated corporate sales department in 2011.

As discussed in “— Impact of Reorganization and Related Party Transactions”, the increase in our gross profit margin in 2011 compared to 2010 for all sales channels reflected changes in the pricing policies on purchases from related parties and our business takeover from Shandong Dongpeng and Shandong Jialiya. The increase in gross profit margin for sales to tier-one distributors in 2011 compared to 2010 was also due to changes in the pricing policies on sales to related parties, primarily Guangdong Dongpeng Ceramics, who carried out functions similar to a tier-one distributor.

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Other Income

The following table sets forth our other income for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
Bank interest income	260	1,843	5,531	1,798	3,618
Interest income on credit					
sales	—	3,466	4,584	1,620	1,742
Processing income	3,789	6,756	12,127	3,671	3,183
Sales of advertising					
brochure	—	3,780	1,002	935	1,663
Conference charge	—	—	3,679	2,116	161
Government grants	675	255	13,251	720	9,642
Sundry income	1,057	2,203	2,750	2,026	2,163
Total	<u>5,781</u>	<u>18,303</u>	<u>42,924</u>	<u>12,886</u>	<u>22,172</u>

During the Track Record Period, other income included bank interest income, interest income on credit sales, processing income, sales of advertising brochure, conference charge, government grant and sundry income. Interest income on credit sales represented interest received from trade receivables due from our customers.⁽¹⁾ Processing income represented processing fees we charged our customers for cutting or polishing services on our tile products. Sales of advertising brochure represented fees we charged our distributors for advertising brochures of our products. Conference charge represented fees we charged our distributors for attending industry conferences we organize.

Other Gains and Losses

During the Track Record Period, other gains and losses primarily consisted of net/(losses) profit on disposal of property, plant and equipment, (additional allowance)/reversal of doubtful receivables and net foreign exchange gain/(loss). In 2010, other losses also included RMB2.5 million loss on disposal of Datang Hesheng, which we owned a 65% equity interest and disposed in October 2010.

⁽¹⁾ Our PRC legal advisor, Jun He Law Offices, has advised us that our practice of charging interest on trade receivables is not prohibited by relevant laws and regulations, including, without limitation the Lending General Provisions of People's Bank of China (中國人民銀行貸款通則)。

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Distribution and Selling Expenses

The following table sets forth our distribution and selling expenses for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
(RMB'000 except for percentages)										
Transportation	20,194	2.1%	86,229	4.4%	145,081	5.8%	56,875	5.3%	53,890	4.2%
Advertisement and promotion	17,942	1.8	50,239	2.5	83,329	3.3	38,607	3.6	30,989	2.4
Staff	20,055	2.1	40,370	2.0	75,347	3.0	30,899	2.9	35,137	2.8
Rental and depreciation	32,386	3.3	49,225	2.5	65,482	2.6	31,890	3.0	34,593	2.7
Consumable material	6,066	0.6	11,939	0.6	20,240	0.8	8,012	0.7	5,785	0.5
Utilities	2,352	0.2	3,453	0.2	6,466	0.3	1,916	0.2	1,934	0.2
Travel	2,612	0.3	3,816	0.2	14,800	0.6	6,623	0.6	6,425	0.5
Others	7,978	0.8	10,644	0.5	29,382	1.2	6,837	0.6	7,891	0.6
Total	109,585	11.2%	255,915	12.9%	440,127	17.6%	181,659	17.0%	176,664	13.9%

During the Track Record Period, distribution and selling expenses primarily included transportation costs, advertisement and promotion costs, staff costs, rental and depreciation costs. Transportation costs primarily represented costs of transporting our finished products from our production facilities to our warehouses and to locations designated by our direct sales customers. Staff costs represented salaries and benefits paid to our sales personnel. Rental and depreciation costs were primarily associated with our self-owned retail outlets and warehouses.

The decrease in distribution and selling expenses as a percentage of revenue from the first half of 2012 to the same period in 2013 primarily reflected (i) the improved operational efficiency, particularly on our transportation and logistic system and (ii) our decreased advertisement and promotion cost. The increase in distribution and selling expenses as a percentage of revenue from 2011 to 2012 primarily reflected the growth of our direct sales channels. The increase of such percentage from 2010 to 2011 primarily reflected the increasing utilization of our logistic network.

Our transportation costs decreased in both absolute terms and as a percentage of revenue in the first half of 2013 from the same period in 2012, primarily due to improved operational efficiency as we continued to optimize our transportation and logistic system. The increase in transportation costs from 2010 to 2012 both in absolute terms and as a percentage of revenue was primarily due to the development of our logistic network, currently consisting of five central warehouses and 20 regional warehouses. Prior to the expansion of our logistics network, we only provided transportation services from our production facilities to our central warehouses for tier-one distributors. Since implementation of the new logistics network, we also began providing transportation services from our central warehouses to regional warehouses for tier-one distributors, and the utilization of these services has ramped up during the Track Record Period, which resulted in the increase in transportation costs during the Track Record Period. The increase in transportation costs was also due to increased direct sales, for which we are responsible to provide transportation services to our customers.

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Our advertisement and promotion costs decreased in both absolute terms and as a percentage of revenue in the first half of 2013 compared to the same period in 2012 primarily due to the seasonality of certain of our advertisement arrangement. We expect our total advertisement and promotion costs in absolute term for 2013 remain at a similar level as that of 2012.

Our rental and depreciation cost decreased as a percentage of revenue in 2011 as compared to 2010 primarily due to the business takeover from Shandong Dongpeng and Shandong Jialiya in January 2011. Shandong Dongpeng and Shandong Jialiya did not have any self-owned retail outlets prior to the business takeover, but contributed, through Zibo Kapuer, RMB292.3 million to our revenue in 2011.

Administrative Expenses

Administrative expenses primarily included staff costs, rental and depreciation costs and consumable material costs. Staff costs represented salaries and benefits paid to our administrative personnel. Consumable material costs represented costs for office supplies.

Our administrative expenses as a percentage of revenue decreased in 2011 primarily due to the significant revenue contribution from the businesses of Shandong Dongpeng and Shandong Jialiya, which we took over in January 2011. Our staff cost as a percentage of revenue increased in the first half of 2013 compared to the same period in 2012 in part due to the severance payments made to certain former employees of Zibo Kapuer during the first half of 2013. Our staff costs as a percentage of revenue increased significantly from 2011 to 2012 in part due to hiring and training of new workers in anticipation of the new production lines at the facility in Qingyuan, Guangdong province. The increase in rental and depreciation during the Track Record Period was primarily due to additional office spaces we leased and additional depreciable properties we owned in connection with administrative functions.

Other Expenses

Other expenses primarily consisted of expenses incurred for cutting or polishing services for our customers, listing expenses and research and development expenses. Research and development expenses represented costs associated with trial production of new products. We incurred other expenses of RMB6.8 million, RMB11.9 million, RMB25.6 million, RMB11.6 million and RMB21.6 million in 2010, 2011, 2012 and the first half of 2012 and 2013, respectively.

Share of Loss of a Joint Venture

We owned a 65% equity interest in Datang Hesheng prior to our disposal of such entity in December 2010. Share of loss represented Datang Hesheng's net losses in 2010 attributable to us based on our equity ownership.

Finance Costs

Finance costs primarily consist of interest on bank borrowings and the rental cost for certain production facility under a financing lease. We incurred finance costs of RMB14.3 million, RMB16.4 million, RMB29.2 million, RMB13.8 million and RMB20.3 million in 2010, 2011, 2012 and the first half of 2012 and 2013, respectively.

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Income Tax Expense

Income tax expense represents current and deferred tax. Under the rules and regulations of the Cayman Islands and BVI, we are not subject to any income tax in the Cayman Islands and BVI. We have not made any provisions for Hong Kong profits tax as we had no assessable profits derived from or earned in Hong Kong during the Track Record Period. Pursuant to the income tax rules and regulations in the PRC, all of our subsidiaries located in the PRC were subject to corporate income tax at a rate of 25% on the assessable profits generated during the Track Record Period. We recorded income tax expense of RMB5.6 million, RMB49.7 million, RMB67.4 million, RMB20.0 million and RMB50.1 million in 2010, 2011, 2012 and the first half of 2012 and 2013, respectively.

RESULTS OF OPERATIONS

First Half of 2013 Compared with First Half of 2012

Revenue

Our revenue increased by RMB205.6 million, or 19.2%, from RMB1,069.1 million in the first half of 2012 to RMB1,274.7 million in the same period in 2013.

Revenue by product category

Revenue from unglazed tile products increased by RMB29.4 million, or 5.0%, from RMB592.4 million in the first half of 2012 to RMB621.8 million in the same period in 2013, primarily reflecting a combination of (i) the overall growth in market demand; (ii) our continuing sales and marketing efforts and (iii) the expansion of our sales channels.

Revenue from glazed tile products increased by RMB131.4 million, or 28.2%, from RMB465.5 million in the first half of 2012 to RMB596.9 million in the same period in 2013. The increase primarily reflected increases in sales of (i) glossy glazed tiles and crystal tiles, both recently launched products, as sales of such products continued to ramp up in the first half of 2013; and (ii) ceramic chips, primarily attributable to the expansion of our sales channels and the introduction of new products with higher selling prices.

Revenue from bathroom products increased by RMB44.8 million, or 398.8%, from RMB11.2 million in the first half of 2012 to RMB56.0 million in the same period in 2013. The increase was primarily due to our acquisition of the bathroom products business in May 2013. See “— Expansion into Bathroom Products Business”.

Revenue by sales channel

Revenue from direct sales channels of ceramic tile products increased by RMB2.7 million, or 0.9%, from RMB305.7 million in the first half of 2012 to RMB308.4 million in the same period in 2013. This increase primarily represented sales ramp-up of a net total of 11 additional retail outlets added by our Company and preferred dealers during 2012, partially offset by the decrease in revenue from corporate

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sales. The significant increase in revenue from sales to preferred dealers was also due to our transfer of 10 self-owned retail outlets to preferred dealers during the first half of 2013. The decrease in revenue from corporate sales was primarily a result of our rigorous customer selection process as we refined our corporate sales strategy.

Revenue from sales to our tier-one distributors of ceramic tile products increased by RMB158.2 million, or 21.0%, from RMB752.1 million in the first half of 2012 to RMB910.3 million in the same period in 2013. The increase was primarily attributable to the continuing growth of our distributor network.

Cost of Goods Sold

Our cost of goods sold increased by RMB87.6 million, or 12.3%, from RMB713.8 million in the first half of 2012 to RMB801.4 million in the same period in 2013. Our cost of goods sold primarily consisted of cost of goods sold for ceramic tile products, which increased by RMB55.0 million, or 7.8%, from RMB705.8 million in the first half of 2012 to RMB760.7 million in the same period in 2013. The increase primarily reflected increased sales volume of ceramic tile products.

As a percentage of revenue, our cost of goods sold decreased from 66.8% in the first half of 2012 to 62.9% in the same period in 2013, primarily due to improved operational efficiency as a result of increased production scale and improved product mix. In particular, the costs of raw materials, fuel and utilities, as a percentage of revenue, decreased from 30.6%, 14.1% and 5.8%, respectively, in the first half of 2012 to 26.9%, 13.2% and 5.2%, respectively, in the same period in 2013. These decreases were primarily due to our increased economies of scale. The decreased cost of fuel as a percentage of total revenue was also attributable to a general decrease in the market prices of fuel.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, our gross profit increased from RMB355.3 million in the first half of 2012 to RMB473.4 million in the same period in 2013, representing an increase in gross profit margin from 33.2% to 37.1%. Our gross profit for ceramic tile products increased from RMB352.1 million in the first half of 2012 to RMB458.0 million in the same period of 2013, representing an increase in gross profit margin from 33.3% to 37.6%.

The increase in the gross profit and gross profit margin for ceramic tile products primarily reflected a combination of these factors:

- *Overall operational efficiency* — the continuing improvement in our production efficiency as a result of increased production scale; and
- *Change in product mix* — a change in product mix towards higher-end products such as glossy glazed tiles.

The decrease in gross profit margin of bathroom products was primarily due to the change of our sales channel mix as a result of our acquisition of Dongpeng Sanitary Ware in May 2013. Dongpeng Sanitary Ware primarily relied on sales to tier-one distributors, which have a lower gross profit margin than that of direct sales channels, which were our primary sales channels for bathroom products prior to the acquisition.

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Other Income

Other income increased by RMB9.3 million, or 72.1%, from RMB12.9 million in the first half of 2012 to RMB22.2 million in the same period in 2013. The increase was primarily due to (i) a government grant of RMB9.6 million received from the municipal government of Fengcheng, Jiangxi province, and (ii) an increase in bank interest income of RMB1.8 million as a result of an increase in the average balance of bank deposit, partially offset by a decrease in conference charge of RMB2.0 million.

Other Gains and Losses

Other losses increased by RMB2.1 million, or 44.9%, from RMB4.5 million in the first half of 2012 to RMB6.6 million in the same period in 2013. Other losses in the first half of 2013 primarily included additional allowance of doubtful receivables of RMB6.4 million. Other losses in the first half of 2012 primarily included additional allowance of doubtful receivables of RMB3.9 million.

Distribution and Selling Expenses

Distribution and selling expenses decreased by RMB5.1 million, or 2.8%, from RMB181.7 million in the first half of 2012 to RMB176.6 million in the same period of 2013. Distribution and selling expenses as a percentage of revenue decreased from 17.0% in the first half of 2012 to 13.9% in the same period of 2013. This decrease primarily reflected:

- The decrease in transportation costs from RMB56.9 million in the first half of 2012 to RMB53.9 million in the first half of 2013 and as a percentage of revenue from 5.3% to 4.2% in the same period, primarily due to improved operational efficiency as we continued to optimize our transportation and logistic system;
- The decrease in advertisement and promotion costs from RMB38.6 million in the first half of 2012 to RMB31.0 million in the first half of 2013 and as a percentage of revenue from 3.6% to 2.4% in the same period, primarily due to the seasonality of certain of our advertisement arrangement; and
- the improvement in our overall operational efficiency.

Administrative Expenses

Administrative expenses increased by RMB15.6 million, or 19.4%, from RMB80.2 million in the first half of 2012 to RMB95.8 million in the same period of 2013, primarily reflecting increased local taxes as a result of operation expansion and increased staff costs partly due to severance payments made to employees of Zibo Kapuer. Administrative expense as a percentage of revenue remained relatively steady at 7.5% and 7.5% in the first half of 2012 and 2013, respectively.

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Other expense

Other expenses increased by RMB10.0 million, or 85.8%, from RMB11.6 million in the first half of 2012 to RMB21.6 million in the same period in 2013. The increase primarily reflected expenses incurred in connection with the Global Offering.

Finance costs

Finance costs increased by RMB6.5 million, or 47.1%, from RMB13.8 million in the first half of 2012 to RMB20.3 million in the same period in 2013. The increase was primarily due to increased interest expenses of RMB6.5 million as a result of additional bank borrowings incurred in the first half of 2013.

Income Tax Expense

Income tax expense increased by RMB30.1 million, or 150%, from RMB20.0 million in the first half of 2012 to RMB50.1 million in the same period of 2013. The increase was primarily due to withholding tax on undistributed profits of PRC subsidiaries and increased taxable income. Our effective tax rate decreased from 26.2% in the first half of 2012 to 23.4% in the same period of 2013 primarily due to favorable tax treatment received. We established three new subsidiaries in Tibet during the first half of 2013. These new subsidiaries are entitled to a preferential rate of 15% for their enterprise income tax till 2020 pursuant to the Notice regarding Enterprise Income Tax Rate issued by the People's Government of Tibet autonomous region.

Profit for the Period

As a result of the foregoing factors, profit for the period increased by RMB64.9 million, or 115.3%, from RMB56.3 million in the first half of 2012 to RMB121.2 million in the same period of 2013. Our net profit margin was 5.3% and 9.5% in the first half of 2012 and 2013, respectively. The increase of our net profit margin was primarily due to the increase of our gross profit margin and the decrease of distribution and selling expenses as a percentage of our revenue.

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

Revenue

Our revenue increased by RMB519.0 million, or 26.2%, from RMB1,979.0 million in 2011 to RMB2,497.9 million in 2012.

Revenue by product category

Revenue from unglazed tile products increased by RMB212.6 million, or 18.4%, from RMB1,157.6 million in 2011 to RMB1,370.2 million in 2012, primarily reflecting a combination of (i) our continuing sales and marketing efforts; (ii) the overall growth in market demand; and (iii) the expansion of our sales channels.

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Revenue from glazed tile products increased by RMB297.1 million, or 37.2%, from RMB799.0 million in 2011 to RMB1,096.1 million in 2012. The increase primarily reflected increases in sales of (i) glossy glazed tiles and crystal tiles, both relatively new products, as they continued to ramp up in 2012; and (ii) ceramic chips, due to continuing ramp up of production capacity at Shandong Jialiya.

Revenue by sales channel

Revenue from direct sales channels increased by RMB326.1 million, or 80.7%, from RMB404.2 million in 2011 to RMB730.3 million in 2012. Our self-owned retail outlets and outlets of preferred dealers in Shenzhen and Xi'an significantly ramped up sales in 2012, which contributed to revenue increases of these direct sales channels. In addition, our corporate sales volume increased in 2012 compared to 2011 as we continued to enhance our selling efforts, including establishing a dedicated corporate sales marketing department in 2012.

Revenue from sales to our tier-one distributors increased by RMB183.7 million, or 11.8%, from RMB1,552.3 million in 2011 to RMB1,736.0 million in 2012. The increase was primarily attributable to the continuing growth of our distributor network.

Cost of Goods Sold

Our cost of goods sold increased by RMB199.0 million, or 14.1%, from RMB1,410.6 million in 2011 to RMB1,609.6 million in 2012.

Our cost of goods sold primarily consisted of cost of goods sold for ceramic tile products, which increased by RMB185.6 million, or 13.2%, from RMB1,403.1 million in 2011 to RMB1,588.7 million in 2012. The increase primarily reflected increased sales volume of ceramic tile products.

As a percentage of revenue, our cost of goods sold decreased from 71.3% in 2011 to 64.4% in 2012 primarily due to improved operational efficiency as a result of increased production scale. In particular, the costs of raw materials, fuel and utilities, as a percentage of revenue, decreased from 31.5%, 16.5% and 5.8%, respectively, in 2011 to 29.5%, 13.7% and 5.6%, respectively, in 2012. The decrease in costs of raw material as a percentage of total revenue was primarily due to decreased cost of chemicals as a percentage of revenue, which was a result of (i) increasing substitution of domestically manufactured chemicals for imports, and (ii) a general decrease in the market prices for chemicals. The decreased costs of fuel and utilities as a percentage of revenue were primarily due to production technology upgrade and increased economies of scale. These are partially offset by an increase in our cost of labor as a percentage of revenue from 5.0% in 2011 to 5.2% in 2012, primarily due to increases in the total number of production personnel as we expanded our business operation and their average salaries and benefits.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, our gross profit increased from RMB568.4 million in 2011 to RMB888.4 million in 2012, representing an increase in gross profit margin from 28.7% to 35.6%. Our gross profit for ceramic tile products increased from RMB553.5 million in 2011 to RMB877.7 million in 2012, representing an increase in gross profit margin from 28.3% to 35.6%.

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The increase primarily reflected a combination of these factors:

- *Overall operational efficiency* — the continuing improvement in our production efficiency as a result of increased production scale;
- *Change in product mix* — a change in product mix towards higher-end products such as glossy glazed tiles;
- *Preferred dealers* — the reduction of the pricing support we provided to our newly added preferred dealers in 2011 in the third- and fourth-tier cities of Yunnan and Guangxi provinces, as part of our strategy to expand into these regions; such pricing support ended in 2012 as sales ramped up for many of these preferred dealers; and
- *Corporate sales* — the effect of our increased focus on direct corporate customers, including establishing our dedicated sales department in 2011.

Other Income

Other income increased by RMB24.6 million, or 134.5%, from RMB18.3 million in 2011 to RMB42.9 million in 2012. The increase was primarily due to (i) government grant of RMB13.0 million from the municipal government of Fengcheng, Jiangxi province in 2012, (ii) an increase in bank interest income of RMB3.7 million as a result of an increase in the average balance of bank deposit, and (iii) an increase in processing income of RMB5.4 million as a result of increasing demand for processing services.

Other Gains and Losses

Other losses decreased by RMB3.1 million, or 31.6%, from RMB9.6 million in 2011 to RMB6.5 million in 2012. Other losses in 2012 primarily included additional allowance of doubtful receivables of RMB4.8 million, loss on disposal of property, plant and equipment of RMB1.5 million, and net foreign exchange loss of RMB255,000. Other losses in 2011 primarily included additional allowance of doubtful receivables of RMB6.7 million, and loss on disposal of property, plant and equipment of RMB2.8 million.

Distribution and Selling Expenses

Distribution and selling expenses increased by RMB184.2 million, or 72.0%, from RMB255.9 million in 2011 to RMB440.1 million in 2012. Distribution and selling expenses as a percentage of revenue increased from 12.9% in 2011 to 17.6% in 2012. This increase primarily reflected:

- an increase in transportation costs of RMB58.9 million, primarily due to the increased utilization of our logistic system by our tier-one distributors and increased direct sales volumes;
- an increase in staff costs of RMB35.0 million, primarily due to increased number of sales and marketing personnel and their increased average salaries and benefits;
- an increase in advertisement and promotion costs of RMB31.3 million, primarily due to increased marketing and promotional activities; and

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- an increase in rental and depreciation costs of RMB16.3 million, primarily due to additional warehouse spaces and retail outlets we leased.

Administrative Expenses

Administrative expenses increased by RMB94.4 million, or 99.2%, from RMB95.2 million in 2011 to RMB189.6 million in 2012. Administrative expense as percentage of revenue increased from 4.8% in 2011 to 7.6% in 2012, these increase was primarily due to:

- an increase in staff costs of RMB36.8 million, in significant part due to the hiring and training of workers in anticipation of the new production lines at the facility in Qingyuan, Guangdong province; and
- an increase in rental and depreciation costs of RMB15.5 million, primarily due (i) an increase in depreciation cost of the property and equipment of the production facility located at Qingyuan, Guangdong province, the construction of which was completed in 2011, and (ii) rental cost for our headquarters building located at Foshan, Guangdong province that we began leasing from a related party in 2012.

Other Expenses

Other expenses increased by RMB13.7 million, or 114.5%, from RMB11.9 million in 2011 to RMB25.6 million in 2012. The increase primarily reflected increased expenses incurred for producing advertising brochures of our products and expenses incurred for processing services.

Finance Costs

Finance costs increased by RMB12.8 million, or 78.6%, from RMB16.4 million in 2011 to RMB29.2 million in 2012. The increase was primarily due to increased interest expenses of RMB13.1 million as a result of additional bank borrowings incurred in 2012.

Income Tax Expense

Income tax expense increased by RMB17.7 million, or 35.5%, from RMB49.7 million in 2011 to RMB67.4 million in 2012. The increase was primarily due to increased taxable income. Our effective tax rate increased from 25.2% in 2011 to 28.0% in 2012 primarily due to an increase in expenses not deductible for PRC tax purposes.

Profit for the Year

As a result of the foregoing factors, profit for the year increased by RMB24.9 million, or 16.8%, from RMB147.9 million in 2011 to RMB172.8 million in 2012. Our net profit margin was 7.5% and 6.9% in 2011 and 2012, respectively. The decrease of our net profit margin was primarily due to the increase of distribution and selling expenses and administrative expenses as a percentage of our revenue, partially offset by the increase of our gross profit margin.

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Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

Revenue

Our revenue increased by RMB1,004.3 million, or 103.0%, from RMB974.6 million in 2010 to RMB1,979.0 million in 2011.

Revenue by product category

Revenue from unglazed tile products increased by RMB531.5 million, or 84.9%, from RMB626.1 million in 2010 to RMB1,157.6 million in 2011. The increase was primarily due to (i) production capacity expansion of our facility located in Qingyuan, Guangdong province; and (ii) the transfer of Shandong Dongpeng's business, which primarily manufactured and sold unglazed tiles, to us in January 2011.

Revenue from glazed tile products increased by RMB465.6 million, or 139.7% from RMB333.4 million 2010 to RMB799.0 million in 2011. The increase was primarily attributable to the increased sales volume in all subcategories of glazed tile products as we expanded our production and increased our selling efforts for such products. In particular, the sales volumes of antique-inspired tile products increased as a result of the production ramp up of our facility in Lixian, Hunan province in 2011. In addition, the sales volume of ceramic chip products increased significantly as a result of our takeover of the ceramic chip business from Shandong Jialiya in January 2011.

Revenue by sales channel

Revenue from sales to our tier-one distributors increased by RMB907.7 million, or 140.8%, from RMB644.6 million in 2010 to RMB1,552.3 million in 2011. The increase was primarily attributable to a combination of (i) our takeover of the businesses of Shandong Jialiya and Shandong Dongpeng — both relied on distributor sales — in January 2011; (ii) increase in sales to our existing distributors; and (iii) the expansion of our distributor network, as we had a net increase of 61 tier-one distributors and 150 retail outlets in 2011.

Revenue from direct sales increased by RMB89.3 million, or 28.4%, from RMB314.9 million in 2010 to RMB404.2 million in 2011. Corporate sales increased from 2010 to 2011 as we enhanced our corporate selling efforts. In addition, we had a net increase of 6 self-owned retail outlets, 8 preferred dealers and 8 preferred dealer outlets in 2010, whose sales ramped-up in 2011.

Cost of Goods Sold

Our cost of goods sold increased by RMB636.6 million, or 82.2%, from RMB774.0 million in 2010 to RMB1,410.6 million in 2011.

Our cost of goods sold primarily consisted of cost of goods sold for ceramic tile products, which increased by RMB633.4 million, or 82.3% from RMB769.7 million in 2010 to RMB1,403.1 million in 2011. The increase primarily reflected increased sales volume of ceramic tile products.

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As a percentage of revenue, our cost of goods sold decreased from 79.4% in 2010 to 71.3% in 2011 primarily due to our improved operational efficiency as a result of increased production scale. In particular, costs of fuel and utilities, as a percentage of revenue, decreased from 20.8% and 8.1%, respectively, in 2010 to 16.5% and 5.8%, respectively, in 2011 primarily due to production technology upgrade and increased economies of scale. Costs of raw materials as a percentage of revenue decreased from 31.9% in 2010 to 31.5% in 2011. The decrease was primarily due to our purchases of inventories of finished products from Shandong Dongpeng and Shandong Jialiya at prices similar to the cost of production in 2011 compared to purchases at prices above the cost of production in 2010, partially offset by the increase in the cost of clay as a result of its growing transportation cost, which was included in its purchasing price. The cost of labor as a percentage of revenue increased from 4.2% in 2010 to 5.0% in 2011 due to increased number of production personnel as we expanded our business operation and their increased average salaries and benefits.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, our gross profit increased by RMB367.8 million from RMB200.6 million in 2010 to RMB568.4 million in 2011, which represented an increase in gross profit margin from 20.6% in 2010 to 28.7% in 2011. Our gross profit for ceramic tile products increased from RMB189.8 million in 2010 to RMB553.5 million in 2011, representing an increase in gross profit margin from 19.8% in 2010 to 28.3% in 2011. The increase primarily reflected a combination of these factors:

- *Related party transactions* — (i) the termination of discounts on sales to related parties in 2011; (ii) the purchases of inventories of finished products at prices similar to the cost of production from Shandong Dongpeng and Shandong Jialiya; and (iii) the in-house manufacturing of products used to be produced by Shandong Dongpeng and Shandong Jialiya since the business takeover thereby reducing the cost of goods sold with respect to such products;
- *Operational efficiency* — the continuing improvement in our production efficiency as a result of increased production scale; and
- *New product ramp up* — glossy glazed tiles, a relatively new product subcategory, as it ramped up in 2011.

Other Income

Other income increased by RMB12.5 million, or 215.5%, from RMB5.8 million in 2010 to RMB18.3 million in 2011. The increase was primarily due to increases in (i) processing income of RMB3.0 million and (ii) bank interest income of RMB1.5 million. In addition, we started to charge distributors for certain advertising brochures of our products and interest on credit sales, which generated income of RMB3.8 million and RMB3.5 million, respectively, in 2011.

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Other Gains and Losses

Other losses increased by RMB6.2 million, or 182.4%, from RMB3.4 million in 2010 to RMB9.6 million in 2011. Other loss in 2011 was primarily attributable to allowance of doubtful receivables of RMB6.7 million and loss on disposal of property, plant and equipment of RMB2.8 million. Other loss in 2010 was primarily attributable to loss of RMB2.5 million as a result of disposal of our equity interest in Datang Hesheng in 2010.

Distribution and Selling Expenses

Distribution and selling expenses increased by RMB146.3 million, or 133.5%, from RMB109.6 million in 2010 to RMB255.9 million in 2011. Distribution and selling expenses as a percentage of revenue increased from 11.2% in 2010 to 12.9% in 2011. The increase primarily reflected:

- an increase in transportation costs of RMB66.0 million, primarily due to increased utilization of our logistic system by our tier-one distributors and increased direct sales volumes; and
- an increase in advertisement and promotion costs of RMB32.3 million, primarily due to increased marketing and promotional activities.

Administrative Expenses

Administrative expenses increased by RMB37.0 million, or 63.8%, from RMB58.2 million in 2010 to RMB95.2 million in 2011, primarily reflecting the continuing expansion of our business. Administrative expense as percentage of revenue decreased from 6.0% in 2010 to 4.8% in 2011, primarily reflecting the significant revenue contribution of Shandong Dongpeng's and Shandong Jialiya's businesses, which we took over in 2011.

Other Expenses

Other expenses increased by RMB5.1 million, or 76.0%, from RMB6.8 million in 2010 to RMB11.9 million in 2011. The increase primarily reflected increased expenses incurred for processing services due to increase in customers' demand.

Share of Loss of a Joint Venture

We owned a 65% equity interest in Datang Hesheng prior to our disposal in October 2010. Share of loss represented Datang Hesheng's net losses in 2010 attributable to us based on our equity ownership.

Finance Costs

Finance costs increased by RMB2.1 million, or 14.8%, from RMB14.3 million in 2010 to RMB16.4 million in 2011. The increase was primarily due to increased interest expenses of RMB2.3 million as a result of additional bank borrowings incurred in 2011, partially offset by decreased finance cost associated with finance leases of RMB0.2 million.

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Income Tax Expense

Income tax expense increased by RMB44.1 million, or 788.1%, from RMB5.6 million in 2010 to RMB49.7 million in 2011. The increase was mainly due to an increase in taxable income. The effective tax rate decreased from 43.5% in 2010 to 25.2% in 2011. Our expenses non-deductible for PRC income tax purposes remained relatively stable in 2010 and 2011. As a result, the higher rate of increase in taxable income compared to non-tax-deductible tax expenses led to the decrease in our effective tax rate.

Profit for the Year

As a result of the foregoing factors, profit for the year increased by RMB140.6 million, or 1,931.1%, from RMB7.3 million in 2010 to RMB147.9 million in 2011. Our net profit margin was 0.7% and 7.5% in 2010 and 2011, respectively. The increase of our net profit margin was primarily due to the increase of our gross profit margin.

DISCUSSION OF CERTAIN BALANCE SHEET ITEMS

The following table sets out our summary consolidated statement of financial position for the period indicated. This information should be read together with our consolidated financial information included in the Accountant's Report in Appendix I to this prospectus.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Non-current assets				
Property, plant and equipment	450,084	625,108	878,339	916,424
Prepaid lease payments	64,271	62,894	117,005	264,838
Deferred tax assets	20,308	32,896	34,894	42,617
Deposit for leasehold lands	—	36,389	45,389	12,848
Deposit for acquisition of property, plant and equipment	6,475	67,824	18,331	9,079
	541,138	825,111	1,093,958	1,245,806

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	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Current assets				
Inventories	587,483	905,737	1,046,181	1,004,055
Trade and other receivables.....	170,411	226,587	371,953	473,156
Tax recoverable	2,637	—	—	4,547
Amount due from shareholders	—	—	11	11
Amounts due from related parties	190,708	236,807	96,375	83,587
Prepaid lease payments	1,377	1,377	2,817	5,607
Pledged bank deposits	738	45,209	69,678	409,914
Bank balances and cash	75,205	112,593	239,991	483,574
	<u>1,028,559</u>	<u>1,528,310</u>	<u>1,827,006</u>	<u>2,464,451</u>
Current liabilities				
Trade and other payables.....	270,896	682,174	965,748	1,076,590
Obligation under a finance lease.....	3,236	3,759	4,006	4,301
Amounts due to related parties	1,005,607	1,082,446	1,109,320	1,272,410
Amounts due to non-controlling interests	—	—	—	1,650
Bank borrowings	70,000	185,000	415,240	852,159
Tax liabilities.....	2,105	33,756	49,185	40,367
	<u>1,351,844</u>	<u>1,987,135</u>	<u>2,543,499</u>	<u>3,247,477</u>
Net current (liabilities) assets	<u>(323,285)</u>	<u>(458,825)</u>	<u>(716,493)</u>	<u>(783,026)</u>
Total assets less current liabilities .	<u>217,853</u>	<u>366,286</u>	<u>377,465</u>	<u>462,780</u>
Non-current liabilities				
Obligation under a finance lease.....	42,527	38,767	34,762	32,464
Bank borrowings	90,000	90,000	78,000	52,000
Redeemable convertible preferred shares	—	—	—	188,394
Deferred taxation liabilities	4,222	3,473	2,777	18,272
	<u>136,749</u>	<u>132,240</u>	<u>115,539</u>	<u>291,130</u>
Capital and reserves				
Paid-in/share capital	163,453	172,231	191,019	11
Reserves	(87,980)	51,139	55,025	171,661
Equity attributable to owners of the Company	75,473	223,370	246,044	171,672
Non-controlling interests	5,631	10,676	15,882	(22)
Total equity.....	<u>81,104</u>	<u>234,046</u>	<u>261,926</u>	<u>171,650</u>

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Property, Plant and Equipment

Our property, plant and equipment as of December 31, 2010, 2011, 2012 and June 30, 2013 amounted to RMB450.1 million, RMB625.1 million, RMB878.3 million and RMB916.4 million, respectively. The increase during this period was primarily due to the expansion of our business operations.

Prepaid Lease Payments

Our long-term prepaid lease payments as of December 31, 2010, 2011, 2012 and June 30, 2013 were in the amount of RMB64.3 million, RMB62.9 million, RMB117.0 million and RMB264.8 million, respectively. Our prepaid lease payments were primarily related to the prepayments for a parcel of land for our production facilities in Fengcheng, Jiangxi and a parcel of land for production facilities and offices in Foshan, Guangdong.

Deposit for Leasehold Lands

Deposit for leasehold lands are deposit paid after the land grant agreement with respect to a parcel of land is signed and once the land use right for such parcel of land is granted, such deposit will become prepaid lease payments. Our deposit for leasehold lands as of December 31, 2010, 2011, 2012 and June 30, 2013 were in the amount of nil, RMB36.4 million, RMB45.4 million and RMB12.8 million, respectively. The decrease in deposit for leasehold lands of RMB32.6 million during the first half of 2013 primarily reflected the land use right we obtained for a parcel of land in Fengcheng, Jiangxi province during the same period. The increase in deposit for leasehold lands of RMB9.0 million during 2012 primarily reflected deposits paid in connection with the land use rights of a parcel of land in Fengcheng, Jiangxi province which we acquired in 2012. The increase in deposit for leasehold lands of RMB36.4 million during 2011 primarily reflected deposits paid in connection with the land use rights of a parcel of land in Qingyuan, Guangdong province which we acquired in 2011.

Deposit for Acquisition of Property, Plant and Equipment

Our deposit for property, plant and equipment acquisition as of December 31, 2010, 2011, 2012 and June 30, 2013 were in the amount of RMB6.5 million, RMB67.8 million, RMB18.3 million and RMB9.1 million, respectively. The decrease in deposits for acquisition of property, plant and equipment of RMB9.2 million during the first half of 2013 primarily reflected delivery during this period of equipment previously ordered. Deposits for acquisition of property, plant and equipment decreased by RMB49.5 million during 2012 as most equipment previously ordered for our new production facility located at Qingyuan, Guangdong province was delivered during 2012. The increase in deposits for acquisition of property, plant and equipment of RMB61.3 million during 2011 reflected the deposit paid for equipment to be purchased in connection with our new production facility located at Qingyuan, Guangdong province.

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Inventories

As at December 31, 2010, 2011, 2012 and June 30, 2013, we had inventories in the amount of RMB587.5 million, RMB905.7 million, RMB1,046.2 million and RMB1,004.1 million, respectively. As of September 30, 2013, 74.3% of the balances of inventories as of June 30, 2013 were sold or used. The table below sets forth a summary of our inventory balances as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Raw material	151,200	207,269	208,890	211,080
Work in progress	6,795	21,188	16,263	33,712
Finished goods	429,488	677,280	821,028	759,263
Total	<u>587,483</u>	<u>905,737</u>	<u>1,046,181</u>	<u>1,004,055</u>

Our inventory decreased by RMB42.1 million during the first half of 2013, primarily reflecting improved inventory management and increased sales of finished products. Our inventory increased by RMB140.4 million and RMB318.3 million during 2012 and 2011, respectively, primarily due to production expansion.

The following is an aging analysis of our inventories as of the date indicated and our turnover of inventory days for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
Within 1 year.....	500,938	813,431	949,954	880,836
1-2 years.....	61,947	61,714	63,443	89,713
Above two years	24,598	30,592	32,784	33,506
Total	<u>587,483</u>	<u>905,737</u>	<u>1,046,181</u>	<u>1,004,005</u>
Turnover of inventory ⁽¹⁾	228	193	221	234

(1) Turnover of the inventory represents average inventory divided by cost of goods sold for the relevant period and multiplied by 365 for each year and 183 for the first half of a year. Average inventory equals inventory at the beginning of the period plus inventory at the end of period divided by two.

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The following is an aging analysis of our gross inventories of finished goods, provision made and provision coverage ratio as of the date indicated.

	Gross inventories of finished goods			
	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Within 1 year.....	342,943	584,974	724,801	636,044
1-2 years.....	75,385	82,245	84,318	123,767
Above two years.....	<u>49,196</u>	<u>61,184</u>	<u>65,568</u>	<u>67,012</u>
Total	<u>467,524</u>	<u>728,403</u>	<u>874,687</u>	<u>826,823</u>
	Provision			
	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Within 1 year.....	—	—	—	—
1-2 years.....	13,438	20,531	20,875	34,054
Above two years.....	<u>24,598</u>	<u>30,592</u>	<u>32,784</u>	<u>33,506</u>
Total	<u>38,036</u>	<u>51,123</u>	<u>53,659</u>	<u>67,560</u>
	Provision coverage ratio			
	As of December 31,			As of June 30,
	2010	2011	2012	2013
Within 1 year.....	—	—	—	—
1-2 years.....	25%	25%	25%	25%
Above two years.....	50%	50%	50%	50%

Inventory aged above one year increased in terms of absolute value during the Track Record Period, primarily attributable to production expansion. 85.3%, 89.8%, 90.8% and 87.7% of our inventories were aged within one year as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. Inventories aged above one year as a percentage of total inventory decreased from 2010 to 2012 as a result of a combination of (i) strengthened inventory management, (ii) increasing diversification of product mix and (iii) periodical promotional sales on inventories of finished products that are unpopular or out-of-style. Inventories aged above one year as a percentage of total inventory increased in the first half of 2013 primarily as a result of seasonality effect on which are generally slower in the first half of a year than in the second half.

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Our relative long inventory turnover days during the Track Record Period were a result of the combined effect of the demand of the retail market which requires a ceramic tile producer to maintain a certain level of inventory for most types of its finished products while scaled production requiring each batch of finished products to be of a minimum volume to achieve cost-efficiency. The length of our inventory turnover days is also due to the combined effect of (i) our extensive product portfolio which requires us to maintain a higher inventory level of finished products to accommodate such product offering, and (ii) our extensive logistics network comprised of 25 warehouses across China, which requires us to maintain a certain level of inventories of finished products that we believe to be adequate at each warehouse.

The increase in inventory turnover days in the first half of 2013 compared to 2012 was primarily due to (i) the delayed effect of our improved inventory management in the first half of 2013 as a result of the relatively high inventory level as of December 31, 2012, (ii) seasonality effect on sales which are generally slower in the first half of a year than in the second half, and (iii) our acquisition of the bathroom products business in May 2013 which increased the amount of inventory as of June 30, 2013. The increase in inventory turnover days in 2012 compared to 2011 was mainly due to increased inventories of finished goods as a result of (i) increasing diversification of our product portfolio as we maintain a certain inventory level for each product series, and (ii) expanded logistic network, which requires us to maintain a certain inventory level at each warehouse. The decrease in the inventory turnover days in 2011 compared to 2010 was mainly reflected our continuous efforts to better manage our inventory.

As of December 31, 2010, 2011, 2012 and June 30, 2013, the allowance for obsolete inventories was RMB38.0 million, RMB 51.1million, RMB53.7 million and RMB67.6 million, respectively. We estimate the net realizable value of inventories based primarily on the latest market prices and current market conditions. We conduct regular inventory review and make allowance on obsolete and slow moving items to write off or write down inventories to their net realizable values. Where the expectation on the net realizable value is lower than the cost, an additional write off or write down may arise. See “— Critical Accounting Policies and Estimates — Valuation of inventories” for our inventory valuation policy. Our Directors are of the view that the our allowance for obsolete inventories are sufficient. To minimize the risk of building up aged inventory, we hold monthly management meeting to discuss sales and market demand for our products. During such meetings, our management identifies unpopular and out-of-style products and determines sales and promotional policy for such products to sell them at discounts. We also revisit the sufficiency of allowance for obsolete inventories made in the past period during such meeting. These measures ensure that we maintain a healthy level of inventory and have sufficient allowance for obsolete inventories.

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Trade and Other Receivables

As at December 31, 2010, 2011, 2012 and June 30, 2013, we had trade and other receivables in the amount of RMB170.4 million, RMB226.6 million, RMB372.0 million and RMB473.2 million, respectively. The table below sets forth a summary of our trade and other receivables balances as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Trade receivables	64,259	118,250	229,325	282,222
Less: allowance for doubtful debts.....	(2,352)	(9,080)	(13,871)	(20,255)
	61,907	109,170	215,454	261,967
Advances to suppliers	29,865	17,391	14,652	17,168
Deposits paid to suppliers	46,806	9,395	14,335	8,814
Bills receivables	4,827	67,564	75,636	117,270
Other receivables.....	5,025	6,119	6,298	10,681
Other tax recoverable	3,492	5,098	13,456	5,839
Prepaid rental	4,501	4,836	6,322	16,547
Other receivables from property developers	1,938	4,316	8,939	1,280
Value-added tax recoverable	12,050	2,698	16,861	33,590
Total	<u>170,411</u>	<u>226,587</u>	<u>371,953</u>	<u>473,156</u>

Trade Receivables

The balance of trade receivables as of the respective year-end represented the outstanding amounts receivable by us from our third party customers (i.e. excluding related parties). For trade receivables due from related party customers, see “— Related Party Transactions”.

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had trade receivables in the amount of RMB64.3 million, RMB118.3 million, RMB229.3 million and RMB282.2 million, respectively. As of September 30, 2013, 62.7% of the trade receivables balances outstanding as of June 30, 2013 were

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settled. The following is the aging analysis of trade receivables as of the date indicated, subsequent settlement of the balances as of June 30, 2013 up to September 30, 2013, as well as our turnover of trade receivable days for the period ended.

	<u>As of and for the year ended December 31,</u>			<u>As of and for</u>	<u>Settlement</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>the six months</u>	<u>amount of the</u>
				<u>ended June 30,</u>	<u>balances as of</u>
				<u>2013</u>	<u>June 30, 2013</u>
					<u>up to September</u>
					<u>30, 2013</u>
	(RMB'000 except turnover days)				
0 - 30 days.....	12,117	45,089	39,869	80,162	53,709
31 - 90 days.....	19,702	27,310	67,095	59,837	36,339
91 - 180 days.....	19,017	17,106	49,412	29,223	11,339
181 - 365 days.....	9,380	10,768	46,339	69,119	41,931
1 - 2 years.....	<u>1,691</u>	<u>8,897</u>	<u>12,739</u>	<u>23,626</u>	<u>21,038</u>
Total	<u>61,907</u>	<u>109,170</u>	<u>215,454</u>	<u>261,967</u>	<u>164,356</u>
Turnover of trade receivables ⁽¹⁾	17	17	25	37	

(1) Turnover of trade receivables represents average trade receivables divided by revenue for the relevant period and multiplied by 365 for each year and 183 for the first half of a year. Average trade receivables equals trade receivables at the beginning of the period plus trade receivables at the end of period divided by two.

We generally require our customers to make payment in full before delivery of products except that we grant a credit term of generally no more than 90 days to selected distributors under limited circumstances. On the other hand, most of our direct corporate customers have a credit term with us, the length of which is negotiated on a case by case basis. Our low turnover of trade receivables days during the Track Record Period reflected such policy and practice. Our trade receivables primarily represented receivables with respect to direct corporate sales. Our turnover of trade receivables increased to 37 days in the first half of 2013 primarily due to (i) seasonality effect on sales which are generally slower in the first half of the year than in the second half, and (ii) our acquisition of the bathroom products business in May 2013 which increased the balance of trade receivables as of June 30, 2013. Turnover for trade receivables increased from 17 days in 2011 to 25 days in 2012 primarily due to increased direct corporate sales. Turnover for trade receivables remained stable at 17 days and 17 days in 2010 and 2011, respectively. Excluding the amounts related to direct corporate sales, our trade receivables would have totaled RMB39.0 million, RMB74.4 million and RMB96.8 million as of December 31, 2011 and 2012 and June 30, 2013, respectively, and the turnover of trade receivables would have been 10 days and 14 days in 2012 and the first half of 2013, respectively.

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Included in our trade receivable balance are debts with aggregate carrying amount of RMB20.7 million, RMB26.4 million, RMB37.5 million and RMB59.2 million which were past due as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively, for which we have not provided for impairment loss. Of the RMB59.2 million trade receivable balances that were past due as of June 30, 2013, 40.9% were settled as of September 30, 2013. The significant trade receivable balances that were past due during the Track Record Period were primarily trade receivables due from direct corporate customers, most of whom are real estate developers. As the cycle of real estate industry is generally long, the trade receivables from some of these customers were past due despite our contractual terms. However, considering the strong credit profile of these customers, we are of the view that these past due amounts will be settled and no impairment allowance is necessary. As direct corporate sales generally have a higher profit margin but longer credit term than sales to tier-one distributors, we take a prudent approach in developing corporate sales customers by seeking to enter into business relationships only those with strong financial position and good credit history. According to the aging of accounts receivable, our provision for allowance for doubtful debt was RMB2.4 million, RMB9.1 million, RMB13.9 million and RMB20.3 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. We do not hold any collateral over these balances. We charged an interest for credits granted to our tier-one distributors.

We have not experienced any material default or cancellation of sales contracts by customers during the Track Record Period and up to the Latest Practicable Date.

Others

Receivables other than trade receivable primarily include advances to suppliers, bills receivables, certain other tax recoverable, prepaid rental, certain other distributor receivables, and value-added tax recoverable. Bill receivable increased during the Track Record Period primarily due to increased utilization of bill financing by our customers to pay for the purchasing price for their orders.

Amounts Due from Related Parties

The amounts due from related parties are unsecured, interest-free and repayable on demand. See “— Impact of Reorganization and Related Party Transactions — Related Party Transactions”.

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Trade and Other Payables

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had trade and other payables in the amount of RMB270.9 million, RMB682.2 million, RMB965.7 million and RMB1,076.6 million, respectively. The table below sets forth a summary of our trade and other payables balances as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Trade payables	191,066	449,319	622,564	634,434
Bills payable — secured.....	6,156	4,238	13,700	6,593
Other payables	6,022	11,411	16,742	7,406
Other tax payables	3,960	16,003	38,677	62,253
Payroll and welfare payables	7,241	19,502	33,142	31,943
Advances from distributors.....	33,564	68,763	93,472	163,329
Deposits from distributors.....	2,830	31,193	39,030	75,096
Deferred income	—	32,650	32,361	15,563
Payables for acquisition for property, plant and equipment	9,593	19,669	25,309	4,597
Accrued expense	<u>10,464</u>	<u>29,426</u>	<u>50,751</u>	<u>75,376</u>
Total	<u>270,896</u>	<u>682,174</u>	<u>965,748</u>	<u>1,076,590</u>

Trade Payables

The balance of trade payables as of the respective year-end represented the outstanding amounts payable by us to our third party suppliers (i.e. excluding related parties). For trade payables due to related party suppliers, see “— Related Party Transactions”.

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As of December 31, 2010, 2011, 2012 and June 30, 2013, we had trade payables in the amount of RMB191.1 million, RMB449.3 million, RMB622.6 million and RMB634.4 million, respectively. As of September 30, 2013, 66.8% of the trade payables balances as of June 30, 2013 were settled. The following is the aging analysis of trade payables as of the date indicated and turnover of trade payables days for the period indicated.

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
	(RMB'000 except turnover days)			
0 - 30 days.....	74,261	182,446	272,362	320,149
31 - 90 days.....	96,777	249,615	278,655	160,143
91 - 180 days.....	11,951	15,241	65,645	53,593
181 - 365 days.....	8,077	2,017	5,902	95,631
1 - 2 years	—	—	—	4,918
	<u>191,066</u>	<u>449,319</u>	<u>622,564</u>	<u>634,434</u>
Turnover of trade payables ⁽¹⁾	86	83	122	144

(1) Turnover of trade payables represents average trade payables days divided by cost of goods sold for the relevant period and multiplied by 365 for each year and 183 for the first half of a year. Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of period divided by two.

We incur trade payables primarily in connection with purchases of raw materials that we use for our production. Our trade payables are non-interest-bearing and are generally settled within 180 days.

Turnover for our trade payable increased from 83 days in 2011 to 122 days in 2012 and further to 144 days in the first half of 2013, primarily due to (i) better credit terms we obtained from our suppliers as a result of our increased bargaining power as we increased our production scale, and (ii) seasonality effect on sales which are generally slower in the first half of the year than in the second half. Turnover for our trade payable remained relatively stable at 86 days and 83 days in 2010 and 2011, respectively.

Our trade payables increased by 1.9% during the first half of 2013 due to increased raw materials purchase as a result of increased production scale.

Our trade payables increased by 38.6% during 2012 due to increased raw materials purchase as a result of increased production scale and increased purchase of equipment as a result of ramp up of our production facility in Qingyuan, Guangdong province.

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Our trade payables increased by 135.2% during 2011 primarily due to increased raw materials purchase as a result of increased production scale and increased purchase of equipment as a result of construction of our production facility in Qingyuan, Guangdong province.

During the Track Record Period, we had no material default in payment of our trade payables.

Others

Payables other than trade payables primarily include bills payable, deposited from distributors, other tax payables, payroll and welfare payables, deferred income, advance from distributors, accrued expense and payables for property, plant and equipment. Deposits from distributors primarily represented performance deposits paid by our tier-one distributors and preferred dealers under their distribution agreements with us. Advance from distributors primarily represented advance paid by our tier-one distributors and preferred dealers for the orders they placed with us. See “Business — Sales and Distribution — Ceramic Tile Products — Sales to Tier-one Distributors — Management of tier-one distributors”. The increases in deposits from distributors and advance from distributors are generally in line with the growth of sales to our tier-one distributors.

During the Track Record Period, we had no material default in payment of our non-trade payables.

Obligation under a Finance Lease

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had the obligation under a finance lease in the amount of RMB45.8 million, RMB42.5 million, RMB38.8 million and RMB36.8 million, respectively. The table below sets forth a summary of our obligation under a finance lease as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Analyzed for reporting purposes as:				
Current liabilities	3,236	3,759	4,006	4,301
Non-current liabilities	42,527	38,767	34,762	32,464
Total	45,763	42,526	38,768	36,765

Our finance lease represented the lease of manufacturing equipment for our production facility located at Lixian, Hunan province. The lease was entered in 2009 with a term of 10 years, and the ownership of the equipment would not be transferred to us at the end of the lease term. The effective interest rate underlying the obligation under finance lease was 6.55% per annum.

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Amounts Due to Related Parties

The amounts due to related parties are unsecured, interest-free and repayable on demand. See “— Impact of Reorganization and Related Party Transaction — Related Party Transactions” for details.

Bank Borrowings

The table below sets forth the aggregate amount of our outstanding bank loans as of the date indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Bank loans	160,000	275,000	493,240	904,159

As of December 31, 2011, 2012 and June 30, 2013, we had available unutilized bank loan facility of approximately RMB30.0 million, RMB243.9 million and RMB625.0 million, respectively. No unutilized bank loan facility was available as of December 31, 2010.

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had bank borrowings due within one year in the amount of RMB70.0 million, RMB185.0 million, RMB415.2 million and RMB852.2 million, respectively.

Redeemable Convertible Preferred Shares

On June 8, 2013, the Company completed the issuance of 195,105,600 shares of series A preferred shares to Sequoia. The fair value of these series A preferred shares was RMB188.4 million as of June 30, 2013. Immediately prior to the closing of the Global Offering, all series A preferred shares will be automatically converted into ordinary shares of the Company on a one-to-one basis and their liability component therefore will become part of the Company's share capital. See “History and Corporate Development — Pre-IPO Investment from Sequoia” and note 27 of the Accountant's Report in Appendix I of this prospectus.

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Net Current Assets/(Liabilities)

As of December 31, 2010, 2011 and 2012 and June 30, 2013, and September 30, 2013 (being the indebtedness date which is no more than eight weeks prior to the date of this prospectus), our net current assets were as follows:

	As of December 31,			As of	As of
	2010	2011	2012	June 30, 2013	September 30, 2013
	(RMB'000)				(unaudited)
Current assets					
Inventories	587,483	905,737	1,046,181	1,004,055	981,258
Trade and other receivables.....	170,411	226,587	371,953	473,156	339,559
Tax recoverable	2,637	—	—	4,547	—
Amounts due from shareholders	—	—	11	11	11
Amounts due from related parties..	190,708	236,807	96,375	83,587	54,713
Prepaid lease payments.....	1,377	1,377	2,817	5,607	7,500
Pledged bank deposits	738	45,209	69,678	409,914	10,120
Bank balances and cash	75,205	112,593	239,991	483,574	594,243
	<u>1,028,559</u>	<u>1,528,310</u>	<u>1,827,006</u>	<u>2,464,451</u>	<u>1,987,404</u>
Current liabilities					
Trade and other payables.....	270,896	682,174	965,748	1,076,590	1,031,930
Obligation under a finance lease....	3,236	3,759	4,006	4,301	4,448
Amounts due to related parties	1,005,607	1,082,446	1,109,320	1,272,410	167,567
Amounts due to non-controlling interests.....	—	—	—	1,650	1,650
Bank borrowings	70,000	185,000	415,240	852,159	475,962
Tax liabilities.....	2,105	33,756	49,185	40,367	67,481
	<u>1,351,844</u>	<u>1,987,135</u>	<u>2,543,499</u>	<u>3,247,477</u>	<u>1,749,038</u>
Net current (liabilities) assets	<u>(323,285)</u>	<u>(458,825)</u>	<u>(716,493)</u>	<u>(783,026)</u>	<u>238,366</u>

During the Track Record Period, our net current liabilities was mainly due to transactions with our related parties. Amounts due to our related parties as of December 31, 2010, 2011, 2012 and June 30, 2013 amounted to RMB1,005.6 million, RMB1,082.4 million, RMB1,109.3 million and RMB1,272.4 million, respectively. Amounts due to related parties as of December 31, 2012 and June 30, 2013 primarily included (i) payables to Qingyuan Dongpeng for the purchase of its property, plant and equipment, (ii) declared but unpaid dividend owed to our shareholders, and (iii) payables to Shandong Jialiya.

The non-trade portions of payables due to related parties as of December 31, 2010, 2011, 2012 and June 30, 2013 amounted to RMB782.9 million, RMB843.3 million, RMB823.3 million and RMB970.9

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million, respectively, a substantial portion of which were advances from related parties to our Company. RMB340.6 million, RMB479.7 million, RMB521.5 million and RMB704.7 million of the non-trade portion as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively, were incurred in connection with our reorganization.

Using cash generated from operating activities and proceeds from equity issuance by our Company and certain of our subsidiaries, we settled a substantial majority of the amounts due to related parties in the third quarter of 2013 and all such amounts by the end of October 2013.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through a combination of capital contribution from shareholders, cash flow from operations and short-term bank borrowings. We were able to repay our obligations under bank borrowings when they became due during the Track Record Period. We are able to manage liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring forecasted and actual cash flows and matching the maturity profiles of assets and liabilities. In the event that additional working capital is required for business expansion, we may approach other banks to obtain additional banking facilities and/or negotiate with our existing lenders for an increase in banking facilities. In the future, we expect that our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the proceeds from the Global Offering.

Cash Flows

The following table sets forth a summary of our cash flows information for the period indicated.

	For the year ended December 31,			For the six months ended
	2010	2011	2012	June 30, 2013
	(RMB'000)			
Net cash flows from/(used in) operating activities	(48,283)	249,596	346,851	266,719
Net cash flows used in investing activities	(188,596)	(342,455)	(235,703)	(371,109)
Net cash flows from financing activities....	<u>266,612</u>	<u>130,247</u>	<u>16,250</u>	<u>347,973</u>
Net increase/(decrease) in cash and cash equivalents	29,733	37,388	127,398	243,583
Cash and cash equivalents at beginning of the year	45,472	75,205	112,593	239,991
Cash and cash equivalents at end of the year	<u>75,205</u>	<u>112,593</u>	<u>239,991</u>	<u>483,574</u>

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Operating Activities

We derive our cash flow from operating activities principally from the receipt of payments for the sales of our products. Our cash used in operating activities is mainly used to pay for costs and expenses relating to operating activities.

Net cash flows from operating activities was RMB266.7 million in the first half of 2013, while our operating cash flows before working capital changes was RMB268.2 million. The cash outflow of RMB1.5 million mainly reflected the following working capital changes: (i) an increase of RMB66.9 million in trade and other receivables and (ii) an increase of RMB58.9 million in income tax paid, partially offset by a decrease of RMB126.6 million in inventories. The increase in trade and other receivables was primarily due to increased bills receivables. The increase in income tax paid primarily reflected the increased taxable income.

Net cash flows from operating activities was RMB346.9 million in 2012, while our operating cash flows before working capital changes was RMB365.3 million. The cash outflow of RMB18.4 million mainly reflected the following working capital changes: (i) an increase of RMB150.2 million in trade and other receivables and (ii) an increase of RMB143.0 million in inventories, partially offset by an increase of RMB277.9 million in trade and other payables. The increase in trade and other receivables was primarily due to increased corporate sales. The increase in inventories primarily reflected the increased production.

Net cash flows from operating activities was RMB249.6 million in 2011, while our operating cash flow before working capital changes was RMB298.6 million. The cash outflow of RMB49.0 million mainly reflected the following working capital changes: (i) an increase of RMB331.3 million in inventories and (ii) an increase of RMB62.9 million in trade and other receivables, partially offset by an increase of RMB401.2 million in trade and other payables. The increase in inventories was generally in line with increased production. The increase in trade and other receivables was primarily due to increased direct corporate sales.

Net cash flows used in operating activities was RMB48.3 million in 2010, while our operating cash flow before working capital changes was RMB111.1 million. The cash outflow of RMB159.4 million mainly reflected the following working capital changes: (i) an increase of RMB234.3 million in inventories and (ii) an increase of RMB94.1 million in trade and other receivables, partially offset by an increase of RMB161.5 million in trade and other payables. The increase in inventories was primarily due to generally in line with increased production. The increase in trade and other receivables was primarily due to increased corporate sales. The increase in trade and other payables was primarily due to expansion of our business operation.

Investing Activities

Our cash used in investing activities mainly consists of purchases of property, plant and equipment, payment for prepaid lease, repayment to related parties and placement of pledged bank deposits. Our cash flow from investing activities mainly represents advance from related parties, proceeds from disposal of property, plant and equipment and withdrawals from pledged bank deposits.

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Net cash flows used in investing activities was RMB371.1 million in the first half of 2013. The net cash outflow was primarily due to (i) pledged bank deposits of RMB409.9 million in connection with certain financing arrangements, (ii) advances to related parties of RMB110.4 million and (iii) payment for property, plant and equipment of RMB63.3 million, partially offset by (i) repayments from related parties of RMB123.1 million and (ii) withdrawals of pledged bank deposits of RMB69.7 million.

Net cash flows used in investing activities in 2012 was RMB235.7 million. The net cash outflow was primarily due to (i) purchase of property, plant and equipment of RMB283.9 million, (ii) placement of pledge bank deposits of RMB69.7 million and (iii) payment for prepaid lease of RMB47.8 million, partially offset by (i) repayments from related party of RMB106.7 million and (ii) withdraw of pledged bank deposit of RMB45.2 million.

Net cash flows used in investing activities in 2011 was RMB342.5 million. The net cash outflow was primarily due to (i) purchase of property, plant and equipment of RMB248.7 million, (ii) placement of pledge bank deposits of RMB45.2 million, (iii) advances to related parties of RMB88.6 million and (iv) payment for prepaid lease of RMB36.4 million.

Net cash flows used in investing activities in 2010 was RMB188.6 million. The net cash outflow was primarily due to (i) purchase of property, plant and equipment of RMB83.7 million, (ii) repayment to related parties of RMB72.0 million, and (iii) payment for prepaid lease of RMB32.0 million.

Financing Activities

Our cash inflow from financing activities mainly consist of new bank borrowings, advance from related parties and proceeds from issue of shares. Our cash used in financing activities mainly consist of repayments of borrowings, repayment to related parties and repayments of obligation under a finance lease.

Net cash inflow from financing activities was RMB348.0 million in the first half of 2013. Such inflow was primarily due to (i) new bank borrowings of RMB786.2 million, (ii) advances from related parties of RMB203.5 million and (iii) proceeds from issuance of redeemable convertible series A preferred shares of RMB185.0 million, partially offset by (i) repayments of borrowings of RMB427.2 million, (ii) repayments to related parties of RMB178.6 million, and (iii) deemed distribution to owners under our group reorganization of RMB218.8 million.

Net cash inflow from financing activities in 2012 was RMB16.3 million. Such inflow was primarily due to new bank borrowings of RMB508.2 million and advances from related parties of RMB433.6 million, partially offset by (i) repayment to related parties of RMB631.4 million and (ii) repayments of borrowings of RMB290.0 million.

Net cash inflow from financing activities in 2011 was RMB130.2 million. Such inflow was primarily due to advances from related parties of RMB938.9 million and new bank borrowings of RMB300.0 million, partially offset by repayments to related parties of RMB925.4 million and repayments of borrowings of RMB185.0 million.

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Net cash inflow from financing activities in 2010 was RMB266.6 million. Such inflow was primarily due to (i) advance from related parties of RMB292.3 million, (ii) new bank borrowings of RMB112.5 million and (iii) proceeds from the issuance of shares of RMB42.0 million, partially offset by repayments of borrowings of RMB120.0 million.

Working Capital

Taking into account the financial resources available to us, revenue generated from our operations and the estimated proceeds from the Global Offering, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus and the Sole Sponsor concurs with the Directors.

RELATED PARTY TRANSACTIONS

Historically, some of our related party companies and the companies that currently form our Group regarded themselves as a member of the “Dongpeng” group and functioned as such. Sales and purchases among these companies historically were conducted on a basis similar to intra-group transactions. When our Group was formed in anticipation of the Global Offering, however, these related party companies were left outside our Group as a result of reorganization and in accordance with Hong Kong accounting principles. As a result, these historical “intra-group” transactions became related party transactions.

The following table summarizes our transactions with related parties for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
	(RMB'000)			(unaudited)	
Sales					
Guangdong Dongpeng					
Ceramics.....	354,016	561,405	26,891	24,125	—
Others.....	8,381	1,843	13,393	8,984	5,699
Subtotal	<u>362,397</u>	<u>563,248</u>	<u>40,284</u>	<u>33,109</u>	<u>5,699</u>
Purchases					
Guangdong Dongpeng					
Ceramics.....	62,809	64,700	41,061	30,820	3
Shandong Dongpeng /					
Shandong Jialiya	62,843	109,559	275	155	—
Bathroom products.....	10,505	17,422	22,631	7,394	13,268
Others.....	—	17,935	5,234	866	—
Subtotal	<u>136,157</u>	<u>209,616</u>	<u>69,201</u>	<u>39,235</u>	<u>13,271</u>
Rental expenses.....	<u>10,500</u>	<u>55,664</u>	<u>57,352</u>	<u>28,675</u>	<u>20,673</u>
Purchase of equipment.....	—	46,879	11,704	3,194	—

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Our receivables due from related parties arising from our sales of finished products to related parties amounted to RMB36.2 million, RMB63.5 million, RMB29.7 million and RMB23.5 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. All such receivables due from related parties were settled by the end of October 2013. Our purchase orders from related party customers were relatively simple and generally did not contemplate credit terms. Our historical turnover for receivables due from related parties were 18, 32, 422 and 853 days as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. The substantial increase in turnover days for such receivables in 2012 and the first half of 2013 was mathematical in nature and due to the combined effect of the substantial decrease of sales to related parties in the same period and the amount of outstanding receivables accumulated from historical sales to related parties.

Our payables due to related parties arising from our purchase of finished products from related parties amounted to RMB222.7 million, RMB239.2 million, RMB286.1 million and RMB301.5 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. All such payables due to related parties were settled by the end of October 2013. Our purchase orders to related party suppliers were relatively simple and generally did not contemplate credit terms. Our historical turnover for payables due to related parties were 415, 402, 1,385 and 4,040 days as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. The substantial increase in turnover days for such payables in 2012 and the first half of 2013 was mathematical in nature and due to the combined effect of the substantial decrease of purchases from related parties in the same period and the amount of outstanding payables accumulated from historical purchases from related parties.

As of December 31, 2010, 2011, 2012 and June 30, 2013, our net trade payables due to related parties amounted to RMB186.5 million, RMB175.7 million, RMB256.3 million and RMB278.0 million, respectively. For illustration purposes only, had we borrowed commercial loans to pay off the entire amount of net trade payables due to related parties, the notional interest that would be charged on our Company could have amounted to RMB28.5 million, RMB23.2 million, RMB22.8 million and RMB14.6 million, respectively, in 2010, 2011, 2012 and the first half of 2013. Such amounts of notional interest are calculated based on the hypothetical scenario where the interest rate on such bank loans had been 6.00%, 5.35%, 5.31% and 6.00% for 2010, 2011, 2012 and the first half of 2013, respectively, which was the lower end of the interest rate range of our actual bank borrowings during the same period.

In practice, however, had we carried out these related party transactions on terms similar to those with Independent Third Parties, the impact on our net profit would vary significantly depending on the course of action our management decides to take. The mere application of notional interest to finance costs and a corresponding deduction from net profit would reflect neither history nor the reality of business management. See also “— Impact of Reorganization and Related Party Transactions — Related Party Transactions”, “Relationship With Our Controlling Shareholders — Independence From Our Controlling Shareholders — Financial Independence” and note 34 of the Accountant’s Report in Appendix I of this prospectus.

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INDEBTEDNESS

As of December 31, 2010, 2011, 2012 and June 30, 2013, our interest-bearing borrowings were RMB160.0 million, RMB275.0 million, RMB493.2 million and RMB904.2 million, respectively.

Fixed-rate borrowing included RMB298.4 million and RMB771.2 million at December 31, 2012 and June 30, 2013, respectively. The borrowings were arranged at fixed rate ranging from 3.0% to 6.6% and 2.6% to 6.3% as of December 31, 2012 and June 30, 2013, respectively.

Variable-rate borrowings included RMB160.0 million, RMB275.0 million, RMB194.8 million and RMB133.0 million, at December 31, 2010, 2011, 2012 and June 30, 2013, respectively. The borrowings were arranged at variable rate based on the interest rates quoted by the People's Bank of China with the effective interest rate ranging from benchmark interest rate from the People's Bank of China with 5% mark-up to 15% mark-up.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any difficulty in obtaining credit facilities or withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of bank borrowings. We have been able to repay our borrowings when they became due and payable.

As of June 30, 2013, the total credit facility granted to our Group amounted to approximately RMB1.2 billion, of which RMB635.0 million has been utilized. As of September 30, 2013, being the latest practicable date for the purpose of this indebtedness statement, the total credit facility granted to our Group amounted to approximately RMB1.2 billion, of which RMB633.0 million has not been utilized and is unrestricted and may be drawdown at any time.

As of September 30, 2013, being the indebtedness date which is no more than two calendar months prior to the date of this prospectus, our Group had 195,105,600 shares of series A preferred shares outstanding with a total subscription price of USD30.0 million (approximately equal to RMB185.0 million), amounts due to related parties of approximately RMB117.8 million (other than trade balances) and bank borrowings of approximately RMB567.0 million, including bills discounted with recourse, secured by fixed charges on certain of Group's assets, including construction in progress, buildings, equipment and machinery, prepaid lease payments and pledged bank deposits. The Group has also pledged certain buildings, plant and machinery and prepaid lease payments with a total carrying amount of RMB23.2 million to a bank to secure bank borrowings of a related company which has been released subsequently in October 2013. In addition, our Group had outstanding obligations under finance leases of approximately RMB35.8 million.

As of the Latest Practicable Date, the Directors confirm that we do not plan to raise external debt in the near future. The Directors further confirm there is no material adverse change in our Group's indebtedness since September 30, 2013 up to the date of this prospectus.

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Except as disclosed in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loan from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding as of September 30, 2013 (being the latest practicable date for the purpose of this indebtedness statement).

KEY FINANCIAL RATIOS

The following table sets forth our certain key financial ratios for the dates indicated:

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2010	2011	2012	2013
Return on equity ⁽¹⁾	9.0%	63.2%	66.0%	70.6%
Current ratio ⁽²⁾	0.8	0.8	0.7	0.8
Debt to equity ratio ⁽³⁾	2.0	1.2	1.9	5.3
Net gearing ratio ⁽⁴⁾	1.0	0.5	0.7	0.1
Interest coverage ratio ⁽⁵⁾	6.8	17.6	12.6	12.7
Quick ratio ⁽⁶⁾	0.3	0.3	0.3	0.4

(1) Profit for the year/period divided by year-end/period-end total equity.

(2) Current assets divided by current liabilities.

(3) Total debt divided by total equity. Total debt includes interest-bearing bank borrowings.

(4) Net debt divided by total equity. Net debt consists of bank borrowings net of cash and cash equivalents, and pledged bank deposits.

(5) EBITDA divided by interest expense. EBITDA is the result of gross profit adding other income, and then subtracting interest income, distribution and selling expenses, administrative expenses, other expenses and share of loss of a joint venture, but adding back depreciation and amortization.

(6) Current assets minus inventory, then divided by current liabilities.

Our current ratio and quick ratio during the Track Record Period have been affected by the amounts due to related parties, which totaled RMB1,005.6 million, RMB1,082.4 million, RMB1,109.3 million and RMB1,272.4 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively. These amounts due to related parties have been fully settled as of the Latest Practicable Date.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

As of December 31, 2010, 2011, 2012 and June 30, 2013, we had capital commitment in respect of acquisition of new property, plant and equipment contracted for but not provided in the consolidated financial statements, in the amount of RMB77.2 million, RMB240.8 million, RMB90.5 million and RMB108.1 million, respectively.

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Operating Lease Arrangements

At the end of the reporting period, we had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(RMB'000)			
Within one year.....	56,266	84,836	56,947	75,286
In the second to fifth year inclusive....	152,001	151,364	124,425	135,387
After five years.....	<u>83,547</u>	<u>77,112</u>	<u>67,057</u>	<u>103,150</u>
	<u>291,814</u>	<u>313,312</u>	<u>248,429</u>	<u>313,823</u>

Operating lease payments represent leases payable by us for certain of our office premises, warehouses and plant and equipment. Leases are negotiated for an average term of one to five years, except for leases for land are negotiated for a term of fifty years. Rentals are fixed at the date of signing of the relevant lease agreements.

Contingent Liabilities

As of December 31, 2012 and the Latest Practicable Date, we did not have any contingent liabilities. There has been no material change in our contingent liabilities since the Latest Practicable Date.

Capital Expenditures

We incurred capital expenditures in 2010, 2011, 2012 and the first half of 2013 in the amount of RMB115.7 million, RMB285.0 million, RMB331.6 million and RMB71.7 million, respectively. Our capital expenditures in 2011 and 2012 primarily related to the construction and purchase of equipment at our production facility in Qingyuan, Guangdong province. Our capital expenditures in the first half of 2013 primarily related to purchase of equipment.

We expect that our capital expenditure will total RMB383.3 million in 2013. We expect our capital expenditure for the second half of 2013 will primarily be allocated to the construction of production facilities and purchase of equipment in Fengcheng, Jiangxi province and Qingyuan, Guangdong province as well as construction of the new showroom and office building at the headquarters.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

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QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business. The main risks arising from our financial instruments are liquidity risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financial activities. The Board regularly reviews these risks and our financial risk management policy seeks to ensure that adequate resources are available to manage the market risks summarized below and to create value for our Shareholders.

Credit Risk

We have no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables and amounts due from related parties represent our maximum exposure to credit risk in relation to our financial assets.

Substantial amounts of our cash and cash equivalents and time deposits are held in major reputable financial institutions located in the PRC and Hong Kong, which we believe are of high credit quality. The credit risk of our other financial assets, which comprise trade and other receivables and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. We have no other financial assets which carry significant exposure to credit risk.

During the Track Record Period, we sold most of our products after receiving full payment from the customers and also sold to a large number of diversified customers. As a result, there is no significant concentration of credit risk.

Foreign Currency Risk

Most of our sales of products are conducted in Renminbi. Most of our assets and liabilities are denominated in Renminbi.

We have not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. Management monitors our foreign currency exposure and will consider hedging significant foreign currency exposure when the needs arise.

The following table details the Company's sensitivity to a 5% increase and decrease in Renminbi against relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of

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Renminbi against the relevant currency, there would be an equal and opposite impact on the profit for the year. The parameters used in the sensitivity analysis commensurate with their historical fluctuations. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	Year ended December 31,			Six months ended June 30,
	2010	2011	2012	2013
	(RMB'000)			
USD				
Profit for the year.....	<u>—</u>	<u>—</u>	<u>(262)</u>	<u>(1,301)</u>
EURO				
Profit for the year.....	<u>—</u>	<u>—</u>	<u>155</u>	<u>9</u>

Liquidity Risk

Our policy is to regularly monitor current and expected liquidity requirements and our compliance with debt covenants, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet our liquidity requirements in the short and long term. Management believes there is no significant liquidity risk as we have sufficient committed bank facilities to fund our operations.

Based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the year-end dates during the Track Record Period) and the earliest date we may be required to pay, our financial liabilities were RMB1,479.7 million, RMB1,985.4 million, RMB2,445.3 million and RMB3,049.3 million as of December 31, 2010, 2011, 2012 and June 30, 2013, respectively.

Interest Rate Risk

Our exposure to interest rate risk relates primarily to our bank deposits and interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing borrowings are disclosed in note 26 to the Accountant's Report as set out in Appendix I to this prospectus. We manage our interest rate exposure through the use of fixed rates for 0.2% to 6.6% of our interest-bearing borrowings.

In addition, we do not consider that we have any significant exposure to the risk of changes in market interest rates from our bank deposits as a reasonably possible change of 25 basis points in the interest rates would have no material impact on our consolidated statement of comprehensive income during the Track Record Period.

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Commodity Risk

We expose to commodity price risk, mainly due to (i) the fluctuations in prices of major raw materials, including clay, chemicals and packaging materials, and (ii) the fluctuations in prices of fuel (which includes coal and to a lesser extent, natural gas). During the Track Record Period, our Directors consider the commodity price risk exposure to be not material.

A sensitivity analysis on the price fluctuation of clay during the Track Record Period is set forth below, which illustrates the hypothetical effects on our net profit with 5%, 10% and 15% increase or decrease of clay price. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	Changes in our net profit for change in clay price of		
	+/-5%	+/-10%	+/-15%
	(RMB'000)		
2010	-/+3,959	-/+7,918	-/+11,876
2011	-/+9,749	-/+19,497	-/+29,246
2012	-/+12,265	-/+24,530	-/+36,795
For the six months ended			
June 30, 2013	-/+5,908	-/+11,816	-/+17,724

A sensitivity analysis on the price fluctuation of fuel during the Track Record Period is set forth below, which illustrates the hypothetical effects on our net profit with 5%, 10% and 15% increase or decrease of fuel price. Because a number of assumptions have been applied, this sensitivity analysis is for illustration only, and actual results may differ from those illustrated below.

	Changes in our net profit for change in fuel price of		
	+/-5%	+/-10%	+/-15%
	(RMB'000)		
2010	-/+7,616	-/+15,231	-/+22,847
2011	-/+12,221	-/+24,443	-/+36,664
2012	-/+12,732	-/+25,464	-/+38,196
For the six months ended			
June 30, 2013	-/+6,315	-/+12,629	-/+18,944

In order to minimize our exposure from fluctuation in raw material prices, we have adopted the following measures: (i) timely adjusting the selling price of our products based on raw material price changes, and (ii) based on our estimation of the market price trend, selectively entering into long-term supplier contracts of certain materials to secure favorable prices.

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Capital Risk Management

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, we monitor capital on the basis of the net gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings are short-term and long-term borrowings as shown in the consolidated balance sheets. Total capital is calculated as “total equity” as shown in the consolidated balance sheets plus total borrowings.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2013. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Company had the Global Offering been completed as of June 30, 2013 or any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at June 30, 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share ⁽³⁾⁽⁶⁾	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(HK\$)
Based on Offer Price at HK\$3.68 per Share	171,672	676,317	847,989	0.74	0.93
Based on Offer Price at HK\$4.55 per Share	171,672	841,370	1,013,042	0.88	1.11

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of June 30, 2013 is extracted from the Accountant's Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets attributable to owners of the Company as of June 30, 2013 of RMB171.7 million.

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- (2) The estimated net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK\$3.68 and HK\$4.55 per Offer Share, respectively, after deducting estimated underwriting fees and commissions and expenses in connection with the Global Offering paid/payable by the Company which have not been reflected in the net tangible assets of the Group as at June 30, 2013 and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the option that may be granted under the Share Option Scheme and conversion of Series A preferred shares.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,149,400,000 shares are in issue (including 900,000,000 shares in issue as of the date of this prospectus, and 249,400,000 shares to be issued upon the Global Offering) and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised and no conversion of Series A preferred shares.
- (4) According to the shareholders' agreement dated June 21, 2013, the Company issued 195,105,600 shares of Series A preferred shares (every two Series A preferred shares are subsequently consolidated into one Series A preferred share on November 5, 2013) which will be automatically converted into ordinary shares upon closing of a qualified initial public offering. Assuming the Series A preferred shares were converted upon the closing of the Global Offering, and after considering the estimated net proceeds from the Global Offering referred to in Note (1) above, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company would be RMB1,036,383,000 (based on an Offer Price of HK\$3.68) and RMB 1,201,436,000 (based on an Offer Price of HK\$4.55) after adjusting for the carrying amount of the Series A preferred shares of RMB188,394,000 as at June 30, 2013. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share based on an Offer Price of HK\$3.68 per Offer Share would be RMB0.83 (HK\$1.04), and based on an Offer Price of HK\$4.55 per Offer Share would be RMB0.96 (HK\$1.21) determined on the basis that 1,246,952,800 shares were in issue (including 900,000,000 shares in issue as of the date of this prospectus, 97,552,800 shares to be issued upon automatic conversion of Series A preferred shares and 249,400,000 shares to be issued upon the Global Offering and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised).
- (5) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2013 to reflect any trading result or other transaction of the Group entered into subsequent to June 30, 2013. No adjustment has been made to reflect the declaration of dividends in an aggregate amount of RMB90 million in November 2013.
- (6) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.7966 to HK\$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

DISTRIBUTABLE RESERVES

As of the Latest Practicable Date, the aggregate amount of reserves available for the distribution to the equity holders of the Company amounted to RMB246.4 million.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

DIVIDEND POLICY

Following completion of the Global Offering, our Shareholders will be entitled to receive any dividends we declare. Our Shareholders may approve the declaration of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also pay such interim dividends as appear to our Board to be justified by our financial conditions, and may also pay half-yearly or at other suitable intervals at a fixed rate if the Board is of the opinion that the financial conditions and the profits of the Company justify the payment of dividends. The payment and amount of any dividends will depend on our general business condition and strategies, cash flows,

FINANCIAL INFORMATION

financial results and capital requirements, interests of our Shareholders, taxation conditions, statutory restrictions, and other factors that our Board deems relevant. The payment of any dividends will also be subject to the Companies Law and our constitutional documents, and the Companies Law indicates that payment of dividends out of our Share premium account is possible on the condition that we are able to pay our debts as they fall due in the ordinary course of business immediately following the date on which the proposed dividends are to be paid.

Our ability to declare future dividends will also depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Pursuant to the PRC laws, dividends may only be paid out of distributable profits, defined as the retained earnings after tax payments as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our PRC operating subsidiaries. In general, we will not declare dividends in a year where we do not have any distributable earnings.

We have declared and paid dividends of an aggregate amount of nil, nil, RMB169.3 million and nil in 2010, 2011, 2012 and the first half of 2013, respectively, to our shareholders. Pursuant to the resolutions of our Board of Directors and holders of our ordinary shares and series A preferred shares passed on November 5, 2013, we declared and approved a dividend of RMB90 million to our pre-IPO shareholders of record as of November 6, 2013. Our dividend payments in the past are no indication of our dividend policy in the future.

LISTING EXPENSES

The total amount of listing expenses, commissions together with SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately HK\$82.8 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately HK\$52.2 million is expected to be capitalized after the Listing. The remaining approximately HK\$30.6 million fees and expenses was or is expected to be charged to our profit and loss accounts, of which HK\$9.0 million were charged for the period ended June 30, 2013. Our listing expenses mainly comprise of professional fees paid to legal advisors and the reporting accountant for their services rendered in relation to the Listing and Global Offering.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

As of the date of this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Company since June 30, 2013, the date of the latest audited financial statements of our Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2013, and there has been no events since June 30, 2013 which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business — Business Strategy” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming the Over-allotment Option is not exercised and assuming the Offer Price is fixed at HK\$4.12 per Share (being the mid-point of the indicative range of the Offer Price of HK\$3.68 to HK\$4.55 per Share), we estimate that the net proceeds of the Global Offering, after deducting the estimated underwriting fees and commissions and expenses payable by us in connection with the Global Offering, will be approximately HK\$953.8 million.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 40%, or HK\$381.5 million, allocated for expansion and upgrade of production facilities;
- approximately 10%, or HK\$95.4 million, allocated for expansion of our distribution network (including opening of additional self-owned retail outlets and product showrooms), the setting up of additional local sales management offices, and the hiring of additional sales and marketing personnel,
- approximately 10%, or HK\$95.4 million, allocated for research and development, including the opening of a new research and development center (primarily consisting of proceeds used for construction of the center and the purchase of production and testing equipment for prototypes);
- approximately 10%, or HK\$95.4 million, allocated for the repayment of loans, consisting of:

<u>Bank loan</u>	<u>Principal amount</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Use of bank loan</u>
Agricultural Bank of China	RMB60.0 million	6.0%	July 2, 2014	Working capital
Bank of China	RMB50.0 million	6.6%	January 4, 2014	Working capital
Bank of China	RMB30.0 million	6.0%	June 7, 2014	Working capital
Bank of China	RMB20.0 million	6.0%	December 27, 2013	Working capital

- approximately 25%, or HK\$238.4 million, will be used for mergers and acquisitions to complement our existing product lines and sales channels; and
- the remaining amount of approximately not more than 5%, or HK\$47.7 million, will be used for working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed below or above the midpoint of the indicative price range. Any additional proceeds received from the exercise of the Over-allotment Option will also be allocated to the above purposes on a pro rata basis. In the event that the Over-allotment Option is exercised in full, we will receive net proceeds of HK\$1,101.0 million (assuming an Offer Price of HK\$4.12 per Share, the midpoint of our indicative Offer Price range).

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

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Goldman Sachs (Asia) L.L.C.
Deutsche Bank AG, Hong Kong Branch
BOCI Asia Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

If, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has been a breach of any of the warranties or there has been a breach by the Company or the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, result in a misstatement in, or constitute an omission from, any of the prospectus, the Application Forms and/or in any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (c) any statement contained in any of this prospectus, the Application Forms, the formal notice and/or in any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any estimate, forecast,

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expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any announcements, issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions; or

- (d) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of any of the Company or the Controlling Shareholders pursuant to the indemnities under the Hong Kong Underwriting Agreement; or
- (e) there shall have been any adverse change or development involving a prospective adverse change in the assets, liabilities, conditions, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, condition or position, financial or otherwise, or performance, of any member of the Group; or
- (f) the Company withdraws this prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or
- (g) any non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (h) there is an order or petition for the winding up of any member of the Group with substantive business operations or any composition or arrangement made by any such member of the Group with its creditors or a scheme of arrangement entered into by any such member of the Group or any resolution for the winding up of any such member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any such member of the Group or anything analogous thereto occurring in respect of any such member of the Group; or
- (i) any action, suit, claim (whether or not any such claim involves or results in any actions or proceedings), demand, investigation, judgment, award and proceeding, joint or several, from time to time instituted, made or brought or threatened or alleged to be instituted, made or brought against or otherwise involved (together the "**Action**") of any third party being threatened or instigated against any member of the Group; or
- (j) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (k) any authority or political body or organisation in any relevant jurisdiction commencing any Action, or announcing an intention to take any Action, against any Director; or
- (l) any governmental, legal or regulatory prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or
- (m) the Chairman or chief executive officer of the Company or any Director vacating his office; or

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- (n) save as disclosed in this prospectus, any contravention by any member of the Group of the Listing Rules or applicable laws; or
- (o) the Company is required to produce or issue a supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (p) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the Cayman Islands, the British Virgin Islands, the United States, the United Kingdom, Japan, the PRC, Singapore or the European Union (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or any change or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events, in the nature of force majeure affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, earthquake, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike, lock-out (whether or not covered by insurance), accident or interruption or delay in transportation; or
 - (iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange or any suspension of trading of any of the securities of the Company on any exchange or over-the-counter market or any major disruption of any securities settlement or clearing services in any Relevant Jurisdiction or on commercial banking activities in any Relevant Jurisdiction, due to exceptional financial circumstances or otherwise; or

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- (v) a change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a material devaluation of the Hong Kong dollar, the Euro, the Japanese yen, the Renminbi, the United States dollar or the British pound sterling against any foreign currencies and any disruptions in monetary, trading or securities settlement or clearance services, procedures or matters) in or affecting any Relevant Jurisdiction,

which, individually or in the aggregate, in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or will be, or is likely to result in a material adverse change; or
- (B) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
- (C) makes it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the International Placing on the terms and in the manner contemplated in the Offer Documents; or
- (D) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof,

then the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute discretion, may, upon giving notice to the Company at or prior to 8:00 a.m. on the Listing Date, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules or pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option).

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(B) Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to the Company that within the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, it will:

- (i) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform the Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of any of the above matters (if any) by the Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by the Controlling Shareholders.

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Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

We have undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that we will, except pursuant to the Global Offering, the exercise of the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme or may be granted under the Post-IPO Share Option Scheme, not without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months from the Listing Date (the “**First Six-Month Period**”):
 - (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other equity securities of the Company or any shares or other equity securities of any of our subsidiaries, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares of the Company or any shares of any of our subsidiaries, or deposit any Shares or any other securities of the Company or any shares or other securities of any of our subsidiaries with a depositary in connection with the issue of depositary receipts except where such transaction is made solely with other members of the Group in connection with the equity securities of our subsidiary (and not the Company); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any other equity securities of the Company or any shares or other equity securities of any of our subsidiaries, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares of the Company or any shares of any of our subsidiaries); or
 - (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
 - (iv) offer to or agree to, or announce any intention to enter into, any transaction described in paragraphs (i), (ii) or (iii) above,

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whether any such transaction described in paragraphs (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other equity securities of the Company or shares or such other equity securities of such subsidiary, as applicable, or in cash or otherwise (whether or not the allotment or issue of Shares or such other securities of the Company or shares or such other securities of such subsidiary, as applicable, will be completed within the First Six-Month Period); or

- (b) enter into any of the foregoing transactions in paragraphs (a)(i), (ii) and (iii) above, or offer to or agree to or announce any intention to enter into any such transaction, such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, at any time during the Second Six-Month Period, the Company enters into any of the transactions specified in paragraph (a) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of the Company. The Controlling Shareholders have undertaken to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them to procure the Company to comply with the above undertakings.

(B) **Undertakings by our Controlling Shareholders**

Each of the Controlling Shareholders agrees and undertakes to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them that, save as pursuant to the Stock Borrowing Agreement, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules:

- (a) during the First Six-Month Period, he/it will not:
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of the Company) held by him/it as of the date of the Hong Kong Underwriting Agreement; or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

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- (iv) offer to or agree to, or announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above,

whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed within the First Six-Month Period); and

- (b) during the Second Six-Month Period, he/it will not enter into any of the foregoing transactions in paragraphs (a)(i) or (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transactions if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, any of the Controlling Shareholders will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any of the foregoing transactions in paragraphs (a)(i) or (ii) or (iii) above or offers to or agrees to, or announces an intention to enter into any such transactions, he/it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the securities of the Company.

Subject to the above undertaking, each of the Controlling Shareholders has undertaken to the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them that, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling twelve months from the Listing Date, he/it shall (i) if and when he/it pledges or charges any securities or interests in the securities of the Company beneficially owned by him/it, immediately inform the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters in writing of such pledge or charge together with the number of securities so pledged or charged; and (ii) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters in writing of such indications. The Company has undertaken that upon receiving such information in writing from the Controlling Shareholders, it shall, as soon as practicable, notify the Stock Exchange and make a public disclosure in relation to such information in accordance with the Listing Rules.

Indemnity

We and the Controlling Shareholders have agreed to indemnify the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

The International Placing

International Underwriting Agreement

In connection with the International Placing, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters on or about November 22, 2013. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers to subscribe for, or failing which to subscribe for themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Placing which are not taken up under the International Placing.

Undertakings Pursuant to the International Underwriting Agreement

(A) Undertakings by Our Company and our Controlling Shareholders

It is expected that pursuant to the International Underwriting Agreement, our Company and the Controlling Shareholders will give undertakings similar to those given pursuant to the Hong Kong Underwriting Agreement, as described in the section headed “— Underwriting Arrangements and Expenses — the Hong Kong Public Offering — Undertakings Pursuant to the Hong Kong Underwriting Agreement” above.

(B) Indemnity

Our Company and the Controlling Shareholders, among others, will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the U.S. Securities Act.

Over-allotment Option

We will grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 37,410,000 additional Shares, representing 15% of the Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Placing, if any.

Lock-up Undertakings from Certain Other Shareholders

To facilitate the Global Offering, certain of our other shareholders, namely, Sequoia and Rich Blossom, will each enter into a lock-up undertaking in favor of the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) that it will not, at any time during the period commencing on the date of the undertaking, and ending on a date which is six months after the Listing Date, dispose of any of its Shares.

UNDERWRITING

Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 4% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering. In addition, we may pay to the Hong Kong Underwriters a discretionary incentive fee of up to 0.5% of the Offer Price for all the Hong Kong Public Offer Shares. For under-subscribed Hong Kong Public Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate commissions and the maximum incentive fee (if paid), together with the listing fees, SFC transaction levy, the Stock Exchange trading fee and other expenses relating to the Global Offering are estimated to amount in aggregate to approximately HK\$82.8 million (assuming an Offer Price of HK\$4.12 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus) and the Over-allotment Option is not exercised at all), which is subject to adjustment to be agreed by the Company, the Joint Bookrunners and other parties.

SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Placing (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

UNDERWRITING

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises (subject to adjustment and the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme):

- (a) the Hong Kong Public Offering of 24,940,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- (b) the International Placing of an aggregate of 224,460,000 Shares (subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A.

Investors may apply for the Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Shares under the International Placing, but may not do both.

The number of Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the subsection headed “The Hong Kong Public Offering — Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 24,940,000 Shares at the Offer Price, representing 10% of the Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of Shares initially offered under the Hong Kong Public Offering will represent approximately 2% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme are not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection below headed “Conditions of the Global Offering”.

Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The

STRUCTURE OF THE GLOBAL OFFERING

allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The total number of Hong Kong Public Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Hong Kong Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee payable) of HK\$5 million or less; and
- Pool B: The Hong Kong Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee payable) of more than HK\$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Public Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of the Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 12,470,000 Hong Kong Public Offer Shares (being 50% of the 24,940,000 Hong Kong Public Offer Shares initially available under the Hong Kong Public Offering) will be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached.

- 24,940,000 Offer Shares, representing 10% of the total number of the Offer Shares, are initially available in the Hong Kong Public Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 74,820,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 99,760,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 124,700,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners. Subject to the foregoing paragraph, the Joint Bookrunners may in its discretion reallocate Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate to the International Placing all or any under-subscribed Hong Kong Public Offer Shares in such amounts as it deems appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$4.55 per Offer Share plus brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$4.55 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL PLACING

Number of Shares Initially Offered

Subject to the reallocation as described above, the number of Shares to be initially offered under the International Placing will be 224,460,000 Shares, representing 90% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering, the number of Shares initially offered under the International Placing will represent approximately 18% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option and the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme are not exercised.

Allocation

Pursuant to the International Placing, the International Offer Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Placing is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the Shareholders as a whole.

The Sole Global Coordinator, the Joint Bookrunners and/or the Joint Lead Managers (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator, the Joint Bookrunners and/or the Joint Lead Managers so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, which is exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator at any time from the Listing Date until the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to sell up to 37,410,000 Shares, representing 15% of the initial Offer Shares, at the same price per Share under the International Placing, to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional International Offer Shares will represent approximately 2.9% of our enlarged total issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option (assuming that the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme are not exercised). In the event that the Over-allotment Option is exercised, a public announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position;

STRUCTURE OF THE GLOBAL OFFERING

- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date, and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, acquiring the Offer Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the International Underwriters, their affiliates or any person acting for them may cover such over-allocation by, among other methods, using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 37,410,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 37,410,000 Shares from Profit Strong pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Listing Rule 10.07(3).

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around November 22, 2013 and in any event on or before November 27, 2013, by agreement between the Joint Bookrunners, on behalf of the Underwriters, and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

Offer Price Range

The Offer Price will be not more than HK\$4.55 per Share and is expected to be not less than HK\$3.68 per Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

Price Payable on Application

Applicants for Hong Kong Public Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$4.55 for each Hong Kong Public Offer Share (plus 1% brokerage, 0.003% SFC transaction levy, and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$4.55, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before November 27, 2013, the Global Offering will not proceed and will lapse.

Reduction in Indicative Offer Price Range and/or Number of Offer Shares

The Joint Bookrunners, on behalf of the Underwriters, may where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, reduce the indicative offer price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.dongpeng.net) notices of the reduction. Upon issue of such a notice, the revised indicative offer price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners, on behalf of the Underwriters, and our Company, will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

STRUCTURE OF THE GLOBAL OFFERING

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Bookrunners, on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

Announcement of Offer Price and Basis of Allocations

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Public Offer Shares are expected to be announced on November 28, 2013 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.dongpeng.net).

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Bookrunners, on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Placing on or around the Price Determination Date.

These underwriting arrangements, and the Underwriting Agreements, are summarized in the section headed "Underwriting" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option

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and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme) (subject only to allotment) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;

- the Offer Price having been duly agreed between us and the Joint Bookrunners (on behalf of the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before November 27, 2013, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Public Offer Shares — Despatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on November 29, 2013, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the subsection titled “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

STRUCTURE OF THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on November 29, 2013, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on November 29, 2013.

The Shares will be traded in board lots of 1,000 Shares each.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for the Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. The Company, the Sole Global Coordinator, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You can apply for the Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- are an associate of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participated in the International Placing.

3. APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For the Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, November 18, 2013 until 12:00 noon on Thursday, November 21, 2013 from:

- (1) the following address of the Hong Kong Underwriters:

Goldman Sachs (Asia) L.L.C.
68th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Deutsche Bank AG, Hong Kong Branch

Level 52, International Commerce Centre
 1 Austin Road West
 Kowloon
 Hong Kong

BOCI Asia Limited

26th Floor, Bank of China Tower
 1 Garden Road
 Hong Kong

(2) or any of the following branches of **Bank of China (Hong Kong) Limited**:

District	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Sheung Wan Branch	252 Des Voeux Road Central
	409 Hennessy Road Branch	409-415 Hennessy Road, Wan Chai
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
Kowloon	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
	Telford Gardens Branch	Shop P2 Telford Gardens, Kowloon Bay
	Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street, Mong Kok
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

District	Branch Name	Address
New Territories	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan
	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Sha Tin
	Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, November 18, 2013 until 12:00 noon on Thursday, November 21, 2013 from:

- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited — Dongpeng Holdings Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Monday, November 18, 2013 — 9:00 a.m. to 5:00 p.m.
- Tuesday, November 19, 2013 — 9:00 a.m. to 5:00 p.m.
- Wednesday, November 20, 2013 — 9:00 a.m. to 5:00 p.m.
- Thursday, November 21, 2013 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, November 21, 2013, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

- (ii) agree to comply with the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii)(if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply for the Hong Kong Public Offer Shares” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the White Form eIPO Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, November 18, 2013 until 11:30 a.m. on Thursday, November 21, 2013 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, November 21, 2013 or such later time under the “Effects of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for the Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each **White Form eIPO** application submitted via the website to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorized to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for the Hong Kong Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Hong Kong Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Monday, November 18, 2013 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, November 19, 2013 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, November 20, 2013 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, November 21, 2013 — 8:00 a.m. to 12:00 noon⁽¹⁾

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, November 18, 2013 until 12:00 noon on Thursday, November 21, 2013 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, November 21, 2013, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the White Form eIPO Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to the CCASS Phone System/CASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Monday, November 18, 2013.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00a.m. and 12:00 noon on Thursday, November 21, 2013. Instead they will open between 11:45a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, November 21, 2013 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Thursday, November 28, 2013 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.dongpeng.net and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.dongpeng.net and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, November 28, 2013;
- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, November 28, 2013 to 12:00 mid-night on Wednesday, December 4, 2013;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, November 28, 2013 to Sunday, December 1, 2013;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, November 28, 2013 to Saturday, November 30, 2013 at all the receiving bank branches and sub-branches.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If the Company or its agents exercise their discretion to reject your application:**

The Company, the Sole Global Coordinator, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(iii) **If the allotment of the Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$4.55 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, November 28, 2013.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around November 28, 2013. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on November 29, 2013 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, November 28, 2013 or such other date as notified by us in the newspapers.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on November 28, 2013, by ordinary post and at your own risk.

(ii) ***If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, November 28, 2013, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, November 28, 2013, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For the Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than a CCASS Investor Participant), you can check the number of the Hong Kong Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, November 28, 2013 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) ***If you apply through the White Form eIPO service***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, November 28, 2013, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, November 28, 2013 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) ***If you apply via Electronic Application Instructions to HKSCC***

Allocation of the Hong Kong Public Offer Shares

For the purposes of allocating the Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on November 28, 2013, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on November 28, 2013. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, November 28, 2013 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of the Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on November 28, 2013. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on November 28, 2013.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

18 November 2013

The Directors
Dongpeng Holdings Company Limited
Goldman Sachs (Asia) L.L.C

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Dongpeng Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2012 and six months ended 30 June 2013 (the “Relevant Periods”) (the “Financial Information”) for inclusion in the prospectus of the Company dated 18 November 2013 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 March 2012 under the Companies Law, CAP.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a corporate reorganization, as more fully explained in the paragraph headed “History and Corporate development” in the Prospectus (the “Corporate Reorganization”), the Company became the holding company of the companies comprising the Group on 29 January 2013.

All companies now comprising the Group have adopted 31 December as their financial year end date. As at the date of this report, the Company has equity interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group					Principal activities
			At 31 December		At 30 June		At the date of this report	
			2010	2011	2012	2013		
China Home Investments Co., Ltd. (“China Home”) ¹	British Virgin Islands 11 April 2012	US\$1	N/A	N/A	100%	100%	100%	Investment holding

APPENDIX I
ACCOUNTANT'S REPORT

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group					Principal activities
			At 31 December			At 30 June		
			2010	2011	2012	2013	At the date of this report	
Dongpeng International (Hong Kong) Holdings Co., Ltd. ("Dongpeng HK")	Hong Kong 4 May 2012	HK\$1	N/A	N/A	100%	100%	100%	Investment holding
佛山華盛昌陶瓷有限公司 Foshan Huashengchang Ceramics Co., Ltd. ("Foshan Hua Sheng Chang")	People's Republic of China ("PRC") 18 April 1994	US\$28,100,000	100%	100%	100%	100%	100%	Producing and sales of tiles, decorative wall tiles and bathroom products
清遠納福娜陶瓷有限公司 Qingyuan Nafuna Ceramics Co., Ltd. ("Qingyuan Nafuna")	PRC 12 August 2010	RMB22,200,000 ⁴	91.82%	95.09%	89.75%	100%	91.03%	Producing and sales of ceramic tile, construction ceramic and bathroom products
豐城市東鵬陶瓷有限公司 Fengcheng Dongpeng Ceramics Co., Ltd. ("Fengcheng Dongpeng")	PRC 10 July 2007	RMB65,000,000	91.82%	95.09%	89.75%	100%	100%	Producing and sales of ceramic tile products
禮縣新鵬陶瓷有限公司 Lixian Xinpeng Ceramics Co., Ltd. ("Lixian Xinpeng")	PRC 9 September 2009	RMB10,000,000	91.82%	95.09%	89.75%	100%	100%	Producing and sales of ceramic tile products; processing of ceramic materials
淄博卡普爾陶瓷有限公司 Zibo Kapuer Ceramics Co., Ltd. ("Zibo Kapuer")	PRC 30 August 2010	RMB20,000,000	91.82%	95.09%	89.75%	100%	100%	Producing and sales of ceramic tile products
廣州市東鵬陶瓷有限公司 Guangzhou Dongpeng Ceramics Co., Ltd. ("Guangzhou Dongpeng")	PRC 20 June 2008	RMB3,010,000	91.82%	95.09%	100%	100%	100%	Sales of ceramic tile and bathroom products
深圳東鵬陶瓷有限公司 Shenzhen Dongpeng Ceramics Co., Ltd. ("Shenzhen Dongpeng")	PRC 21 July 2008	RMB500,000	91.82%	95.09%	89.75%	100%	100%	Sales of ceramic tile and bathroom products
上海東鵬陶瓷有限公司 Shanghai Dongpeng Ceramics Co., Ltd. ("Shanghai Dongpeng")	PRC 5 March 2007	RMB500,000	91.82%	95.09%	100%	100%	100%	Sales of ceramic tile and bathroom products
陝西東鵬建材有限公司 Shaanxi Dongpeng Construction Materials Co., Ltd. ("Shaanxi Dongpeng")	PRC 3 September 2008	RMB5,000,000	91.82%	95.09%	100%	100%	100%	Sales of ceramic tile products, decoration and construction materials and bathroom products

APPENDIX I
ACCOUNTANT'S REPORT

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group					Principal activities
			At 31 December			At 30 June		
			2010	2011	2012	2013	At the date of this report	
佛山市順德區東鵬陶瓷銷售有限公司 Foshan Shunde Dongpeng Ceramics Trading Co., Ltd. ("Shunde Dongpeng")	PRC 19 August 2008	RMB1,000,000	91.82%	95.09%	100%	100%	100%	Sales of ceramic tile and bathroom products
廣西粵鵬建材有限公司 Guangxi Yuepeng Construction Materials Co., Ltd. ("Guangxi Yuepeng")	PRC 29 September 2010	RMB2,000,000	91.82%	95.09%	100%	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
廣東東鵬控股股份有限公司 Guangdong Dongpeng Holdings Co., Ltd. ("Guangdong Dongpeng Holdings")	PRC 4 November 2011	RMB180,000,000	N/A	100%	100%	100%	100%	Investment holding and Sales of ceramic tile and bathroom products
佛山市東鵬陶瓷有限公司 Foshan Dongpeng Ceramics Co., Ltd. ("Foshan Dongpeng Ceramics")	PRC 14 December 2011	RMB15,000,000	N/A	100%	100%	100%	100%	Sales of ceramic tile and bathroom products; Import and export
雲南軒鵬建材有限公司 Yunnan Xuanpeng Construction Materials Co., Ltd. ("Yunnan Xuanpeng")	PRC 7 September 2011	RMB2,000,000	N/A	95.09%	100%	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
青島瑞鵬建材有限公司 Qingdao Ruipeng Construction Materials Co., Ltd. ("Qingdao Ruipeng")	PRC 3 November 2011	RMB2,000,000	N/A	95.09%	100%	100%	100%	Sales of construction and decoration materials, ceramic tile and bathroom products
北京東鵬陶瓷技術有限公司 Beijing Dongpeng Ceramics Technology Co., Ltd. ("Beijing Dongpeng") ²	PRC 8 June 2011	RMB1,000,000	N/A	95.09%	100%	—	—	Sales of construction materials
廣東裕和商貿有限公司 Guangdong Yuhe Commerce and Trading Co., Ltd. ("Guangdong Yuhe")	PRC 10 January 2011	RMB20,000,000	N/A	100%	100%	100%	100%	Trading of ceramic tile and bathroom products
江西豐裕商貿有限公司 Jiangxi Fengyu Commerce and Trading Co., Ltd. ("Jiangxi Fengyu")	PRC 16 January 2012	RMB5,000,000	N/A	N/A	100%	100%	100%	Sales of ceramic tile and bathroom products, ceramic materials

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Equity interest attributable to the Group					Principal activities
			At 31 December			At 30 June		
			2010	2011	2012	2013	At the date of this report	
佛山市東鵬陶瓷發展有限公司 Foshan Dongpeng Ceramics Development Co., Ltd. ("Foshan Dongpeng Development")	PRC 20 February 2012	RMB13,000,000 ⁴	N/A	N/A	100%	100%	92.31%	Sales of ceramic tile products
湖南東鵬建材貿易有限公司 Hunan Dongpeng Construction Materials Trading Co., Ltd. ("Hunan Dongpeng")	PRC 28 January 2013	RMB2,000,000	N/A	N/A	N/A	100%	100%	Sales of ceramic tile and bathroom products
林芝裕和商貿有限公司 Linzi Yuhe Commerce and Trading Co., Ltd. ("Linzi Yuhe")	PRC 11 March 2013	RMB2,000,000	N/A	N/A	N/A	100%	100%	Sales of ceramics tile and bathroom products
堆龍德慶和盈商貿有限公司 Duilong Deqing Heying Commerce and Trading Co., Ltd. ("Deqing Heying")	PRC 10 April 2013	RMB2,000,000	N/A	N/A	N/A	100%	100%	Sales of ceramics tile and bathroom products
佛山東鵬潔具股份有限公司 Foshan Dongpeng Sanitary Ware Co., Ltd. ("Dongpeng Sanitary Ware") ³	PRC 22 December 1994	RMB58,300,000	N/A	N/A	N/A	100%	100%	Producing and sales of bathroom products
堆龍德慶裕威商貿有限公司 Duilong Deqing Yuwei Commerce and Trading Co., Ltd. ("Deqing Yuwei") ³	PRC 10 April 2013	RMB1,000,000	N/A	N/A	N/A	100%	100%	Sales of ceramics tile and bathroom products
江西東鵬衛浴有限公司 Jiangxi Dongpeng Bathroom Products Co., Ltd. ("Jiangxi Bathroom Products") ³	PRC 15 June 2012	RMB40,000,000	N/A	N/A	N/A	100%	100%	Producing and sales of bathroom products
佛山市高明穗暢家具有限公司 Foshan Gaoming Wenchang Furniture Co., Ltd. ("Gaoming Furniture") ³	PRC 13 September 2011	RMB500,000	N/A	N/A	N/A	70%	70%	Producing and sales of bathroom products

1. Directly held by the Company since the date of incorporation. All other subsidiaries are indirectly held by the Company.
2. Beijing Dongpeng was disposed in January 2013.
3. Dongpeng Sanitary Ware and its subsidiaries ("Dongpeng Sanitary Ware Group") were acquired by the Group on 31 May 2013.
4. The registered capital of Qingyuan Nafuna and Foshan Dongpeng Development increased from RMB20,000,000 to RMB22,200,000 and RMB12,000,000 to RMB13,000,000 in July 2013, respectively. Details are set out in Section C.

The Company's subsidiaries, other than China Home and Dongpeng HK, operate in the PRC. China Home and Dongpeng HK principally operate in Hong Kong.

No statutory audited financial statements have been prepared for Dongpeng HK as its first set of statutory financial statements are not yet due. No statutory audited financial statements have been prepared for the Company and China Home since the respective date of incorporation as they are incorporated in the Cayman Islands and British Virgin Islands respectively, where there is no statutory audit requirement. We have, however, reviewed all relevant transactions of the Company, China Home and Dongpeng HK since their respective date of incorporation and carried out such procedures as we considered necessary for inclusion in the Financial Information relating to the Group.

For those subsidiaries established in the PRC which prepared statutory audited financial statements (the "PRC Audited Accounts"), the PRC Audited Accounts were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises registered in the PRC.

The PRC Audited Accounts of the following subsidiaries for the Relevant Periods, or since respective date of establishment, where there is a shorter period, were audited by the following firms of certified public accountants registered in the PRC:

Name of company	Financial year	Name of auditors
Foshan Hua Sheng Chang.....	Three years ended 31 December 2010, 2011 and 2012	佛山市鴻正會計師事務所 (普通合夥) Foshan Hongzheng Certified Public Accountants (Ordinary Partnership)
Qingyuan Nafuna.....	Period ended 31 December 2010	廣州惠建會計師事務所有限公司 Guangzhou Huijian Certified Public Accountants Co., Ltd.
	Two years ended 31 December 2011 and 2012	廣州而翔會計師事務所 (普通合夥) Guangzhou Erxiang Certified Public Accountants Firm
Fengcheng Dongpeng	Three years ended 31 December 2010, 2011 and 2012	江西鑫信會計師事務所有限責任公司 Jiangxi Xinxin Certified Public Accountants Co., Ltd.
Lixian Xinpeng	Two years ended 31 December 2010 and 2011	常德智瑞聯合會計師事務所 Changde Zhirui CPA Partnership Firm
	Year ended 31 December 2012	湖南德源聯合會計師事務所 The United Office For Chartered Accountants of Deyuan Hunan
Zibo Kapuer	Period ended 31 December 2010 and two years ended 31 December 2011 and 2012	山東博華有限責任會計師事務所 Shandong Bohua Certified Public Accountants' Affairs Office, Ltd.

Name of company	Financial year	Name of auditors
Guangzhou Dongpeng.....	Three years ended 31 December 2010, 2011 and 2012	廣東晨瑞會計師事務所 GuangDong Chen Rui Certified Public Accountants Firm
Shenzhen Dongpeng	Year ended 31 December 2010	深圳東海會計師事務所 Shenzhen Donghai Certified Public Accountants Firm
	Year ended 31 December 2011	深圳匯田會計師事務所 Shenzhen Huitian Certified Public Accountants Firm
	Year ended 31 December 2012	深圳誠正會計師事務所 Shenzhen Chengzheng Certified Public Accountants Firm
Shanghai Dongpeng	Three years ended 31 December 2010, 2011 and 2012	上海銳陽會計師事務所有限公司 Shanghai Ruiyang Certified Public Accountants Co., Ltd.
Shaanxi Dongpeng	Year ended 31 December 2010	陝西新欣漢都會計師事務所有限責任公司 Shaanxi Newxinhandu Certified Public Accountants Co., Ltd.
	Year ended 31 December 2011	陝西盛源聯合會計師事務所 Shaanxi Shengyuan United Certified Public Accountants Firm
	Year ended 31 December 2012	陝西誠悅會計師事務所有限責任公司 Shaanxi Chenyue Certified Public Accountants Co., Ltd.
Shunde Dongpeng	Three years ended 31 December 2010, 2011 and 2012	廣東德正有限責任會計師事務所 GuangDong Dezheng Certified Public Accountants Firm
Guangxi Yuepeng	Period ended 31 December 2010 and two years ended 31 December 2011 and 2012	廣西同德會計師事務所有限責任公司 Guangxi Tongde Certified Public Accountants Co., Ltd.
Guangdong Dongpeng Holdings ..	Period ended 31 December 2011 and year ended 31 December 2012	佛山市鴻正會計師事務所 (普通合夥) Foshan Hongzheng Certified Public Accountants (Ordinary Partnership)
Foshan Dongpeng Ceramics*	Year ended 31 December 2012	佛山市鴻正會計師事務所 (普通合夥) Foshan Hongzheng Certified Public Accountants (Ordinary Partnership)

Name of company	Financial year	Name of auditors
Yunnan Xuanpeng	Period ended 31 December 2011	北京華通鑒會計師事務所有限公司雲南分所 Beijing Huatongjian Certified Public Accountants Firm Yunnan Branch
	Year ended 31 December 2012	雲南雲信會計師事務所 Yunnan Yunxin Certified Public Accountants Firm
Qingdao Ruipeng	Period ended 31 December 2011	黑龍江華新會計師事務所有限公司 Heilongjiang Huaxin Certified Public Accountants Co., Ltd.
	Year ended 31 December 2012	青島振青會計師事務所有限公司 QingDao ZhenQing Certified Public Accountants Co., Ltd.
Beijing Dongpeng	Period ended 31 December 2011 and year ended 31 December 2012	北京普宏德會計師事務所 Beijing Puhongde Certified Public Accountants Firm
Guangdong Yuhe	Period ended 31 December 2011 and year ended 31 December 2012	佛山市鴻正會計師事務所 (普通合夥) Foshan Hongzheng Certified Public Accountants (Ordinary Partnership)
Jiangxi Fengyu	Period ended 31 December 2012	江西鑫信會計師事務所有限責任公司 Jiangxi Xinxin Certified Public Accountants Co., Ltd.
Foshan Dongpeng Development .	Period ended 31 December 2012	佛山市鴻正會計師事務所 (普通合夥) Foshan Hongzheng Certified Public Accountants (Ordinary Partnership)

* No PRC Audited Accounts for the period ended 31 December 2011 as it was newly established on 14 December 2011 and there is no statutory requirement to prepare PRC Audited Accounts in that year.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Relevant Periods (collectively referred to as the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1(b) to Section A below. No adjustment was deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1(b) to Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2012 and 30 June 2013 and the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit and loss and comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2012 together with the notes thereon have been extracted from the Group's unaudited financial information for the same period (the "30 June 2012 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2012 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. Our review of the 30 June 2012 Financial Information consist of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2012 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2012 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

NOTES	Year ended 31 December			Six months ended 30 June		
	2010	2011	2012	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000	
Revenue.....	7	974,627	1,978,953	2,497,924	1,069,088	1,274,749
Cost of goods sold.....		(774,012)	(1,410,580)	(1,609,554)	(713,776)	(801,395)
Gross profit		200,615	568,373	888,370	355,312	473,354
Other income	8	5,781	18,303	42,924	12,886	22,172
Other gains and losses.....	9	(3,420)	(9,564)	(6,540)	(4,528)	(6,561)
Distribution and selling expenses		(109,585)	(255,915)	(440,127)	(181,659)	(176,644)
Administrative expenses.....		(58,159)	(95,243)	(189,634)	(80,245)	(95,849)
Other expenses		(6,770)	(11,917)	(25,560)	(11,606)	(21,568)
Share of loss of a joint venture		(1,322)	—	—	—	—
Change in fair value of redeemable convertible preferred shares		—	—	—	—	(3,363)
Finance costs.....	10	(14,257)	(16,372)	(29,235)	(13,799)	(20,255)
Profit before tax		12,883	197,665	240,198	76,361	171,286
Income tax expense	11	(5,599)	(49,723)	(67,358)	(20,024)	(50,053)
Profit and total comprehensive income for the year/period.....	12	7,284	147,942	172,840	56,337	121,233
Attributable to:						
Owners of the Company		6,273	140,892	167,181	57,201	121,226
Non-controlling interests		1,011	7,050	5,659	(864)	7
		<u>7,284</u>	<u>147,942</u>	<u>172,840</u>	<u>56,337</u>	<u>121,233</u>
Earnings per share						
- Basic.....	16	<u>0.01</u>	<u>0.21</u>	<u>0.22</u>	<u>0.08</u>	<u>0.13</u>
- Diluted	16	<u>0.01</u>	<u>0.21</u>	<u>0.22</u>	<u>0.08</u>	<u>0.14</u>

STATEMENTS OF FINANCIAL POSITION

	NOTES	THE GROUP				THE COMPANY	
		At 31 December			At	At	At
		2010	2011	2012	30 June	31 December	30 June
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current Assets							
Property, plant and equipment ...	17	450,084	625,108	878,339	916,424	—	—
Prepaid lease payments.....	18	64,271	62,894	117,005	264,838	—	—
Deferred tax assets	28	20,308	32,896	34,894	42,617	—	—
Deposits for leasehold land.....		—	36,389	45,389	12,848	—	—
Deposits for acquisition of property, plant and equipment		6,475	67,824	18,331	9,079	—	—
		<u>541,138</u>	<u>825,111</u>	<u>1,093,958</u>	<u>1,245,806</u>	<u>—</u>	<u>—</u>
Current Assets							
Inventories	20	587,483	905,737	1,046,181	1,004,055	—	—
Trade and other receivables	21	170,411	226,587	371,953	473,156	—	—
Tax recoverable		2,637	—	—	4,547	—	—
Amounts due from related parties	25	190,708	236,807	96,375	83,587	—	—
Amounts due from shareholders	25	—	—	11	11	11	11
Prepaid lease payments.....	18	1,377	1,377	2,817	5,607	—	—
Pledged bank deposits	22	738	45,209	69,678	409,914	—	—
Bank balances and cash.....	22	75,205	112,593	239,991	483,574	—	185,361
		<u>1,028,559</u>	<u>1,528,310</u>	<u>1,827,006</u>	<u>2,464,451</u>	<u>11</u>	<u>185,372</u>
Current Liabilities							
Trade and other payables	23	270,896	682,174	965,748	1,076,590	—	7,176
Amounts due to related parties..	25	1,005,607	1,082,446	1,109,320	1,272,410	—	—
Amounts due to non-controlling shareholders of a subsidiary..		—	—	—	1,650	—	—
Obligation under a finance lease.....	24	3,236	3,759	4,006	4,301	—	—
Bank borrowings.....	26	70,000	185,000	415,240	852,159	—	—
Tax liabilities		2,105	33,756	49,185	40,367	—	—
		<u>1,351,844</u>	<u>1,987,135</u>	<u>2,543,499</u>	<u>3,247,477</u>	<u>—</u>	<u>7,176</u>
Net Current (Liabilities)							
Assets		<u>(323,285)</u>	<u>(458,825)</u>	<u>(716,493)</u>	<u>(783,026)</u>	<u>11</u>	<u>178,196</u>
Total Assets Less Current							
Liabilities		<u>217,853</u>	<u>366,286</u>	<u>377,465</u>	<u>462,780</u>	<u>11</u>	<u>178,196</u>

	NOTES	THE GROUP				THE COMPANY	
		At 31 December			At	At	At
		2010	2011	2012	30 June	31 December	30 June
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current Liabilities							
Obligation under a finance lease.....	24	42,527	38,767	34,762	32,464	—	—
Bank borrowings.....	26	90,000	90,000	78,000	52,000	—	—
Redeemable convertible preferred shares.....	27	—	—	—	188,394	—	188,394
Deferred taxation liabilities	28	4,222	3,473	2,777	18,272	—	—
		<u>136,749</u>	<u>132,240</u>	<u>115,539</u>	<u>291,130</u>	<u>—</u>	<u>188,394</u>
Net Assets (Liabilities)		<u>81,104</u>	<u>234,046</u>	<u>261,926</u>	<u>171,650</u>	<u>11</u>	<u>(10,198)</u>
Capital and Reserves							
Paid-in/share capital.....	29	163,453	172,231	191,019	11	11	11
Reserves		<u>(87,980)</u>	<u>51,139</u>	<u>55,025</u>	<u>171,661</u>	<u>—</u>	<u>(10,209)</u>
Equity attributable to owners of the Company.....		75,473	223,370	246,044	171,672	11	(10,198)
Non-controlling interests.....		5,631	10,676	15,882	(22)	—	—
Total Equity		<u>81,104</u>	<u>234,046</u>	<u>261,926</u>	<u>171,650</u>	<u>11</u>	<u>(10,198)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in/share capital	Share premium	Statutory surplus reserve	Other reserve	(Accumulated Losses)	Non-controlling		Total
					Retained profits	Total	interests	
	RMB'000	RMB'000	RMB'000 (note i)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	197,677	—	—	1,343	(70,223)	128,797	13,690	142,487
Profit and total comprehensive income for the year.....	—	—	—	—	6,273	6,273	1,011	7,284
Capital injection.....	38,564	—	—	—	—	38,564	3,436	42,000
Deemed distribution to Qingyuan Dongpeng (ii)	(74,134)	—	—	(25,144)	—	(99,278)	(11,389)	(110,667)
Deemed contribution from owners under Corporate Reorganization (iii) .	1,346	—	—	(229)	—	1,117	(1,117)	—
At 31 December 2010	163,453	—	—	(24,030)	(63,950)	75,473	5,631	81,104
Profit and total comprehensive income for the year	—	—	—	—	140,892	140,892	7,050	147,942
Transfer to statutory reserve.....	—	—	14,515	—	(14,515)	—	—	—
Capital injection	4,591	—	—	—	—	4,591	409	5,000
Deemed contribution from owner under Corporate Reorganization (iii).....	4,187	—	—	(1,773)	—	2,414	(2,414)	—
At 31 December 2011	172,231	—	14,515	(25,803)	62,427	223,370	10,676	234,046
Profit and total comprehensive income for the year	—	—	—	—	167,181	167,181	5,659	172,840
Transfer to statutory reserve	—	—	21,728	—	(21,728)	—	—	—
Capital injection.....	52,066	—	—	—	—	52,066	786	52,852
Deemed distribution to owners under Corporate Reorganization (iii) (iv)	(33,278)	—	—	(11,346)	—	(44,624)	16,114	(28,510)
Dividends (note 15).....	—	—	—	—	(151,949)	(151,949)	(17,353)	(169,302)
At 31 December 2012.....	191,019	—	36,243	(37,149)	55,931	246,044	15,882	261,926
Profit and total comprehensive income for the period.....	—	—	—	—	121,226	121,226	7	121,233
Acquisition of subsidiaries (note 36).....	—	—	—	—	—	—	(29)	(29)
Deemed distribution to owners under Corporate Reorganization (v)	(191,008)	—	—	(11,955)	—	(202,963)	(15,882)	(218,845)
Deemed contribution from owners under group reorganization (vi)	—	—	—	7,365	—	7,365	—	7,365
At 30 June 2013	11	—	36,243	(41,739)	177,157	171,672	(22)	171,650
At 1 January 2012	172,231	—	14,515	(25,803)	62,427	223,370	10,676	234,046
Profit and total comprehensive income for the period.....	—	—	—	—	57,201	57,201	(864)	56,337
Capital injection.....	15,214	—	—	—	—	15,214	786	16,000
At 30 June 2012 (unaudited)	187,445	—	14,515	(25,803)	119,628	295,785	10,598	306,383

Notes:

- (i) In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, PRC subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.
- The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalization issue. However, when converting the statutory surplus reserve of PRC subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.
- (ii) It represents the effect of the Transfer (as defined in note 1(b)) and the deemed distribution of Assets Retained (as defined in note 1(b)) to 東鵬陶瓷(清遠)有限公司 (“Qingyuan Dongpeng”) as part of the Corporate Reorganization (see note 1(b)). The difference of Assets Retained and the registered capital of Qingyuan Dongpeng is charged to other reserve.
- (iii) Deemed contribution/distribution represented i) changes in shareholding from the perspective of Controlling Shareholders (as defined in note 1(b)) during the year, and ii) the effect of new subsidiaries established and transferred to the then holding company during the year.
- (iv) In 2012, as part of the Corporate Reorganization, several non-wholly owned subsidiaries were transferred to the then holding company of the Group at a cash consideration of RMB12,510,000.
- (v) In January 2013, as part of the Corporate Reorganization, several non-wholly owned subsidiaries were transferred to the then holding company of the Group at a cash consideration of RMB218,845,000.
- (vi) On 1 January 2013, the Group disposed of a wholly-owned subsidiary at a consideration of RMB1,000,000 to a company controlled by certain members of the Controlling Shareholders. The gain on disposal of this subsidiary was treated as deemed contribution from owners under group reorganization.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
OPERATING ACTIVITIES					
Profit before tax.....	12,883	197,665	240,198	76,361	171,286
Adjustments for:					
Share of loss of a joint venture	1,322	—	—	—	—
Interest income	(260)	(5,309)	(10,115)	(3,418)	(5,360)
Finance costs.....	14,257	16,372	29,235	13,799	20,255
Depreciation of property, plant and equipment	63,774	65,797	95,791	39,636	56,055
Allowance for doubtful receivables	1,878	6,728	4,791	3,926	6,384
Allowance for obsolete inventories	12,600	13,087	2,536	2,678	13,901
Change in fair value of redeemable convertible preferred shares.....	—	—	—	—	3,363
Amortization of prepaid lease payments	1,870	1,377	1,377	679	2,524
Net loss on disposal of property, plant and equipment.....	209	2,836	1,494	841	(182)
Loss on disposal of a joint venture.....	2,519	—	—	—	—
Operating cash flows before movements in working capital ..	111,052	298,553	365,307	134,502	268,226
(Increase) decrease in inventories.....	(234,340)	(331,341)	(142,980)	5,352	126,595
Increase in trade and other receivables	(94,127)	(62,904)	(150,157)	(185,542)	(66,916)
(Increase) decrease in amounts due from related parties.....	(36,239)	(27,247)	33,737	39,702	6,241
Increase (decrease) in trade and other payables.....	161,537	401,203	277,935	183,789	(11,910)
Increase in amounts due to related parties	65,382	16,476	46,867	4,103	23,684
Cash generated from operations	(26,735)	294,740	430,709	181,906	345,920
Income tax paid.....	(7,291)	(28,772)	(54,623)	(34,910)	(58,946)
Interest paid.....	(14,257)	(16,372)	(29,235)	(13,799)	(20,255)
NET CASH (USED IN) FROM OPERATING ACTIVITIES.....	(48,283)	249,596	346,851	133,197	266,719
INVESTING ACTIVITIES					
Interest received.....	260	5,309	10,115	3,418	5,360
Proceeds from disposal of property, plant and equipment.....	1,105	605	3,582	27	3,252
Payments for property, plant and equipment.....	(83,689)	(248,657)	(283,856)	(121,598)	(63,347)
Payments for prepaid lease payments	(32,040)	(36,389)	(47,770)	(37,770)	(8,366)
Capital injection in a joint venture.....	(5,200)	—	—	—	—
Proceeds from disposal of a joint venture	3,657	—	—	—	—
Advances to related parties	(366,424)	(88,626)	(319,221)	(159,984)	(110,359)
Repayments from related parties.....	294,473	69,774	425,916	156,485	123,113
Withdrawal of pledged bank deposits	—	738	45,209	45,209	69,678
Placement of pledged bank deposits.....	(738)	(45,209)	(69,678)	(8,049)	(409,914)
Net cash inflow on acquisition of subsidiaries (note 36)	—	—	—	—	18,504
Net cash inflow on disposal of a subsidiary (note 37).....	—	—	—	—	970
NET CASH USED IN INVESTING ACTIVITIES.....	(188,596)	(342,455)	(235,703)	(122,262)	(371,109)

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
FINANCING ACTIVITIES					
New bank borrowings raised.....	112,545	300,000	508,240	185,000	786,159
Repayments of bank borrowings	(120,000)	(185,000)	(290,000)	(105,000)	(427,240)
Repayments of obligation under a finance lease	(3,037)	(3,237)	(3,758)	(1,878)	(2,003)
Capital injection	42,000	5,000	28,083	16,000	—
Proceeds from issue of redeemable convertible preferred shares.....	—	—	—	—	185,031
Repayments to related parties	(198,306)	(925,449)	(631,416)	(201,223)	(178,622)
Advances from related parties	490,648	938,933	433,611	391,590	203,493
Deemed distribution to owners under Corporate Reorganization	—	—	(28,510)	—	(218,845)
Deemed distribution of Qingyuan Dongpeng to owners after the Transfer (as defined in note 1(b)).....	(57,238)	—	—	—	—
NET CASH FROM FINANCING ACTIVITIES	266,612	130,247	16,250	284,489	347,973
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,733	37,388	127,398	295,424	243,583
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR.....	45,472	75,205	112,593	112,593	239,991
CASH AND CASH EQUIVALENTS AT END OF THE YEAR,					
represented by bank balances and cash	<u>75,205</u>	<u>112,593</u>	<u>239,991</u>	<u>408,017</u>	<u>483,574</u>

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION****(a) General Information**

The Company was incorporated in Cayman Islands as an exempted company with limited liability on 12 March 2012 under the Companies Law, CAP.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" of the Prospectus.

Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

(b) Basis of presentation

Pursuant to the Corporate Reorganization which involves a series of acquisitions under common control as detailed below, the Company became the ultimate holding company of the companies now comprising the Group on 29 January 2013.

Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin confirmed that they are parties acting in concert with Mr. He Xinming in relation to the control of the companies now comprising the Group since 7 April 2006 or the respective dates of establishment of these companies, whichever is shorter, and throughout the Relevant Periods. As a result, they are collectively referred to as the ultimate "Controlling Shareholders" of the Group, prior to and after the Corporate Reorganization.

Qingyuan Dongpeng, which was solely engaged in the business of producing and sales of ceramic products, was also under the common control of the Controlling Shareholders. As part of the Corporate Reorganization, on 31 December 2010, Qingyuan Nafuna entered into an agreement with Qingyuan Dongpeng and Qingyuan Nafuna to take up all the business, assets and liabilities of Qingyuan Dongpeng, except for the land use right, production plant situated on that parcel of land, bank and cash balances and bank borrowings ("Assets Retained") (the "Transfer") at nil consideration. Although the business, assets and liabilities of Qingyuan Dongpeng have not yet been formally transferred to the Group before 31 December 2010, they are included in the preparation of the Financial Information as the management of the Group considers that the historical financial information of the Group should include all relevant activities that have been part of the history of the Group. At the acquisition date of 31 December 2010, the Assets Retained have been reflected as a deemed distribution in the consolidated statement of changes in equity.

For the purpose of this report, the consolidated statements of profit and loss and comprehensive income and consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared to include the results, changes in equity and cash flows of the entities/businesses under the common control of the Controlling Shareholders by applying the principles

of merger accounting, in accordance with Hong Kong Accounting Guideline 5 *Merger Accounting for Common Control Combinations*, as if the group structure had been in existence throughout the Relevant Periods, or since the respective date of incorporation/establishment of each group entity where this is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2010, 2011 and 2012 have been prepared to present the assets and liabilities of the entities/businesses under the common control of the Controlling Shareholders by applying the principles of merger accounting in accordance with Hong Kong Accounting Guideline 5 *Merger Accounting for Common Control Combinations* as if the current group structure had been in existence at those dates.

(c) **Going Concern**

In preparing the Underlying Financial Statements, the management of the Group has given careful considerations to the future liquidity of the Group in light of the fact that as at 30 June 2013, its current liabilities exceeded its current assets by approximately RMB783,026,000. Taking into account of (i) the internally generated funds, and (ii) capital injection of approximately RMB850,000,000 from non-controlling shareholders of Foshan Dongpeng Development and Qingyuan Nafuna in July 2013, the management of the Group is confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the Financial Information has been prepared on a going concern basis.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied all HKFRSs which are effective for its accounting period beginning on 1 January 2013 throughout the Relevant Periods.

At the date of this report, the following new standard, amendments to standards and interpretation have been issued which are not yet effective:

Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets ²
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ²
HK(IFRIC)-Int 21	Levies ²

¹ Effective for annual periods beginning on or after 1 January 2015

² Effective for annual periods beginning on or after 1 January 2014

The management of the Group anticipates that the application of the new standard, amendments to standards and interpretation will have no material impact on the Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair value in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit and loss and comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied.

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of goods that result in award credits for distributors are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed and accounted for as deferred income. Such consideration is not recognized as revenue at the time of the initial sale transaction — but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Service income is recognized when the services are provided.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of property, plant and equipment (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such construction in progress are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Prepaid lease payment

Payment for obtaining land use rights are accounted for as prepaid lease payments and are charge to profit and loss on a straight-line basis over the lease terms as stated in the relevant land use rights certificates granted for usage by the Group in the PRC. Prepaid lease payment which are to be charged to profit or loss in the next twelve months are classified as current assets.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Impairment of tangible assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes which are defined contribution plans are recognized in profit or loss when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated statement of profit and loss and comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities measured at fair value through profit or loss are recognized immediately to profit or loss.

Financial assets

The Group's financial assets are all classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits, and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For loans and receivables that are assessed not to be impaired individually, such as trade receivables, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in profit or loss where there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the loans and receivables' original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instrument

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policy of the Group's financial liabilities are set out below.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis other than those financial liabilities, classified as financial liabilities at fair value through profit or loss, of which the interest expense is included in net gains or losses.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities. Other financial liabilities (including trade and other payables, amounts due to related parties, amounts due to non-controlling shareholders of a subsidiary and bank borrowings) are subsequently measured at amortized cost, using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL comprise redeemable convertible preferred shares.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss is included in the other gains and losses in profit or loss.

Redeemable Convertible Preferred Shares

The Group designated the redeemable convertible preferred shares as financial liabilities at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statement of profit or loss and comprehensive income. Subsequent to initial recognition, the redeemable convertible preferred shares are carried at fair value with changes in fair value recognized in the profit or loss.

The redeemable convertible preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within 12 months after the end of the reporting period.

Equity instruments

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and sum of the consideration received is recognized in profit or loss.

Financial liabilities are derecognized when the obligation are discharged or, cancelled or expire. The difference between the carrying amount of the financial liability derecognized or the consideration paid or payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the management of the Group has made various estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation and residual values, management of the Group estimates the useful lives of various categories of property, plant and equipment according to the Group's experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the carrying amount of property, plant and equipment is RMB450,084,000, RMB625,108,000, RMB878,339,000 and RMB916,424,000 respectively.

Deferred tax asset

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management of the Group considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

The realizability of the deferred tax assets mainly depends on whether sufficient future profits will be available in the future. The management of the Group determines the deferred tax assets based on the enacted or substantially enacted tax rates and the best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilized. The management of the Group reviews the assumptions and profit projections on a regular basis. In cases where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognized in the profit or loss for the period in which such a recognition or reversal takes place.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the carrying amount of deferred tax assets is RMB20,308,000, RMB32,896,000, RMB34,894,000 and RMB42,617,000, respectively.

Valuation of inventories

The management estimates the net realizable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realizable values. Where the expectation on the net realizable value is lower than the cost, an additional write-off or write-down may arise.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the allowance for obsolete inventories is RMB38,036,000, RMB51,123,000, RMB53,659,000 and RMB67,560,000, respectively.

Estimated impairment of trade receivables and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, 2011, 2012 and 30 June 2013, the allowance for trade receivables are RMB2,352,000, RMB9,080,000, RMB13,871,000 and RMB20,255,000, respectively.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the carrying amount of other receivables is RMB5,025,000, RMB6,119,000, RMB6,298,000 and RMB10,681,000 respectively. No allowance for impairment has been made.

Fair value of redeemable convertible preferred shares

For the redeemable convertible preferred shares, there is no quoted price in an active market. The fair value of the redeemable convertible preferred shares is established by using valuation techniques. These techniques include discounted cash flow analysis and option pricing models. Valuation models established by the valuers make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, inputs to the valuation models, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions be changed, it may lead to a change in fair value of the redeemable convertible preferred shares. The fair value of the redeemable convertible preferred shares as at 30 June 2013 is approximately RMB188,394,000.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balances.

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in note 26 and redeemable convertible preferred shares as disclosed in note 27, net of cash and cash equivalents and pledged bank deposits, and equity attributable to owners of the Company, comprising paid-in/share capital and reserves.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares as well as the raising of new debts.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

THE GROUP

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>				
Loans and receivables (including cash and cash equivalents)	<u>387,154</u>	<u>591,173</u>	<u>726,717</u>	<u>1,377,098</u>
<i>Financial liabilities</i>				
Amortized cost	1,391,738	1,902,702	2,370,656	2,981,721
Obligation under a finance lease	<u>45,763</u>	<u>42,526</u>	<u>38,768</u>	<u>36,765</u>
Financial liabilities at FVTPL — Redeemable convertible preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>188,394</u>

THE COMPANY

	At 31 December	At 30 June
	2012	2013
	RMB'000	RMB'000
<i>Financial assets</i>		
Loans and receivables (including cash and cash equivalents)	<u>11</u>	<u>185,372</u>
<i>Financial liabilities</i>		
Amortized cost	<u>—</u>	<u>7,176</u>
Financial liabilities at FVTPL — Redeemable convertible preferred shares	<u>—</u>	<u>188,394</u>

b. Financial risk management objectives and policies

The Company's major financial instruments include bank balances and cash. The Group's major financial instruments include trade and other receivables, amounts due from related parties, amounts due from shareholders, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, amounts due to non-controlling shareholders of a subsidiary, obligation under a finance lease, redeemable convertible preferred shares and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors the exposure to ensure appropriate measures are implemented on a timely and effective manner.

The risk arising from the Company's and Group's financial instruments are mainly market risk, credit risk and liquidity risk. The management of the Group reviews policies for managing each of these risks and they are summarized below.

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates, foreign currency exchange rates and other price risk.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over the Relevant Periods.

Interest rate risk management

The Group exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and bank borrowings which carry at prevailing deposit interest rates and variable rates based on the interest rates quoted by the People's Bank of China.

The Company is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances.

The Group's fair value interest rate risk relates primarily to fixed rate bank borrowings, fixed rate redeemable convertible preferred shares and pledged bank deposits.

The Company's fair value interest rate risk related primarily to fixed rate redeemable convertible preferred shares.

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity

Sensitivity analysis on bank balances is not presented as the management of the Group considers that the Company's and the Group's exposure to interest rate fluctuation is insignificant. Sensitivity analysis on pledged bank deposits is also not presented as it is arranged as fixed interest rate and do not expose to interest rate risk.

The sensitivity analyses below have been prepared based on the exposure to interest rates for the variable-rate bank borrowings and redeemable convertible preferred shares at the end of each reporting period which were assumed to be outstanding for the whole year/period and the stipulated change taking place at the beginning of the financial year/period and held constant throughout the year/period. A 50 basis point increase or decrease for variable rate bank borrowings is used when reporting interest rate risk internally to key management personnel and represent management of the Group's assessment of the reasonably possible change in interest rate.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit would decrease/increase by approximately RMB600,000, RMB1,031,000, RMB731,000 and RMB712,000 for the years ended 31 December 2010, 2011, 2012 and for six months ended 30 June 2013 respectively.

Other price risk

The Company and Group were exposed to equity price risk arising from the conversion option component of the redeemable convertible preferred shares. The fair values of the conversion option derivative were calculated using the binomial option pricing model. Details of the derivative financial instrument is set out in note 27.

If the input of share price to the valuation model of the conversion option component of the redeemable convertible preferred shares had been 5% higher/lower while all other variables were held constant, the fair value of the redeemable convertible preferred shares would increase (decrease) as follows:

	As at 30 June 2013
	RMB'000
Higher by 5%	
- redeemable convertible preferred shares.....	<u>(4,819)</u>
Lower by 5%	
- redeemable convertible preferred shares.....	<u>4,467</u>

Foreign currency risk management

The Group collects most of its revenue in RMB and incurs most of the expenditures in RMB.

The Group undertakes certain sale and purchase transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to foreign exchange fluctuation of the United States dollar ("USD") and Euro ("EURO") against RMB.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
USD against RMB	<u>—</u>	<u>—</u>	<u>6,981</u>	<u>216,499</u>
Liabilities				
USD against RMB	<u>—</u>	<u>—</u>	<u>—</u>	<u>188,394</u>
EURO against RMB.....	<u>—</u>	<u>—</u>	<u>4,142</u>	<u>237</u>

The Group's foreign currency denominated monetary assets include bank balances amounting to RMB1,690,000 and RMB195,521,000, amounts due from shareholders of RMB11,000 and RMB11,000 and trade receivables amounting to RMB5,280,000 and RMB20,967,000, and the monetary liabilities include trade payables amounting to RMB4,142,000 and RMB237,000 and redeemable convertible preferred shares amounting to Nil and RMB188,394,000 at 31 December 2012 and 30 June 2013 respectively.

The Company's foreign currency denominated monetary asset of bank balances amounting to RMB185,361,000 and the monetary liability of redeemable convertible preferred shares amounting to RMB188,394,000.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period for a 5% change in foreign currency rates. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management of the Group's assessment of the reasonably

possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year/period where RMB strengthens 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year/period.

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
USD				
Profit for the year/period.....	—	—	(262)	(1,301)
EURO				
Profit for the year/period.....	—	—	155	9

Credit risk

As at 31 December 2010, 2011, 2012 and 30 June 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position.

As at 31 December 2012 and 30 June 2013, the Company's maximum exposure to credit risk is the amounts due from shareholders and bank balances and cash. The management of the Company considers the credit risk exposure is low.

The management of the Group considers the credit risk exposure of the Group is low as the Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may allow to pay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. The management of the Group nonetheless reviews the recoverable amount of each individual debt regularly, to ensure that adequate impairment losses are recognized for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk on bills receivables are insignificant because all bill receivables are bank acceptance bills issued by state-owned banks and aged within 180 days at the end of each reporting period.

The Group has concentration risk on amounts due from related parties, the credit risk on amounts due from related parties are insignificant after considering the financial strength of these related entities.

The Group has concentration of credit risk on trade receivables from property developers. As 31 December 2010, 2011, 2012 and 30 June 2013 approximately 68%, 56%, 69% and 61% of the total trade receivables are due from property developers. In order to minimize the credit risk, the management of

the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management nonetheless reviews the recoverable amount of each individual debt regularly. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk on the Company's and the Group's liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Company's and the Group's liquidity position is monitored closely by the management of the Company and the Group. The Company's liquidity risk is insignificant as it had net current assets amounting to RMB178,196,000 as at 30 June 2013. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 30 June 2013, the Group's current liabilities exceeded its current assets by approximately RMB783,026,000.

The management of the Group is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the next twelve months from the date of this report after taking into consideration of (i) the internally generated funds, and (ii) capital injection of approximately RMB850,000,000 from non-controlling shareholders of Foshan Dongpeng Development and Qingyuan Nafuna in July 2013.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

THE GROUP

	Weighted average interest rate	Repayable		1 month			Total		Carrying amount
		on demand	1 month or less	to 3 months	3 months to 1 year	1-5 years	Over 5 years	undiscounted cash flows	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2010									
Non-derivative financial liabilities									
Trade and other payables	N/A	18,538	28,358	97,206	82,029	—	—	226,131	226,131
Obligation under a finance lease	6.55%	—	519	1,039	4,675	26,834	29,585	62,652	45,763
Amounts due to related parties ..	N/A	1,005,607	—	—	—	—	—	1,005,607	1,005,607
Bank borrowings-variable rate....	5.94%	—	1,583	32,942	42,857	81,173	26,789	185,344	160,000
		<u>1,024,145</u>	<u>30,460</u>	<u>131,187</u>	<u>129,561</u>	<u>108,007</u>	<u>56,374</u>	<u>1,479,734</u>	<u>1,437,501</u>

APPENDIX I
ACCOUNTANT'S REPORT

	Weighted average interest rate	Repayable on demand	1 month or less	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011									
Non-derivative financial liabilities									
Trade and other payables	N/A	16,319	111,110	239,979	177,848	—	—	545,256	545,256
Obligation under a finance lease	6.55%	—	545	1,091	4,909	27,505	22,368	56,418	42,526
Amounts due to related parties ..	N/A	1,082,446	—	—	—	—	—	1,082,446	1,082,446
Bank borrowings-variable rate....	6.79%	—	3,038	66,057	129,908	102,271	—	301,274	275,000
		<u>1,098,765</u>	<u>114,693</u>	<u>307,127</u>	<u>312,665</u>	<u>129,776</u>	<u>22,368</u>	<u>1,985,394</u>	<u>1,945,228</u>

	Weighted average interest rate	Repayable on demand	1 month or less	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012									
Non-derivative financial liabilities									
Trade and other payables	N/A	71,577	131,760	273,247	291,512	—	—	768,096	768,096
Obligation under a finance lease	6.55%	—	545	1,091	4,909	28,176	15,153	49,874	38,768
Amounts due to related parties ..	N/A	1,109,320	—	—	—	—	—	1,109,320	1,109,320
Bank borrowings-variable rate....	5.78%	—	11,962	55,809	58,838	86,313	—	212,922	194,840
Bank borrowings-fixed rate	5.63%	—	102,460	75,796	126,790	—	—	305,046	298,400
		<u>1,180,897</u>	<u>246,727</u>	<u>405,943</u>	<u>482,049</u>	<u>114,489</u>	<u>15,153</u>	<u>2,445,258</u>	<u>2,409,424</u>

	Weighted average interest rate	Repayable on demand	1 month or less	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2013									
Non-derivative financial liabilities									
Trade and other payables	N/A	92,974	148,033	151,006	411,489	—	—	803,502	803,502
Obligation under a finance lease	6.55%	—	559	1,118	5,031	28,528	11,365	46,601	36,765
Amounts due to related parties ..	N/A	1,272,410	—	—	—	—	—	1,272,410	1,272,410
Amounts due to non-controlling shareholders of a subsidiary	N/A	1,650	—	—	—	—	—	1,650	1,650
Bank borrowings-variable rate....	6.82%	—	756	21,392	65,417	57,560	—	145,125	133,000
Bank borrowings-fixed rate	6.01%	—	59,651	517,318	203,015	—	—	779,984	771,159
		<u>1,367,034</u>	<u>208,999</u>	<u>690,834</u>	<u>684,952</u>	<u>86,088</u>	<u>11,365</u>	<u>3,049,272</u>	<u>3,018,486</u>
FVTPL									
Redeemable convertible preferred shares	10.9%	—	—	—	—	227,841	—	227,841	188,394

THE COMPANY

	Weighted average interest rate	Repayable on demand	1 month to 3 months				Over 5 years	Total undiscounted cash flows	Carrying amount
			1 month or less	3 months	to 1 year	1-5 years			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Non-derivative financial liabilities									
Trade and other payables	N/A	<u>7,176</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,176</u>	<u>7,176</u>
FVTPL									
Redeemable convertible preferred share									
	10.9%	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>227,841</u>	<u>—</u>	<u>227,841</u>	<u>188,394</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to changes if variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

Fair value measurements recognized in the statements of financial position

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group and the Company	30 June 2013			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at FVTPL				
Redeemable convertible preferred shares	<u>—</u>	<u>—</u>	<u>188,394</u>	<u>188,394</u>

The following table give information about how the fair values of financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation techniques(s) and inputs used).

Financial liabilities	Fair value as at 30 June 2013	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Redeemable convertible preferred shares	Liabilities — RMB 188,394,000	Level 3	Discounted cash flow using key input as follows: contractual cash flows over the remaining contractual terms of the redeemable convertible preferred shares and discount rate that reflected credit risk of the Company. Binomial Option Pricing Model using key inputs as follows: Company's share price, conversion price, risk-free rate, expected option life, expected volatility, discount rate that reflected credit risk specific to the Company. (Details of the key inputs has been disclosed in note 27.)	Discount rate that reflected the risk specific to the Company and the lack of transferability of the redeemable convertible preferred shares in the market Company's share price estimated based on the expected revenue growth and profitability of the Group Expected volatility based on historical volatilities from comparable companies over the period similar to the expected option lives	The higher the discount rate, the lower the fair value The higher the Company's share price, the higher the fair value The higher the expected volatility, the higher the fair value

Fair value measurements and valuation processes

The Chief Financial Officer of the Company is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above and in note 27.

Reconciliation of Level 3 fair value measurements of redeemable convertible preferred shares

	RMB'000
At 1 January 2010, 31 December 2010, 2011 and 2012	—
Issued during the year	185,031
Unrealized fair value loss charged to profit or loss	<u>3,363</u>
At 30 June 2013.....	<u>188,394</u>

There were no transfers into or out of level 3 during the Relevant Periods.

7. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sales of ceramics tile and bathroom products.

The Group determines its operating segments based on internal reports about components of the group that are regularly reviewed by the chief operating decision maker (i.e. the chief executive) in order to allocate resources to the segment and to assess its performance.

The Group is organized into business units based on their products, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's operating and reportable segments under HKFRS 8 are identified as two main operations:

- Ceramic tile products: this segment produces and sells ceramic tile and related products.
- Bathroom products: this segment produces and sells bathroom and related products.

(a) Segment results

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

For the year ended 31 December 2010

	Year ended 31 December 2010		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE			
External sales	959,512	15,115	974,627
SEGMENT RESULT	<u>189,767</u>	<u>10,848</u>	200,615
Unallocated income			5,781
Unallocated expenses			
Other gains and losses			(3,420)
Distribution and selling expenses			(109,585)
Administrative expenses			(58,159)
Other expenses			(6,770)
Share of loss of a joint venture			(1,322)
Finance costs			<u>(14,257)</u>
Profit before tax			<u>12,883</u>

Other segment information included in the measurement of segment results:

	Year ended 31 December 2010		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
Depreciation	51,424	810	52,234
Allowance for obsolete inventories	<u>12,600</u>	<u>—</u>	<u>12,600</u>

For the year ended 31 December 2011

	Year ended 31 December 2011		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE			
External sales	<u>1,956,571</u>	<u>22,382</u>	<u>1,978,953</u>
SEGMENT RESULT	<u>553,488</u>	<u>14,885</u>	568,373
Unallocated income			18,303
Unallocated expenses			
Other gains and losses			(9,564)
Distribution and selling expenses			(255,915)
Administrative expenses			(95,243)
Other expenses			(11,917)
Finance costs			<u>(16,372)</u>
Profit before tax			<u>197,665</u>

Other segment information included in the measurement of segment results:

	Year ended 31 December 2011		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
Depreciation	52,982	1,126	54,108
Allowance for obsolete inventories	<u>13,087</u>	<u>—</u>	<u>13,087</u>

For the year ended 31 December 2012

	Year ended 31 December 2012		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE			
External sales	<u>2,466,337</u>	<u>31,587</u>	<u>2,497,924</u>
SEGMENT RESULT	<u>877,660</u>	<u>10,710</u>	888,370
Unallocated income			42,924
Unallocated expenses			
Other gains and losses			(6,540)
Distribution and selling expenses			(440,127)
Administrative expenses			(189,634)
Other expenses			(25,560)
Finance costs			<u>(29,235)</u>
Profit before tax			<u>240,198</u>

Other segment information included in the measurement of segment results:

	Year ended 31 December 2012		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
Depreciation	71,474	915	72,389
Allowance for obsolete inventories	<u>2,536</u>	<u>—</u>	<u>2,536</u>

For the six months ended 30 June 2012 (unaudited)

	Six months ended 30 June 2012		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE			
External sales	1,057,853	11,235	1,069,088
SEGMENT RESULT	<u>352,101</u>	<u>3,211</u>	355,312
Unallocated income			12,886
Unallocated expenses			
Other gains and losses			(4,528)
Distribution and selling expenses			(181,659)
Administrative expenses			(80,245)
Other expenses			(11,606)
Finance costs			<u>(13,799)</u>
Profit before tax			<u>76,361</u>

Other segment information included in the measurement of segment results:

	Six months ended 30 June 2012 (unaudited)		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
Depreciation	27,790	281	28,071
Allowance for obsolete inventories	<u>2,678</u>	<u>—</u>	<u>2,678</u>

For the six months ended 30 June 2013

	Six months ended 30 June 2013		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
SEGMENT REVENUE			
External sales	1,218,710	56,039	1,274,749
SEGMENT RESULT	<u>457,992</u>	<u>15,362</u>	473,354
Unallocated income			22,172
Unallocated expenses			
Other gains and losses			(6,561)
Distribution and selling expenses			(176,644)
Administrative expenses			(95,849)
Other expenses			(21,568)
Change in fair value of redeemable convertible preferred shares			(3,363)
Finance costs			<u>(20,255)</u>
Profit before tax			<u>171,286</u>

Other segment information included in the measurement of segment results:

	Six months ended 30 June 2013		
	Ceramic tile products	Bathroom products	Total
	RMB'000	RMB'000	RMB'000
Depreciation	40,077	800	40,877
Allowance for obsolete inventories	8,909	4,992	13,901

No reconciliation of reportable segment revenue is provided as the total revenue for reportable segments is the same as the Group's revenue.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represented the gross profit earned by each reportable segment.

(b) **Geographic information**

The Group's operations and non-current assets are all derived and located in the PRC.

(c) Information about major customers

Revenue from major customer contributing over 10% of the total revenue of the Group, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A	354,016	561,405	N/A	N/A	N/A

Revenue from customer A on ceramic tile products segment contributed less than 10% of the total revenue of the Group for the year ended at 31 December 2012 and for the six months ended at 30 June 2012 and 2013.

(d) Segment assets and liabilities

Information of the operating and reportable segments of the Group reported to the chief operating decision maker for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

8. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Bank interest income	260	1,843	5,531	1,798	3,618
Interest income on credit sales (note i)	—	3,466	4,584	1,620	1,742
Processing income	3,789	6,756	12,127	3,671	3,183
Sales of advertising brochures	—	3,780	1,002	935	1,663
Conference charge	—	—	3,679	2,116	161
Government grants (note ii)...	675	255	13,251	720	9,642
Sundry income	<u>1,057</u>	<u>2,203</u>	<u>2,750</u>	<u>2,026</u>	<u>2,163</u>
Total	<u>5,781</u>	<u>18,303</u>	<u>42,924</u>	<u>12,886</u>	<u>22,172</u>

Notes:

- (i) The Group normally requires advance or immediate payment when goods are delivered. During the year ended 31 December 2011 and 2012 and for the six months ended 30 June 2012 and 2013, credit sales were granted to distributors on request basis and interests ranging from 8% to 10% per annum were charged.
- (ii) The government grants represent incentive subsidies received from PRC government for business development. There are no specific conditions attached to the grants.

9. OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net (loss) profit on disposal of property, plant and equipment.....	(209)	(2,836)	(1,494)	(841)	182
Loss on disposal of a joint venture (note 1).....	(2,519)	—	—	—	—
Allowance for doubtful receivables	(1,878)	(6,728)	(4,791)	(3,926)	(6,384)
Net foreign exchange gains (loss).....	1,186	—	(255)	239	(359)
Total	<u>(3,420)</u>	<u>(9,564)</u>	<u>(6,540)</u>	<u>(4,528)</u>	<u>(6,561)</u>

Note 1: On 8 October 2010, the Group disposed of its interest in a joint venture at a consideration of RMB3,657,000 to its joint venture partner, a company controlled by certain members of Controlling Shareholders.

10. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on:					
Bank borrowings					
- wholly repayable within five years.....	9,439	13,375	26,449	12,406	18,985
- not wholly repayable within five years	1,622	—	—	—	—
Finance lease.....	3,196	2,997	2,786	1,393	1,270
	<u>14,257</u>	<u>16,372</u>	<u>29,235</u>	<u>13,799</u>	<u>20,255</u>

11. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC Enterprise Income Tax ("EIT") Current tax	10,309	63,080	70,057	22,062	45,473
Under (Over) provision in respect of prior years	—	(20)	(5)	—	868
	10,309	63,060	70,052	22,062	46,341
Deferred tax (note 28)	(4,710)	(13,337)	(2,694)	(2,038)	3,712
	<u>5,599</u>	<u>49,723</u>	<u>67,358</u>	<u>20,024</u>	<u>50,053</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the People's Republic of China on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC entities is 25%.

Four subsidiaries of the Group, Linzhi Yuhe, Deqing Heying, Deqing Yuwei and Dongpong Sanitary Ware, enjoyed preferential enterprise income tax rates which are lower than the standard tax rate during the Relevant Periods as approved by the relevant tax authorities in the PRC as set out below.

Pursuant to Zang Zheng Fa No. 14 (2011) Notice in relation to Taxation Policies in support of enterprises located in Tibet (《西藏自治区人民政府關於我區企業所得稅稅率問題的通知》) promulgated by the People's Government of Tibet autonomous region, Linzhi Yuhe, Deqing Heying and Deqing Yuwei, which are registered and located in Tibet, can enjoy a preferential enterprise income tax rate of 15% from 2011 to 2020.

Dongpong Sanitary Ware was accredited as a "High and New Technology Enterprise" by relevant authorities in 2011 for a term of three years, and was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2011 to 2013.

The income tax expense for the year/period can be reconciled to the profit before tax per the consolidated statement of profit and loss and comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax.....	<u>12,883</u>	<u>197,665</u>	<u>240,198</u>	<u>76,361</u>	<u>171,286</u>
PRC EIT at 25%	3,221	49,416	60,049	19,090	42,822
Tax effect of share of loss of a joint venture	331	—	—	—	—
Effect of concessionary tax rates granted to certain subsidiaries.....	—	—	—	—	(4,626)
Tax effect of expenses not deductible for tax purpose (note ¹).....	2,799	929	2,966	752	816
Under (over) provision in respect of prior years	—	(20)	(5)	—	868
Tax effect of tax losses not recognized	—	543	1,376	443	697
Tax effect of deductible temporary differences not recognized	1,142	72	3,647	147	1,061
Withholding tax on undistributed profits of PRC subsidiaries (note ²).....	—	—	—	—	10,000
Utilization of tax losses previously not recognized	(939)	—	—	—	—
Utilization of deductible temporary differences previously not recognized.....	<u>(955)</u>	<u>(1,217)</u>	<u>(675)</u>	<u>(408)</u>	<u>(1,585)</u>
Income tax expense for the year/period.....	<u>5,599</u>	<u>49,723</u>	<u>67,358</u>	<u>20,024</u>	<u>50,053</u>

Note¹: The tax effect of expenses not deductible for the Relevant Periods is mainly attributable to the non-deductible staff welfare expenses and the non-deductible cost of damaged products.

Note²: The Group is not subject to PRC dividend withholding tax on the dividends paid prior to the completion of the Corporate Reorganization. Upon the completion of the Corporate Reorganization, Dongpeng HK became a group entity and the immediate holding company of Foshan Hua Sheng Chang. Under the EIT Law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The amount represents the withholding income tax provided on the profits of RMB100,000,000 which arose from 1 January 2008 to 30 June 2013 of PRC subsidiaries of the Company, and which are available for distribution (the "Dividend"). Other than the Dividend, the remaining earnings prior to 30 June 2013 are retained for business development purposes and shall not be subject to dividend declaration in the foreseeable future.

12. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period has been arrived at after charging:					
Depreciation for property, plant and equipment	63,774	65,797	95,791	39,636	56,055
Amortization for prepaid lease payments	1,870	1,377	1,377	679	2,524
Auditors' remuneration	96	128	1,287	169	710
Listing expenses (included in other expenses)	—	—	—	—	7,176
Research and development costs (included in other expenses)	2,436	5,778	10,475	7,911	5,706
Cost of inventories recognized as expenses	774,012	1,410,580	1,609,554	686,094	801,395
Allowance for obsolete inventories (included in cost of inventories)	12,600	13,087	2,536	2,678	13,901
Staff costs:					
Directors' remuneration (note 13)	680	760	1,989	674	973
Employees' salaries	85,266	175,287	254,509	109,921	114,837
Employees' welfare benefits	4,036	5,194	8,147	3,285	8,564
Employees' retirement benefit schemes contributions	5,672	14,845	19,156	8,404	10,112
	<u>95,654</u>	<u>196,086</u>	<u>283,801</u>	<u>122,284</u>	<u>134,486</u>
Operating lease payments in respect of					
- land and buildings	33,643	56,498	71,971	34,546	36,128
- plant and machinery	10,590	42,580	41,081	20,576	16,582

13. DIRECTORS' EMOLUMENTS

Details of the emoluments paid and payable to the directors of the Company for the Relevant Periods are as follows:

	Salaries	Bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2010				
Executive directors:				
He Xinming (director and chief executive).....	250	—	5	255
Chen Kunlie	175	—	5	180
Bao Jianyong	60	—	5	65
Non-executive director:				
Sun Limei	175	—	5	180
	<u>660</u>	<u>—</u>	<u>20</u>	<u>680</u>
For the year ended 31 December 2011				
Executive directors:				
He Xinming (director and chief executive).....	262	—	7	269
Chen Kunlie	182	—	7	189
Bao Jianyong	106	—	7	113
Non-executive director:				
Sun Limei	182	—	7	189
	<u>732</u>	<u>—</u>	<u>28</u>	<u>760</u>
For the year ended 31 December 2012				
Executive directors:				
He Xinming (director and chief executive).....	650	—	14	664
Chen Kunlie	483	—	14	497
Bao Jianyong	300	—	14	314
Non-executive directors:				
Sun Qian	—	—	—	—
Su Sen	—	—	—	—
Sun Limei	500	—	14	514
	<u>1,933</u>	<u>—</u>	<u>56</u>	<u>1,989</u>

	Salaries	Bonus	Retirement benefits scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
For the six months ended 30 June 2012				
(unaudited)				
Executive directors:				
He Xinming (director and chief executive)	193	—	7	200
Chen Kunlie	178	—	8	186
Bao Jianyong	95	—	7	102
Non-executive directors:				
Sun Qian	—	—	—	—
Su Sen	—	—	—	—
Sun Limei	178	—	8	186
	<u>644</u>	<u>—</u>	<u>30</u>	<u>674</u>
For the six months ended 30 June 2013				
Executive directors:				
He Xinming (director and chief executive)	359	—	10	369
Chen Kunlie	263	—	11	274
Bao Jianyong	140	—	10	150
Non-executive directors:				
Sun Qian	60	—	—	60
Su Sen	60	—	—	60
Sun Limei	60	—	—	60
	<u>942</u>	<u>—</u>	<u>31</u>	<u>973</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors and chief executive of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. Neither any of the directors nor chief executive of the Company has waived any emoluments during the Relevant Periods.

Non-executive directors, Sun Qian and Su Sen were appointed by the Group in March 2012, no emoluments were paid to them for the year ended 31 December 2012. Sun Limei retired in 2012, and appointed as non-executive director of the Group in March 2012 and the emoluments for the three years ended 31 December 2012 represented emoluments paid to her services as senior management of the Group and the emoluments for the six months ended 30 June 2013 represented emoluments paid to her services as non-executive director.

14. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included two, one, three, three and two directors and the chief executive of Group for the year ended 31 December 2010, 2011, 2012 and six months ended 30 June 2012 and 2013 respectively, details of whose emoluments are included in note 13. The emoluments of the remaining three, four, two, two and three highest paid individuals, whose emoluments individually is less than HK\$1,000,000, during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries	785	1,362	734	443	730
Retirement benefits scheme contribution	8	14	20	5	20
	<u>793</u>	<u>1,376</u>	<u>754</u>	<u>448</u>	<u>750</u>

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends recognized as distribution during the year/period	—	—	169,302	—	—
	<u>—</u>	<u>—</u>	<u>169,302</u>	<u>—</u>	<u>—</u>

During the year ended 31 December 2012, Qingyuan Nafuna, Fengcheng Dongpeng, Lixian Xinpeng and Zibo Kapuer declared dividends of RMB 169,302,000 to their then equity owners.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the Relevant Periods is based on the following data:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings:					
Earnings for the purpose of basic earnings per share					
Profit attributable to owners of the Company	6,273	140,892	167,181	57,201	121,226
Effect of dilutive potential ordinary shares					
Fair value loss of redeemable convertible preferred shares	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>3,363</u>
Earnings for the purpose of diluted earnings per share .	<u>6,273</u>	<u>140,892</u>	<u>167,181</u>	<u>57,201</u>	<u>124,589</u>
Number of shares:					
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)....	572,256	678,175	754,845	725,378	900,000
Effect of dilutive potential ordinary shares					
Redeemable convertible preferred shares (in thousands)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>4,798</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands).....	<u>572,256</u>	<u>678,175</u>	<u>754,845</u>	<u>725,378</u>	<u>904,798</u>

The weighted average numbers of ordinary shares for the purpose of calculating basic earnings per share for the Relevant Periods have been retrospectively adjusted for the effect of the Corporate Reorganization as disclosed in the section of "History and Corporate Development — Reorganization" of the Prospectus and the share consolidation as detailed in Section C and Appendix IV of the Prospectus.

For the year ended 31 December 2010, 2011, 2012 and six months ended 30 June 2012, diluted earnings per share is the same as basic earnings per share as the Company did not have any potential ordinary shares in issue.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Motor vehicles	Equipment and machinery	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2010.....	210,087	3,759	6,287	502,241	6,204	5,950	734,528
Additions.....	11,864	1,640	352	43,425	15,830	9,887	82,998
Disposals/write-off	—	(1,249)	—	(11,457)	(6,204)	—	(18,910)
Transfer from construction in progress.....	6,349	—	—	—	—	(6,349)	—
Deemed distribution to Qingyuan Dongpeng (note 1(b)).....	(85,589)	—	—	—	—	—	(85,589)
At 31 December 2010.....	142,711	4,150	6,639	534,209	15,830	9,488	713,027
Additions.....	10,209	2,918	2,068	58,229	15,737	155,101	244,262
Disposals.....	—	(845)	(126)	(25,733)	—	—	(26,704)
Transfer from construction in progress.....	23,586	—	—	29,513	—	(53,099)	—
At 31 December 2011	176,506	6,223	8,581	596,218	31,567	111,490	930,585
Additions.....	77,020	7,847	3,825	138,192	15,767	111,447	354,098
Disposals.....	—	(132)	(137)	(9,485)	—	—	(9,754)
Transfer from construction in progress.....	47,176	7	—	119,003	—	(166,186)	—
At 31 December 2012.....	300,702	13,945	12,269	843,928	47,334	56,751	1,274,929
Additions.....	4,919	3,446	1,259	15,166	3,597	13,794	42,181
Disposals.....	—	(38)	—	(13,849)	—	—	(13,887)
Transfer from construction in progress.....	16,287	42	—	11,603	—	(27,932)	—
Acquisition of subsidiaries (note 36)	20,717	2,630	995	11,629	2,259	16,971	55,201
Disposal of a subsidiary (note 37)	—	(209)	—	—	(1,889)	—	(2,098)
At 30 June 2013.....	342,625	19,816	14,523	868,477	51,301	59,584	1,356,326
DEPRECIATION							
At 1 January 2010.....	(33,859)	(2,079)	(1,849)	(197,780)	(6,204)	—	(241,771)
Provided for the year	(10,396)	(910)	(1,029)	(44,986)	(6,453)	—	(63,774)
Eliminated on disposals/ write off	—	1,211	—	10,181	6,204	—	17,596
Eliminated on deemed distribution to Qingyuan Dongpeng (note 1(b))	25,006	—	—	—	—	—	25,006
At 31 December 2010.....	(19,249)	(1,778)	(2,878)	(232,585)	(6,453)	—	(262,943)
Provided for the year	(8,207)	(1,569)	(1,293)	(46,659)	(8,069)	—	(65,797)
Eliminated on disposals	—	757	90	22,416	—	—	23,263
At 31 December 2011	(27,456)	(2,590)	(4,081)	(256,828)	(14,522)	—	(305,477)
Provided for the year	(11,086)	(2,622)	(2,068)	(64,880)	(15,135)	—	(95,791)
Eliminated on disposals	—	104	105	4,469	—	—	4,678

	Buildings	Furniture and fixtures	Motor vehicles	Equipment and machinery	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012.....	(38,542)	(5,108)	(6,044)	(317,239)	(29,657)	—	(396,590)
Provided for the period	(7,739)	(2,167)	(1,143)	(36,494)	(8,512)	—	(56,055)
Eliminated on disposals	—	23	—	10,794	—	—	10,817
Disposal of a subsidiary (note 37)	—	77	—	—	1,849	—	1,926
At 30 June 2013.....	(46,281)	(7,175)	(7,187)	(342,939)	(36,320)	—	(439,902)
CARRYING AMOUNTS							
At 31 December 2010.....	<u>123,462</u>	<u>2,372</u>	<u>3,761</u>	<u>301,624</u>	<u>9,377</u>	<u>9,488</u>	<u>450,084</u>
At 31 December 2011	<u>149,050</u>	<u>3,633</u>	<u>4,500</u>	<u>339,390</u>	<u>17,045</u>	<u>111,490</u>	<u>625,108</u>
At 31 December 2012.....	<u>262,160</u>	<u>8,837</u>	<u>6,225</u>	<u>526,689</u>	<u>17,677</u>	<u>56,751</u>	<u>878,339</u>
At 30 June 2013.....	<u>296,344</u>	<u>12,641</u>	<u>7,336</u>	<u>525,538</u>	<u>14,981</u>	<u>59,584</u>	<u>916,424</u>

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis, taking into account residual value, over their estimated useful lives:

Buildings	10~20 years
Furniture and fixtures.....	3~5 years
Motor vehicles.....	4~5 years
Equipment and machinery.....	10 years
Leasehold improvement	over the shorter of the term of the lease, or 5 years

The Group has pledged certain buildings, equipment and machinery with a carrying value of RMB81,853,000, RMB138,885,000, RMB138,763,000 and RMB163,085,000 to secure general banking facilities granted to the Group at 31 December 2010, 2011, 2012 and 30 June 2013 respectively.

Buildings with carrying amount of RMB3,349,000, RMB35,496,000, RMB148,329,000 and RMB139,155,000 as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively, are without property certificates. The Group is in the process of obtaining the property certificates.

Details of property, plant and equipment being pledged are set out in note 30.

At 31 December 2012 and 30 June 2013 buildings of RMB5,573,000 and RMB5,461,000 respectively were pledged to banks to secure bank borrowings granted to Guangdong Dongpeng Ceramics.

The carrying amount of plant and machinery included amounts of RMB42,602,000, RMB37,686,000, RMB32,771,000 and RMB30,313,000 in respect of assets held under a finance lease.

18. PREPAID LEASE PAYMENTS

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold land in the PRC				
Medium-term lease	<u>65,648</u>	<u>64,271</u>	<u>119,822</u>	<u>270,445</u>
Analyzed for reporting purposes as:				
Non-current asset.....	64,271	62,894	117,005	264,838
Current asset.....	<u>1,377</u>	<u>1,377</u>	<u>2,817</u>	<u>5,607</u>
	<u>65,648</u>	<u>64,271</u>	<u>119,822</u>	<u>270,445</u>

The Group has pledged certain prepaid lease payments with a carrying amount of RMB65,648,000, RMB64,271,000, RMB81,053,000 and RMB145,752,000 to secure general banking facilities granted to the Group at 31 December 2010, 2011, 2012 and 30 June 2013 respectively. As at 31 December 2012 and 30 June 2013, prepaid lease payments of RMB18,158,000 and RMB17,923,000 respectively were pledged to banks to secure bank borrowings granted to Guangdong Dongpeng Ceramics.

Details of prepaid lease payments being pledged are set out in note 30.

The leasehold terms of the lands are between 39 years to 50 years.

A parcel of land with carrying amount of RMB38,110,000 as at 30 June 2013 is still in the process of obtaining the land use right certificate.

19. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests at 31 December 2010, 2011 and 2012. In 2013 the below subsidiaries became wholly owned subsidiaries of the Company under Corporate Reorganization:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
	31/12/10	31/12/11	31/12/12	31/12/10	31/12/11	31/12/12	31/12/10	31/12/11	31/12/12
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Qingyuan Nafuna	8.18%	4.91%	10.25%	(6)	6,027	4,374	1,630	7,005	5,965
Fengcheng Dongpeng .	8.18%	4.91%	10.25%	970	747	2,028	6,499	3,860	9,374
Lixian Xinpeng	8.18%	4.91%	10.25%	545	891	(41)	671	1,294	463
Zibo Kapuer	8.18%	4.91%	10.25%	(1)	454	(354)	1,635	1,435	1,231

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Qingyuan Nafuna

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current assets	<u>196,669</u>	<u>348,863</u>	<u>491,105</u>
Non-current assets	<u>143,844</u>	<u>471,368</u>	<u>563,913</u>
Current liabilities	<u>(320,589)</u>	<u>(677,561)</u>	<u>(996,821)</u>
Non-current liabilities	<u>—</u>	<u>—</u>	<u>—</u>
Total equity	<u>19,924</u>	<u>142,670</u>	<u>58,197</u>

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue	<u>—</u>	<u>617,135</u>	<u>673,111</u>
Expenses	<u>(76)</u>	<u>(494,388)</u>	<u>(630,437)</u>
(Loss) profit and total comprehensive income for the year	<u>(76)</u>	<u>122,747</u>	<u>42,674</u>
Net cash (outflow) inflow from operating activities	<u>(168,873)</u>	<u>125,445</u>	<u>106,809</u>
Net cash outflow from investing activities	<u>(12,665)</u>	<u>(220,264)</u>	<u>(245,802)</u>
Net cash inflow from financing activities	<u>182,504</u>	<u>105,216</u>	<u>143,000</u>
Net cash inflow	<u>966</u>	<u>10,397</u>	<u>4,007</u>

During the year ended 31 December 2012, dividend amounted to RMB127,148,000 was declared but remained unpaid.

Fengcheng Dongpeng

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current assets	<u>305,481</u>	<u>365,762</u>	<u>308,410</u>
Non-current assets	<u>275,365</u>	<u>265,033</u>	<u>283,769</u>
Current liabilities	<u>(427,443)</u>	<u>(462,182)</u>	<u>(422,722)</u>
Non-current liabilities	<u>(90,000)</u>	<u>(90,000)</u>	<u>(78,000)</u>
Total equity	<u>63,403</u>	<u>78,613</u>	<u>91,457</u>

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue	<u>143,470</u>	<u>247,311</u>	<u>225,300</u>
Expenses	<u>(134,008)</u>	<u>(232,101)</u>	<u>(205,514)</u>
Profit and total comprehensive income for the year	<u>9,462</u>	<u>15,210</u>	<u>19,786</u>
Net cash inflow (outflow) from operating activities	<u>37,963</u>	<u>(25,622)</u>	<u>156,097</u>
Net cash (outflow) inflow from investing activities	<u>(88,901)</u>	<u>72,326</u>	<u>(17,479)</u>
Net cash inflow (outflow) from financing activities	<u>90,510</u>	<u>(15,510)</u>	<u>(106,220)</u>
Net cash inflow	<u>39,572</u>	<u>31,194</u>	<u>32,398</u>

During the year ended 31 December 2012, dividend amounted to RMB6,941,000 was declared but remained unpaid.

Lixian Xinpeng

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current assets	<u>127,112</u>	<u>146,652</u>	<u>52,943</u>
Non-current assets	<u>49,397</u>	<u>51,956</u>	<u>61,884</u>
Current liabilities	<u>(121,554)</u>	<u>(130,010)</u>	<u>(72,772)</u>
Non-current liabilities	<u>(46,749)</u>	<u>(42,240)</u>	<u>(37,538)</u>
Total equity	<u>8,206</u>	<u>26,358</u>	<u>4,517</u>

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue	<u>77,547</u>	<u>161,308</u>	<u>148,076</u>
Expenses	<u>(70,890)</u>	<u>(143,157)</u>	<u>(148,478)</u>
Profit (loss) and total comprehensive income for the year	<u>6,657</u>	<u>18,151</u>	<u>(402)</u>
Net cash (outflow) inflow from operating activities	<u>(17,602)</u>	<u>9,920</u>	<u>308</u>
Net cash (outflow) inflow from investing activities	<u>(55,569)</u>	<u>(8,157)</u>	<u>23,416</u>
Net cash inflow (outflow) from financing activities	<u>72,212</u>	<u>(2,222)</u>	<u>(25,199)</u>
Net cash outflow	<u>(959)</u>	<u>(459)</u>	<u>(1,475)</u>

During the year ended 31 December 2012, dividend amounted to RMB21,439,000 was declared but remained unpaid.

Zibo Kapuer

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Current assets	19,989	287,957	312,051
Non-current assets	—	10,611	10,573
Current liabilities	—	(269,332)	(310,612)
Non-current liabilities	—	—	—
Total equity	<u>19,989</u>	<u>29,236</u>	<u>12,012</u>

	Year ended 31 December		
	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Revenue	—	358,592	448,956
Expenses	(11)	(349,345)	(452,407)
(Loss) profit and total comprehensive income for the year	(11)	9,247	(3,451)
Net cash outflow from operating activities	<u>(11)</u>	<u>(105,267)</u>	<u>(12,853)</u>
Net cash outflow from investing activities	<u>(19,500)</u>	<u>(44,872)</u>	<u>(1,703)</u>
Net cash inflow from financing activities	<u>20,000</u>	<u>152,096</u>	<u>22,888</u>
Net cash inflow	<u>489</u>	<u>1,957</u>	<u>8,332</u>

During the year ended 31 December 2012, dividend amounted to RMB13,774,000 was declared but remained unpaid.

20. INVENTORIES

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Raw material	151,200	207,269	208,890	211,080
Work in progress	6,795	21,188	16,263	33,712
Finished goods	429,488	677,280	821,028	759,263
	<u>587,483</u>	<u>905,737</u>	<u>1,046,181</u>	<u>1,004,055</u>

As at 31 December 2010, 2011, 2012 and 30 June 2013, the allowance for obsolete inventories is RMB38,036,000, RMB51,123,000, RMB53,659,000 and RMB67,560,000 respectively.

21. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	64,259	118,250	229,325	282,222
Less: allowance for doubtful debts.....	<u>(2,352)</u>	<u>(9,080)</u>	<u>(13,871)</u>	<u>(20,255)</u>
	61,907	109,170	215,454	261,967
Advances to suppliers	29,865	17,391	14,652	17,168
Deposits to suppliers	46,806	9,395	14,335	8,814
Bills receivables	4,827	67,564	75,636	117,270
Other receivables.....	5,025	6,119	6,298	10,681
Other tax recoverable	3,492	5,098	13,456	5,839
Prepaid rentals.....	4,501	4,836	6,322	16,547
Other receivables from property developers	1,938	4,316	8,939	1,280
Value-added tax recoverable	<u>12,050</u>	<u>2,698</u>	<u>16,861</u>	<u>33,590</u>
Total trade and other receivables	<u>170,411</u>	<u>226,587</u>	<u>371,953</u>	<u>473,156</u>

The Group normally requires advance or immediate payment when goods are delivered except for (i) sales to certain property developers which are allowed a credit period of 90 days to 180 days or some may allow to repay in full upon completion of construction projects or some may have 5% to 10% retention money due at the end of warranty period of one to two years and (ii) sale to certain distributors with a maximum credit period of 90 days and interest bearing. As at 31 December 2010, 2011, 2012 and 30 June 2013, the retention money held by the property developers amounted to RMB2,213,000, RMB3,179,000, RMB11,827,000 and RMB13,226,000, respectively. The following is an aged analysis of trade receivables presented based on the invoice dates, which approximated the respective revenue recognition dates at the end of each reporting period:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 30 days.....	12,117	45,089	39,869	80,162
31 - 90 days.....	19,702	27,310	67,095	59,837
91 - 180 days.....	19,017	17,106	49,412	29,223
181 - 365 days.....	9,380	10,768	46,339	69,119
Over 1 year.....	<u>1,691</u>	<u>8,897</u>	<u>12,739</u>	<u>23,626</u>
	<u>61,907</u>	<u>109,170</u>	<u>215,454</u>	<u>261,967</u>

The bills receivables are aged within 180 days at the end of each reporting period and have not yet been matured at 31 December 2010, 2011, 2012 and 30 June 2013 respectively.

The other receivables are unsecured, non-interest bearing and repayable on demand or within one year.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for each customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB20,670,000, RMB26,375,000, RMB37,514,000 and RMB59,218,000 which are past due as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively for which the Group has not provided for impairment loss as the management does not expect any losses from these customers with well reputation. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired based on payment due dates

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue by:				
0 - 90 days.....	14,509	11,580	19,018	21,011
91 - 275 days.....	5,991	8,674	15,768	33,147
Over 275 days	<u>170</u>	<u>6,121</u>	<u>2,728</u>	<u>5,060</u>
Total	<u>20,670</u>	<u>26,375</u>	<u>37,514</u>	<u>59,218</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Movement in the allowance for doubtful debts

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
1 January	474	2,352	9,080	13,871
Impairment losses recognized.....	<u>1,878</u>	<u>6,728</u>	<u>4,791</u>	<u>6,384</u>
Year/period end.....	<u>2,352</u>	<u>9,080</u>	<u>13,871</u>	<u>20,255</u>

The Group first assesses whether objective evidence of impairment exists individually for trade and other receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed trade and other receivables, whether significant or not, it includes the trade

and other receivables in a group with similar credit risk characteristics including industry, geographical location, past-due status and other relevant factors and collectively assesses them for impairment. Trade and other receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,352,000, RMB9,080,000, RMB13,871,000 and RMB20,255,000 as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively, which are either overdue for a long period of time or the customer is in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

The following were the Group's bills receivables at the end of each reporting period that have been endorsed to the Group's creditors for settlement of payables of the same amount or discounted to banks on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognize the carrying amount of the bills receivables and the related trade payables and has recognized the cash received from banks on the transfer as a secured borrowing (note 26).

These bills receivable are carried at amortized cost in the Group's consolidated statements of financial position.

	As at 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of bills receivables				
- external customers	3,598	54,921	68,737	96,668
- intra-group customers.....	—	—	93,000	451,160
Carrying amount of trade payables....	(3,598)	(54,921)	(60,737)	(66,669)
Carrying amount of bank borrowings	—	—	(101,000)	(481,159)

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates with market rates of 0.36%, 0.40% to 0.50%, 0.35% to 0.40% and 0.35% per annum, for the years ended 31 December 2010, 2011, 2012 and six months ended 30 June 2013 respectively. The pledged bank deposits carrying interest rates which range from 0.35% to 0.35%, 0.35% to 3.5%, 0.35% to 3% and 0.35% to 0.35% per annum, for the years ended 31 December 2010, 2011, 2012 and six months ended 30 June 2013 respectively. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The Company's bank balances carry interest at market rates with market rates of 0.35% per annum for six months ended 30 June 2013.

Pledged bank deposits amounting to RMB738,000, RMB1,709,000, RMB69,678,000 and RMB404,908,000 as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively, have been

pledged to secure bills payable repayable within six months. Pledged bank deposits amounting to RMB43,500,000 as at 31 December 2011 were to secure bank borrowings made to Qingyuan Dongpeng. Pledged bank deposits amounting to RMB5,006,000 as at 30 June 2013 were to secure letter of credit for purchase of goods issued by the Group.

23. TRADE AND OTHER PAYABLES

The Group

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	191,066	449,319	622,564	634,434
Bills payable.....	6,156	4,238	13,700	6,593
Other payables	6,022	11,411	16,742	7,406
Other tax payables	3,960	16,003	38,677	62,253
Payroll and welfare payables	7,241	19,502	33,142	31,943
Advances from distributors.....	33,564	68,763	93,472	163,329
Deposits from distributors.....	2,830	31,193	39,030	75,096
Deferred income	—	32,650	32,361	15,563
Payables for acquisition for property, plant and equipment	9,593	19,669	25,309	4,597
Accrued expenses	10,464	29,426	50,751	75,376
	<u>270,896</u>	<u>682,174</u>	<u>965,748</u>	<u>1,076,590</u>

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

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 30 days.....	74,261	182,446	272,362	320,149
31 - 90 days.....	96,777	249,615	278,655	160,143
91 - 180 days.....	11,951	15,241	65,645	53,593
181 - 365 days.....	8,077	2,017	5,902	95,631
1-2 years.....	—	—	—	4,918
	<u>191,066</u>	<u>449,319</u>	<u>622,564</u>	<u>634,434</u>

The normal credit period on purchases of materials is 90 days to 180 days. The Group has financial risk management policies in place to monitor the settlement of payables.

Bills payable at the end of each reporting period are aged within 180 days.

The Company

	At 30 June 2013
	RMB'000
Accrued expenses.....	<u>7,176</u>

24. OBLIGATION UNDER A FINANCE LEASE

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed for reporting purposes as:				
Current liabilities	3,236	3,759	4,006	4,301
Non-current liabilities	<u>42,527</u>	<u>38,767</u>	<u>34,762</u>	<u>32,464</u>
	<u>45,763</u>	<u>42,526</u>	<u>38,768</u>	<u>36,765</u>

It is the Group's policy to lease certain of its equipment and machinery under finance leases. The lease term is 10 years. Interest rate underlying the obligation under finance lease is fixed at 6.55% per annum at the contract date. The lease is on a fixed repayment basis and no arrangement is entered into for contingent rental payments.

	Minimum lease payments				Present value of minimum lease payments			
	At 31 December			At 30 June	At 31 December			At 30 June
	2010	2011	2012	2013	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance lease:								
Within one year.....	6,233	6,545	6,545	6,708	3,236	3,759	4,006	4,301
In more than one year but not exceeding two years	6,545	6,545	6,872	6,872	3,759	4,006	4,594	4,746
In more than two years but not exceeding five years	20,289	20,960	21,304	21,656	13,498	15,052	16,382	17,270
More than five years.....	<u>29,585</u>	<u>22,368</u>	<u>15,153</u>	<u>11,365</u>	<u>25,270</u>	<u>19,709</u>	<u>13,786</u>	<u>10,448</u>
	62,652	56,418	49,874	46,601	45,763	42,526	38,768	36,765
Less: future finance charges.....	<u>(16,889)</u>	<u>(13,892)</u>	<u>(11,106)</u>	<u>(9,836)</u>	N/A	N/A	N/A	N/A
Present value of lease obligations.....	<u>45,763</u>	<u>42,526</u>	<u>38,768</u>	<u>36,765</u>	45,763	42,526	38,768	36,765
Less: Amounts due for settlement within 12 months (shown under current liabilities)					<u>3,236</u>	<u>3,759</u>	<u>4,006</u>	<u>4,301</u>
Amounts due for settlement after 12 months.....					<u>42,527</u>	<u>38,767</u>	<u>34,762</u>	<u>32,464</u>

The Group's obligation under a finance lease is secured by the lessor's charge over the leased assets.

25. AMOUNTS DUE FROM/TO RELATED PARTIES AND SHAREHOLDERS

Relationship	Amount due from related companies				
	At 31 December			At 30 June	
	2010	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000	
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics.....	Controlled by Controlling Shareholders	61,939	145,185	22,491	8,748
山東東鵬陶瓷有限公司 Shandong Dongpeng Ceramic Co., Ltd....	Controlled by certain members of Controlling Shareholders	240	1,140	—	—
東鵬陶瓷(清遠)有限公司 Qingyuan Dongpeng	Controlled by certain members of Controlling Shareholders*	32,740	5,702	31,741	5,758
佛山東鵬潔具股份有限公司 Dongpeng Sanitary Ware	Controlled by certain members of Controlling Shareholders**	1,231	1,200	1,544	—
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd.	Controlled by certain members of Controlling Shareholders	56	—	381	485
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co., Ltd.....	Controlled by certain members of Controlling Shareholders	13	13	—	—
佛山市南海東鵬衛浴有限公司 (formerly known as “佛山市南海佛來盈陶 瓷有限公司”) Foshan Nanhai Dongpeng Bathroom Products Co., Ltd. (formerly known as Nanhai Flying Ceramics Co., Ltd.)	Controlled by certain members of Controlling Shareholders	41,580	41,580	—	—
湖南金鵬新型建材有限公司 Hunan Jinpeng New Building Materials Co., Ltd.....	Controlled by certain members of Controlling Shareholders	42,014	41,987	30,374	26,582
佛山市大唐合盛陶瓷有限公司 Foshan Datanghesheng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	10,895	—	9,842	9,710
佛山市東鵬實業投資有限公司 Foshan Dongpeng investment Co., Ltd. ...	Controlled by certain members of Controlling Shareholders	—	—	2	6
北京和裕盛陶瓷有限公司 Beijing Heyusheng Ceremin Co., Ltd.....	Controlled by certain members of Controlling Shareholders	—	—	—	3,496
清遠市海威工業投資有限公司 Qingyuan Haiwei Industry Investment Co., Ltd.....	Controlled by certain members of Controlling Shareholders	—	—	—	28,802
		<u>190,708</u>	<u>236,807</u>	<u>96,375</u>	<u>83,587</u>

* Qingyuan Dongpeng was controlled by Controlling Shareholders up to 31 December 2010, after that is controlled by certain members of Controlling Shareholders.

** Dongpeng Sanitary Ware and its subsidiaries (“Dongpeng Sanitary Ware Group”) were acquired by the Group on 31 May 2013.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the trade portion of amounts due from related parties amounting to RMB36,239,000, RMB63,486,000, RMB29,749,000 and RMB23,508,000. The non-trade balance is unsecured, interest-free and repayable on demand.

The normal credit period on trade with related parties is 180 days. The following is an aged analysis of the trade portion of amounts due from related parties presented based on the invoice dates, which approximated the respective revenue recognition dates at the end of the reporting period:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 30 days.....	14,868	5,701	1,886	1,177
31 - 90 days.....	16,988	28,543	2,675	114
91 - 180 days.....	2,795	28,931	2,567	2,990
181 - 365 days.....	1,588	—	12,009	5,688
1 - 2 years	—	311	10,612	13,539
	<u>36,239</u>	<u>63,486</u>	<u>29,749</u>	<u>23,508</u>

Aging of trade portion of amounts due from related parties which are past due but not impaired based on payment due dates

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue by:				
0 - 180 days.....	1,588	—	12,009	5,688
181 - 365 days.....	—	311	10,612	13,539
	<u>1,588</u>	<u>311</u>	<u>22,621</u>	<u>19,227</u>

The Group has not provided for impairment loss on the amounts due from related parties which are past due after considering the financial strength of these related entities.

The following are the maximum amounts outstanding on the amounts due from related parties during the Relevant Periods:

	Relationship	Maximum amounts outstanding due from related companies			
		For the year ended			For the six months end
		2010	2011	2012	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
廣東東鵬陶瓷股份有限公司	Controlled by				
Guangdong Dongpeng Ceramics	Controlling Shareholders	61,939	145,185	145,185	22,491
山東東鵬陶瓷有限公司					
Shandong Dongpeng Ceramics Co., Ltd.....	Controlled by certain members of Controlling Shareholders	775	1,140	1,140	—
東鵬陶瓷(清遠)有限公司	Controlled by certain members of				
Qingyuan Dongpeng	Controlling Shareholders*	32,740	32,740	31,741	31,741
佛山東鵬潔具股份有限公司	Controlled by certain members of				
Dongpeng Sanitary Ware	Controlling Shareholders**	1,231	1,231	1,544	1,544
清遠東鵬衛浴有限公司					
Qingyuan Dongpeng Bathroom Products Co., Ltd.	Controlled by certain members of Controlling Shareholders	56	56	381	485
山東嘉麗雅陶瓷股份有限公司	Controlled by certain members of				
Shandong Jialiya Ceramics Co., Ltd....	Controlling Shareholders	194	13	13	—
佛山市南海東鵬衛浴有限公司					
(formerly known as “佛山市南海佛來盈陶瓷有限公司”) Foshan Nanhai Dongpeng Bathroom Products Co., Ltd. (formerly known as Nanhai Flying	Controlled by certain members of				
Ceramics Co., Ltd.)	Controlling Shareholders	41,580	41,580	41,580	—
湖南金鵬新型建材有限公司					
Hunan Jinpeng New Building Materials Co., Ltd.....	Controlled by certain members of Controlling Shareholders	42,014	42,014	41,987	30,374
佛山市大唐合盛陶瓷有限公司					
Foshan Datanghesheng Ceramics Co., Ltd.....	Controlled by certain members of Controlling Shareholders	11,452	10,895	9,842	9,842
佛山市東鵬實業投資有限公司					
Foshan Dongpeng investment Co., Ltd.....	Controlled by certain members of Controlling Shareholders	—	—	2	6
北京和裕盛陶瓷有限公司	Controlled by certain members of				
Beijing Heyusheng Ceremin Co., Ltd...	Controlling Shareholders	—	—	—	3,496
清遠市海威工業投資有限公司					
Qingyuan Haiwei Industry Investment Co., Ltd.....	Controlled by certain members of Controlling Shareholders	—	—	—	28,802

* Qingyuan Dongpeng was controlled by Controlling Shareholders up to 31 December 2010, after that is controlled by certain members of Controlling Shareholders.

** Dongpeng Sanitary Ware Group was acquired by the Group on 31 May 2013.

	Relationship	Amount due to related parties			
		At 31 December			At 30 June
		2010	2011	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000
廣東東鵬陶瓷股份有限公司 Guangdong Dongpeng Ceramics	Controlled by Controlling Shareholders	472,707	305,878	299,864	420,768
山東東鵬陶瓷有限公司 Shandong Dongpeng Ceramics Co., Ltd.....	Controlled by certain members of Controlling Shareholders	5,304	87,002	—	—
東鵬陶瓷(清遠)有限公司 Qingyuan Dongpeng	Controlled by certain members of Controlling Shareholders*	340,592	389,705	424,643	378,475
佛山東鵬潔具股份有限公司 Dongpeng Sanitary Ware.....	Controlled by certain members of Controlling Shareholders**	2,439	4,997	7,871	—
清遠東鵬衛浴有限公司 Qingyuan Dongpeng Bathroom Products Co., Ltd.	Controlled by certain members of Controlling Shareholders	1,898	3,134	5,939	28,569
山東嘉麗雅陶瓷股份有限公司 Shandong Jialiya Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	37,294	100,204	210,419	207,733
佛山市南海東鵬衛浴有限公司 (formerly known as “佛山市南海佛來盈陶瓷 有限公司”) Foshan Nanhai Dongpeng Bathroom Products Co., Ltd. (formerly known as “Nanhai Flying Ceramics Co., Ltd.”)	Controlled by certain members of Controlling Shareholders	140,800	140,800	99,222	99,234
佛山市大唐合盛陶瓷有限公司 Foshan Datanghesheng Ceramics Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	2,097	4,008	50
湖南金鵬新型建材有限公司 Hunan Jinpeng New Building Materials Co., Ltd.	Controlled by certain members of Controlling Shareholders	4,573	1,750	—	—
香港佛來盈發展有限公司 Hong Kong Flying Development Ltd. (“HK Flying”)	Controlled by Controlling Shareholders	—	46,879	57,354	22,713
佛山市元亨投資控股有限公司 Yuanheng Invensment Co., Ltd.	Controlled by Controlling Shareholders	—	—	—	10,000
東鵬陶瓷(香港)有限公司 Dongpeng Ceramics (HongKong) Co., Ltd..	Controlled by certain members of Controlling Shareholders	—	—	—	38,400
清遠市海威工業投資有限公司 Qingyuan Haiwei Industry Investment Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	—	—	43,968
澧縣新鵬投資開發有限公司 Lixian Xinpeng Investment Co., Ltd.....	Controlled by certain members of Controlling Shareholders	—	—	—	15,000

Relationship	Amount due to related parties				
	At 31 December			At 30 June	
	2010	2011	2012	2013	
	RMB'000	RMB'000	RMB'000	RMB'000	
禮縣東鵬房地產開發有限公司 Lixian Dongpeng Real Estate Co., Ltd.	Controlled by certain members of Controlling Shareholders	—	—	—	7,500
		<u>1,005,607</u>	<u>1,082,446</u>	<u>1,109,320</u>	<u>1,272,410</u>

* Qingyuan Dongpeng was controlled by Controlling Shareholders upto 31 December 2010, after that is controlled by certain members of Controlling Shareholders.

** Dongpeng Sanitary Ware Group was acquired by the Group on 31 May 2013.

As at 31 December 2010, 2011, 2012 and 30 June 2013, the trade portion of amounts due to related parties amounting to RMB222,710,000, RMB239,186,000, RMB286,053,000 and RMB301,481,000, respectively. There is no specific credit terms granted by the related parties. The non-trade balances are unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade portion of amounts due to related parties presented based on the invoice dates at the end of the reporting period.

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 30 days.....	7,350	123,678	87,056	668
31 - 90 days.....	20,464	11,756	1,707	2,324
91 - 180 days.....	35,380	45,516	9,442	13,568
181 - 365 days.....	2,188	43,345	48,496	97,725
1-2 years.....	157,328	—	139,352	109,782
>2 years.....	—	14,891	—	77,414
	<u>222,710</u>	<u>239,186</u>	<u>286,053</u>	<u>301,481</u>

THE GROUP AND THE COMPANY

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from shareholders	<u>—</u>	<u>—</u>	<u>11</u>	<u>11</u>

26. BANK BORROWINGS

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings, secured	<u>160,000</u>	<u>275,000</u>	<u>493,240</u>	<u>904,159</u>
Carrying amount repayable:				
Within one year	70,000	185,000	415,240	852,159
More than one year, but not exceeding two years	—	12,000	26,000	26,000
More than two years but not more than five years	64,000	78,000	52,000	26,000
More than five years	<u>26,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	160,000	275,000	493,240	904,159
Less: Amounts due within one year shown under current liabilities	<u>(70,000)</u>	<u>(185,000)</u>	<u>(415,240)</u>	<u>(852,159)</u>
	<u>90,000</u>	<u>90,000</u>	<u>78,000</u>	<u>52,000</u>

The range of the effective interest rates on the Group's borrowings is as follows :

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed-rate borrowings.....	N/A	N/A	3.0%~6.56%	2.6%~6.3%
Variable-rate borrowings....	5.31%~7.04%	5.35%~7.08%	5.31%~6.24%	6.0%~7.4%

Variable-rate borrowings amounted to RMB160,000,000, RMB275,000,000, RMB194,840,000 and RMB133,000,000, at 31 December 2010, 2011, 2012 and 30 June 2013 respectively. The borrowings are arranged at the interest rate based on benchmark interest rate from the People's Bank of China ("Benchmark Rate") plus, if applicable, a premium and expose the Group to cash flow interest rate risk. Fixed rate borrowings amounted to RMB298,400,000 and RMB771,159,000 as at 31 December 2012 and 30 June 2013 respectively.

As at 31 December 2012, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounted to RMB8,000,000, and (ii) intra-group bills receivables amounted to RMB93,000,000, to banks with recourse.

As at 30 June 2013, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounted to RMB29,999,000, and (ii) intra-group bills receivables amounted to RMB451,160,000, to banks with recourse.

All bank borrowings are dominated in RMB.

Bank borrowings at the end of each reporting period were secured by the pledge of assets and guarantees as set out in notes 30 and 34.

At 31 December 2010, 2011, 2012 and 30 June 2013, the Group had available unutilized banking facilities of approximately RMB Nil, RMB30,000,000, RMB243,900,000 and RMB625,000,000 respectively.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 21 June 2013, the Company entered into a shareholders' agreement with independent investors ("Shareholders' agreement") and issued 195,105,600 shares of series A convertible preferred shares ("Series A Shares") with a consideration of US\$30,000,000 (approximately RMB185,031,000) ("Consideration").

The key terms related to the Series A Shares are as follows:

Conversion:

The Series A Shares are convertible into ordinary shares at any time at the option of the holders. The conversion price on which each Series A Share is convertible into ordinary shares of the Company ("Conversion Price") shall initially be the preferred shares issue price (RMB0.95) and is subject to adjustments as detailed below. The number of ordinary shares to be converted is determined by dividing the issue price by the Conversion Price at the time in effect.

Additionally each Series A Share shall automatically be converted into ordinary shares, at applicable conversion price upon (i) the closing of a qualified initial public offering ("Qualified IPO"), or (ii) the election of holders of at least 60% of the then outstanding Series A Shares.

Conversion price adjustments:

Issuance of additional shares below the Conversion Price in effect immediately prior to such issue: The Conversion Price shall be reduced concurrently with such issuance.

Share splits and subdivision: The Conversion Price then in effect shall be proportionately decreased concurrently with the effect of such subdivision.

Share combination and consolidation: The Conversion Price shall be proportionately increased concurrently with the effect of such combination or consolidation.

Redemption Terms:

If no Qualified IPO has occurred and the Series A Shares have not been converted into ordinary shares by 13 August 2015, within 12 months commencing from 13 August 2015, the Series A Shares holders, acting as a whole, shall have the right to require the Company to redeem all but not less than all the Series A Shares then held by the Series A Shares holders (the "Redemption Shares") at a price

equal to the sum of (A) total subscription price, plus (B) all declared but unpaid dividends on such Redemption Shares, if any, plus (C) US\$4,225,000, plus (D) a 5% interest per annum on the total subscription price for the period from the date hereof until the date on which the Redemption Shares are redeemed in full.

Dividends:

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary shares and all Series A Shares (on an as-converted basis). Series A shareholders shall also be entitled to receive any non-cash dividends declared by the Company's board on an as converted basis.

Liquidation preference:

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or any of the following deemed liquidation events of (a) the acquisition of the Company or its affiliate by any entity by means of any transaction or series of related transactions that results in transfer of more than fifty percent of more of the outstanding voting power of the Company or its controlling affiliate such that its existing shareholders do not retain a majority of the voting power in the surviving entity, (b) a sale of all or substantially all of the assets of the Company or its controlling affiliate, or (c) the exclusive licensing of substantially all of the Company's intellectual property, the assets of the Company available for distribution to the shareholders shall be distributed ratably among all shareholders on an as-converted basis in proportion to the number of outstanding shares held by them.

The Series A Shares contain two components: a liability component and a conversion option component.

The conversion option component is classified as an embedded derivative as it will be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments.

The Group has elected to designate the Series A Shares with embedded derivatives as financial liabilities at FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A Shares are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

The fair value of the Series A Shares is equal to the summation of the fair value of the liability component and conversion option component calculated using discounted cash flows and Binomial Option Pricing Model, respectively. The inputs used for the calculation are as follow:

Share Price.....	0.9095
Conversion Price	0.9475
Risk-free rate	0.94%
Dividend yield	0.00%
Volatility	34.41%
Discount rate	13.5%

Risk-free interest rate is estimated based on the market yield of China International Government Bond with similar maturity as of the valuation date.

The volatility of the underlying shares during the life of the options was estimated based on average historical volatility of comparable companies for the year before the valuation date with lengths equal to the expected terms of the options.

The dividend yield was estimated by the Group based on its expected annual dividend and coupon interest of the Series A Shares divided by the fair values of the equity of the Group.

The movement of the Series A Shares are as follows:

	RMB'000
At 1 January 2013	—
Issuance of Series A Shares on 21 June 2013	185,031
Change in fair value	<u>3,363</u>
At 30 June 2013.....	<u>188,394</u>

28. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognized and movements thereon during the Relevant Periods:

<u>Deferred tax assets</u>	<u>Impairment on inventories and receivables</u>	<u>Tax losses</u>	<u>Deferred revenue</u>	<u>others</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	7,412	8,985	—	—	16,397
Credit (charge) to profit or loss	<u>2,478</u>	<u>1,190</u>	<u>—</u>	<u>243</u>	<u>3,911</u>
At 31 December 2010	9,890	10,175	—	243	20,308
Credit (charge) to profit or loss	<u>4,882</u>	<u>(214)</u>	<u>8,163</u>	<u>(243)</u>	<u>12,588</u>
At 31 December 2011	14,772	9,961	8,163	—	32,896
Credit (charge) to profit or loss	<u>735</u>	<u>1,336</u>	<u>(73)</u>	<u>—</u>	<u>1,998</u>
At 31 December 2012	15,507	11,297	8,090	—	34,894
Acquisition of subsidiaries (note 35) ..	1,753	—	—	—	1,753
Credit (charge) to profit or loss	<u>5,153</u>	<u>5,954</u>	<u>(5,137)</u>	<u>—</u>	<u>5,970</u>
At 30 June 2013	<u>22,413</u>	<u>17,251</u>	<u>2,953</u>	<u>—</u>	<u>42,617</u>

Deferred tax liabilities	Fair value adjustments on acquisition of subsidiaries	Accelerated tax Depreciation	Undistributed profits of subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	—	(5,021)	—	(5,021)
Credit to profit or loss	—	799	—	799
At 31 December 2010	—	(4,222)	—	(4,222)
Credit to profit or loss	—	749	—	749
At 31 December 2011	—	(3,473)	—	(3,473)
Credit to profit or loss	—	696	—	696
At 31 December 2012	—	(2,777)	—	(2,777)
Addition on acquisition of subsidiaries (note 36).....	(5,813)	—	—	(5,813)
Credit (charge) to profit or loss	—	318	(10,000)	(9,682)
At 30 June 2013	<u>(5,813)</u>	<u>(2,459)</u>	<u>(10,000)</u>	<u>(18,272)</u>

The Group is not subject to PRC dividend withholding tax on the dividends paid prior to the completion of the Corporate Reorganization. Upon the completion of the Corporate Reorganization, Dongpeng HK will become a group entity and the immediate holding company of Foshan Hua Sheng Chang. Under the EIT Law of PRC, withholding tax of 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 30 June 2013, deferred taxation has not been provided for in the consolidated profits of the PRC subsidiaries amounting to approximately RMB210,583,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of each reporting period, the Group has the following unrecognized unused tax losses:

	As at 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Unused tax losses	—	<u>2,171</u>	<u>7,675</u>	<u>3,099</u>

No deferred tax asset has been recognized on these tax losses due to the unpredictability of future profit streams. The expiry dates of the above unrecognized tax losses are as follows:

Expiry date	As at 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016.....	—	2,171	2,171	25
31 December 2017.....	—	—	5,504	284
31 December 2018.....	—	—	—	2,790

Other than the above amounts, other unrecognized deductible temporary differences amounting to approximately RMB21,282,000, RMB16,702,000, RMB28,590,000 and RMB26,494,000 as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively mainly represent certain accrued rental expenses, accrued employees' and directors' emoluments. Due to the uncertainty on the availability of future profits, deferred tax assets are not recognized on these temporary differences. The Group had no other significant unrecognized deferred taxation.

29. PAID-IN/ SHARE CAPITAL

For the purpose of the presentation of the Financial Information, the paid-in capital in the consolidated statements of financial position as at 31 December 2010, 2011 and 2012 represented the aggregate of paid-in capital of subsidiaries comprising the Group which is attributable to Controlling Shareholders and the share capital of the Company since their respective date of establishment. Particulars of the share capital of the Company are as follows:

The Company	Number of Shares	Amount in US\$
Ordinary shares at US\$0.000001 each		
Authorized:		
12 March 2012 (date of incorporation).....	50,000,000,000	50,000
Shares altered to Series A Shares.....	(300,000,000)	—
31 December 2012 and 30 June 2013.....	<u>49,700,000,000</u>	<u>50,000</u>
Issued:		
Issue of new shares on 12 March 2012 and at 31 December 2012 and 30 June 2013.....	<u>1,800,000,000</u>	<u>1,800</u>
		RMB'000
Presented in Company's financial statements at 31 December 2012 and 30 June 2013.....		<u>11</u>

On 12 March 2012, 1,800,000,000 shares were allotted and issued to its shareholders at par. These amounts had not be received from its shareholders at 31 December 2012 and 30 June 2013.

Pursuant to the resolutions in writing passed by the then shareholders of the Company on 31 October 2012, the authorized share capital of the Company was altered to US\$50,000 divided into 49,700,000,000 ordinary Shares of a par value of US\$0.000001 each and 300,000,000 Series A Shares of a par value of US\$0.000001 each. 195,105,600 Series A shares were issued on 21 June 2013 (see note 27).

Further details on the Company's share capital are set out in the paragraph headed "Further Information About Our Group — changes in share capital of our Company" in Appendix IV to the Prospectus.

30. PLEDGE OF ASSETS

The following assets were pledged to secure bank borrowings and banking facilities granted to the Group and related parties at the end of the reporting period:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Construction in progress.....	—	—	—	18,923
Buildings	—	66,748	74,790	83,188
Equipment and machinery.....	81,853	72,137	69,546	66,435
Prepaid lease payments.....	65,648	64,271	99,211	163,675
Pledged bank deposits	738	45,209	69,678	409,914
	<u>148,239</u>	<u>248,365</u>	<u>313,225</u>	<u>742,135</u>

At 31 December 2011, pledged bank deposits of RMB43,500,000 were pledged to secure bank borrowings made to Qingyuan Dongpeng and had been discharged in 2012 with no additional cost and liability incurred.

At 31 December 2012, prepaid lease payments of RMB18,158,000 and buildings of RMB5,573,000 were pledged to bank borrowings granted to Guangdong Dongpeng Ceramics.

As at 30 June 2013, prepaid lease payments of RMB17,923,000 and buildings of RMB5,461,000 were pledged to bank borrowings granted to Guangdong Dongpeng Ceramics.

As at 31 December 2012, secured bank borrowings include the discounting of (i) bills receivable from external trade customers amounted to RMB8,000,000, and (ii) intra-group bills receivables amounted to RMB93,000,000, to banks with recourse.

As at 30 June 2013, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounted to RMB29,999,000, and (ii) intra-group bills receivables amounted to RMB451,160,000, to banks with recourse.

31. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties and plant and equipment as follows:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year.....	56,266	84,836	56,947	75,286
In the second to fifth years inclusive..	152,001	151,364	124,425	135,387
After five years.....	<u>83,547</u>	<u>77,112</u>	<u>67,057</u>	<u>103,150</u>
	<u>291,814</u>	<u>313,312</u>	<u>248,429</u>	<u>313,823</u>

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse premises and plant and equipment. Leases are negotiated for an average term of one to eighteen years. Rentals are fixed at the date of signing of lease agreements.

32. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided	<u>77,202</u>	<u>240,796</u>	<u>90,461</u>	<u>108,124</u>

33. RETIREMENT BENEFIT SCHEMES

The employees of the Group's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB5,692,000, RMB14,873,000, RMB19,212,000, RMB8,434,000 and RMB10,143,000 for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013 respectively.

34. RELATED PARTY TRANSACTIONS

During the Relevant Periods, other than those disclosed in other notes to the Financial Information, the Group entered into the following transactions with related parties:

Name of related parties	Relationship	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)						
Purchases						
廣東東鵬陶瓷股份有限公司	Controlled by Controlling	62,809	64,700	41,061	30,820	3
Guangdong Dongpeng Ceramics ...	Shareholders					
山東東鵬陶瓷有限公司 Shandong	Controlled by certain	28,745	40,715	—	—	—
Dongpeng Ceramics Co., Ltd.	members of Controlling					
	Shareholders					
東鵬陶瓷(清遠)有限公司	Controlled by certain	—	15,985	—	—	—
Qingyuan Dongpeng	members of Controlling					
	Shareholders*					
清遠東鵬衛浴有限公司	Controlled by certain	5,024	8,284	10,124	4,448	8,789
Qingyuan Dongpeng Bathroom	members of Controlling					
Products Co., Ltd.	Shareholders					
山東嘉麗雅陶瓷股份有限公司	Controlled by certain	34,098	68,844	275	155	—
Shandong Jialiya Ceramics Co.,	members of Controlling					
Ltd.	Shareholders					
佛山市大唐合盛陶瓷有限公司	Controlled by certain	—	1,950	3,268	866	—
Foshan Datanghesheng Ceramics	members of Controlling					
Co., Ltd.	Shareholders					
佛山東鵬潔具股份有限公司	Controlled by certain	5,481	9,138	12,507	2,946	4,479
Foshan Dongpeng Sanitary Ware	members of Controlling					
Co., Ltd.	Shareholders**					
香港佛來盈發展有限公司	Controlled by Controlling	—	—	1,966	—	—
HK Flying	Shareholders					

Name of related parties	Relationship	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)						
Sales						
廣東東鵬陶瓷股份有限公司	Controlled by Controlling	354,016	561,405	26,891	24,125	—
Guangdong Dongpeng Ceramics ...	Shareholders					
佛山東鵬潔具股份有限公司	Controlled by certain	311	1	—	—	—
Foshan Dongpeng Sanitary Ware	members of Controlling					
Co., Ltd.	Shareholders					
佛山市大唐合盛陶瓷有限公司	Controlled by certain	8,070	1,842	13,393	8,984	4,303
Foshan Datanghesheng Ceramics	members of Controlling					
Co., Ltd.	Shareholders**					
清遠東鵬衛浴有限公司	Controlled by certain	—	—	—	—	1,396
Qingyuan Dongpeng Bathroom	members of Controlling					
Products Co., Ltd.	Shareholders					
Rental expenses						
廣東東鵬陶瓷股份有限公司	Controlled by Controlling	—	—	4,663	2,332	2,332
Guangdong Dongpeng Ceramics ...	Shareholders					
山東東鵬陶瓷有限公司	Controlled by certain	—	18,000	16,000	8,000	—
Shandong Dongpeng Ceramics	members of Controlling					
Co., Ltd.	Shareholders					
山東嘉麗雅陶瓷股份有限公司	Controlled by certain	—	13,500	12,000	6,000	6,000
Shandong Jialiya Ceramics Co.,	members of Controlling					
Ltd.	Shareholders					
湖南金鵬新型建材有限公司	Controlled by certain	10,500	10,500	11,025	5,513	5,513
Hunan Jinpeng New Building	members of Controlling					
Materials Co., Ltd.	Shareholders					
東鵬陶瓷(清遠)有限公司	Controlled by certain	—	13,664	13,664	6,830	6,828
Qingyuan Dongpeng	members of Controlling					
	Shareholders*					
Purchase of equipment						
廣東東鵬陶瓷股份有限公司	Controlled by Controlling	—	—	3,194	3,194	—
Guangdong Dongpeng Ceramics ...	Shareholders					
香港佛來盈發展有限公司	Controlled by Controlling	—	46,879	8,510	—	—
HK flying.....	Shareholders					

* Qingyuan Dongpeng was controlled by Controlling Shareholders up to 31 December 2010, after that is controlled by certain members of Controlling Shareholders.

** Dongpeng Sanitary Ware Group was acquired by the Group on 31 May 2013.

(a) In the opinion of the management of the Group, the lease of property and machinery from Guangdong Dongpeng Ceramics, Shandong Jialiya Ceramics Co., Ltd. and Hunan Jinpeng New Building Materials Co., Ltd. will be continued after the Listing, while the other related party transactions which were based on the terms mutually determined and agreed by the respective parties will not be continued after the Listing.

(b) Guangdong Dongpeng Ceramics had provided guarantees to banks in respect of borrowings of the Group amounting to RMB160,000,000, RMB275,000,000, RMB358,000,000 and RMB489,000,000 as at 31 December 2010, 2011, 2012 and 30 June 2013 respectively. In addition, Guangdong Dongpeng Ceramics had pledged its assets to banks in respect of bank borrowings of the Group amounting to RMB40,000,000 as at 31 December 2012.

Qingyuan Dongpeng had provided guarantees to banks in respect of borrowings of the Group amounting to RMB30,000,000 as at 31 December 2012.

(c) The Group had pledged its bank deposits amounting to RMB43,500,000 to secure bank borrowings granted to Qingyuan Dongpeng at 31 December 2011.

The Group had also pledged its prepaid lease payments amounting to RMB18,158,000 and RMB17,923,000 and buildings amounting to RMB5,573,000 and RMB5,461,000 to secure bank borrowings granted to Guangdong Dongpeng Ceramics at 31 December 2012 and 30 June 2013 respectively.

(d) Details of the balances with related parties at the end of the reporting periods are disclosed in the consolidated statements of financial position and respective notes.

(e) The remuneration paid and payable to key management of the Company who include the directors of the Company during the Relevant Periods is set out in note 13 and note 14.

(f) The Group had used some relevant trademarks owned by Guangdong Dongpeng Ceramics for free during the Relevant Periods.

(g) At the end of each reporting period, future minimum lease payments to related parties whereby the Group acts as a lessee and included in Note 31 is as follows:

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Dongpeng Ceramics				
Within one year	—	16,000	—	—

	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Jialiya Ceramics Co., Ltd				
Within one year	—	12,000	12,000	6,000
In the second to fifth years inclusive	—	12,000	—	—
	<u>—</u>	<u>24,000</u>	<u>12,000</u>	<u>6,000</u>
	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Hunan Jinpeng New Building Materials Co., Ltd				
Within one year	10,500	11,025	11,025	11,301
In the second to fifth years inclusive	45,203	46,333	47,463	48,056
After five years	49,836	37,681	25,526	19,144
	<u>105,539</u>	<u>95,039</u>	<u>84,014</u>	<u>78,501</u>
	At 31 December			At 30 June
	2010	2011	2012	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Qingyuan Dongpeng				
Within one year	<u>13,664</u>	<u>—</u>	<u>—</u>	<u>6,836</u>

35. RESERVES**The Company**

	Accumulated losses
	RMB'000
At 12 March 2012 (date of incorporation)	—
Loss for the period.....	—
At 31 December 2012.....	—
Loss for the year.....	<u>(10,209)</u>
At 30 June 2013	<u><u>(10,209)</u></u>

36 ACQUISITION OF SUBSIDIARIES

On 31 May 2013, the Group acquired Dongpeng Sanitary Ware Group from certain members of Controlling Shareholders for a cash consideration of RMB59,197,000. This acquisition has been accounted for using the acquisition method. Dongpeng Sanitary Ware Group is engaged in producing and sales of bathroom products. Dongpeng Sanitary Ware Group was acquired so as to continue the expansion of the Group's bathroom products operation.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	Fair value
	RMB'000
Property, plant and equipment	55,201
Prepaid lease payments	89,740
Deferred tax assets	1,753
Deposits for acquisition of property, plant and equipment.....	769
Inventories	99,925
Trade and other receivables	50,085
Tax recoverable	760
Amounts due from related parties — trade	6,207
Bank balances and cash.....	77,701
Trade and other payables	(143,522)
Amounts due to related parties — trade.....	(1,222)
Amounts due to related parties — non-trade	(110,766)
Amounts due to non-controlling interests	(1,650)
Bank borrowings.....	(60,000)
Deferred taxation liabilities	<u>(5,813)</u>
	<u><u>59,168</u></u>

The fair value of trade and other receivables at the date of acquisition amounted to RMB50,085,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB58,093,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB8,008,000. Non-controlling interest are measured at their proportionate share of net assets acquired.

	RMB'000
Goodwill arising on acquisition:	
Consideration transferred.....	59,197
Add: non-controlling interest (30% in Gaoming Furniture)	(29)
Less: net assets acquired	<u>(59,168)</u>
	<u>—</u>
	<u>—</u>
	RMB'000
Cash inflow arising on the acquisition	
Cash consideration.....	(59,197)
Add: bank balances and cash acquired.....	<u>77,701</u>
	<u>18,504</u>

Acquisition-related costs amounting to RMB50,000 have been excluded from the consideration transferred and have been recognized as an expense for the six months ended 30 June 2013.

Included in the profit for the period is profit of RMB3,526,000, attributable to the additional business generated by Dongpeng Sanitary Ware Group. Revenue for the period includes RMB45,417,000, generated from Dongpeng Sanitary Ware Group.

Had the acquisition of Dongpeng Sanitary Ware Group been completed on 1 January 2013, total group revenue for the period would have been RMB1,412,055,000, and profit for the period would have been RMB117,588,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Dongpeng Sanitary Ware Group been acquired at 1 January 2013, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

37 DISPOSAL OF A SUBSIDIARY

On 1 January 2013, the Group disposed of its 100% equity interest in Beijing Dongpeng to a company controlled by certain members of the Controlling Shareholders with a cash consideration of RMB1,000,000.

Analysis of asset and liabilities over which control was lost

	RMB'000
Property, plant and equipment	172
Inventories	1,555
Trade and other receivables	1,414
Bank balances and cash	30
Trade and other payable	(58)
Amounts due to related parties — trade.....	<u>(9,478)</u>
Net liabilities disposed of	<u><u>(6,365)</u></u>

Disposal of a subsidiary

	RMB'000
Consideration received	1,000
Net liabilities disposed of	<u>6,365</u>
Deemed contribution from owners	<u><u>7,365</u></u>

Net cash inflow on disposal of a subsidiary

	RMB'000
Consideration received in cash and cash equivalents	1,000
Less: cash and cash equivalent balances disposed of	<u>(30)</u>
	<u><u>970</u></u>

38 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2011 and 2012, purchases of equipment amounting to RMB46,879,000 and RMB8,510,000 respectively have been included in amounts due to related parties.

During the year ended 31 December 2012, dividends amounting to RMB169,302,000 were not paid and have been included in amounts due to related parties.

During the year ended 31 December 2012, property, plant and equipment amounting to RMB6,600,000 and a leasehold land of RMB18,158,000 were injected by the Controlling Shareholders.

During the six months ended 30 June 2013, consideration for acquisition of land use right of RMB22,500,000 was paid by two related parties on behalf of the Group and have been included in amounts due to related parties.

At 31 December 2012, bills receivables of RMB8,000,000 had been discounted with recourse to banks. During the six months ended 30 June 2013, the banks directly received the contractually entitled cash flows of RMB8,000,000 upon maturity of the discounted bills receivable from the Group's debtors as settlement of the related bank borrowings granted to the Group.

B. DIRECTORS' REMUNERATION

Under the arrangement currently in force, the aggregate amount of remunerations of the directors of the Company payable for the year ending 31 December 2013 is estimated to be approximately RMB2.0 million.

C. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following transactions took place subsequent to 30 June 2013:

In July 2013, Foshan Yuanheng Investment Holding Co., Ltd, a company controlled by certain members of the Controlling Shareholders, made capital injection of approximately RMB300,000,000 in Foshan Dongpeng Development, representing 7.69% equity interest therein and approximately RMB550,000,000 in Qingyuan Nafuna, representing 9.99% equity interest therein. After these capital injections, the Group continued to control Foshan Dongpeng Development and Qingyuan Nafuna. Foshan Dongpeng Development and Qingyuan Nafuna became non-wholly owned subsidiaries of the Group.

Subsequent to 30 June 2013, holders of Series A Shares signed a waiver letter to the Company to waive a term of the shareholders' agreement dated 21 June 2013. The directors of the Company are in the process of assessing the financial impact.

Pursuant to the resolutions in writing passed by all the then shareholders on 5 November 2013, every 2 existing issued and unissued ordinary shares of a nominal or par value US\$0.000001 each were consolidated into 1 ordinary share of a nominal or par value US\$0.000002 each, and every 2 existing issued and unissued Series A Shares of a nominal or par value US\$0.000001 each were consolidated into 1 Series A Share of par value US\$0.000002 each, and such consolidated shares shall rank parri passu in all respects with each other, such that after the consolidation, the authorized share capital of our Company became US\$50,000 divided into 24,850,000,000 ordinary shares of a nominal or par value of US\$0.000002 each and 150,000,000 Series A Shares of a nominal or par value of US\$0.000002 each.

In November 2013, the directors declared dividends of an aggregate amount of RMB90 million to the then shareholders.

Pursuant to the resolutions of the shareholders passed on 31 October 2013, the Company has conditionally approved and adopted a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"). Pursuant to the resolutions of the Shareholders passed on 5 November 2013, the Company has approved another share option scheme (the "Share Option Scheme"). The principal terms of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in sections headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" in Appendix IV to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 30 June 2013.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 30 June 2013.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2013 as if it had taken place on 30 June 2013.

The unaudited pro forma statement of adjusted net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2013 or any future date following the Global Offering. It is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2013 as set out in the Accountant's Report contained in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets of the Group attributable to owners of the Company does not form part of the Accountant's Report as set out in Appendix I to this prospectus.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2013	Estimated net proceeds from the Global Offering ⁽¹⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share ^{(2),(5)}	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$3.68 per Offer Share	171,672	676,317	847,989	0.74	0.93
Based on an Offer Price of HK\$4.55 per Offer Share.....	171,672	841,370	1,013,042	0.88	1.11

Notes:

- (1) The estimated net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK\$3.68 and HK\$4.55 per Offer Share, respectively, after deducting estimated underwriting fees and commissions and expenses in connection with the Global Offering paid/payable by the Company which have not been reflected in the net tangible assets of the Group as at 30 June 2013 and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the option that may be granted under the Share Option Scheme and conversion of series A preferred shares.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,149,400,000 shares are in issue (including 900,000,000 shares in issue of date of this prospectus and 249,400,000 shares to be issued upon the Global Offering) and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised and no conversion of series A preferred shares.

- (3) According to the shareholders' agreement dated 21 June 2013, the Company issued 195,105,600 shares of Series A preferred shares (every two Series A preferred shares are subsequently consolidated into one Series A preferred share on 5 November 2013) which will be automatically converted into ordinary shares upon closing of a qualified initial public offering. Assuming the Series A preferred shares were converted upon the closing of the Global Offering, and after considering the estimated net proceeds from the Global Offering referred to in Note (1) above, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company would be RMB1,036,383,000 (based on an Offer Price of HK\$3.68) and RMB 1,201,436,000 (based on an Offer Price of HK\$4.55) after adjusting for the carrying amount of the Series A preferred shares of RMB188,394,000 as at 30 June 2013. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share based on an Offer Price of HK\$3.68 per Offer Share would be RMB0.83 (HK\$1.04), and based on an Offer Price of HK\$4.55 per Offer Share would be RMB0.96 (HK\$1.21) determined on the basis that 1,246,952,800 shares were in issue (including 900,000,000 shares in issue as of date of this prospectus, 97,552,800 shares to be issued upon automatic conversion of Series A preferred shares and 249,400,000 shares to be issued upon the Global Offering and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised).
- (4) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2013. No adjustment has been made to reflect the declaration of dividends in an aggregate amount of RMB90 million in November 2013.
- (5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB0.7966 to HK\$1. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

B. ACCOUNTANT’S REPORT ON THE PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the pro forma financial information of the Group.

**INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF DONGPENG HOLDINGS COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Dongpeng Holdings Company Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group attributable to owners of the Company as at 30 June 2013 and related notes as set out on pages II-1 and II-2 of Appendix II to the prospectus issued by the Company dated 18 November 2013 (the “**Prospectus**”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages II-1 and II-2 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed global offering on the Group’s financial position as at 30 June 2013 as if the event had taken place at 30 June 2013. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the three years ended 31 December 2012 and the six months ended 30 June 2013, on which an accountant’s report set out in Appendix I to the Prospectus has been published.

Directors’ Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 November 2013

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 March 2012 under the Cayman Companies Law. The Company's constitutional documents consist of its Memorandum and the Articles.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on November 5, 2013. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by two Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the

Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) ***Appointment, retirement and removal***

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) ***Borrowing powers***

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) ***Register of Directors and officers***

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of name of such directors or officers.

(x) ***Proceedings of the Board***

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution - majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or

- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) **Annual general meetings**

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) **Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman

Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of Directors in place of those retiring;
 - (dd) the appointment of auditors;
 - (ee) the fixing of the remuneration of the Directors and of the auditors;
 - (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
 - (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.
- (k) **Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(I) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque

or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand

of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 13 May 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Cayman Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept and retained with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company, for a minimum period of 5 years from the date on which they are prepared.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 3 September 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad

faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal advisor on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

We were incorporated under the laws of Cayman Islands as an exempted company with limited liability on March 12, 2012. Our registered office is situated at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands. We have established a principal place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 10 October 2013. Mr. Bao Jianyong and Ms. Yuen Wing Yan, Winnie have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong at the above address.

2. Changes in the Share Capital of Our Company

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 50,000,000,000 ordinary shares of US\$0.000001 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- (a) On March 12, 2012, one subscriber share was issued at par value and the said subscriber share was subsequently transferred to Profit Strong on the same date;
- (b) On March 12, 2012, a total of 785,036,926 shares, 321,526,649 shares, 90,050,536 shares, 437,235,956 shares and 166,149,933 shares were issued at par value to Profit Strong, Superb Idea, Cosmo Ray, High Ride and Rich Blossom, respectively;
- (c) On September 28, 2012, Rich Blossom transferred a total of 76,099,397 shares to Cosmo Ray;
- (d) Pursuant to the resolutions in writing passed by the then Shareholders on October 31 2012, the authorized share capital of our Company was altered to US\$50,000 divided into 49,700,000,000 ordinary shares of par value US\$0.000001 each and 300,000,000 series A preferred shares of par value US\$0.000001 each. The Memorandum and Articles of Association of our Company were also amended to require a shareholders' resolution for the issue of further shares;
- (e) On November 1, 2012, a total of 141,809,254 series A preferred shares, 3,381,830 series A preferred shares and 17,396,916 series A preferred shares of par value US\$0.000001 each were issued to Sequoia Fund, Sequoia Partners and Sequoia Principals (the "**November Share Issue**"), although the requisite shareholders' resolution was not passed approving the November Share Issue, and the consideration for the series A preferred shares was not paid, at this time;

- (f) On June 21, 2013, (i) a total of 28,361,851 series A preferred shares, 676,366 series A preferred shares and 3,479,383 series A preferred shares of par value US\$0.000001 each were issued to Sequoia Fund, Sequoia Partners and Sequoia Principals for a consideration of US\$4,361,000, US\$104,000 and US\$535,000, respectively (the “**June Share Issue**”), (ii) the shareholders of our Company passed unanimous written resolutions authorizing the June Share Issue and ratifying, confirming and approving the November Share Issue, and (iii) the series A preferred shares issued in the November Share Issue and the June Share Issue were paid up; and
- (g) Pursuant to the resolutions in writing passed by all the then Shareholders on November 5, 2013, every two existing issued and unissued ordinary Shares of a nominal or par value US\$0.000001 each was consolidated into one ordinary Share of a nominal or par value US\$0.000002 each, and every two existing issued and unissued series A preferred shares of a nominal or par value US\$0.000001 each was consolidated into one series A preferred share of par value US\$0.000002 each, and such consolidated shares shall rank parri passu in all respects with each other, such that after the consolidation, the authorized share capital of our Company became US\$50,000 divided into 24,850,000,000 ordinary Shares of a nominal or par value of US\$0.000002 each and 150,000,000 series A preferred shares of a nominal or par value of US\$0.000002 each, and the issued share capital became US\$1,995.11 divided into 900,000,000 ordinary Shares of a nominal or par value US\$0.000002 each and 97,552,800 series A preferred shares of a nominal or par value US\$0.000002 each.

Save as disclosed above and in the section headed “History and Corporate Development” in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Shareholders of Our Company Passed on November 5, 2013

Pursuant to the resolutions in writing passed by our shareholders on November 5, 2013, among other matters:

- (a) upon the closing of the Global Offering and after the conversion of 97,552,800 series A preferred shares of par value US\$0.000002 each, being all the series A preferred shares of the Company in issue, into 97,552,800 ordinary shares of par value US\$0.000002 each, pursuant to the automatic conversion provisions as set out in our Company’s then existing Articles of Association (and deemed converted immediately prior to the closing of the Global Offering), all the unissued 150,000,000 series A preferred shares of par value US\$0.000002 each be redesignated as unissued ordinary Shares of par value US\$0.000002 each, so that the authorized share capital of our Company shall become US\$50,000 divided into 25,000,000,000 ordinary Shares of US\$0.000002 each;¹

¹ The existing articles of association of the Company require the Company to give the holders of the series A preferred shares at least ten days’ prior written notice of the date fixed and the place designated for automatic conversion of all such series A preferred shares. On or before the date fixed for conversion, the holders of the series A preferred shares must surrender their share certificates to the Company at the place designated in that notice.

- (b) conditional on (i) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and the Offer Shares as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option and the options which have been granted under the Pre-IPO Share Option Scheme and may be granted under the Share Option Scheme), and any Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme; (ii) the entering into, execution and delivery of the International Underwriting Agreement and the Price Determination Agreement on or around the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:
- (i) the Global Offering be approved and the Directors be authorized to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the proposed Listing of the Shares on the Main Board be approved and the Directors be authorized to implement such Listing; and
 - (iii) the Over-allotment Option be approved and the Directors be authorized to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;
- (c) that conditional upon and with effect prior to the closing of the Global Offering, the new Memorandum and Articles of our Company be adopted, the terms of which are summarized in the section headed “Appendix III — Summary of the Constitution of the Company and Cayman Islands Company Law” in this prospectus;
- (d) a general unconditional mandate was given to the Directors to allot, issue and otherwise deal with the Shares (otherwise than pursuant to, or in consequence of, the Global Offering, the Over-allotment Option, a rights issue, the exercise of any subscription rights which may be granted under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for shares under options and warrants or a special authority granted by the Company’s shareholders) with an aggregate nominal value not exceeding the sum of 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering;
- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of the Company to repurchase for cancellation the Shares representing up to 10% of its share capital in issue, immediately following completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option or any options which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme); and

- (f) the general unconditional mandate as mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until the earlier of (i) the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; or (ii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

4. Our Corporate Reorganization

The companies comprising our Group underwent the reorganization in preparation for the Listing. Please refer to the section headed “History and Corporate Development” to this prospectus for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountant’s Report, we do not have any other subsidiaries.

The following alterations in the share capital (or registered capital, as the case may be) of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

- (a) on April 11, 2012, BVI Co allotted and issued one ordinary share with a nominal value of US\$1 each to our Company.
- (b) on May 4, 2012, HK Co allotted and issued one ordinary share with a nominal value of HK\$1 each to BVI Co.
- (c) on June 13, 2012, Shaanxi Dongpeng increased its registered capital from RMB4 million to RMB5 million.
- (d) on January 9, 2013, Foshan Hua Sheng Chang increased its registered capital from US\$6 million to US\$12.4 million.
- (e) on March 5, 2013, Jiangxi Bathroom Products increased its registered capital from RMB30 million to RMB40 million.
- (f) on July 1, 2013, Foshan Dongpeng Development increased its registered capital from RMB12 million to RMB13 million.

- (g) on July 5, 2013, Foshan Yuanheng acquired 9.99% equity interest in Qingyuan Nafuna for a consideration of RMB550 million. Such consideration was used to increase the registered capital in the amount of RMB2.2 million and capital reserves in the amount of RMB547.8 million. As a result, the registered capital of Qingyuan Nafuna was increased from RMB20 million to RMB22.2 million.
- (h) in November 2013, Guangdong Dongpeng Holdings and Qingyuan Dongpeng acquired 1.02% and 2.37% equity interest in Qingyuan Nafuna for a consideration of approximately RMB57.8 million and certain factory buildings and related land with a market value of approximately RMB134.9 million, respectively. Such consideration was used to increase the registered capital in the amount of RMB780,000 and capital reserves in the amount of RMB191.9 million. As a result, the registered capital of Qingyuan Nafuna was increased from RMB22.2 million to RMB23.0 million.
- (i) On October 17, 2013, Foshan Hua Sheng Chang increased its registered capital from US\$12.4 million to US\$28.1 million.

Save as disclosed above and in the section headed “History and Corporate Development” in this prospectus, there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

Further information about our PRC establishments

We have interest in the registered capital of 25 companies in the PRC. A summary of the corporate information as at the Latest Practicable Date is set out as follows:

- | | | |
|-------|-------------------------|--|
| (i) | Name: | Foshan Hua Sheng Chang |
| | Date of establishment: | April 18, 1994 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company (solely owned by legal person from Taiwan, Hong Kong or Macau) |
| | Registered Capital: | US\$28.1 million |
| (ii) | Name: | Guangdong Yuhe |
| | Date of establishment: | January 10, 2011 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company (Corporate-owned enterprise with foreign investment) |
| | Registered Capital: | RMB20 million (fully paid-up) |
| (iii) | Name: | Guangdong Dongpeng Holdings |
| | Date of establishment: | November 4, 2011 |
| | Place of incorporation: | PRC |
| | Nature: | Company limited by shares |
| | Registered Capital: | RMB180 million (fully paid-up) |

- | | | |
|--------|-------------------------|---|
| (iv) | Name: | Dongpeng Sanitary Ware |
| | Date of establishment: | December 22, 1994 |
| | Place of incorporation: | PRC |
| | Nature: | Company limited by shares |
| | Registered Capital: | RMB58.3 million (fully paid-up) |
| (v) | Name: | Jiangxi Bathroom Products |
| | Date of establishment: | June 15, 2012 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company (Natural person investments or corporate holdings investment) |
| | Registered Capital: | RMB40 million (fully paid-up) |
| (vi) | Name: | Deqing Yuwei |
| | Date of establishment: | April 10, 2013 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company |
| | Registered Capital: | RMB1 million |
| (vii) | Name: | Fengcheng Dongpeng |
| | Date of establishment: | July 10, 2007 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company (Non-natural person investments or corporate holdings investment) |
| | Registered Capital: | RMB65 million (fully paid-up) |
| (viii) | Name: | Shanghai Dongpeng |
| | Date of establishment: | March 5, 2007 |
| | Place of incorporation: | PRC |
| | Nature: | One person limited liability company (solely owned by legal person) |
| | Registered Capital: | RMB500,000 (fully paid-up) |
| (ix) | Name: | Shenzhen Dongpeng |
| | Date of establishment: | July 21, 2008 |
| | Place of incorporation: | PRC |
| | Nature: | Limited liability company (solely owned by legal person) |
| | Registered Capital: | RMB500,000 (fully paid-up) |

- (x) Name: Lixian Xinpeng
Date of establishment: September 9, 2009
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB10 million (fully paid-up)
- (xi) Name: Shaanxi Dongpeng
Date of establishment: September 3, 2008
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB5 million (fully paid-up)
- (xii) Name: Shunde Dongpeng
Date of establishment: August 19, 2008
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB1 million (fully paid-up)
- (xiii) Name: Guangzhou Dongpeng
Date of establishment: June 20, 2008
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB3.0 million (fully paid-up)
- (xiv) Name: Qingyuan Nafuna
Date of establishment: August 12, 2010
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB22.2 million (fully paid-up)
- (xv) Name: Zibo Kapuer
Date of establishment: August 30, 2010
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB20 million (fully paid-up)
- (xvi) Name: Guangxi Yuepeng
Date of establishment: September 29, 2010
Place of incorporation: PRC
Nature: Limited liability company (Domestic corporate-owned)
Registered Capital: RMB2 million (fully paid-up)

- (xvii) Name: Yunnan Xuanpeng
Date of establishment: September 7, 2011
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB2 million (fully paid-up)
- (xviii) Name: Qingdao Ruipeng
Date of establishment: November 3, 2011
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB2 million (fully paid-up)
- (xix) Name: Foshan Dongpeng Ceramics
Date of establishment: December 14, 2011
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB15 million (fully paid-up)
- (xx) Name: Jiangxi Fengyu
Date of establishment: January 16, 2012
Place of incorporation: PRC
Nature: Limited liability company (Natural person investments or corporate holdings investment)
Registered Capital: RMB5 million (fully paid-up)
- (xxi) Name: Foshan Dongpeng Development
Date of establishment: February 20, 2012
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB13 million (fully paid-up)
- (xxii) Name: Hunan Dongpeng
Date of establishment: January 28, 2013
Place of incorporation: PRC
Nature: Limited liability company (solely owned by legal person)
Registered Capital: RMB2 million (fully paid-up)
- (xxiii) Name: Linzhi Yuhe
Date of establishment: March 11, 2013
Place of incorporation: PRC
Nature: Limited liability company
Registered Capital: RMB2 million (fully paid-up)

(xxiv)	Name:	Deqing Heying
	Date of establishment:	April 10, 2013
	Place of incorporation:	PRC
	Nature:	Limited liability company
	Registered Capital:	RMB2 million
(xxv)	Name:	Gaoming Furniture
	Date of establishment:	September 13, 2011
	Place of incorporation:	PRC
	Nature:	Limited liability company
	Registered Capital:	RMB500,000

7. Repurchases of Our Own Shares

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Stock Exchange to be included in this prospectus concerning the repurchase.

(a) *Shareholders' approval*

All our proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction. On November 5, 2013, our Directors were granted a general unconditional mandate ("**Repurchase Mandate**") to repurchase for cancellation up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Listing on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose. This mandate will expire at: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles or any applicable law; or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company, whichever occurs first.

Under the Listing Rules, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) *Share capital*

Exercising in full of the Repurchase Mandate, on the basis of 1,246,952,800 Shares in issue immediately after completion of the Global offering, excluding any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, could accordingly result in up to 124,695,280 Shares being repurchased by us during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "(a) Shareholders' approval" above in this appendix.

(c) ***Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) ***Funding of Repurchase***

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Memorandum of Association, the Articles of Association, the Cayman Companies Law, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

We will make repurchases pursuant to the Repurchase Mandate out of funds legally available for such purpose, including out of profits of our Company, out of the share premium account of our Company or out of the proceeds of a fresh issue of shares made for such purpose or, subject to solvency, out of capital of our Company. Any premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of either or both of the profits of our Company or the share premium account of our Company or, if authorized by the Articles of Association and subject to the Cayman Companies Law, out of capital.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) ***Status of repurchased shares***

The listing of all repurchased shares (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares (which are not held by the Company as treasury shares) shall be treated as cancelled and the amount of our Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorized share capital of our Company will not be reduced.

(f) ***Trading restrictions***

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering (excluding any Shares which may be issued upon the exercise of the Over-allotment Option or any option which have been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) will disclose to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require. As required by the prevailing requirements of the Listing Rules, an issuer shall not purchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(g) ***Suspension of repurchase***

Pursuant to the Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time when the price sensitive information has been made publicly available. In particular, under the requirements of the Listing Rules in force as of the date hereof, during the period of one month immediately preceding the earlier of: (i) the date of our board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of our shares on the Stock Exchange if our Company has breached the Listing Rules.

(h) ***Procedural and reporting requirements***

As required by the Listing Rules, repurchases of Shares on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(i) ***Directors' undertakings***

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands and our Articles of Association.

(j) ***Takeovers Code***

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code and the provisions may apply as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases pursuant to the Repurchase Mandate.

(k) ***Share repurchase made by our Company***

No repurchase of Shares has been made by our Company since its incorporation.

(l) ***Connected parties***

Our Company is prohibited from knowingly purchasing Shares on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his or her or its shares to our Company on the Stock Exchange.

As of the Latest Practicable Date, none of our Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their respective associates (as defined in the Listing Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the Repurchase Mandate is exercised. As of the Latest Practicable Date, no connected person of our Company has notified us that he, she or it has a present intention to sell any Shares to us or any of our subsidiaries, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) a share transfer agreement dated September 26, 2011 and entered into between Foshan Hua Sheng Chang and Nanhai Dongpeng, pursuant to which Nanhai Dongpeng agreed to transfer its 100% equity interest in Guangdong Yuhe to Foshan Hua Sheng Chang for a consideration of RMB20 million;

- (b) a share transfer agreement dated October 21, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its RMB12 million capital contribution in Foshan Dongpeng Development to Guangdong Dongpeng Holdings for a consideration of RMB12 million;
- (c) a share transfer agreement dated October 25, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Shanghai Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB500,000;
- (d) a share transfer agreement dated October 25, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Shaanxi Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB5 million;
- (e) a share transfer agreement dated October 25, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Shunde Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB1 million;
- (f) a share transfer agreement dated October 25, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Qingdao Ruipeng to Guangdong Dongpeng Holdings for a consideration of RMB2 million;
- (g) a share transfer agreement dated October 25, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Guangzhou Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB3.0 million;
- (h) a share transfer agreement dated November 1, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Yunnan Xuanpeng to Guangdong Dongpeng Holdings for a consideration of RMB2 million;
- (i) a share transfer agreement dated November 1, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest represented by RMB2 million capital contribution in Guangxi Yuepeng to Guangdong Dongpeng Holdings;
- (j) a share transfer agreement dated December 7, 2012 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Shenzhen Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB500,000;

- (k) an exclusive trademark license agreement dated January 1, 2013, and entered into between Guangdong Dongpeng Ceramics and Guangdong Dongpeng Holdings, pursuant to which Guangdong Dongpeng Ceramics agreed to grant Guangdong Dongpeng Holdings an exclusive license to use certain trademarks for nil consideration;
- (l) a share transfer agreement dated January 10, 2013 and entered into between HK Co and HK Flying, pursuant to which HK Flying agreed to transfer its 25% equity interest in Foshan Hua Sheng Chang to HK Co for a consideration of US\$3.1 million;
- (m) a share transfer agreement dated January 10, 2013 and entered into between HK Co and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 75% equity interest in Foshan Hua Sheng Chang to HK Co for a consideration of US\$9.3 million;
- (n) a share transfer agreement dated January 25, 2013 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Fengcheng Dongpeng to Guangdong Dongpeng Holdings for a consideration of RMB69 million;
- (o) a share transfer agreement dated January 25, 2013 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Lixian Xinpeng to Guangdong Dongpeng Holdings for a consideration of RMB12 million;
- (p) a share transfer agreement dated February 1, 2013 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Qingyuan Nafuna to Guangdong Dongpeng Holdings for a consideration of RMB27 million;
- (q) a share transfer agreement dated February 2, 2013 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 100% equity interest in Zibo Kapuer to Guangdong Dongpeng Holdings for a consideration of RMB23 million;
- (r) a supplemental share transfer agreement dated April 1, 2013 and entered into between Guangdong Dongpeng Holdings and Guangdong Dongpeng Ceramics, pursuant to which Guangdong Dongpeng Ceramics agreed to pay up in full by May 31, 2013 the consideration agreed in the share transfer agreement dated October 21, 2012;
- (s) a share transfer agreement dated April 30, 2013 and entered into between Qingyuan Haiwei and Guangdong Dongpeng Holdings, pursuant to which Qingyuan Haiwei agreed to transfer its 59.92% equity interest in Dongpeng Sanitary Ware to Guangdong Dongpeng Holdings for a consideration of RMB52,729,600;


- (t) a share transfer agreement dated April 30, 2013 and entered into between HK Ceramics and Guangdong Dongpeng Holdings, pursuant to which HK Ceramics agreed to transfer its 30% equity interest in Dongpeng Sanitary Ware to Guangdong Dongpeng Holdings for a consideration of RMB26.4 million;
- (u) a share transfer agreement dated April 30, 2013 and entered into between Guangdong Dongpeng Ceramics and Guangdong Yuhe, pursuant to which Guangdong Dongpeng Ceramics agreed to transfer its 10.08% equity interest in Dongpeng Sanitary Ware to Guangdong Yuhe for a consideration of RMB8,870,400;
- (v) a share transfer agreement dated November 6, 2013 and entered into between Qingyuan Dongpeng and Guangdong Dongpeng Holdings, pursuant to which Qingyuan Dongpeng agreed to transfer its 2.37% equity interest in Qingyuan Nafuna to Guangdong Dongpeng Holdings for a consideration of RMB134.88 million; and
- (w) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

- (i) As of the Latest Practicable Date, we have registered the following trademarks in the PRC:












No.	Trademark	Class	Registered Owner	Registration Number	Expiry Date
1.		1	Guangdong Dongpeng Holdings	8010880	May 27, 2021
2.		2	Guangdong Dongpeng Holdings	8010909	March 27, 2012
3.		4	Guangdong Dongpeng Holdings	8010932	February 6, 2021
4.		6	Guangdong Dongpeng Holdings	4246718	November 27, 2019
5.		6	Guangdong Dongpeng Holdings	8010964	January 27, 2022
6.		6	Guangdong Dongpeng Holdings	4246695	January 27, 2017
7.		6	Guangdong Dongpeng Holdings	4246682	November 27, 2019

No.	Trademark	Class	Registered Owner	Registration Number	Expiry Date
8.		7	Guangdong Dongpeng Holdings	4247607	January 27, 2017
9.		7	Guangdong Dongpeng Holdings	4247608	January 27, 2017
10.		7	Guangdong Dongpeng Holdings	4246717	January 27, 2017
11.		7	Guangdong Dongpeng Holdings	4246681	January 27, 2017
12.		7	Guangdong Dongpeng Holdings	4246691	January 27, 2017
13.		7	Guangdong Dongpeng Holdings	4246708	January 27, 2017
14.		7	Guangdong Dongpeng Holdings	4246676	January 27, 2017
15.		7	Guangdong Dongpeng Holdings	1797807	June 27, 2022
16.		9	Guangdong Dongpeng Holdings	8011007	September 20, 2022
17.		16	Guangdong Dongpeng Holdings	8011049	May 13, 2021
18.		17	Guangdong Dongpeng Holdings	8011073	May 20, 2021
19.		20	Guangdong Dongpeng Holdings	8011105	July 6, 2021
20.		21	Guangdong Dongpeng Holdings	8011118	July 6, 2021
21.		21	Guangdong Dongpeng Holdings	9073725	January 27, 2022

No.	Trademark	Class	Registered Owner	Registration Number	Expiry Date
22.		21	Guangdong Dongpeng Holdings	4246693	September 27, 2017
23.		21	Guangdong Dongpeng Holdings	4246684	October 13, 2017
24.		21	Guangdong Dongpeng Holdings	4247611	September 13, 2017
25.		21	Guangdong Dongpeng Holdings	4247614	September 13, 2017
26.		21	Guangdong Dongpeng Holdings	4247617	August 27, 2017
27.		21	Guangdong Dongpeng Holdings	9073697	January 27, 2022
28.		22	Guangdong Dongpeng Holdings	9077931	February 13, 2022
29.		24	Guangdong Dongpeng Holdings	8014655	February 6, 2021
30.		24	Guangdong Dongpeng Holdings	4247616	June 20, 2018
31.		35	Guangdong Dongpeng Holdings	8014705	June 13, 2021
32.		35	Guangdong Dongpeng Holdings	4247613	April 20, 2018
33.		35	Guangdong Dongpeng Holdings	4247609	April 20, 2018
34.		35	Guangdong Dongpeng Holdings	4246692	April 27, 2018
35.		36	Guangdong Dongpeng Holdings	8014729	March 27, 2012
36.		37	Guangdong Dongpeng Holdings	7847300	March 13, 2021
37.		39	Guangdong Dongpeng Holdings	8014773	October 20, 2021

No.	Trademark	Class	Registered Owner	Registration Number	Expiry Date
38.		40	Guangdong Dongpeng Holdings	4246703	February 20, 2018
39.		40	Guangdong Dongpeng Holdings	4246711	February 20, 2018
40.		43	Guangdong Dongpeng Holdings	8014837	June 6, 2021
41.		19	Guangdong Dongpeng Holdings	1212844	October 6, 2018
42.		19	Guangdong Dongpeng Holdings	4246716	April 6, 2019
43.	东鹏	19	Guangdong Dongpeng Holdings	4246685	December 20, 2017
44.	东鹏	19	Guangdong Dongpeng Holdings	1927652	August 27, 2022
45.	DONG PENG	19	Guangdong Dongpeng Holdings	1927656	August 27, 2022
46.	DONGPENG	19	Guangdong Dongpeng Holdings	1927659	August 27, 2022
47.	<i>Dongpeng</i>	19	Guangdong Dongpeng Holdings	1927661	August 27, 2022
48.		19	Guangdong Dongpeng Holdings	4246694	December 27, 2017
49.		40	Guangdong Dongpeng Holdings	8014792	March 27, 2012
50.	东鹏	25	Guangdong Dongpeng Holdings	4246683	October 6, 2018
51.		37	Guangdong Dongpeng Holdings	8014747	August 6, 2022

(ii) As of the Latest Practicable Date, we have exclusively licensed from Guangdong Dongpeng Ceramics the following trademarks which are material to our business:

No.	Trademark	Class(es)	Registered Owner	Place of Registration	Registration Number	Registration Date
1.		11, 19	Guangdong Dongpeng Ceramics	Brazil	827651805, 827651791	July 25, 2005
2.		11, 19	Guangdong Dongpeng Ceramics	Cambodia	23870/06, 23871/06	May 22, 2006
3.		11, 19	Guangdong Dongpeng Ceramics	Hong Kong	300282807	September 8, 2004
4.		11, 19	Guangdong Dongpeng Ceramics	India	1309613, 1309612	September 17, 2004
5.		11, 19	Guangdong Dongpeng Ceramics	Israel	179491, 179492	December 10, 2006
6.		11, 19	Guangdong Dongpeng Ceramics	Korea	842695	November 10, 2004
7.		19	Guangdong Dongpeng Ceramics	Kuwait	59093	March 29, 2005
8.		11, 19	Guangdong Dongpeng Ceramics	Singapore	T05/02993A, T05/029942	March 7, 2005
9.		11	Guangdong Dongpeng Ceramics	Taiwan	01246804	September 16, 2005
10.		11, 19	Guangdong Dongpeng Ceramics	U.S.	3133232	August 22, 2006
11.		11, 19	Guangdong Dongpeng Ceramics	WIPO ^{Note}	842695	November 10, 2004

Note: The trademark has been registered with the International Bureau of World Intellectual Property Organization under the Madrid system for the international registration of marks established in 1891 which functions under the Madrid Agreement (1891) and the Madrid Protocol (1989).

(b) *Domain Names*

As of the Latest Practicable Date, we have registered the following domain names:

No.	Domain Name	Registered Owner	Date of Registration	Expiry Date
1.	東鵬潔具.com	Dongpeng Sanitary Ware	May 10, 2008	May 10, 2014
2.	東鵬潔具.cn	Dongpeng Sanitary Ware	May 10, 2008	May 10, 2014
3.	東鵬潔具.中國	Dongpeng Sanitary Ware	May 10, 2008	May 10, 2014
4.	dongpengjieju.com	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
5.	dongpengjieju.net	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
6.	dongpengsanitary.com	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
7.	dongpengsanitary.net	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
8.	dongpeng-sanitary.com	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
9.	dongpeng-sanitary.com	Dongpeng Sanitary Ware	September 20, 2005	September 20, 2016
10.	dongpeng.com	Guangdong Dongpeng Holdings	May 12, 2003	May 12, 2016
11.	dongpeng.net	Guangdong Dongpeng Holdings	June 25, 2001	June 25, 2017

(c) *Utility Patents*

As of the Latest Practicable Date, we have registered the following utility patents in the PRC, which are material to our business:

No.	Title of Utility	Registration Number	Application Date
1.	A type of desulphurization and dust removal device for tail gas	201220215913.1	May 7, 2012
2.	A type of insulation synthetic stone	201220009772.8	January 11, 2012
3.	A type of polishing waste recovery device	201120409958.8	October 25, 2011
4.	Recycling device for the excess materials after the materials deposit of micro-powder ceramic tiles	201120412043.2	October 26, 2011
5.	A type of polished crystal tiles	201120373819.4	September 30, 2011
6.	One-piece toilet with advanced flushing performance	200720056607.7	August 30, 2007

APPENDIX IV**STATUTORY AND GENERAL INFORMATION**

No.	Title of Utility	Registration Number	Application Date
7.	Toilet with rapid discharge function	201020690632.2	December 30, 2010
8.	Super thin honeycomb sandwich ceramics composite plate	200620058946.4	May 16, 2006
9.	Sample of unglazed tiles abrasion tester as a fixed apparatus	200720060697.7	December 3, 2007
10.	Sand feeding device of unglazed tiles abrasion tester	200720060698.1	December 3, 2007
11.	A type of porcelain tile with three-dimensional holes	200720150506.6	May 14, 2007
12.	A type of wallpaper-imitated tile and the mold core of its manufacturing mold	200820043867.5	February 3, 2008
13.	A type of ceramic roller sizing machine	200820047239.4	April 30, 2008

(d) *Invention Patents*

As of the Latest Practicable Date, we have registered the following invention patents in the PRC which are material to our business:

No.	Title of Invention	Registration Number	Application Date
1.	Glass ceramics composite sheet and its production method	00130117.9	October 16, 2000
2.	Recycling method and apparatus of a type of polished crystal tile frit	201210232561.5	July 5, 2012
3.	A type of materials deposit method and equipment for polished tiles	201110198952.5	July 6, 2011
4.	A type of recycling method and its apparatus for polished crystal tiles	201210232561.5	July 5, 2012
5.	A type of materials deposit equipment and technique for ceramics	201110108516.4	April 28, 2011
6.	A type of production method to fire polished crystal tile right first time	201110292509.4	September 30, 2011
7.	A type of materials deposit method and its apparatus for ceramic tiles with natural stone texture	200610036608.5	July 20, 2006
8.	A type of three-dimensional colorful glass ceramics porcelain tile and its production method	200610036615.5	July 20, 2006
9.	A type of ceramic tile with three-dimensional holes and its production method	200710006801.9	January 26, 2007

(e) *Design Patents*

As of the Latest Practicable Date, we have registered the following design patents in the PRC, which are material to our business:

No.	Title of Design	Registration Number	Application Date
1.	Ceramic tile (Youmu) Series (HF631202V01)	201230066120.3	March 20, 2012
2.	Ceramic tile (Youmu) Series (HF631207H01)	201230066310.5	March 20, 2012
3.	Ceramic tile (Youmu) Series (YF631206)	201230066325.1	March 20, 2012
4.	Ceramic tile (Youmu) Series (YF601207)	201230066554.3	March 20, 2012
5.	Ceramic tile (Crystal porcelain mosaic 1)	201230448428.4	September 19, 2012
6.	Ceramic tile (Crystal porcelain mosaic 2)	201230448594.4	September 19, 2012
7.	Ceramic tile (Crystal porcelain mosaic 3)	201230448878.3	September 19, 2012
8.	Ceramic tile (Crystal porcelain mosaic 5)	201230448802.0	September 19, 2012
9.	Ceramic tile (Crystal porcelain mosaic 4)	201230448883.4	September 19, 2012
10.	Bathroom cabinet (Oscar Series 21501)	201230373598.0	August 9, 2012
11.	Bathroom cabinet (Oscar Series 20801 side cabinet)	201230373623.5	August 9, 2012
12.	Bathroom cabinet (Oscar Series 11131)	201230373649.X	August 9, 2012

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the Chief Executive of Our Company*

Immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which have been granted under the Pre-IPO Share Option Scheme or may be granted the Share Option Scheme, the interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

(i) Long position in our Shares and Underlying Shares

Name of Director	Capacity/Nature of Interest	Number of Underlying Shares	Approximate percentage of interest
Mr. He ^{(1), (2)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Mr. Chen Kunlie ^{(1), (3)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Mr. Su Sen ^{(1), (4)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Mr. Bao Jianyong ⁽⁵⁾	Interest of a controlled corporation	45,025,268	3.61%

Notes:

- (1) On June 6, 2013, our ultimate Controlling Shareholders, including, Mr. He, Mr. Chen Kunlie and Mr. Su Sen, entered into an acting-in-concert confirmation and undertaking to, among other things, confirm their oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert on April 7, 2006. For more details, please refer to the section on “Relationship with our Controlling Shareholders — Our Controlling Shareholders Acting in Concert” of this prospectus. As such, our ultimate Controlling Shareholders together control the 68.56% interest in the share capital of our Company through Profit Strong, Superb Idea, Cosmo Ray and High Ride. As a result of the acting-in-concert arrangement, each of Mr. He, Mr. Chen Kunlie and Mr. Su Sen is deemed to be interested in such 68.56% interest in the share capital of the Company.

- (2) Shares owned by Mr. He consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. He, and (ii) 462,456,269 Shares in which Mr. He is deemed to be interested as a result of the acting-in-concert agreement.
- (3) Shares owned by Mr. Chen Kunlie consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. Chen Kunlie, and (ii) 694,211,407 Shares in which Mr. Chen Kunlie is deemed to be interested as a result of the acting-in-concert agreement.
- (4) Shares owned by Mr. Su Sen consist of (i) 83,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. Su Sen, and (ii) 771,899,766 Shares in which Mr. Su Sen is deemed to be interested as a result of the acting-in-concert agreement.
- (5) These 45,025,268 Shares are held by Rich Blossom. Mr. Bao Jianyong holds approximately 31.82% of the equity interest of Rich Blossom. Therefore, Mr. Bao Jianyong is deemed to be interested in the same number of Shares held by Rich Blossom under the SFO.

(ii) Long position in the shares of our associated corporation

Name of Director	Name of associated Company	Number of shares held	Approximately percentage of interest
Ms. Sun Limei	High Ride	1,271,787	5.51%
Mr. He ⁽¹⁾	Qingyuan Nafuna	N/A	9.65%
Mr. Chen Kunlie ⁽¹⁾	Qingyuan Nafuna	N/A	9.65%
Mr. Su Sen ⁽¹⁾	Qingyuan Nafuna	N/A	9.65%
Mr. Bao Jianyong ⁽¹⁾	Qingyuan Nafuna	N/A	9.65%
Mr. He ⁽²⁾	Foshan Dongpeng Development	N/A	7.69%
Mr. Chen Kunlie ⁽²⁾	Foshan Dongpeng Development	N/A	7.69%
Mr. Su Sen ⁽²⁾	Foshan Dongpeng Development	N/A	7.69%
Mr. Bao Jianyong ⁽²⁾	Foshan Dongpeng Development	N/A	7.69%

Notes:

- Mr. He, Mr. Chen Kunlie, Mr. Su Sen and Mr. Bao Jianyong own an aggregate of 77.81% equity interests in Foshan Yuanheng, which in turn owns 9.65% equity interest in Qingyuan Nafuna, a majority-owned subsidiary of our Company, and are therefore deemed to be indirectly interested in 9.65% equity interest in Qingyuan Nafuna.
- Mr. He, Mr. Chen Kunlie, Mr. Su Sen and Mr. Bao Jianyong own an aggregate of 77.81% equity interests in Foshan Yuanheng, which in turn owns 7.69% equity interest in Foshan Dongpeng Development, a majority-owned subsidiary of our Company, and are therefore deemed to be indirectly interested in 7.69% equity interest in Foshan Dongpeng Development.

(b) *Interests of the Substantial Shareholders*

So far as is known to any Director or the chief executive of our Company, immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which has been granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme, the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group and are therefore regarded as substantial shareholders of our Group under the Listing Rules:

Substantial Shareholder of Our Company

Name	Nature of interest	Shares held immediately following the completion of the Global Offering	
		Number	Percentage
Mr. He ^{(1), (2)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Profit Strong ⁽²⁾	Beneficial owner	854,974,732	68.56%
Ms. Zhong Qinhu ⁽³⁾	Interests of spouse	854,974,732	68.56%
Mr. Chen Kunlie ^{(1), (4)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Superb Idea ⁽⁴⁾	Beneficial owner	854,974,732	68.56%
Ms. Chen Haihong ⁽⁵⁾	Interests of spouse	854,974,732	68.56%
Mr. Su Sen ^{(1), (6)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Cosmo Ray ⁽⁶⁾	Beneficial owner	854,974,732	68.56%
Ms. Lin Shiyin ⁽⁷⁾	Interests of spouse	854,974,732	68.56%
Mr. He Xinzhong ^{(1), (8)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
High Ride ⁽⁹⁾	Beneficial owner	854,974,732	68.56%
Ms. Chen Shaokun ⁽¹⁰⁾	Interests of spouse	854,974,732	68.56%

Name	Nature of interest	Shares held immediately following the completion of the Global Offering	
		Number	Percentage
Mr. Chen Yezhi ^{(1), (11)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Zhuang Kefang ⁽¹²⁾	Interests of spouse	854,974,732	68.56%
Mr. Ou Haoquan ^{(1), (13)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Lin Jinzhi ⁽¹⁴⁾	Interests of spouse	854,974,732	68.56%
Mr. Luo Siwei ^{(1), (15)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Huang Xiaoyuan ⁽¹⁶⁾	Interests of spouse	854,974,732	68.56%
Mr. Zhong Baomin ^{(1), (17)}	Interests held jointly with another person; interest of a controlled corporation	854,974,732	68.56%
Ms. Xu Jufang ⁽¹⁸⁾	Interests of spouse	854,974,732	68.56%
Sequoia ⁽¹⁹⁾	Beneficial owner	97,552,800	7.82%

Notes:

- (1) On June 6, 2013, our ultimate Controlling Shareholders, namely, Mr. He, Mr. Chen Kunlie, Mr. Su Sen, Mr. He Xinzhong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin, entered into an acting-in-concert confirmation and undertaking to, among other things, confirm their oral agreement to manage the member companies comprising our Group as a group of persons acting-in-concert on April 7, 2006. For more details, please refer to the section on “Relationship with our Controlling Shareholders — Our Controlling Shareholders Acting in Concert” of this prospectus. As such, our ultimate Controlling Shareholders together control the 68.56% interest in the share capital of our Company through Profit Strong, Superb Idea, Cosmo Ray and High Ride. As a result of the acting-in-concert agreement, each of our ultimate Controlling Shareholders is deemed to be interested in such 68.56% interest in the share capital of the Company.
- (2) Shares in which Mr. He is interested consist of (i) 392,518,463 Shares held by Profit Strong, a company wholly owned by Mr. He, and (ii) 462,456,269 Shares in which Mr. He is deemed to be interested as a result of the acting-in-concert agreement.
- (3) Ms. Zhong Qinhu is the spouse of Mr. He. Under the SFO, Ms. Zhong Qinhu is deemed to be interested in the same number of Shares in which Mr. He is interested.
- (4) Shares in which Mr. Chen Kunlie is interested consist of (i) 160,763,325 Shares held by Superb Idea, a company wholly owned by Mr. Chen Kunlie, and (ii) 694,211,407 Shares in which Mr. Chen Kunlie is deemed to be interested as a result of the acting-in-concert agreement.
- (5) Ms. Chen Haihong is the spouse of Mr. Chen Kunlie. Under the SFO, Ms. Chen Haihong is deemed to be interested in the same number of Shares in which Mr. Chen Kunlie is interested.

- (6) Shares in which Mr. Su Sen are interested consist of (i) 83,074,966 Shares held by Cosmo Ray, a company wholly owned by Mr. Su Sen, and (ii) 771,899,766 Shares in which Mr. Su Sen is deemed to be interested as a result of the acting-in-concert agreement.
- (7) Ms. Lin Shiyi is the spouse of Mr. Su Sen. Under the SFO, Ms. Lin Shiyin is deemed to be interested in the same number of Shares in which Mr. Su Sen is interested.
- (8) Shares in which Mr. He Xinzong are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. He Xinzong is deemed to be interested as a result of the acting-in-concert agreement.
- (9) High Ride is collectively controlled by Mr. He Xinzong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin. High Ride is owned by Mr. He Xinzong, Mr. Chen Yezhi, Mr. Ou Haoquan, Mr. Luo Siwei and Mr. Zhong Baomin as to 19.98%, 19.53%, 17.64%, 13.19% and 8.05%, respectively.
- (10) Ms. Chen Shaokun is the spouse of Mr. He Xinzong. Under the SFO, Ms. Chen Shaokun is deemed to be interested in the same number of Shares in which Mr. He Xinzong is interested.
- (11) Shares in which Mr. Chen Yezhi are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Chen Yezhi is deemed to be interested as a result of the acting-in-concert agreement.
- (12) Ms. Zhuang Kefang is the spouse of Mr. Chen Yezhi. Under the SFO, Ms. Zhuang Kefang is deemed to be interested in the same number of Shares in which Mr. Chen Yezhi is interested.
- (13) Shares in which Mr. Ou Haoquan are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Ou Haoquan is deemed to be interested as a result of the acting-in-concert agreement.
- (14) Ms. Lin Jinzhi is the spouse of Mr. Ou Haoquan. Under the SFO, Ms. Lin Jinzhi is deemed to be interested in the same number of Shares in which Mr. Ou Haoquan is interested.
- (15) Shares in which Mr. Luo Siwei are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Luo Siwei is deemed to be interested as a result of the acting-in-concert agreement.
- (16) Ms. Huang Xiaoyuan is the spouse of Mr. Luo Siwei. Under the SFO, Ms. Huang Xiaoyuan is deemed to be interested in the same number of Shares in which Mr. Luo Siwei is interested.
- (17) Shares in which Mr. Zhong Baomin are interested consist of (i) 218,617,978 Shares held by High Ride, and (ii) 636,356,754 Shares in which Mr. Zhong Baomin is deemed to be interested as a result of the acting-in-concert agreement.
- (18) Ms. Xu Jufang is the spouse of Mr. Zhong Baomin. Under the SFO, Ms. Xu Jufang is deemed to be interested in the same number of Shares in which Mr. Zhong Baomin is interested.
- (19) Sequoia refers to Sequoia Fund, Sequoia Partners and Sequoia Principals, which will hold approximately 6.83%, 0.16% and 0.83%, respectively, of the outstanding shares immediately following the completion of the Global Offering.

Substantial Shareholder of Other Member of Our Group

Name	Name of other member of our group	Percentage of interest
Mr. Jiang Yuehua	Gaoming Furniture	20%
Mr. Tang Bo.....	Gaoming Furniture	10%

Save as disclosed above, the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group (other than our Company) or any options in respect of such capital.

2. Directors' Service Contracts

Executive Directors

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive Directors or our Company.

Under their service contract, each executive Director is entitled to a fixed basic salary, and any bonus and other non-cash benefits are only payable at the discretion of our Company. In certain other circumstances, the agreement can also be terminated by our Company, including but not limited to certain breaches of the Directors' obligations under the agreement or certain misconducts. The appointments of the executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles. The executive Directors are officially stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the board of Directors from time to time.

Non-Executive Directors and Independent Non-Executive Directors

Each of our independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from their respective date of appointment.

Under their respective appointment letters, each of our independent non-executive Director is entitled to a fixed director's fee. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, none of our Directors has or is proposed to entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Directors' Remuneration

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for 2010, 2011, 2012 and the first half of 2013 was approximately RMB680,000, RMB760,000, RMB2.0 million and RMB973,000, respectively.

No remuneration was paid by our Company to the Directors (a) as an inducement to join or upon joining any member of our Group or (b) as a compensation for loss of officer as director of any member of our Group or any other office in connection with the management affairs of any member of our Group in respect of each of the three years ended December 31, 2010, 2011, 2012 and the first half of 2013. Further, none of our Directors waived any remuneration during the same period.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2013 is estimated to be approximately RMB2.0 million.

Further information regarding our Directors' remuneration during the Track Record Period can be found in the section headed "Appendix I — Accountant's Report" in this prospectus.

4. Directors' Competing Interests

None of our Directors is interested in any business, apart from the Group's business, which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in sections headed "Corporate Information", "Underwriting" and "Structure of the Global Offering" in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of the Directors nor any of the persons listed in the section headed "— Other Information — 6. Qualification of Experts" below is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (d) none of the Directors nor any of the persons listed in the section headed "— Other Information — 6. Qualification of Experts" below are materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;

- (e) save as set out in the section headed “Underwriting” and “Structure of the Global Offering”, none of the persons listed in the section headed “— Other Information — Qualification of Experts” below (i) has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares in any member of the Group; or (ii) is legally or beneficially interested in any securities of any member of our Group;
- (f) none of our Directors have entered or have proposed to enter into any service contracts with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) none of our Directors or their respective associates (as defined under the Listing Rules), or the existing Shareholders (who, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

D. PRE-IPO SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the Pre-IPO Share Option Scheme pursuant to the resolutions of the Shareholders passed on October 31, 2013.

Summary of Terms

The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate employees and Directors, and to provide a means of compensating them through the grant of options for their contribution to the growth and profits of our Group, and to allow such employees and Directors to participate in the growth and profitability of our Group. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share of the options granted under the Pre-IPO Share Option Scheme shall be HK\$0.01;
- (b) save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (c) each option granted under the Pre-IPO Share Option Scheme is exercisable subject to the vesting schedule which are summarized below.

The options under the Pre-IPO Share Option Scheme shall be vested on the following dates (each a “Vesting Date” and collectively, the “Vesting Dates”) and subject to the following conditions:

Vesting Dates	Percentage of an option vested	Conditions for vesting
1. The first month of the Listing Date or April 1, 2014, whichever is later	25%	<p>In relation to our executive Directors and our Chief Financial Officer:</p> <p>(a) Our Company records a Revenue of at least RMB3,270 million in 2013; and</p> <p>(b) Our Company records a Profit for the Year of at least RMB345 million in 2013.</p> <p>In relation to the senior management members of our ceramic tiles segment:</p> <p>(a) Our ceramic tiles segment records a Revenue of at least RMB2,960 million in 2013; and</p> <p>(b) Our ceramic tiles segment records a Profit for the Year of at least RMB324 million in 2013.</p> <p>In relation to the senior management members of our bathroom products segment:</p> <p>(a) Our bathroom products segment records a Revenue of at least RMB360 million in 2013; and</p> <p>(b) Our bathroom products segment records a Profit for the Year of at least RMB0.2 million in 2013.</p>

Vesting Dates	Percentage of an option vested	Conditions for vesting
2. The first anniversary of the Listing Date or April 1, 2015, whichever is later	25%	<p>In relation to our executive Directors and our Chief Financial Officer:</p> <p>(a) Our Company records (i) a 24% increase in its Revenue in 2014 as compared to 2013, or (ii) a Revenue of at least RMB4,050 million in 2014; and</p> <p>(b) Our Company records (i) a 36% increase in its Profit for the Year in 2014 as compared to 2013, or (ii) a Profit for the Year of at least RMB470 million in 2014.</p> <p>In relation to the senior management members of our ceramic tiles segment:</p> <p>(a) Our ceramic tiles segment records (i) a 17% increase in its Revenue in 2014 as compared to 2013, or (ii) a Revenue of at least RMB3,460 million in 2014; and</p> <p>(b) Our ceramic tiles segment records (i) a 34% increase in its Profit for the Year in 2014 as compared to 2013, or (ii) a Profit for the Year of at least RMB440 million in 2014.</p> <p>In relation to the senior management members of our bathroom products segment:</p> <p>(a) Our bathroom products segment records (i) a 86% increase its Revenue in 2014 as compared to 2013, or (ii) a Revenue of at least RMB670 million in 2014; and</p> <p>(b) Our bathroom products segment records (i) a 81% increase in its Profit in 2014 as compared to 2013, or (ii) a Profit for the Year of at least RMB38 million in 2014.</p>

Vesting Dates	Percentage of an option vested	Conditions for vesting
3. The second anniversary of the Listing Date or April 1, 2016, whichever is later	25%	<p>In relation to our executive Directors and our Chief Financial Officer:</p> <p>(a) Our Company records (i) a 19% increase in its Revenue in 2015 as compared to 2014 or (ii) a Revenue of at least RMB4,850 million in 2015; and</p> <p>(b) Our Company records (i) a 20% increase in its Profit for the Year in 2015 as compared to 2014, or (ii) a Profit for the Year of at least RMB570 million in 2015.</p> <p>In relation to the senior management members of our ceramic tiles segment:</p> <p>(a) Our ceramic tiles segment records (i) a 17% increase in its Revenue in 2015 as compared to 2014, or (ii) a Revenue of at least RMB4,060 million in 2015; and</p> <p>(b) Our ceramic tiles segment records (i) a 15% increase in its Profit for the Year in 2015 as compared to 2014, or (ii) a Profit for the Year of at least RMB500 million in 2015.</p> <p>In relation to the senior management members of our bathroom products segment:</p> <p>(a) Our bathroom products segment records (i) a 30% increase its Revenue in 2015 as compared to 2014, or (ii) a Revenue of at least RMB870 million in 2015; and</p> <p>(b) Our bathroom products segment records (i) a 92% increase in its Profit in 2015 as compared to 2014, or (ii) a Profit for the Year of at least RMB73 million in 2015.</p>

Vesting Dates	Percentage of an option vested	Conditions for vesting
4. The third anniversary of the Listing Date or April 1, 2017, whichever is later	25%	<p>In relation to our executive Directors and our Chief Financial Officer:</p> <p>(a) Our Company records (i) a 19% increase in its Revenue in 2016 as compared to 2015, or (ii) a Revenue of at least RMB5,790 million in 2016; and</p> <p>(b) Our Company records (i) a 20% increase in its Profit for the Year in 2016 as compared to 2015, or (ii) a Profit for the Year of at least RMB685 million in 2016.</p> <p>In relation to the senior management members of our ceramic tiles segment:</p> <p>(a) Our ceramic tiles segment records (i) a 17% increase in its Revenue in 2016 as compared to 2015, or (ii) a Revenue of at least RMB4,740 million in 2016; and</p> <p>(b) Our ceramic tiles segment records (i) a 18% increase in its Profit for the Year in 2016 as compared to 2015, or (ii) a Profit for the Year of at least RMB586 million in 2016.</p> <p>In relation to the senior management members of our bathroom products segment:</p> <p>(a) Our bathroom products segment records (i) a 29% increase its Revenue in 2016 as compared to 2015, or (ii) a Revenue of at least RMB1,120 million in 2016; and</p> <p>(b) Our bathroom products segment records (i) a 36% increase in its Profit in 2016 as compared to 2015, or (ii) a Profit for the Year of at least RMB100 million in 2016.</p>

For the purpose of determining whether the conditions mentioned above are fulfilled:

“Revenue”	shall mean the revenue recorded in the audited consolidated financial statements of the Company for the relevant year.
“Profit for the Year”	shall mean the profit for the year recorded in the audited consolidated financial statements of the Company for the relevant year provided that (i) any and all expenses or costs to our Company as a result, arising from or in connection with this scheme, or the grant, vesting or exercise of any option under this scheme, (ii) all the costs and expenses relating to the Listing, and (iii) the change in fair value of the redeemable convertible preferred shares issued by the Company to Sequoia shall be excluded and disregarded for the purpose of calculation of the profit for year.

Any resolution of the Board on whether the above-mentioned conditions for vesting is fulfilled for each respective Vesting Date, shall be conclusive. Any proportion of any option under the Pre-IPO Share Option Scheme which has already vested on any prior Vesting Date(s) shall continue to be vested and shall be exercisable by the relevant grantee of such option. In the event that our Company fails to fulfill any of the conditions for vesting any proportion of an option granted under the Pre-IPO Share Option Scheme, such proportion of the relevant option due to be vested on the relevant Vesting Date had the conditions been fulfilled, shall neither be vested nor be exercisable on such Vesting Date and shall lapse automatically on the relevant Vesting Date.

Outstanding Options Granted

As at the date of this prospectus, options to subscribe to an aggregate of 47,500,000 Shares representing approximately 3.67% of the enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming that all options granted under the Pre-IPO Share Option Scheme are exercised, but without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) have been conditionally granted by our Company under the Pre-IPO Share Option Scheme.

The options have been conditionally granted based on the performance of the grantees who have made important contributions or are important to the long-term growth and profitability of our Group. A total of 14 grantees, including three executive Directors, and five members of the senior management (excluding the Directors) of our Group (as set out in the section headed “Directors and Senior Management” of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

All the options under the Pre-IPO Share Option were granted to the respective grantees on October 31, 2013. A Pre-IPO Share Option will lapse (to the extent not already exercised) if the grantee ceases to be a participant of the Pre-IPO Share Option Scheme by reason of the termination of his or her employment on the grounds that he or she has been guilty of misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other grounds on which an employer would be entitled to terminate his or her employment. No options are held by connected persons of our Company other than those granted to the Directors and the directors of the subsidiaries of our Company, under the Pre-IPO Share Option Scheme. If a grantee is a connected person of our Company, such grantee shall not exercise any option granted under the Pre-IPO Share Option Scheme to the extent that our Company's public float will as a result of such exercise be less than the minimum requirements under the Listing Rules. Exercise in full of all options granted under the Pre-IPO Share Option Scheme would result in an increase in the total number of Shares in issue immediately upon completion of the Global Offering (assuming there will be no further issue of Shares whether pursuant to the Over-Allotment Option or the Pre-IPO Share Option Scheme) by approximately 3.81%.

Further, assuming that (i) our Company had been listed on the Stock Exchange since January 1, 2012 with 1,246,952,800 shares in issue; and (ii) all the options granted under the Pre-IPO Share Option Scheme in respect of 47,500,000 Shares were exercised in full on January 1, 2012, the earnings per Share on a pro forma diluted basis would be approximately HK\$0.16 (unaudited) for the year ended December 31, 2012.

Summary of grantees

A summary of the grantees who have been granted options under the Pre-IPO Share Option Scheme is set out below:

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme	Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme
<i>Directors of our Company</i>			
He Xinming	Room 903, 14 Houlong Second Street Chancheng district Foshan, Guangdong PRC	7,500,000	0.58%
Chen Kunlie	Room 402, 7 Meigui Avenue Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
Bao Jianyong	8 Jiangwan Third Road Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
<i>Senior Management of our Group</i> ^{Note}			
Cai Chuyang	Room 1001, 5 Liuyuan Road Chancheng district Foshan, Guangdong PRC	6,250,000	0.48%
Shao Yu	9 Suqian Road Industrial Park district Suzhou, Jiangsu PRC	5,250,000	0.41%

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme	Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme
Liang Huicai	Room 1105, 35 Lvjing First Road Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
Lin Hong	Room 1607, Building 1 26 Jihua Fifth Road Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
Shi Yufeng	Room 703, Building 4 18 Shenning Road Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
Jin Guoting	Room 201, 12 Zhongxin Road Chancheng district Foshan, Guangdong PRC	3,000,000	0.23%
<i>Other Employees of our Group</i> ^{Note}			
Wan Zhengyu	Floor 2, Building 7, Jiannan Garden Jinxia Street Longhu district Shantou, Guangdong PRC	3,000,000	0.23%

Grantee	Address	Number of Shares to be issued upon full exercise of the option under the Pre-IPO Share Option Scheme	Percentage of enlarged issued share capital of our Company immediately upon completion of the Global Offering (assuming no exercise of the Over-allotment Option) and full exercise of the options granted under the Pre-IPO Share Option Scheme
Yang Lixin	Room 604, Mudan Pavilion Qinghua Garden, Nanxin First Road Guicheng Street, Nanhai district Foshan, Guangdong PRC	3,000,000	0.23%
Chen Junfeng	Room 704, Gate Three, District Two 131 Fen Jiang Nan Road Chancheng district Foshan, Guangdong PRC	1,500,000	0.12%
Lin Chifeng	Room 707, 23 Meigui Avenue Yingyin Road Chancheng district Foshan, Guangdong PRC	1,500,000	0.12%
Feng Chu	Room 918, Gate Two 5 Xinming Second Road Chancheng district Foshan, Guangdong PRC	1,500,000	0.12%
Total		<u>47,500,000</u>	<u>3.67%</u>

Note: Among such persons, Cai Chuyang, Wan Zhengyu and Feng Chu are also directors of our subsidiaries.

Save and except as set out above, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Scheme. The Directors who have been granted options under the Pre-IPO Share Option Scheme, have undertaken to our Company that they will not exercise the options granted to them under the Pre-IPO Share Option Scheme if as a result of which our Company would not be able to comply with the public float requirements of the Listing Rules.

E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved by the resolutions of our Shareholders passed on November 5, 2013:

1. Purpose of the Share Option Scheme

The purpose of this Share Option Scheme is to attract, retain and motivate employees, Directors and such other Participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Share Option Scheme (“**Options**”) for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

2. Conditions

The Share Option Scheme shall take effect conditional upon (i) the listing committee of the Stock Exchange granting approval of the Share Option Scheme, the granting of the Options, and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the Options; and (ii) the commencement of dealing in the Shares on the Stock Exchange. If the above conditions are not satisfied on or before December 31, 2014 (or such later date as the Board may decide): (i) the Share Option Scheme shall forthwith terminate; (ii) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any such Option.

3. Eligible Participants

Our Board may, at its discretion, invite any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group (“**Participants**”) to take up the Options. The basis of eligibility of any of the class of the Participants to the grant of any Option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any Invested Entity.

4. Offer and Grant of Options and payment in relation thereto

No offer of the grant of an Option shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and (ii) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option may be granted.

An offer of the grant of an Option ("**Offer**") shall be deemed to have been accepted and the Option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant ("**Grantee**") with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company. Such remittance shall in no circumstances be refundable.

5. Subscription Price

The subscription price ("**Subscription Price**") shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a Business Day ("**Offer Date**"), (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the date of grant, and (c) the nominal value of a Share.

6. Maximum number of Shares and entitlement of an eligible Participant

- (a) The overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 30% of the Shares in issue from time to time ("**Scheme Limit**").
- (b) The Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares in issue on the Listing Date ("**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.

- (c) The Company may seek approval of the Shareholders in general meeting for refreshing the Scheme Mandate Limit. However, the Scheme Mandate Limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of the Shareholders. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including Options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme of the Company) will not be counted for the purpose of calculating the limit as “refreshed”. A circular containing the information required under the Listing Rules, including the information required under Rule 17.02(2)(d) of the Listing Rule and the disclaimer required under Rule 17.02(4) of the Listing Rules, shall be sent to the Shareholders in connection with the meeting at which their approval will be sought.
- (d) The Company may seek separate approval by the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit (as refreshed) provided the Grantee(s) of such Option(s) must be specifically identified by the Company before such approval is sought. A circular containing a generic description of the specified Grantees who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting such Options to the Grantees with an explanation as to how the terms of Options serve such purpose and other information required the Listing shall be sent to the Shareholders.
- (e) The total number of Shares issued and to be issued upon exercise of the Options granted to each eligible Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue (the “**Individual Limit**”). Any further grant of Options to an eligible Participant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limited shall be subject to the Shareholders’ approval in general meeting with such eligible Participant and his associates (such term shall have the meaning ascribed to the definition of “associate” under the Listing Rules) abstaining from voting. A circular shall be sent to the Shareholders and the circular must disclose the identity of the eligible Participant, the number and terms of the Options to be granted and Options previously granted to such eligible Participant and the information required under the Listing Rules. The number and terms (including the Subscription Price) of the Options to be granted to such eligible Participant must be fixed before the Shareholders’ approval is sought and the date of the meeting of the Board for proposing such further grant of Option should be taken as the date of grant for the purpose of calculating the Subscription Price.

7. Grant of Options to Connected Persons

- (a) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or their respective associates must be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who is the Grantee).
- (b) Where our Board proposes to grant any Option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the “**Relevant Date**”):
 - (i) representing in aggregate more than 0.1% of the total number of Shares in issue on the Relevant Date; and
 - (ii) having an aggregate value, based on the closing price of our Shares as stated in the Hong Kong Stock Exchange’s daily quotation sheet on the Relevant Date, in excess of HK\$5,000,000, such proposed grant of Options must be approved by our Shareholders in general meeting. In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Participant concerned and all other connected persons of our Company must abstain from voting in favour of the resolution at such general meeting. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

8. Exercise of Options

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme (“**Option Period**”).

9. Vesting

Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules to which this Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Furthermore, the Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option under this Scheme may or may not, at the discretion of the Board, be subject to any retention period.

10. Performance Target and Minimum Period before Exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised.

11. Options are personal to the Grantee

An Option shall be personal to the Grantee and shall not be assignable or transferable. No Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests (whether legal or beneficial) in favour of any third party over or in relation to any Option, except for the transmission of an Option on the death of the Grantee to his personal representative(s) according to the terms of the Share Option Scheme.

12. Rights on death, or termination of employment, our Directorship, office or appointment

- (a) in the event of the Grantee ceasing to be an employee (whether full time or part time) of the Company or its subsidiaries, including any executive Director (“**Eligible Employee**”), by reason of non-renewal of his or her employment contract upon termination, or retirement, or internal reorganization, or if the Grantee is a Director, the cessation as a Director upon rotation, the Grantee shall be entitled within a period of three (3) months from the date of cessation of employment which shall be the last actual working day with the Company or the relevant subsidiary to exercise any Option in whole or in part (to the extent which has become exercisable but not yet exercised prior to such date of cessation). In the event of the Grantee ceasing to be an Eligible Employee for any reason other than those stated above or his or her death or the termination of his or her employment on one or more of the grounds specified in the Share Option Scheme, the Grantee may exercise the Option in accordance with the provisions of the Share Option Scheme up to his or her entitlement at the date of cessation in whole or in part (to the extent which has become exercisable and not already exercised) which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, or such longer period following the date of cessation as the Board may determine; and
- (b) in the event that the Grantee ceases to be a Participant (as the case may be) by reason of death (provided that none of the events which would be a ground for termination of his or her employment arises prior to his or her death), the legal personal representative(s) of this Grantee shall be entitled within a period of twelve (12) months from the date of death (or such longer period as the Board may determine) to exercise the Option in whole or in part (to the extent which has become exercisable and not already exercised prior to such date of death).

13. Voluntary winding-up of our Company

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its Options (to the extent which has become exercisable and not already exercised) at any time not later than three (3) Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up the Company to participate in the distribution of assets of the Company available in liquidation.

14. Rights on take-over

In the event of a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the offeror), our Company shall use all reasonable endeavours to procure that such offer is extended to all the Grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by exercise in full of the Options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a Grantee shall be entitled to exercise his Option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in exercise of his Option at any time before the close of such offer (or any revised offer).

15. Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any Grantee (or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its Option (to the extent which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. The Company may thereafter require such Grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its Option so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

16. Effects of alterations to capital structure

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights Issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganisation of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made in (a) the number or nominal amount of Shares subject to the Option so far as unexercised, and/or (b) the Subscription Price, and/or the method of exercise of the Option, as the auditors or the financial advisor of the Company retained for such purpose shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of the Group as consideration in a transaction.

17. Lapse of Options

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the date or the expiry of the periods for exercising the Option;
- (c) the date on which the offer (or as the case may be, revised offer closes);
- (d) the date of the commencement of the winding-up of the Company;
- (e) the date when the proposed compromise or arrangement becomes effective;
- (f) the date on which the Grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to the Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the Grantee's service contract with the Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that employment of a Grantee has or has not been terminated shall be conclusive and binding on the Grantee;

- (g) the date on which the Grantee commits a breach or the Options are cancelled in accordance with the Share Option Scheme; or
- (h) if the Board at their absolute discretion determines that the Grantee (other than an Eligible Employee) has committed any breach of any contract entered into between the Grantee on the one part and any member of the Group on the other part or that the Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, the Board shall determine that the outstanding Options granted to the Grantee (whether exercisable or not) shall lapse. In such event, his or her or its Options will lapse automatically and will not in any event be exercisable on or after the date on which the Board has so determined.

18. Ranking of Share allotted upon exercise of Options

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

19. Duration of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of our Shareholders.

20. Cancellation of Options granted

Our Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the date on which the Option is cancelled by our Board as provided above.

21. Termination of the Share Option Scheme

The Company may terminate the operation of the Share Option Scheme at any time by resolution of the Board or resolution of the Shareholders in general meeting and such event no further Option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

22. Alteration of the provisions of the Share Option Scheme

Subject to the provisions of the Share Option Scheme, the Board may amend any of the provisions of the Share Option Scheme (including with limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Grantee at that date).

F. OTHER INFORMATION**1. Estate duty, tax and other indemnity**

The Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 11 of the Laws of Hong Kong) or the equivalent or similar thereof under the laws of any jurisdictions outside Hong Kong) to an member of our Group on or before the Listing; and
- (b) tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains, earned, accrued or received on or before the Listing.

The Controlling Shareholders are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of the Company and its subsidiaries as set out in the Accountant's Report set out in Appendix I to this prospectus or in the audited accounts of the relevant members of the Group for the three financial years ended December 31, 2012 and the six months ended June 30, 2013;
- (b) to the extent for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date; and
- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in the Cayman Islands or the PRC coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings and Compliance” in this prospectus, no member of the Group was engaged in any litigation, arbitration or administrative proceedings which had a material adverse effect on our financial conditions or results of operations, and no litigation, arbitration or administrative proceedings was known to the Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our financial condition or results of operations.

3. Sole Sponsor

The Sole Sponsor made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Option Scheme or may be granted under the Share Option Scheme). The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

4. Shares will be eligible for CCASS

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares.

All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No material adverse change

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2013 (being the date on which our latest audited consolidated financial statements was made up) up to the date of this prospectus.

6. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Goldman Sachs (Asia) L.L.C.	Licensed to conduct type 1 (dealing in Securities), type 4 (advising on securities), type 5 (advising on Futures Contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) of the regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Appleby	Legal advisors to the Company on the Cayman Islands laws
Jun He Law Offices	PRC legal advisors in relation to PRC law
Frost & Sullivan	Independent Industry Consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Property Valuer

7. Consents of experts

Each of the experts whose names are set out in the paragraph headed “— 6. Qualification of Experts” in this Appendix has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/ or valuation certificates and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

As at the Latest Practicable Date and save as disclosed in sections headed “Underwriting” and “Structure of the Global Offering” in this prospectus, none of the experts named in the paragraph headed “— 6. Qualification of Experts” in this Appendix has any shareholding interests in any of our Company or any of our subsidiaries or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

8. Agency fees or commissions received

Save as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

9. Promoter

Our Company has no promoter for the purpose of the Listing Rules. No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, securities or benefit intended to be paid, allotted or given in connection with the Global Offering or the related transactions described in this prospectus.

10. Preliminary expenses

The preliminary expenses incurred by our Company in relation to our corporation were approximately HK\$23,000 and have been paid by our Company.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

12. Taxation of holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of or of the fair value of, the Shares being sold or transferred, whichever is higher. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) Cayman Islands

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of our Shares, save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of the Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising rights attached to them. It is emphasized that none of our Company, our Directors or the other parties, involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attached to them.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, Chapter 32L of the Laws of Hong Kong.

14. Miscellaneous

- (a) Save as disclosed in “— Share Option Scheme” in this Appendix IV and sections headed “Underwriting” and “Structure of the Global Offering” in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Company or any of our subsidiaries;
 - (iv) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (v) no founder shares, management shares or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
 - (vi) there is no arrangement under which future dividends are waived or agreed to be waived;
 - (vii) there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this Prospectus;
 - (viii) our Company has no outstanding convertible debt securities or debentures; and
 - (ix) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) copies of **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) copies of material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Wilson Sonsini Goodrich & Rosati (in association with Chen & Associates), Unit 1001, 10/F, Henley Building, 5 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountant’s report and the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II to this prospectus;
- (c) the legal opinions issued by Jun He Law Offices, our PRC legal advisors in respect of certain aspects of the Group and the property interests of the Group in the PRC;
- (d) the letter of advice prepared by Appleby, our Cayman Islands legal advisor, summarizing certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (e) the material contracts referred to in the section headed “Statutory and General Information — Further Information About Our Business — Summary of Material Contracts” in Appendix IV to this prospectus;
- (f) the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of experts” in Appendix IV to this prospectus;

- (g) the service contracts and letters of appointment referred to in the section headed “Statutory and General Information — Further Information About Our Directors and Substantial Shareholders — Directors’ Service Contracts” in Appendix IV to this prospectus;
- (h) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme and the details on the grantees holding options under the Pre-IPO Share Option Scheme;
- (i) the Cayman Companies Law; and
- (j) the F&S Report.



DONGPENG HOLDINGS COMPANY LIMITED
東鵬控股股份有限公司

