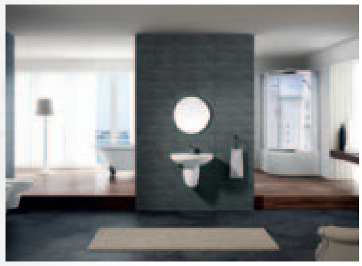
Bolina

BOLINA HOLDING CO., LTD.
航標控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1190

Annual Report 2012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Corporate Information

Board of Directors

Executive Directors

Mr. Xiao Zhiyong *(Chairman and CEO)*
Ms. Ye Xiaohong
Mr. Yang Qingyun
Mr. Lu Jianqing

Independent Non-executive Directors

Mr. Tong Jifeng
Mr. Lin Shimao
Mr. Leung Ka Man

Audit Committee

Mr. Lin Shimao *(Chairman)*
Mr. Leung Ka Man
Mr. Tong Jifeng

Remuneration Committee

Mr. Yang Qingyun *(Chairman)*
Mr. Tong Jifeng
Mr. Lin Shimao

Nomination Committee

Mr. Xiao Zhiyong *(Chairman)*
Mr. Tong Jifeng
Mr. Lin Shimao

Chief Financial Officer and Company Secretary

Mr. Yuen Chi Wai, Stanley *FCPA*

Auditors

Ernst & Young, Certified Public Accountants

Legal Advisor

Herbert Smith Freehills

Head Office and Principal Place of Business in PRC

Caikeng Industrial Park
Changtai Economic Development Zone
Changtai County, Fujian Province
People's Republic of China

Place of Business in Hong Kong

Suite 2, 17th Floor
Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

Registered Office

Clifton House, 75 Fort Street, P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Principal Share Registrar

Appleby Trust (Cayman) Ltd.
Clifton House, 75 Fort Street, P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 1190

Company Website

www.bolina.cc

Investor Relations Website

http://bolina.todayir.com/html/ir_overview.php

Financial Highlights

	2012 RMB'000	2011 RMB'000	% change
Revenue	**816,739**	655,482	24.6%
Gross profit	**389,823**	303,725	28.4%
Profit for the year attributable to owners of the parent	**246,246**	160,394	53.5%
Earnings per share attributable to ordinary equity holders of the parent	**RMB0.28**	RMB0.20	40.0%
Gross profit margin	**47.7%**	46.3%	
Net profit margin	**30.1%**	24.5%	

	31 December 2012 RMB'000	31 December 2011 RMB'000	
Total assets	**1,147,227**	584,883	96.1%
Net current assets	**662,536**	75,570	776.7%
Net assets	**857,265**	243,307	252.3%
Cash and cash equivalents	**789,822**	261,458	202.1%
Debt-to-Equity ratio	**19.9%**	92.5%	
Current ratio	**3.46**	1.23	

Factory plant

Chairman's Statement

On behalf of the board of directors (the "Board") of Bolina Holding Co., Ltd. (the "Company" or "Bolina", and, together with its subsidiaries, the "Group"), I am pleased to present the first annual report of the Group since the listing on the main board of the Hong Kong Stock Exchange on 13 July 2012.

Financial Results and Dividends

For the year ended 31 December 2012, the Group's revenue amounted to RMB816.7 million, represented an increase of 24.6% as compared with last year; net profit for the year amounted to RMB246.2 million, up by 53.5% as compared with last year; and the basic earnings per share was RMB0.28. In view of the continuously strong business growth and the sound financial positions maintained by the Group during the year, the Board recommended to declare a final dividend of HK$0.10 per share for the year ended 31 December 2012.

Important Milestones

The year of 2012 was an important year for the Group. The Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2012, marking the first PRC ceramic sanitary ware company listed in Hong Kong. The successful listing has enabled the Group's brand and products to receive greater recognition, and laid the Group a solid foundation for future development. During the year under review, the Group has been awarded various recognitions, including China's Well-Known Trademark (中國馳名商標), China Green Innovation Enterprises (中國綠色創新企業), Top 10 Bathroom Sanitary Wares Brand Names in China (中國十大衛浴品牌), Hong Kong Outstanding Corporate (香港傑出企業), etc.. Public praise for Bolina brand is well reassured with such recognitions.

Business Review

Based on my observation, sanitary ware industry has a great potential, because China's economic development and urbanization raised the demand of housing, which also motivated the whole sanitary ware industry. Leveraging its effective business strategies, the Group was able to grow into one of the largest manufacturers of China's mid-to-high end ceramic sanitary ware products over the past decade. China's sanitary ware market is fragmented, and each participator's market share is not high. In this connection, the Group set up distributors and points of sale across China, so as to increase the Group's market share.

As at 31 December 2012, the Group had 195 distributors and 450 points of sale. The Group has also established a subsidiary in Tianjin for the markets in Northern China, and another subsidiary located in Wuhan for the markets in Central China is currently in preparation. With an aim to facilitate the business growth of the distributors in their respective regions, these subsidiaries can provide more timely and effective supports and management to the distributors. Subsidiaries also have their own warehouses, so as to provide distributors and points of sale nearby with a closer source of goods, and hence save the transportation cost.

Chairman's Statement

In addition to placing advertisements through various media channels such as national television, magazines, the internet and outdoor media, the Group engaged Ms. Christine Fan to act as the brand ambassador, to further promote Bolina brand. As a result, awareness and recognition of Bolina brand will gain further momentum among consumers, which will help to further differentiate Bolina brand from the other players in the PRC sanitary ware market.

By manufacturing sanitary ware products on an ODM/OEM basis for international brand companies, the Group has gained extensive knowledge of the production technologies and quality control processes required for products meeting international standards, which has contributed significantly to the product development of the Group's brand. Such experience provides the Group with competitive advantages over its competitors who do not have this experience. As at 31 December 2012, the Group had a dedicated team of 85 research and development staff focusing on product development and improvement of our production technologies and process. The strong research and development capabilities afford the Group more innovative ideas to satisfy customers' different requirements. As at 31 December 2012, the number of R&D patents of the Group increased to 22 from 14 of last year. Moreover, the Group was granted the accreditation certificate of New and High Technology Enterprise in 2012, representing a recognition of the Group's research and development capabilities.

Outlook

At present, the Group maintains five production lines with an overall annual production capacity of 4.9 million units. With the anticipated launch of the sixth production line in late 2013, the overall annual production capacity of the Group will increase to 5.9 million units, and the Group will become one of the largest production base in China in terms of production capacity. Besides, the Group will keep on expanding its market, and establish additional points of sale in different regions, especially in third-tier or lower cities of China, with a long-term objective of more than 1,000 points of sale, so as to enhance its market share and profit. I believe, leveraging its effective business strategies and management, the Group will continue to deliver a sustainable development and bring shareholders with greater value.

Finally, I, together with the Board, would like to thank all our shareholders, management and staff, for their support and contribution to the Group.

Suite series

Management Discussion and Analysis

The Company's shares were successfully listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2012. Being the first PRC ceramic sanitary ware company listed in Hong Kong, the listing was an important milestone to the Group after our ten year's hard work.

In 2012, with stable orders from overseas clients and under our operation strategy of strengthening the distribution of our own brands, the Group has achieved high growth in sales and profits. During the year, the Group has also obtained many recognitions, which proved the strengthening brand awareness. The recognitions that the Group has been awarded during the year include:

- China's Well-Known Trademark (中國馳名商標);
- Top 10 Bathroom Sanitary Wares Brand Names in China for 2012 (2012年度中國十大衛浴品牌);
- Top 10 Famous Sanitary Wares Brand Among Top 100 Enterprises of China Kitchen & Bath for 2012 (2012年度中國廚衛百強衛浴知名品牌10強);
- "Hong Kong Outstanding Corporate" for 2012 (2012年"香港傑出企業");
- Top 10 Consumer-trusted Sanitary Wares Brands in China for 2012 (2012年度中國消費者最信賴十大衛浴品牌);
- New and high technology enterprise certification; and
- 2012 China Top 10 Green Innovation Enterprises.

Business Review

In 2012, the Group's revenue reached RMB816.7 million, increasing by 24.6% as compared with last year; and profit attributable to ordinary equity holders of the Company reached RMB246.2 million, up by 53.5% as compared with last year.

Sales Volume

For the year ended 31 December 2012, the Group's sales volume was approximately 4.3 million units, increased by 17.9% as compared with last year, which further consolidated the Group's leading position as one of the largest domestic ceramic sanitary ware brands in China's mid-to-high end ceramic sanitary ware market in terms of retail sales.

Business Review (continued)

Production

The Group manufactures ceramic sanitary ware products at its production facilities in Zhangzhou, Fujian Province, the PRC. A wide section energy-saving and environmentally-friendly tunnel kilns powered by gas (節能環保型寬截面燃氣隧道窯) with an overall length of 110 meters of the Group's fifth ceramic sanitary ware production line with an annual capacity of one million units, commenced operations on 29 July 2012. The successful operation of such production line marked another great milestone in the Company's business development, which will enhance the overall production capacity of the Group to further fuel the enlargement of its domestic market share. With the successful operation of this production line, the ceramic sanitary ware production lines of the Group will produce 4.9 million units per year, which is one of the largest manufacturers of ceramic sanitary ware products in the PRC in terms of designed production capacity. The sixth production line commenced construction in last August 2012. Upon completion of construction and commencement of its operation, the Group will have an annual total output of 5.9 million units. The Group believes that its sizable production facilities provide it with economies of scale, shorten lead time in launching new products and allow it to allocate additional production capacity to manufacture its own branded products, which command a higher margin in comparison with ODM and OEM products.

Distribution Network

The Group was dedicated to the third party distributor model and continued to improve operation capacity and quality of the distribution network, to standardize distribution network governance, to promote differentiated operation innovation, to improve the quality of the network operation team and to optimize the existing network layout. As disclosed in the announcement dated 19 December 2012 published by the Company, in view of possible change of market environment in the PRC, the Company has adjusted the pace of expansion of third-party distributors' points of sale by adopting a prudent approach. As such, the number of new points of sale of this year is less than the expected increase of points of sale as disclosed in the Prospectus.

The Group's distribution network, comprising 158 distributors and 47 sub-distributors operating 321 points of sale as at 31 December 2011, increased to 195 distributors and 44 sub-distributors operating 450 points of sale as at 31 December 2012, covering a wide area throughout the PRC.

On 8 November 2012, a wholly-owned subsidiary of the Group was established, which is situated at the North China Ceramics Town (華北陶瓷城) in Tanggu District, Tianjin (the "Tianjin subsidiary"). The establishment of the Tianjin subsidiary was an important initiative to facilitate the strategy of overall expansion within the domestic market. It will be responsible for market expansion and maintenance of markets in Tianjin, Hebei, Shanxi and Inner Mongolia, to build a supporting platform in Northern China for business expansion and service assurance, to provide services and supports responding to the market more timely and efficiently for various regions in Northern China, and enable distributors in Northern China to grow steadily, so as to achieve enhanced overall and rapid penetration of the Group in Northern China.

At present, the Group is preparing for the establishment of another subsidiary in Wuhan, which is expected to open in April 2013. Such subsidiary in Wuhan will be responsible for markets in Central China, including Hubei, Hunan and Henan.

Management Discussion and Analysis

Business Review (continued)

Brand Building

In 2012, the Group continued to strengthen the brand image of Bolina. The Group formally signed up one of Asia's most popular artists, Ms. Christine Fan, as the spokesperson for the Company on 4 August 2012. The cooperation with Ms. Christine Fan represents a further important step of the Group towards its facilitation of brand strategy. The Group will further cooperate with Ms. Christine Fan in the future, and strive to facilitate its strategy of delivering Bolina as a world-class brand.

The Group also adopted TV advertisements as its promotion strategy. In 2012, the Company launched a series of TV advertisements performed by its spokesperson on mainstream media channels such as CCTV, Jiangsu TV, Hunan TV, Sina, Sohu, NetEase, ifeng.com and Baidu, as well as outdoor advertisements and promotions in markets across China. By virtue of the above, the Company continued its strong brand marketing efforts and penetration, kept its leading position in domestic first-tier brands, and continuously stepped towards to become an international brand.

The Group believes that increasing its brand awareness effectively and efficiently in China will help facilitate the strategy of overall expansion within domestic market.

Corporate Social Responsibility

Sanitary products are closely related to water conservation and environmental protection. As a domestic sanitary leader, the Group has a team of 85 research and development experts and technicians focusing on product development and improvement of production technologies and processes, which has developed over one hundred innovative products and obtained 22 patents to date. The Group has introduced advanced foreign low-temperature fast-firing technologies in the manufacturing process of its products, shortening the ceramic firing cycle while improving the quality of firing of vitrified ceramic, which has greatly reduced energy consumption. Meanwhile, the Group is committed to minimizing the negative impact on the environment and has established an environment management system which has obtained ISO 14001 certification. The Group also delivers Bolina sanitary ware products with environment-friendly and water-conserving features – the related intellectual proprietary rights have been registered by the Group. An innovative product "3.0 liter-per-flush water-conservation siphonic toilet" with industry-leading technologies was launched, with its water-conservation feature being more advanced than six liters per flush as required by the Chinese National Standards. The toilet's three outstanding measures in terms of water seal, water per flush and trap size outperform the Chinese National Standards, not only leading in China but also meeting the market criteria in Europe and the U.S.. The Group concentrates its efforts on developing humanistic products and focuses on the following three strong "clean" technologies to strive to practice its grand vision of "Bringing green life to Bolina owners":

Clean Cyclone (淨旋風) – an internationally leading drainage technology with a design of 50mm extra-large diameter that ensures super-strong cleansing effect with cyclone flushing, the force of which is able to flush away excreta for 18 meters under horizontal state.

Clean Guard (淨衛士) – a ceramic product fired under high temperature with three times of glazing that has a water absorption of as low as 0.2%, which is far lower than international standards, leaving no place for bacteria.

Clean Shield (淨力盾) – advanced antimicrobial technology of ADB nano-silver ion embedded in glazing surface that inhibits over 600 varieties of bacteria, with 80% microbes inhibited for 24 hours, comprehensively protecting health of all family members.

Business Review (continued)

Use of Net Proceeds from the Company's Initial Public Offering

The net proceeds from the Company's issue of new shares after deducting underwriting commissions and related expenses amounted to approximately HK$427.9 million (including the net proceeds from issue of additional shares pursuant to exercise of over-allotment option). Up to 31 December 2012, the Group has used part of the net proceeds pursuant to the initial public offering as follows:

	Actual net proceeds from initial public offering HK$ million	Amount utilized up to 31 December 2012 HK$ million	Balance as at 31 December 2012 HK$ million
Enhancement of sales and marketing force	107.0	23.5	83.5
Construction of production facilities	192.5	115.6	76.9
Acquisition of sanitary ware manufacturers or facilities	64.2	–	64.2
Research and development	21.4	11.0	10.4
Working capital and other general corporate use	42.8	42.8	–
Total	427.9	192.9	235.0

Future Developments

Due to economic development and urbanization, annual per capita disposable income of urban households in China has recorded a substantial increase, and has created a strong demand for housing in the past few years. The rise of the emerging middle class supports rising demand for mid-to-high end sanitary ware products. Although the growth rate of China's real estate industry has slowed in recent years, given the higher disposable income, the increase in nominal GDP and per capita nominal GDP and accelerated urbanization in China and other macro-economic factors, it is expected that China's demand for housing and the real estate market as a whole will continue to grow, especially in the less developed and small and medium-sized cities. Over the years, by virtue of the business strategies and development strategies of remarkable technologies in innovation, superior product quality and very competitive price positioning, the Group continued to achieve excellent market performance. Looking ahead, the Group will further increase its advantages, further expand the sales network of distributors and gradually enlarge the penetration rate and promote its brand image, striving to dominate the domestic mid-to-high end ceramic market.

Management Discussion and Analysis

Financial Review

For the year ended 31 December 2012, sales volume of the Group was approximately 4.3 million units and revenue was RMB816.7 million, up by 17.9% and 24.6% respectively, as compared with the year of 2011.

For the year ended 31 December 2012, gross profit of the Group was RMB389.8 million, up by 28.4% as compared with the year of 2011; profit attributable to the ordinary equity holder of the Company amounted to RMB246.2 million, up by 53.5% from RMB160.4 million for the year of 2011.

Revenue

The following table sets out the Group's revenue derived from its different product categories during the years ended 31 December 2012 and 2011:

	Year ended 31 December			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Ceramic sanitary ware products				
One-piece toilets	**347,335**	**42.5**	278,066	42.4
Two-piece toilets (with water tanks)	**287,371**	**35.2**	273,229	41.7
Washbasins and stands	**49,428**	**6.1**	42,898	6.5
Other ceramic products (including urinals and bidets)	**35,157**	**4.3**	28,938	4.5
Sub-total	**719,291**	**88.1**	623,131	95.1
Non-ceramic sanitary products	**97,448**	**11.9**	32,351	4.9
Total	**816,739**	**100.0**	655,482	100.0

Financial Review (continued)

Revenue (continued)

The following tables set out the breakdown of the Group's revenue by sale channels during the years ended 31 December 2012 and 2011:

	Year ended 31 December			
	2012		2011	
	RMB'000	%	RMB'000	%
Branded products				
Distributors	503,845	61.7	374,725	57.2
Direct sales in the PRC	3,513	0.4	3,690	0.5
Direct sales to overseas customers	1,195	0.2	1,605	0.3
Sub-total	508,553	62.3	380,020	58.0
Non-branded products				
ODM	175,674	21.5	161,984	24.7
OEM	132,512	16.2	113,478	17.3
Sub-total	308,186	37.7	275,462	42.0
Total	816,739	100.0	655,482	100.0

The following table sets out the breakdown of the revenue derived from the Group's branded products to distributors per category of city in the PRC during the years ended 31 December 2012 and 2011:

	Year ended 31 December			
	2012		2011	
	RMB'000	%	RMB'000	%
First-tier cities	43,975	8.7	35,236	9.4
Second-tier cities	116,309	23.1	114,995	30.7
Third-tier and other cities	343,561	68.2	224,494	59.9
Total	503,845	100.0	374,725	100.0

Management Discussion and Analysis

Financial Review (continued)

Revenue (continued)

Revenue derived from the Group's branded products increased from RMB380.0 million for the year ended 31 December 2011 to RMB508.6 million for the year ended 31 December 2012. The increase in revenue was mainly attributable to the increase in the number of the distributors and points of sale of its branded products business.

Revenue derived from the Group's ODM and OEM products increased from RMB275.5 million for the year ended 31 December 2011 to RMB308.2 million for the year ended 31 December 2012. Such increases were primarily attributable to its strategy to maintain a steady growth rate in its ODM and OEM business.

The following tables set out breakdown of the Group's revenue by product category and by business segment during the years ended 31 December 2012 and 2011:

Own branded products

	Year ended 31 December 2012			Year ended 31 December 2011		
Products	**Units**	**Average price RMB**	**Revenue RMB'000**	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**40,277**	**124.2**	**5,001**	179,025	108.9	19,497
One-piece toilets	**551,380**	**617.7**	**340,595**	432,471	629.6	272,292
Washbasins and stands	**374,897**	**102.0**	**38,240**	317,427	103.6	32,880
Other ceramic products (including urinals and bidets)	**255,291**	**109.5**	**27,958**	213,108	115.9	24,704
Non-ceramic sanitary products	**448,796**	**215.6**	**96,759**	106,102	288.8	30,647
Total	**1,670,641**	**304.4**	**508,553**	1,248,133	304.5	380,020

ODM products

	Year ended 31 December 2012			Year ended 31 December 2011		
Products	**Units**	**Average price RMB**	**Revenue RMB'000**	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**1,252,717**	**132.4**	**165,891**	1,175,634	130.8	153,770
One-piece toilets	**21,146**	**318.7**	**6,740**	17,082	338.0	5,774
Washbasins and stands	**39,778**	**67.1**	**2,670**	37,585	63.9	2,400
Other ceramic products (including urinals and bidets)	**5,821**	**64.1**	**373**	309	129.4	40
Total	**1,319,462**	**133.1**	**175,674**	1,230,610	131.6	161,984

Financial Review (continued)

Revenue (continued)

OEM products

Products	Year ended 31 December 2012 Units	Average price RMB	Revenue RMB'000	Year ended 31 December 2011 Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	**1,042,220**	**111.8**	**116,479**	910,573	109.8	99,962
Washbasins and stands	**145,671**	**58.5**	**8,518**	138,045	55.2	7,618
Other ceramic products (including urinals and bidets)	**65,711**	**103.9**	**6,826**	44,271	94.7	4,194
Non-ceramic sanitary products	**20,709**	**33.3**	**689**	45,333	37.6	1,704
Total	**1,274,311**	**104.0**	**132,512**	1,138,222	99.7	113,478

Gross Profit and Gross Profit Margin

Gross profit increased by RMB86.1 million, or 28.4%, from RMB303.7 million for 2011 to RMB389.8 million for 2012. This was mainly attributable to an increase of sales of the Group's branded products in 2012 as a result of an increase in the number of distributors and points of sale.

Overall gross profit margin increased from 46.3% for 2011 to 47.7% for 2012, which was mainly attributable to the increase in the gross profit generated from the Group's own branded products and that the segment of its own branded products is of a higher gross profit margin as compared with that of the ODM and OEM segments.

For 2012 and 2011, the Group's gross profit and gross profit margin by business segment was as follows:

	2012 Gross profit RMB'000	2012 Gross profit margin %	2011 Gross profit RMB'000	2011 Gross profit margin %
Branded products	**282,166**	**55.5**	216,536	57.0
ODM	**65,301**	**37.2**	54,182	33.4
OEM	**42,356**	**32.0**	33,007	29.1
Total	**389,823**	**47.7**	303,725	46.3

Management Discussion and Analysis

Financial Review (continued)

Selling and Distribution Costs

Selling and distribution costs increased by RMB13.7 million, or 53.5%, from RMB25.6 million for 2011 to RMB39.3 million for 2012. The increase was mainly attributable to the increase in related sales and distribution costs resulting from the increased revenue during the year.

Administrative Expenses

Administrative expenses increased by RMB8.1 million, or 15.9%, from RMB50.9 million for 2011 to RMB59.0 million for 2012. This was mainly attributable to the increased average employee salaries.

Finance Costs

Finance costs represent interest expense on bank and other borrowings of the Group. For the year ended 31 December 2012, finance costs increased by RMB0.9 million, or 6.3%, from RMB14.4 million for 2011 to RMB15.3 million for 2012.

Net Profit and Net Profit Margin

For the year ended 31 December 2012, profit attributable to ordinary equity holders of the Company amounted to RMB246.2 million, representing an increase of 53.5% as compared to previous year (2011: RMB160.4 million). Net profit margin for the year ended 31 December 2012 was 30.1% (2011: 24.5%) with basic earnings per share being RMB0.28 (2011: RMB0.20).

Gearing ratio

Our gearing ratio is calculated by dividing total interest-bearing debts by total equity. Our gearing ratios as at 31 December 2012 was 19.9% (31 December 2011: 92.5%). Our gearing ratio decreased in 2012 primarily due to the receipt of proceeds from issuance of shares as a result of the initial public offering.

Major Investments and Disposal

As at 31 December 2012, the Group had no material investment expenditure or disposal.

Capital Expenditure

The Group's capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and lease payments. The Group's capital expenditures, represented by the cash used for the purchase of property, plant and equipment, were RMB42.3 million for 2012, mainly in connection with the construction of production facilities for the fifth production line.

Financial Review (continued)

Capital Expenditure (continued)

Operating Lease Arrangements

The Group leases certain properties, plant, equipment and land under operating lease arrangement for terms ranging from 1 to 18 years. As at the dates indicated below, the Group had total future minimum lease payments under non-cancellable operating leases of property, plant, equipment and land falling due as follows:

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Within 1 year	**8,169**	8,126
After 1 year but within 5 years	**31,833**	26,139
After 5 years	**20,333**	22,000
Total	**60,335**	56,265

Commitments

In addition to the Group's operating lease commitments, the Group had the following capital commitments as at the dates indicated below:

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Contracted, but not provided for property, plant and equipment	**24,072**	5,135
Authorised, but not contracted for property, plant and equipment	**273,626**	184,781
Total	**297,698**	189,916

The Group's capital commitments as at 31 December 2012 were primarily related to the construction of the fifth and sixth production lines.

Financial Resources and Liquidity

The Group meets its working capital and other capital requirements primarily from the proceeds from its global offering and other issue of new shares, net cash generated from its operating activities and borrowings from banks and financial institutions.

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB789.8 million, which was mainly denominated in RMB and US dollar.

Management Discussion and Analysis

Financial Review (continued)

Financial Resources and Liquidity (continued)

The following table is a condensed summary of the Group's consolidated statement of cash flows during the reporting period indicated:

	2012	2011
	RMB'000	RMB'000
Net cash flows from operating activities	**299,672**	226,345
Net cash flows (used in)/from investing activities	**(40,224)**	86,274
Net cash flows from/(used in) financing activities	**270,286**	(116,497)
Net increase in cash and cash equivalents	**529,734**	196,122
Cash and cash equivalents at beginning of year	**261,458**	65,822
Effect of foreign exchange rate changes, net	**(1,370)**	(486)
Cash and cash equivalents at end of year	**789,822**	261,458

Net cash flows from operating activities

The Group's net cash generated from operating activities includes funds generated from its operating activities and net cash inflows or outflows resulting from changes in working capital.

In 2012, the Group's net cash flow from operating activities was RMB299.7 million. The increase in its net cash inflow compared to 2011 was primarily due to the increase in revenue of the Group.

Net cash (used in)/from investing activities

In 2012, the Group's net cash used in investing activities was RMB40.2 million, consisting primarily of purchase of property, plant and equipment.

Financial Review (continued)

Financial Resources and Liquidity (continued)

Net cash from/(used in) financing activities

In 2012, the Group's net cash from financing activities was RMB270.3 million consisting primarily of the proceeds from issue of shares as a result of the initial public offering.

Set out below is an analysis of short-term borrowings of the Group:

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Secured	**83,649**	140,037
Guaranteed	**56,900**	60,000
Unsecured	**30,000**	25,000
Total	**170,549**	225,037

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Fixed interest rate	**68,649**	78,537
Floating interest rate	**101,900**	146,500
Total	**170,549**	225,037

The Group intended to meet its obligations for the above borrowings by using internal resources.

As at 31 December 2012, the Group had banking facilities of RMB222.0 million, all of which were RMB borrowings. The amount of utilized banking facilities was RMB141.9 million and that of unutilized banking facilities was RMB80.1 million.

Management Discussion and Analysis

Financial Review (continued)

Trade Receivables Turnover Days

Trade receivables primarily comprise amounts to be received from the sale of sanitary ware products to overseas customers. The Group's trade receivables amounted to RMB58.4 million and RMB58.3 million as at 31 December 2012 and 31 December 2011, respectively.

The Group's average trade receivable turnover days were 26 days and 31 days for 2012 and 2011 respectively. The decrease in the average trade receivable turnover days was primarily due to the growth in sales of its branded products.

Advance payment is normally required from the Group's domestic customers. The trading terms with overseas customers are mainly on credit, the credit period is generally one month, extending up to three months for major customers. Each of the customers has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and have a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management of the Company. Trade receivables are non-interest-bearing.

For 2012 and 2011, there was no material provision for doubtful debts.

Trade Payables Turnover Days

The Group's trade payables primarily arose from the purchases of toilet lids and water tank fittings, packaging material and raw materials for its production activities. The Group had trade payables of RMB31.8 million and RMB25.4 million as at 31 December 2012 and 31 December 2011, respectively.

The Group's average payables turnover days were 24 days and 25 days for 2012 and 2011, respectively.

Inventory Turnover Days

The Group's inventories decreased from RMB74.2 million as at 31 December 2011 to RMB73.0 million as at 31 December 2012 mainly due to the fact that our Group accelerated the inventory turnover and lowered the level of inventory during the year.

The Group's average inventory turnover days were 63 days and 87 days for 2012 and 2011, respectively.

Bank Borrowings and Other Borrowings

As at 31 December 2012, the balance of the Group's bank loans and other borrowings, which would all mature within one year, was RMB170.5 million, down by RMB54.5 million or 24.2% from that of RMB225.0 million as at 31 December 2011.

Certain of the Group's bank loans are secured by: (i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had aggregate carrying values of approximately RMB12.4 million and RMB12.7 million as at 31 December 2012 and 31 December 2011, respectively; (ii) mortgages over the Group's buildings, which had aggregate carrying values of approximately RMB84.8 million and RMB43.2 million as at 31 December 2012 and 31 December 2011, respectively; and (iii) mortgages over the Group's forward letters of credit which amounted to RMB29.2 million and RMB29.2 million as at 31 December 2012 and 31 December 2011, respectively.

Financial Review (continued)

Risks of Foreign Exchange

The Group has transactional currency exposure. Such exposure mainly arises from sales transactions denominated in United States dollars. The Group regularly monitors its foreign exchange exposure and will consider the need to hedge against significant foreign currency exposure where appropriate. The Group entered into two foreign currency forward contracts in 2012 to hedge against fluctuations in the foreign currency.

Contingent Liabilities

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

From 13 July 2012 ("Listing Date") to 31 December 2012, the Group did not conduct any material acquisitions and disposals of subsidiaries and associated companies.

Employees and Remuneration

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options under the share option schemes of the Company. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with importance of duties. The more important the duties are, the higher the ratio of incentive bonus of total remuneration will be. This ensures that the Group can recruit, retain and motivate high-caliber employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to directors are determined with reference to their responsibilities, qualifications, experience and performance. The emoluments include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs regular review on the emoluments of the directors. No director, or any of his associates and executives, is involved in deciding his/her own emolument.

The Group reviews its remuneration policy annually. As at 31 December 2012, the Group had about 2,088 full-time employees, and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. For 2012, the Group provided 5,640 hours of training in aggregate for about 579 person-times. The training courses covered areas such as industry development, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, information technology, safe production and general working skills. These training further improved the management skills and professional standard of the management of the Group and enhanced the overall quality of the employees to cater to the Group's rapid developments; hence, improving the competitiveness of the Group.

Energy saving water tank




Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Xiao Zhiyong (肖智勇), aged 48, is the chairman, the chief executive officer, and an executive Director of our Company, and one of the co-founders of our Group. Mr. Xiao was appointed to our Board on 19 April 2011. He is responsible for the overall management, strategic planning and business development of our Group. Mr. Xiao co-founded our Group by establishing Zhangzhou Wanjia on 1 March 2002 and since then he has been the chairman of the board and the general manager of Zhangzhou Wanjia. He is also the co-founder and the general manager of Fujian Wanrong, and has been the chairman of the board and the general manager of Zhangzhou Wanhui since its establishment. Mr. Xiao has more than 27 years of experience in the ceramics and sanitary ware products industries. Prior to the establishment of our Group, Mr. Xiao served as technician, engineer, deputy director of colour glazed pottery factory and the technology innovation department of 漳州建築瓷廠 (Zhangzhou Construction Ceramics Factory) from August 1985 to July 1997. He also served as deputy director of the engineering department, district manager and deputy general manager of Double Rhomb from July 1997 to January 2002.

Mr. Xiao is an experienced entrepreneur active in social affairs. He holds office as vice president for several committees and associations, including, 中國建築衛生陶瓷協會 (China Building Ceramic & Sanitary Ware Association) for the third standing committee of its sixth session, 漳州市企業與企業家聯合會 (Zhangzhou Association of Enterprises and Entrepreneurs) for the standing committee of its second session and 漳州市新經濟組織英才協會 (Zhangzhou Elite Association of New Economy Organisations) for the standing committee of its second session. Mr. Xiao is also the honourable president of 福建省海峽品牌經濟發展研究院 (Fujian Strait Branding Economic Development Institute) and 漳州青年企業家協會 (Zhangzhou Young Entrepreneurs Association) for the standing committee of its eighth session. In 2008, he was named one of the fifth Zhangzhou Top 10 Outstanding Entrepreneurs (漳州市十大傑出青年企業家) by organisations including the China Communist Youth League (共青團漳州市委員會), and a Fujian Excellent Entrepreneur (福建優秀企業家) jointly by the 漳州市企業與企業家聯合會 (Fujian Association of Enterprises and Entrepreneurs) and Fujian Province Economic and Trade Commission. In March 2013, Mr. Xiao was awarded as the "Person of the Year" at the 9th Chinese Ceramic Pioneers List (第九屆中國陶瓷行業新銳榜). Mr. Xiao is also a deputy to the People's Congress of Fujian Province (福建省人民代表大會代表), a member of the Standing Committee of the People's Congress of Longwen District, Zhangzhou City (漳州市龍文區人民代表大會常委會委員) and a deputy to the People's Congress of Zhangzhou City (漳州市人民代表大會代表). Mr. Xiao completed studies at 上海建築材料工業學院 (Shanghai Construction Material Technical Institute) in July 1985 and a course in business administration at Southeast University (東南大學) in June 2001. Mr. Xiao is a Controlling Shareholder and the spouse of Ms. Ye.

Ms. Ye Xiaohong (葉曉紅), aged 42, is an executive Director of our Company and is responsible for our Group's finance and administrative management. She was appointed to our Board on 25 June 2012. Ms. Ye has over 22 years of experience in the finance and accounting profession. Ms. Ye joined our Group in 2003 and served as the manager of the finance department of Zhangzhou Wanjia from December 2003 and December 2006. Since January 2007, Ms. Ye has been the chief audit supervisor of Zhangzhou Wanjia. Before joining our Group, Ms. Ye was an accountant at 福建興業銀行漳州分行和漳州延北支行 (Zhangzhou Branch and Zhangzhou Yanbei Branch of Fujian Industrial Bank) from August 1990 to June 2002. Ms. Ye graduated from 福建金融管理幹部學院 (Fujian Institute of Financial Administrators) in June 2002 with a diploma in financial management and she has passed the medium level accounting examination as certified by the Ministry of Finance of the PRC. Ms. Ye is the spouse of Mr. Xiao.

Mr. Yang Qingyun (楊清雲), aged 42, is an executive Director of our Company and is responsible for our Group's human resources management and general operations. He was appointed to our Board on 25 June 2012. Mr. Yang joined our Group in July 2006 and since then he has served as assistant manager and manager of the finance department and general manager assistant of Zhangzhou Wanhui. Prior to joining our Group, Mr. Yang held several positions including accounting supervisor at 長泰聖源織帶有限公司 (Saint Source Webbing Co., Ltd.) from 1993 to 1998, and from 1999 to 2002 he was an accounting supervisor at 長泰鉅高工藝品公司 (Changtai Jugao Crafts Company). Mr. Yang was appointed as an accountant supervisor and deputy factory director at 長泰晶美文具公司 (Changtai Jingmei Stationery Company) from 2002 to 2006.

Mr. Lu Jianqing (陸劍慶), age 44, was appointed as an executive Director of our Company on 25 June 2012. Mr. Lu has over 22 years of experience in the ceramics and sanitary ware products industries and is primarily responsible for product research and development at our Group. Mr. Lu was appointed as the manager of the technology department of Zhangzhou Wanjia in 2002. Since June 2008, he has served as manager of the technology department of Zhangzhou Wanhui. Mr. Lu started his career as a technician in the Zhangzhou Construction Ceramics Factory from August 1990 to January 1993. He was later employed by 漳州市陶瓷研究所 (Zhangzhou Ceramics Research Institute), a subsidiary of Double Rhomb, and has served as technician, assistant engineer, engineer and later deputy director from February 1993 to September 1999. Mr. Lu was an assistant to the general manager of sales head office for Double Rhomb's headquarters and from October 1999 to April 2000, and an assistant to the general manager for Double Rhomb's ceramics operating company from May 2000 to December 2001. Mr. Lu obtained a bachelor's degree in chemical engineering from Fuzhou University (福州大學) in 1990.

Independent Non-Executive Directors

Mr. Tong Jifeng (同繼鋒), age 54, was appointed as an independent non-executive Director of our Company on 25 June 2012. Mr. Tong is currently working for China Building Materials Academy (中國建築材料科學研究總院) as the assistant to the president and the manager of the enterprise development department. Mr. Tong has more than 30 years of experience in the ceramics and building materials industries. He was employed by the Xianyang Research and Design Institute of Ceramics (咸陽陶瓷研究設計院) from February 1982 to August 1984, and held positions as its engineer, manager of its experimental factory and president of its design institute from August 1987 to April 1994. From May 1994 to March 2005, Mr. Tong served as senior engineer, director of the high technology ceramic institute and manager of the technology department in the China Building Materials Academy (中國建築材料科學研究總院). He was deputy chief engineer and director of technology management department of China National Building Materials Group Corporation from March 2005 to March 2010.

Mr. Tong currently holds office as a member of the standing committee of 中國建築材料聯合會科技教育委員會 (Science and Education Committee of China Building Material Federation), vice chairman of the ceramics division of 中國硅酸鹽學會 (China Silicate Society) for the standing committee of its sixth session, and chief officer of 建築衛生陶瓷專業委員會 (Professional Committee of Building and Sanitary Ceramics).

Directors and Senior Management

Mr. Tong received his bachelor's degree in July 1982 and a master's degree in inorganic non-metallic materials in July 1987 from South China University of Technology (華南理工大學). He and others have jointly published several articles and books in relation to contemporary construction ceramics, including "現代建築衛生陶瓷工程師手冊"(Handbook of Contemporary Building and Sanitary Ceramics for Engineers), "建材工業技術經濟學"(Building Materials Industry Technology Economics), and "綠色建材與建材綠色化"(Green Building Materials). He was rewarded the first prize in Science and Technology – 綠色奥運建築評估體系 (Assessment System for Green Building of Olympics) by the Beijing government in 2006.

Mr. Lin Shimao (林時茂), aged 49, was appointed as an independent non-executive Director of our Company on 25 June 2012. Mr. Lin has over 30 years experience in the accounting profession and the ceramics industry. He was the head of the finance division of 漳州建築瓷廠 (Zhangzhou Construction Ceramics Factory) from 1982 to 1994. He was the chief financial officer of 福建雙菱集團 (Fujian Double Rhomb Corporation) from 1995 to 2001 and was responsible for its financing and accounting matters. From 2002 to 2011, Mr. Lin was the chief financial officer of 廈門牡丹大酒樓有限公司 (Xiamen Peony Restaurant Co., Ltd) and 廈門牡丹國際大酒店有限公司 (Xiamen Peony International Hotel Co., Ltd.) where he implemented a new set of internal audit procedures and an enterprise resource planning system for the company. Mr. Lin was conferred with the qualification of accountant by the Ministry of Finance of the PRC on 31 December 1993.

Mr. Leung Ka Man (梁嘉敏), age 47, was appointed as an independent non-executive Director of our Company on 25 June 2012. Mr. Leung is currently the managing director and the deputy head of investment banking division of Cinda International Capital Ltd., which is a wholly-owned subsidiary of Cinda International Holdings Ltd. (Stock code: 0111). Mr. Leung has been in the investment banking profession for over 20 years. After his service with the Securities and Futures Commission of Hong Kong from 1990 to 1991, he worked at BOCI Capital Limited from 1991 to 2005 and his last position in BOCI was an executive director of the investment banking division. From 2005 to 2007, Mr. Leung served as a director of Anglo Chinese Corporate Finance, Limited. Mr. Leung was an executive director of the investment banking division of ICEA Capital Limited and ICBC International Capital Limited from 2007 to 2010. Mr. Leung graduated from the University of Hong Kong in December 1990 with a bachelor's degree in social sciences.

SENIOR MANAGEMENT

Mr. Yuen Chi Wai, Stanley (袁志偉), aged 37, joined our Group in May 2011 and is the chief financial officer and the company secretary of our Group. He is responsible for the supervision of financial management, investor relations and company secretarial matters of our Group. Mr. Yuen has over 14 years of experience in auditing, corporate internal control, and financial and risk management. Prior to joining our Group, Mr. Yuen was an auditor in various international accounting firms with substantial working experience in Hong Kong, Beijing and Shenzhen. Mr. Yuen graduated from the University of New South Wales with a bachelor's degree in commerce in April 1998. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of Certified Public Accountants of Australia.

Mr. Zhao Chongkang (趙崇康), aged 55, is an executive deputy general manager of our Group, responsible for the overall management as well as the production operations of our Group. Mr. Zhao joined our Group in August 2007 and he has been a deputy general manager of Zhangzhou Wanhui since September 2010 and was a deputy general manager and the chief engineer of Zhangzhou Wanjia from August 2007 to September 2010. Mr. Zhao has over 30 years of experience in the ceramics and sanitary ware industries. Since 1982 Mr. Zhao has worked for several ceramics factories and companies including the 湖南省陶瓷廠 (Hunan Ceramics Factory), 湖南省建築陶瓷總公司 (Hunan Construction Ceramics Company) and 中國瓷都九州潔具廠 (China Jiuzhou Porcelain Capital Sanitary Wares Factory). Prior to joining our Group, he was a deputy general manager of the Chaozhou Xianghua Donglong Ceramic Co., Ltd. (廣東省潮州市翔華東龍瓷業有限公司) from October 2003 to January 2007. In addition, Mr. Zhao was appointed vice chairman of the national standing committee for the first session for the Chinese magazine "陶瓷"("Ceramics") in February 2009 and he is a member of the science and education committee of the China Building Materials Federation (中國建築材料聯合會). Mr. Zhao graduated from South China University of Technology (華南理工大學) in January 1982. He is a senior engineer admitted by the Hunan provincial government.

Mr. Chen Zhiqiang (陳志強), aged 43, is a deputy general manager of our Group. Mr. Chen has been employed by our Group since its establishment and has been a deputy general manager of Zhangzhou Wanjia and an assistant general manager of Zhangzhou Wanhui since June 2009. Before joining our Group, Mr. Chen worked for Double Rhomb Sanitary Ware Company as a quality control person-in-charge and molding workshop officer from October 1997 to November 1999. From 1993 to July 1997 and November 1999 to January 2002 he worked for 寶盛漳州建陶有限公司 (Baosheng Zhangzhou Construction Ceramics Limited) as a technician, assistant manager of colour glazed pottery factory and assistant quality control manger. In December 2009, Mr. Chen was appointed as a member of the 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). He received his bachelor's degree in engineering from East China Institute of Chemical Technology (華東化工學院), also known as East China University of Science and Technology (華東理工大學), in July 1992. Mr. Chen is also a qualified engineer.

Mr. Zhu Jiaqin (朱甲欽), aged 44, is a deputy general manager of our Group. Since Mr. Zhu joined our Group in May 2002, he has been a manager of the product development department and production department and a deputy general manager of Zhangzhou Wanjia, and the manager of the production department of Zhangzhou Wanhui. Mr. Zhu has over 20 years of experience in the ceramics and sanitary ware industries and had worked for the 湖南省建築陶瓷廠 (Hunan Construction Ceramics Factory), 中國九州潔具廠 (China Jiuzhou Sanitary Wares Factory) and Huida Ceramic Group Co., Ltd. (惠達陶瓷集團股份有限公司). He is a qualified engineer in China.

Ms. Hu Yifang (胡毅芳), age 40, is a sales general manager of our Group. Ms. Hu has been employed by our Group since its establishment and has been the sales general manager of Zhangzhou Wanjia and Zhangzhou Wanhui since December 2012. During the period from March 2002 to November 2012, Ms. Hu has been the manager of export department of Zhangzhou Wanjia, business manager of Zhangzhou Wanhui, assistant general manager of Zhangzhou Wanjia and assistant general manager of Zhangzhou Wanhui. Ms. Hu has over 17 years of experience in the ceramics and sanitary ware industries. Prior to joining our Group, Ms. Hu worked for Fujian Double Rhomb Corporation Limited, Export and Import Branch during the period from year 1995 to year 2001, and served as the general manager from year 1998 to 2001. Ms. Hu completed an advanced study in world economics in Xiamen University (廈門大學) in 1999.

Clean environmental protection

Corporate Governance Report

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the market leader in the ceramic sanitary ware industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

CORPORATE GOVERNANCE CODE

The Board of the Company recognizes and appreciates the importance and benefits of good corporate governance practices and has adopted corporate governance and disclosure practices for achieving a higher standard of transparency and accountability.

Upon the listing of the Company on the Hong Kong Stock Exchange on 13 July 2012 ("Listing Date"), the Board adopted the code provisions (the "Code Provisions") of the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate.

The Board is of the view that the Company has complied with the Code Provisions set out in the Code from the Listing Date to 31 December 2012 as contained in Appendix 14 to the Listing Rules, except for code provision A.2.1.

A. DIRECTORS

A1: Responsibilities and Delegation

The Board of Directors, led by the chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have timely access to all relevant information as well as the advice and services of the Company Secretary and senior management, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The senior management of the Company are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

A2: Attendance of Meetings

The Board held two board meetings from the Listing Date to 31 December 2012. Attendance of individual directors at the Board meetings during that period is as follows:

	Attendance Board Meetings
Executive Directors	
Mr. XIAO Zhiyong *(Chairman and Chief Executive Officer)*	2/2
Ms. YE Xiaohong*	2/2
Mr. YANG Qingyun*	2/2
Mr. LU Jianqing*	2/2
Independent Non-Executive Directors	
Mr. TONG Jifeng*	2/2
Mr. LIN Shimao*	2/2
Mr. LEUNG Ka Man*	2/2

During the period from the Listing Date to 31 December 2012, the Company did not hold any general meeting.

A3: Chairman and Chief Executive Officer

Code provision A.2.1 of the Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Xiao Zhiyong currently holds the offices of Chairman and Chief Executive Officer of the Company. Mr. Xiao is the founder of the Group and has over 27 years of experience in sanitary ware products industry. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in Mr. Xiao provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions.

The Board also considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

* appointed on 25 June 2012.

Corporate Governance Report

A4: Board Composition

The Board currently comprises 7 directors, including 4 executive directors and 3 independent non-executive directors ("INEDs"). The composition of the Board has not undergone any changes since the listing of the Company on the Hong Kong Stock Exchange.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. Except that Ms. Ye is the spouse of Mr. Xiao as disclosed in this Annual Report, none of the directors or senior management is related to each other.

The INEDs, play an important role on the Board. Accounting for a significant portion of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders of the Company and the Group as a whole.

From the Listing Date to 31 December 2012, the Board at all times met the listing requirements of having at least 3 INEDs, and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A5: Appointment, Re-election and Removal

Each director is engaged for a term of three years and is subject to re-election in accordance with the Company's Articles of Association.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. The above provision complies with the code provision A.4.2 of the Code, which stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

At the forthcoming annual general meeting of the Company to be held on 10 May 2013 (the "2013 AGM"), Ms. Ye Xiaohong, Mr. Yang Qingyun and Mr. Lu Jianqing shall retire by rotation pursuant to the Company's Articles of Association. All the above three retiring directors, being eligible, will offer themselves for re-election at the 2013 AGM. The Board recommended their re-appointment. The Company's circular dated 10 April 2013 contains detailed information of the above three directors as required by the Listing Rules.

In addition, the Company's Articles of Association also contain provisions on the procedures and process of appointment and removal of directors.

Nomination Committee

The Nomination Committee was established in June 2012 pursuant to the requirements of the Code. It meets from time to time to consider matters regarding the nomination and/or appointment or re-appointment of director(s).

The Nomination Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Nomination Committee now consists of 3 members (namely, Mr. Xiao Zhiyong (Chairman), Mr. Tong Jifeng and Mr. Lin Shimao), the majority of whom are INEDs, namely, Mr. Tong Jifeng and Mr. Lin Shimao.

The Nomination Committee did not hold any meeting from the Listing Date to 31 December 2012.

A meeting of the Nomination Committee, with all committee members present, was held in March 2013 for, among others, reviewing the Board's structure, size and composition of the Board, considering and recommending the re-election of the retiring directors at the 2013 AGM, and assessing the independence of the three independent non-executive directors of the Company.

A6: Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group that throughout year 2012, they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2012 are set out in the section "Directors' Report" of this Annual Report.

A7: Training and Continuing Development for Directors

Each newly-appointed director receives induction or training, at the Company's expense, on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. All the directors of the Company received training and read relevant training materials on obligations and responsibilities of directors under the Listing Rules and relevant regulatory requirements prior to the listing of the Company in July 2012.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors are arranged and funded by the Company whenever necessary.

Corporate Governance Report

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B1: The Level and Make-up of Remuneration and Disclosures

Remuneration Committee

The Remuneration Committee was established in June 2012 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of directors, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Remuneration Committee now consists of 3 members (namely, Mr. Yang Qingyun (Chairman), Mr. Tong Jifeng and Mr. Lin Shimao), the majority of whom are INEDs, namely, Mr. Tong Jifeng and Mr. Lin Shimao.

The Remuneration Committee did not hold any meeting from the Listing Date to 31 December 2012.

A meeting of the Remuneration Committee, with all committee members present, was held in March 2013 for, among others, reviewing the company's policy and structure for the remuneration of directors and senior management and reviewing the remuneration of the directors for the year 2012 and the remuneration and bonus policy for the year 2013.

Remuneration Policy and Long-Term Incentive Plan

To attract and retain talent and caliber, the Group provides competitive remuneration packages to its executive directors and senior management. These comprise base monthly salary, special allowances and long-term incentive plan which includes share option scheme. Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company. The remuneration payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and to give incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive directors' remuneration relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid monthly; and

- share options which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or remuneration payable to the Directors are set out in note 8 to the financial statements. Emoluments of the senior management (by band) are set out in note 32 to the financial statements.

C. ACCOUNTABILITY AND AUDIT

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

C1: Financial Reporting

As at 31 December 2012, the Group had net assets of approximately RMB857.3 million, the Group also recorded a profit attributable to the ordinary equity holders of the Company of approximately RMB246.2 million for the year ended 31 December 2012.

The financial statements set out on pages 50 to 111 were prepared on a going concern basis.

C2: Internal Control

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. The directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal control. During the year under review, the directors have reviewed the effectiveness of the internal control system of the Group.

The Group has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units.

The Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

Corporate Governance Report

C3: Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee is governed by its terms of reference, which have been adopted by the Board on 25 June 2012 pursuant to the Code. The terms of reference have been available on the Group's website at www.bolina.cc and on HKEx's website at http://www.hkex.com.hk since 13 July 2012.

The Audit Committee currently comprises 3 members, namely Mr. LIN Shimao, Mr. LEUNG Ka Man and Mr. TONG Jifeng. Mr. LIN Shimao is the chairman of the Audit Committee. The Audit Committee meets at least twice a year to review the Group's results.

From the Listing Date to 31 December 2012, the Audit Committee met two times to review and discuss the interim financial statements, results announcement and report for the six months ended 30 June 2012, the related accounting principles and practices adopted by the Group and the proposed plan for the audit work for the year of 2012. The attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meeting attended
Mr. LIN Shimao *(Chairman)*	2/2
Mr. LEUNG Ka Man	2/2
Mr. TONG Jifeng	2/2

A meeting of the Audit Committee, with all committee members present, was held in March 2013 for, among others, reviewing and discussing the report from auditors arising from auditing of the annual results, the draft audited financial statement, the draft annual results announcement and draft annual report of the Group for the year ended 31 December 2012, the effectiveness of the internal control system, and fees for and the re-appointment of the external auditors.

C4: External Auditors and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 December 2012 is set out in the section headed "Independent Auditors' Report" in this annual report.

The fees paid/payable to Ernst & Young for the year ended 31 December 2012 are analyzed below:

	Fees paid/payable
Audit services	RMB2,400,000
Non-audit services related to initial public offering and taxation	RMB1,600,000
TOTAL:	RMB4,000,000

D. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Group is committed to enhancing its corporate transparency and maintaining close communication with investors, the media and the public. Latest information of the Group including financial reports, announcements, press releases and presentations are available on its website in a timely manner.

The Group values the importance of maintaining a two-way communication with the investment community. Since the listing of the Company in July 2012, the Group maintains regular contact with research analysts, investors and the media through various channels such as one-on-one meetings, plant visits, luncheons and teleconferences. Analyst meetings and press conferences were also held after results announcement. In order to keep overseas investors abreast of its results performance and business development, the Group also actively participated in international investment forums and non-deal road shows.

There was no significant changes in the Company's constitutional documents from the Listing Date to 31 December 2012.

All published information, including all the statutory announcements, press releases and event calendars, is and will be promptly posted on the Group's website at www.bolina.cc. Viewers can also send enquiries to the Board or senior management and/or proposals to be put forward at shareholders' meeting by email at ir@bolina.cc or directly by raising questions at the annual general meeting of the Company.

According to the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Directors' Report

The board of directors of the Company (the "Board") are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group include the design, development, production, marketing and distribution of sanitary ware branded products marketed under our own brand in the PRC and under third parties' brands on an ODM and OEM basis to our international customers.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 50 of the annual report.

The Board recommended the payment of a final dividend of HK$0.10 (equivalent to approximately RMB0.08) per ordinary share for the year ended 31 December 2012 to the shareholders, estimated to be HK$101.5 million (equivalent to approximately RMB82.3 million), and the retention of the remaining profit in reserves.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 112 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers represented approximately 34.6% of the Group's total turnover for the year 2012, with the single largest customer contributing to approximately 19.5% of the Group's total turnover for the year. The aggregate purchase attributable to the Group's five largest suppliers represented approximately 41.0% of the Group's total purchases for the year 2012, with the single largest supplier contributing to approximately 11.5% of the Group's total purchases for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% equity interest of the Company), had any interest in any of the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in note 13 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 26 to the consolidated financial statements.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity on page 53 of the annual report, respectively.

Distributable Reserves of the Company

As at 31 December 2012, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Cayman Companies Law amounted to RMB363,522,000 (31 December 2011: Nil).

Donations

During the year ended 31 December 2012, the Group had made approximately RMB105,000 charitable donations in cash.

Directors

The Directors of the Company for the year and up to the date of this report were:

Executive Directors

Mr. Xiao Zhiyong *(Chairman and Chief Executive Officer)*
Ms. Ye Xiaohong
Mr. Yang Qingyun
Mr. Lu Jianqing

Independent Non-Executive Directors

Mr. Tong Jifeng
Mr. Lin Shimao
Mr. Leung Ka Man

In accordance with the Articles of Association of the Company, Ms. Ye Xiaohong, Mr. Yang Qingyun and Mr. Lu Jianqing will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 28 to 31 of the annual report.

Directors' Service Contracts

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report

Directors' Interests in the Shares and Share Options

The Company was listed on the main board of Hong Kong Stock Exchange on 13 July 2012. As at the date of this report, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

(a) Long position in ordinary shares of HKD0.01 each of the Company

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Mr. Xiao Zhiyong ("Mr. Xiao")	Long position	Interest in a controlled corporation[1]	599,993,023	59.13%
Ms. Ye Xiaohong ("Ms. Ye")	Long position	Interest of spouse[2]	599,993,023	59.13%
Max Lucky Group Limited ("Max Lucky")	Long position	Beneficial owner	599,993,023	59.13%

Notes:

1. Mr. Xiao is deemed to be interested in the shares held by Max Lucky by virtue of Max Lucky being controlled by Mr. Xiao directly.

2. Ms. Ye, being the wife of Mr. Xiao, is deemed (by virtue of the SFO) to be interested in 599,993,023 shares in the Company which are held by Max Lucky. Max Lucky is wholly-owned by Mr. Xiao.

(b) Interests in share options of the Company

Pursuant to a resolution passed on the general meeting of shareholders held on 25 June 2012, the Company adopted a share option scheme (the "Share Option Scheme"). As at 31 December 2012, no share options had been granted by the Company pursuant to the Share Option Scheme.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had any interests or short positions in any shares, share options, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

The Company was listed on the main board of Hong Kong Stock Exchange on 13 July 2012. As at the date of this report, other than the interests disclosed in the section "Directors' interest in the Shares and Share Options", the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following person(s)/corporation(s) held interests or short positions in 5% or more of the issued shares capital of the Company:

Name	Long/Short position	Type of interest	Number of Shares	Percentage of shareholding in the Company
Ms. Xiao Xiuyu ("Ms. Xiao")	Long position	Interest in a controlled corporation[1]	102,700,000	10.12%
Grand York Holdings Limited ("Grand York")	Long position	Beneficial owner	102,700,000	10.12%

Note:

1. Ms. Xiao, who is Mr. Xiao's sister, is deemed to be interested in the shares held by Grand York by virtue of Grand York being controlled by Ms. Xiao directly.

Save as disclosed above, other than the Directors or chief executive of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2012.

Directors' Interests in Contracts of Significance

Save as disclosed herein, no other contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or his/her associates had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Directors' Interests in Competing Business

During the year and up to the date of this report, none of the Directors of the Company and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Deed of Non-Competition

On 25 June 2012, Mr.Xiao, Max Lucky Group Limited and Ms. Xiao (the "Covenantors") entered into a deed of non-competition (the "Deed of Non-Competition"). The Covenantors have confirmed with the Company that they had fully complied with the Deed of Non-Competition during the period under review.

Directors' Report

Connected Transactions

During the period under review, the Group did not conduct any non-exempt connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

Share Option Scheme

The Company adopted the Share Option Scheme by passing of a shareholders' resolution on 25 June 2012, which is briefly summarised below. For a detailed summary of the Share Option Scheme, please refer to the prospectus issued by the Company dated 29 June 2012. Otherwise specified, the defined terms herein shall have the same meaning as that in the prospectus issued by the Company dated 29 June 2012.

The purpose of the Share Option Scheme is to reward Participants who have contributed to the Group and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

The Participants of the Share Option Scheme include directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, partners, joint venture business partners, promoters or service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of Shares in issue on the Listing Date (not taking into account any Shares which were allotted and issued under the Over-allotment Option) (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Share Option Scheme and (as the case may be) such other share option schemes of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit. Subject to certain conditions, the maximum number of Shares issued and to be issued upon exercise of the Options granted to each Grantee under the Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the Shareholders in a general meeting) exceed 1% of the Shares in issue for the time being (the "Individual Limit").

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during the Option Period (which shall not expire later than 10 years from the Date of Grant). After the expiration of the Option Period, no further Options shall be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. Options granted during the life of the Share Option Scheme shall continue to be exercisable in accordance with their terms of grant after the end of the ten-year period.

An Offer is deemed to be accepted when the Company receives from the Grantee the Offer letter signed by the Grantee specifying the number of Shares in respect of which the Offer is accepted, and a remittance to the Company of HK$1.00 as consideration for the grant of Option. The Subscription Price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of: (1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a Business Day; (2) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and (3) the nominal value of the Shares.

The Share Option Scheme was adopted for a period of ten years commencing from the Adoption Date. As at 31 December 2012, no share options had been granted by the Company pursuant to the Share Option Scheme.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float exceeding 25% of its issued share capital since its listing on the Hong Kong Stock Exchange on 13 July 2012.

Audit Committee

The Audit Committee has reviewed the accounting policies, accounting standards and practices adopted by the Group, and review the consolidated financial statements and results of the Group for the year ended 31 December 2012.

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2012 have been audited by Messrs. Ernst & Young, who will retire and, being eligible, will offer themselves for reappointment at the forthcoming annual general meeting.

For and on behalf of the Board

Xiao Zhiyong
Chairman

Hong Kong, 18 March 2013

Independent Auditors' Report

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To the shareholders of Bolina Holding Co., Ltd.
(Incorporated in the Cayman Islands as an exempted company with limited liability)

We have audited the consolidated financial statements of Bolina Holding Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

18 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4(a)	**816,739**	655,482
Cost of sales	5(b)	**(426,916)**	(351,757)
Gross profit		**389,823**	303,725
Other income and gains, net	4(b)	**6,451**	2,346
Selling and distribution costs		**(39,298)**	(25,587)
Administrative expenses		**(58,955)**	(50,921)
Profit from operations		**298,021**	229,563
Finance costs	6	**(15,312)**	(14,408)
Profit before tax	5	**282,709**	215,155
Income tax expense	7	**(36,463)**	(54,761)
Profit for the year attributable to the owners of the parent		**246,246**	160,394
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
Basic – For profit for the year	11	**0.28**	0.20
Diluted – For profit for the year	11	**0.28**	0.20

Details of the dividends payable and proposed for the year are disclosed in note 10 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012	2011
	RMB'000	RMB'000
PROFIT FOR THE YEAR	**246,246**	160,394
Exchange differences on translation of foreign operations	**(1,370)**	(396)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(1,370)**	(396)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**244,876**	159,998

Consolidated Statement of Financial Position

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**194,449**	159,005
Prepaid lease payments	14	**14,608**	14,959
Intangible assets	15	**331**	256
Deferred tax assets	25(b)	**5,675**	3,331
Total non-current assets		**215,063**	177,551
CURRENT ASSETS			
Inventories	16	**72,963**	74,162
Trade receivables	17	**58,395**	58,296
Prepayments, deposits and other receivables	18	**10,984**	13,416
Cash and cash equivalents	19	**789,822**	261,458
Total current assets		**932,164**	407,332
CURRENT LIABILITIES			
Trade payables	20	**31,774**	25,426
Other payables and accruals	21	**59,207**	47,547
Dividends payable	22	**–**	17,563
Amounts due to the Controlling Shareholder	32(b)	**–**	807
Bank loans and other borrowings	23	**170,549**	225,037
Income tax payable	25(a)	**8,098**	15,382
Total current liabilities		**269,628**	331,762
NET CURRENT ASSETS		**662,536**	75,570
TOTAL ASSETS LESS CURRENT LIABILITIES		**877,599**	253,121
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25(b)	**20,334**	9,814
Total non-current liabilities		**20,334**	9,814
Net assets		**857,265**	243,307
EQUITY			
Equity attributable to owners of the parent			
Issued capital	26	**8,274**	–
Reserves	27	**766,719**	243,307
Proposed final dividend		**82,272**	–
Total equity		**857,265**	243,307

Xiao Zhiyong
Director

Yang Qingyun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	Attributable to owners of the parent									
		Issued capital RMB'000 Note 26	Share premium* RMB'000 Note 26	Discretionary reserve fund * RMB'000 Note 27(a)(i)	Statutory reserve * RMB'000 Note 27(a)(ii)	Merger reserve * RMB'000 Note 27(a)(iii)	Capital reserve* RMB'000 Note 27(a)(iii)	Exchange fluctuation reserve * RMB'000 Note 27(a)(iv)	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2011		–	–	12,286	4,540	80,011	–	4,078	68,344	–	169,259
Profit for the year		–	–	–	–	–	–	–	160,394	–	160,394
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(396)	–	–	(396)
Total comprehensive income for the year		–	–	–	–	–	–	(396)	160,394	–	159,998
Transfer from retained profits		–	–	9,608	2,960	–	–	–	(12,568)	–	–
Contribution by the Controlling Shareholder		–	–	–	–	101,070	–	–	–	–	101,070
Distribution to the Controlling Shareholder		–	–	–	–	(80,000)	–	–	–	–	(80,000)
Dividends declared to the Controlling Shareholder		–	–	–	–	–	–	–	(89,367)	–	(89,367)
Dividends declared to the shareholders of the Company		–	–	–	–	–	–	–	(17,653)	–	(17,653)
At 31 December 2011		–	–	21,894	7,500	101,081	–	3,682	109,150	–	243,307
At 1 January 2012		**-**	**-**	**21,894**	**7,500**	**101,081**	**-**	**3,682**	**109,150**	**-**	**243,307**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**246,246**	**-**	**246,246**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**(1,370)**	**-**	**-**	**(1,370)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(1,370)**	**246,246**	**-**	**244,876**
Transfer from retained profits		**-**	**-**	**-**	**9,572**	**-**	**-**	**-**	**(9,572)**	**-**	**-**
Transfer to capital reserve		**-**	**-**	**-**	**-**	**(101,081)**	**101,081**	**-**	**-**	**-**	**-**
Proposed final dividend	10	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(82,272)**	**82,272**	**-**
Issue of shares	26	**8,274**	**385,710**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**393,984**
Share issue expenses	26	**-**	**(24,902)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(24,902)**
At 31 December 2012		**8,274**	**360,808**	**21,894**	**17,072**	**-**	**101,081**	**2,312**	**263,552**	**82,272**	**857,265**

* These reserve accounts comprise the consolidated reserves of RMB766,719,000 (2011: RMB243,307,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before tax		**282,709**	215,155
Adjustments for:			
– Depreciation	13	**9,137**	8,049
– Recognition of prepaid land lease payments	14	**351**	345
– Amortisation of intangible assets	15	**66**	48
– Reversal of provision for impairment of trade receivables	5(c)	**–**	(136)
– Interest income	4(b)	**(2,178)**	(231)
– Gain on disposal of items of property, plant and equipment	4(b)	**–**	(10)
– Finance costs	6	**15,312**	14,408
		305,397	237,628
Increase in trade receivables		**(99)**	(6,812)
Decrease/(increase) in prepayments, deposits and other receivables		**4,216**	(2,782)
Decrease in inventories		**1,199**	18,901
Increase in trade payables		**6,348**	2,462
Increase in other payables and accruals		**18,182**	11,547
Cash generated from operations		**335,243**	260,944
Tax paid		**(50,918)**	(34,599)
Receipt of tax refund		**15,347**	–
Net cash flows generated from operating activities		**299,672**	226,345
Cash flows from investing activities			
Purchase of items of property, plant and equipment		**(42,261)**	(80,632)
Proceeds from disposal of items of property, plant and equipment		**–**	20
Purchase of intangible assets		**(141)**	–
Increase in pledged bank balances		**–**	907
Advances to third parties		**(91,090)**	(291,621)
Collection of advances to third parties		**91,090**	378,818
Advances to a related party		**(33,000)**	(671,628)
Collection of advances to a related party		**33,000**	750,179
Interest received		**2,178**	231
Net cash (used in)/from investing activities		**(40,224)**	86,274

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from financing activities			
Proceeds from issue of shares		**393,984**	–
Share issue expenses		**(24,902)**	–
Proceeds from bank loans and other borrowings		**503,022**	415,206
Repayment of bank loans and other borrowings		**(557,510)**	(420,541)
Contribution by the Controlling Shareholder		**–**	101,070
Advances from third parties		**–**	3,000
Repayment of advances from third parties		**–**	(3,000)
Advances from the Controlling Shareholder		**2,919**	53,617
Repayment of advances from the Controlling Shareholder		**(3,726)**	(68,590)
Distribution to the Controlling Shareholder		**–**	(80,000)
Dividends paid		**(17,563)**	(101,867)
Interest paid		**(16,531)**	(15,392)
Listing expenses paid		**(9,407)**	–
Net cash from/(used in) financing activities		**270,286**	(116,497)
Net increase in cash and cash equivalents		**529,734**	196,122
Cash and cash equivalents at beginning of year		**261,458**	65,822
Effect of foreign exchange rate changes, net		**(1,370)**	(486)
Cash and cash equivalents at end of year		**789,822**	261,458
Analysis of balances of cash and cash equivalents			
Cash and bank balances	19	**689,822**	175,958
Time deposits	19	**100,000**	85,500
Cash and cash equivalents as stated in the statement of financial position		**789,822**	261,458

Statement of Financial Position

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	34	**170,886**	170,886
Amounts due from subsidiaries	34	**352,858**	–
Total non-current assets		**523,744**	170,886
CURRENT ASSETS			
Dividend receivable from a subsidiary		**92,955**	17,880
Prepayments, deposits and other receivables		**182**	181
Cash and cash equivalents	19	**17,334**	–
Total current assets		**110,471**	18,061
CURRENT LIABILITIES			
Dividends payable		**–**	17,563
Amounts due to a subsidiary	34	**11,714**	520
Total current liabilities		**11,714**	18,083
Net assets		**622,501**	170,864
EQUITY			
Issued capital	26	**8,274**	–
Reserves	27(b)	**531,955**	170,864
Proposed final dividend		**82,272**	–
Total equity		**622,501**	170,864

Xiao Zhiyong
Director

Yang Qingyun
Director

Notes to Financial Statements

31 December 2012

1. CORPORATE INFORMATION

Bolina Holding Co., Ltd. (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 19 April 2011. The registered office of the Company is located at the offices of Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Group has established a principal place of business which is located at Suite No.2 on 17/F., Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong.

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 13 July 2012.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the manufacture and sale of sanitary ware and accessories. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is Max Lucky Group Limited ("Max Lucky"), which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise stated.

Basis of consolidation

Pursuant to the reorganisation ("Reorganisation") as more fully illustrated in the paragraph headed "Our Reorganisation" in the section headed "History, Reorganisation and Group Structure" to the prospectus ("Prospectus") issued by the Company on 29 June 2012, the Company became the holding company of the companies now comprising the Group on 22 June 2011. Before the Reorganisation and formation of the Group, the listing business was carried out by the subsidiaries now comprising the Group as set out in note 34, all of which were collectively controlled by Mr. Xiao Zhiyong ("Mr. Xiao") and Ms. Ye Xiaohong ("Ms. Ye") (hereinafter collectively referred to as the "Controlling Shareholder"). The consolidated financial statements have been prepared on a combined basis by applying the principles of merger accounting as the Reorganisation involved business combination of entities under common control and the Group is regarded and accounted for as a continuing group. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition.

Notes to Financial Statements

31 December 2012

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Accordingly, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 December 2011 include the financial information of the Company and its subsidiaries with effect from 1 January 2011 or since their respective dates of incorporation, whichever is shorter. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements *2009-2011 Cycle*	*Amendments to a number of HKFRSs issued in June 2012*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Notes to Financial Statements

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Notes to Financial Statements

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set-off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	Over the lease terms
Buildings	20 years
Plant and machinery	5 to 20 years
Furniture and fixtures	3 to 5 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or pending for installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	5 years
Brand name	10 years

Research and development costs

All research costs are charged to the income statement as incurred.

Notes to Financial Statements

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the income statement as other income in accordance with the policy set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset when it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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 financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, amounts due to the Controlling Shareholder and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are entitled to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is also the functional currency of the subsidiaries located in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessee

The Group has entered into property, plant and equipment leases with various lessors. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessors retain all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Current income tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sanitary ware and accessories. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sale of sanitary ware and accessories.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

The following tables present the Group's geographical information in terms of revenue for the years ended 31 December 2012 and 2011, and non-current assets as at 31 December 2012 and 2011.

(a) Revenue from external customers

	2012 RMB'000	2011 RMB'000
Americas	**280,024**	245,970
Mainland China	**507,358**	378,415
Europe	**12,690**	15,644
Asia (excluding Mainland China)	**16,667**	15,453
	816,739	655,482

The revenue information above is based on locations of the customers.

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
Mainland China	**209,388**	174,220

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

Revenue from one of the Group's customers amounting to RMB159,273,000 (2011: RMB142,186,000) has accounted for over 10% of the Group's total revenue.

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4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after netting off sales rebates for the years ended 31 December 2012 and 2011.

(a) Revenue

	2012	2011
	RMB'000	RMB'000
Revenue from the sale of sanitary ware and accessories	**816,739**	655,482

(b) Other income and gains, net

	2012	2011
	RMB'000	RMB'000
Other income		
Government grants*	**4,138**	1,365
Interest income	**2,178**	231
Others	**135**	740
	6,451	2,336
Gains, net		
Gains on disposal of items of property, plant and equipment	**–**	10
Other income and gains, net	**6,451**	2,346

* Various government grants have been received for conducting export sales within Fujian Province, Mainland China, setting up research activities to renovate production machines to save energy and for listing rewards. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2012.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		2012 RMB'000	2011 RMB'000
(a)	**Employee benefit expense (including directors' and chief executive's remuneration (note 8))**		
	Wages and salaries	**70,957**	54,656
	Pension scheme contributions, social welfare and other welfare	**8,796**	7,680
		79,753	62,336
(b)	**Cost of sales**		
	Cost of inventories sold	**324,027**	257,911
	Others	**102,889**	93,846
		426,916	351,757
(c)	**Other items**		
	Depreciation of property, plant and equipment*	**9,137**	8,049
	Recognition of prepaid lease payments	**351**	345
	Amortisation of intangible assets	**66**	48
	Operating lease expenses*	**8,749**	9,049
	Advertisement expenses	**15,640**	7,937
	Office expenses	**3,820**	2,379
	Logistics expenses	**11,366**	7,566
	Listing expenses	**5,080**	17,284
	Research and development expenses*	**16,162**	5,508
	Reversal of provision for impairment of trade receivables	**–**	(136)
	Foreign exchange differences, net	**3,492**	1,462
	Auditors' remuneration	**2,400**	73
	Gain on disposal of items of property, plant and equipment	**–**	(10)

* The depreciation amounts of property, plant and equipment of RMB6,956,000 (2011: RMB5,858,000), the operating lease expenses of RMB7,688,000 (2011: RMB7,688,000) and the research and development expenses of RMB9,803,000 (2011: Nil) are included in "Cost of sales" in the consolidated income statement.

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6. FINANCE COSTS

Group

	2012 **RMB'000**	2011 RMB'000
Interest expense on bank borrowings wholly repayable within five years	**15,634**	14,569
Interest expense on other borrowings wholly repayable within five years	**897**	823
Total interest expenses	**16,531**	15,392
Less: Interest capitalised	**(1,219)**	(984)
	15,312	14,408

7. TAX

(a) Tax in the consolidated income statement represents:

Group

	2012 **RMB'000**	2011 RMB'000
Current – Mainland China corporate income tax	**28,287**	48,113
Deferred tax (note 25(b))	**8,176**	6,648
	36,463	54,761

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% during the year ended 31 December 2012 (2011: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2012 (2011: Nil).

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

7. TAX (continued)

(a) Tax in the consolidated income statement represents: (continued)

Pursuant to the International Business Companies Act, 1984 (the "IBC Act") of the British Virgin Islands ("BVI"), international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax and all forms of withholding tax. Accordingly, the subsidiary incorporated in the BVI is not subject to tax.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "Income Tax Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which have been effective since 1 January 2008. According to the Income Tax Law, the income tax rates for both domestic and foreign investment enterprises were unified at 25% effective from 1 January 2008.

Under the Income Tax Law of the People's Republic of China (the "PRC"), the Company's subsidiaries that are established in the PRC were subject to income tax at a base rate of 25% during the year, except for the following two subsidiaries:

Zhangzhou Wanhui Sanitary Ware Co., Ltd. ("Zhangzhou Wanhui"), which is a foreign-invested enterprise exempted from corporate income tax for its first two profit-making years and is entitled to a 50% tax reduction for the succeeding three years. Since Zhangzhou Wanhui has become profitable since 2008, Zhangzhou Wanhui enjoyed tax exemption for the years 2008 and 2009, and enjoyed 50% tax concession from year 2010 to year 2012.

Zhangzhou Wanjia Ceramic Industry Co., Ltd. ("Zhangzhou Wanjia") has successfully applied for accreditation as a New and High technology Enterprise by the accreditation administrative authorities in the PRC, which entitles an entity to a preferential corporate income tax rate of 15% from year 2011 to 2013.

Pursuant to the Income Tax Law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of Mainland China from retained earnings as at 31 December 2007 are exempted from the withholding tax.

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7. TAX (continued)

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2012 **RMB'000**	2011 RMB'000
Profit before tax	**282,709**	215,155
Tax at the statutory tax rate (25%)	**70,677**	53,789
Lower tax rates enacted by local authorities	**(30,834)**	(12,291)
Tax refund in respect of tax paid in previous years	**(1,696)**	–
Adjustments in respect of current tax of previous years (note (a))	**(13,690)**	–
Expenses not deductible for tax purpose	**845**	1,433
Tax losses utilised from previous years	**–**	(373)
Tax loss not recognised	**976**	1,917
Effect of changes in tax rates on deferred tax assets recognised	**–**	1,353
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in Mainland China	**10,185**	8,933
Tax charge	**36,463**	54,761

Note:

(a) On 28 April 2012, Zhangzhou Wanjia was approved by the relevant tax authority as a New and High Technology Enterprise to enjoy a preferential corporate income tax rate of 15% for three years from year 2011 to year 2013. In this regard, the excess of the corporate income tax expenses provided at the statutory tax rate of 25% as at 31 December 2011 over the preferential income tax of approximately RMB13,690,000 was reversed during the year ended 31 December 2012 after the statutory annual tax filing.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Fees	**303**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**391**	225
Discretionary bonuses	**241**	–
Pension scheme contributions	**22**	19
	654	244
	957	244

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Mr. TONG Jifeng	**30**	–
Mr. LIN Shimao	**30**	–
Mr. LEUNG Ka Man	**61**	–
	121	–

Mr. TONG Jifeng, Mr. LIN Shimao and Mr. LEUNG Ka Man were appointed as independent non-executive directors on 25 June 2012.

There was no other emolument payable to the independent non-executive directors during the year (2011: Nil).

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and the chief executive

	Year ended 31 December 2012				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
Executive director and chief executive					
Mr. XIAO Zhiyong	94	238	111	7	450
Executive directors					
Ms. YE Xiaohong	28	46	43	5	122
Mr. YANG Qingyun	30	56	44	5	135
Mr. LU Jianqing	30	51	43	5	129
	182	391	241	22	836

	Year ended 31 December 2011				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
Executive director and chief executive					
Mr. XIAO Zhiyong	–	106	–	7	113
Executive directors					
Ms. YE Xiaohong	–	29	–	4	33
Mr. YANG Qingyun	–	50	–	4	54
Mr. LU Jianqing	–	40	–	4	44
	–	225	–	19	244

Mr. XIAO Zhiyong was appointed as the Company's executive director on 19 April 2011.

Ms. YE Xiaohong, Mr. YANG Qingyun and Mr. LU Jianqing were appointed as the Company's executive directors on 25 June 2012.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year ended 31 December 2012 included three directors and the chief executive (2011: one director and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2011: three) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,686**	849
Pension scheme contributions and social welfare	**11**	29
	1,697	878

The number of non-director and non-chief executive, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**–**	3
HK$2,000,000 to HK$2,500,000	**1**	–
	1	3

10. DIVIDENDS

A final dividend of HK$0.10 (2011: Nil) per share in respect of the year ended 31 December 2012 amounting to approximately HK$101,470,000 (equivalent to approximately RMB82,272,000) (2011: Nil) has been proposed by the board of directors and is subject to approval by the Company's shareholders at the forthcoming general meeting. In 2011, the amount of approximately RMB17,563,000 was the dividend paid by the companies comprising the Group to their shareholders prior to the Reorganisation.

Notes to Financial Statements

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to the ordinary equity holders of the parent of RMB246,246,000 (2011: RMB160,394,000) and the weighted average number of ordinary shares of 894,223,288 (2011: 790,000,000) deemed to have been in issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share amount for the year ended 31 December 2011 includes the pro forma issued share capital of the Company of 790,000,000 shares as further detailed in note 26.

The weighted average number of ordinary shares of 894,223,288 used to calculate the basic earnings per share amount for the year ended 31 December 2012 includes the weighted average of:

(i) the 210,000,000 ordinary shares issued upon the listing of the Company's ordinary shares on the Stock Exchange on 13 July 2012 (note 26(f));

(ii) the 14,700,000 ordinary shares issued upon the exercise of the Over-allotment Option (as defined in note 26(g)) on 8 August 2012 (note 26(g)); and

(iii) the aforementioned pro forma issued share capital of the Company of 790,000,000 shares.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2012 and 2011 as the Group had no potentially dilutive ordinary shares in issue during those years.

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB84,986,000 (2011: RMB17,563,000) which has been dealt with in the financial statements of the Company (note 27(b)).

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2011	–	58,567	55,079	2,445	5,365	1,592	123,048
Additions	–	–	3,059	619	2,000	59,430	65,108
Transfer	1,284	1,928	189	–	–	(3,401)	–
Disposals	–	–	–	–	(96)	–	(96)
At 31 December 2011	1,284	60,495	58,327	3,064	7,269	57,621	188,060
Accumulated depreciation:							
At 1 January 2011	–	8,193	10,003	883	2,013	–	21,092
Depreciation during the year	48	2,660	3,935	465	941	–	8,049
Disposals	–	–	–	–	(86)	–	(86)
At 31 December 2011	48	10,853	13,938	1,348	2,868	–	29,055
Net book value:							
At 31 December 2011	1,236	49,642	44,389	1,716	4,401	57,621	159,005
Cost:							
At 1 January 2012	**1,284**	**60,495**	**58,327**	**3,064**	**7,269**	**57,621**	**188,060**
Additions	**–**	**2,505**	**22,586**	**696**	**915**	**17,879**	**44,581**
Transfer	**–**	**53,262**	**5,552**	**–**	**–**	**(58,814)**	**–**
At 31 December 2012	**1,284**	**116,262**	**86,465**	**3,760**	**8,184**	**16,686**	**232,641**
Accumulated depreciation:							
At 1 January 2012	**48**	**10,853**	**13,938**	**1,348**	**2,868**	**–**	**29,055**
Depreciation during the year	**142**	**3,509**	**4,073**	**458**	**955**	**–**	**9,137**
At 31 December 2012	**190**	**14,362**	**18,011**	**1,806**	**3,823**	**–**	**38,192**
Net book value:							
At 31 December 2012	**1,094**	**101,900**	**68,454**	**1,954**	**4,361**	**16,686**	**194,449**

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the Group's buildings with an aggregate net book value of approximately RMB84,768,000 (2011: RMB43,178,000) were pledged as security for the Group's bank borrowings (note 23(a)(ii)).

The Group's buildings included above at cost and prepaid land lease payments included in note 14 at cost were valued at RMB132,863,000 as at 31 March 2012 in the prospectus issued on 29 June 2012 in connection with the listing of the Company's shares on 13 July 2012. Had these buildings and prepaid land lease payments been included at such valuation amount throughout the year ended 31 December 2012, an additional depreciation and amortisation charge of RMB1,721,000 would have been recognised in the consolidated income statement for the year ended 31 December 2012.

14. PREPAID LEASE PAYMENTS

Group

	2012 **RMB'000**	2011 RMB'000
Cost:		
At the beginning and end of the year	**16,900**	16,900
Amortisation:		
At the beginning of the year	**1,941**	1,596
Charge for the year	**351**	345
At the end of the year	**2,292**	1,941
Net book value:		
At the end of the year	**14,608**	14,959

The carrying amount of the Group's prepaid lease payments represents the amount of land use rights situated in Mainland China and held under a medium term lease. The remaining lease terms of the land use rights of the Group range from 39 to 44 years.

Certain of the Group's prepaid land lease payments with an aggregate net book value of approximately RMB12,415,000 (2011: RMB12,710,000) were pledged as security for the Group's bank borrowings (note 23(a)(i)).

15. INTANGIBLE ASSETS

Group

	Brand name RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2011	320	80	400
Accumulated amortisation:			
At 1 January 2011	96	–	96
Amortisation provided during the year	32	16	48
At 31 December 2011	128	16	144
Net book value:			
At 31 December 2011	192	64	256
Cost:			
At 1 January 2012	**320**	**80**	**400**
Additions	**–**	**141**	**141**
At 31 December 2012	**320**	**221**	**541**
Accumulated amortisation:			
At 1 January 2012	**128**	**16**	**144**
Amortisation provided during the year	**32**	**34**	**66**
At 31 December 2012	**160**	**50**	**210**
Net book value:			
At 31 December 2012	**160**	**171**	**331**

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16. INVENTORIES

Group

	2012 RMB'000	2011 RMB'000
Raw materials	**7,182**	8,772
Accessories	**5,685**	6,810
Work in progress	**10,290**	9,725
Finished goods	**48,255**	46,970
Wrappage	**1,551**	1,885
	72,963	74,162

17. TRADE RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000
Trade receivables	**58,869**	58,770
Impairment	**(474)**	(474)
	58,395	58,296

The Group's trading terms with its overseas customers are mainly on credit and advance payment is normally required for domestic customers. The credit period for overseas customers is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, except for one major customer set out in note 3, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2012 RMB'000	2011 RMB'000
Within 3 months	**54,143**	51,251
More than 3 months but less than 1 year	**2,769**	5,408
Over 1 year	**1,483**	1,637
	58,395	58,296

17. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	**54,143**	51,251
Less than 3 months past due	**2,734**	3,924
3 to 12 months past due	**35**	1,484
Over 1 year past due	**1,483**	1,637
	58,395	58,296

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the view that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The movement in the provision for impairment of trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
At the beginning of the year	**474**	610
Impairment losses reversed	**–**	(136)
At the end of the year	**474**	474

Included in the above provision for impairment of trade receivables as at 31 December 2012 is a provision for individually impaired trade receivables of RMB474,000 (31 December 2011: RMB474,000).

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18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000
Prepayments and deposits to suppliers	**3,967**	6,133
Deposits and prepayments to chain supermarkets	**1,728**	2,571
Others	**5,289**	4,712
	10,984	13,416

Note:

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash and bank balances	**689,822**	175,958	**17,334**	–
Time deposits	**100,000**	85,500	**–**	–
Cash and cash equivalents	**789,822**	261,458	**17,334**	–

At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to RMB616,906,000 (31 December 2011: RMB246,320,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for one year, and earn interest at short-term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

20. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

Group

	2012	2011
	RMB'000	RMB'000
Within 3 months	**28,030**	22,482
3 to 6 months	**2,053**	1,020
6 to 12 months	**308**	243
Over 12 months	**1,383**	1,681
	31,774	25,426

The trade payables are non-interest-bearing and are normally settled on terms of 15 to 120 days.

21. OTHER PAYABLES AND ACCRUALS

Group

	2012	2011
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	**5,951**	3,066
Advances from customers	**3,562**	1,508
Staff payroll and welfare payables	**15,911**	11,377
Payables for sales rebate	**16,016**	15,958
Other taxes payable	**2,748**	4,327
Rental payable	**8,405**	2,407
Payables related to the listing of the Company's shares	**–**	4,647
Others	**6,614**	4,257
	59,207	47,547

22. DIVIDENDS PAYABLE

Dividends payable as at 31 December 2011 represented the outstanding dividends payable to the shareholders of the Company, which were paid during the year ended 31 December 2012.

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23. BANK LOANS AND OTHER BORROWINGS

Group

	2012 Effective interest rate (%)	2012 RMB'000	2011 Effective interest rate (%)	2011 RMB'000
Current bank borrowings	6 – 8	141,900	6 – 9	196,500
Other borrowings	3 – 5	28,649	3 – 5	28,537
		170,549		225,037
Current bank borrowings and other borrowings represent:				
– Secured (note (a))		83,649		140,037
– Guaranteed (note (b))		56,900		60,000
– Unsecured		30,000		25,000
		170,549		225,037

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value of approximately RMB12,415,000 as at 31 December 2012 (31 December 2011: RMB12,710,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB84,768,000 as at 31 December 2012 (31 December 2011: RMB43,178,000); and

(iii) mortgages over the Group's forward letters of credit which amounted to RMB29,179,000 as at 31 December 2012 (31 December 2011: RMB29,156,000).

(b) Certain of the Group's bank borrowings which amounted to RMB49,900,000 as at 31 December 2012 (31 December 2011: RMB30,000,000) were guaranteed by the Controlling Shareholder. Certain of the Group's bank borrowings which amounted to RMB7,000,000 as at 31 December 2012 (31 December 2011: RMB30,000,000) were guaranteed by certain third parties.

24. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. During the year, the Mainland China subsidiaries were required to make contributions to the local social security bureau at 10% to 22% (2011: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

As at 31 December 2012 and 2011, the Group had no significant obligation apart from the contribution as stated above.

25. INCOME TAX PAYABLE AND DEFERRED TAX

Group

(a) The movements in income tax payable during the year are as follows:

	2012 **RMB'000**	2011 RMB'000
At the beginning of the year	**15,382**	1,666
Provision for current tax for the year	**28,287**	48,113
Withholding tax	**–**	202
Receipt of tax refund	**15,347**	–
Current tax paid	**(50,918)**	(34,599)
At the end of the year	**8,098**	15,382

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25. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax assets:

	Losses available for offsetting against future taxable profits	Accruals	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2011	–	746	746
Deferred tax credited to the consolidated income statement during the year (note 7)	691	1,894	2,585
At 31 December 2011 and at 1 January 2012	691	2,640	3,331
Deferred tax credited to the consolidated income statement during the year (note 7)	–	2,344	2,344
At 31 December 2012	691	4,984	5,675

The Group has tax losses arising in Mainland China of RMB3,404,000 as at 31 December 2012 (31 December 2011: RMB3,103,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB34,711,000 as at 31 December 2012 (31 December 2011: RMB14,916,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of certain of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

25. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

Deferred tax liabilities:

	Accelerated depreciation for tax purposes RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2011	742	41	783
Deferred tax charged to the consolidated income statement during the year (note 7)	299	8,934	9,233
Transferred to tax payable during the year	–	(202)	(202)
At 31 December 2011 and at 1 January 2012	1,041	8,773	9,814
Deferred tax charged to the consolidated income statement during the year (note 7)	334	10,186	10,520
At 31 December 2012	1,375	18,959	20,334

26. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 19 April 2011 (date of incorporation) to 31 December 2012.

	Notes	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Authorised:				
On incorporation	(a)	38,000,000	380	319
Increase in authorised share capital on 25 June 2012	(b)	1,962,000,000	19,620	16,293
As at 31 December 2012		2,000,000,000	20,000	16,612

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26. SHARE CAPITAL (continued)

	Notes	Number of ordinary shares of HK$0.01	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued:					
On incorporation	(c)	1	–	–	–
Increase in issued share capital on 22 June 2011	(d)	99	–	–	–
Capitalisation issue credited as fully-paid conditional on the share premium account of the Company, being credited as a result of the issuance of new shares to the public	(e)	789,999,900	6,442	–	6,442
Pro forma issued capital at 31 December 2011		790,000,000	6,442	–	6,442
Issuance of new shares on 13 July 2012	(f)	210,000,000	1,712	359,999	361,711
Issuance of new shares on 8 August 2012	(g)	14,700,000	120	25,711	25,831
		224,700,000	1,832	385,710	387,542
Share issue expenses		–	–	(24,902)	(24,902)
As at 31 December 2012		1,014,700,000	8,274	360,808	369,082

26. SHARE CAPITAL (continued)

Notes:

(a) On incorporation of the Company on 19 April 2011, the authorised share capital of the Company was HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

(b) Pursuant to the resolutions in writing of the shareholders of the Company passed on 25 June 2012, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 by the creation of an additional 1,962,000,000 shares.

(c) On the date of incorporation, one ordinary share of HK$0.01 was allotted, issued and credited as fully paid to the Company's then shareholder.

(d) On 22 June 2011, an application for the allotment and subscription of 99 shares was made by Max Lucky and 99 shares of HK$0.01 each were issued and allotted to Max Lucky credited as fully paid.

(e) Pursuant to a resolution passed on 25 June 2012, 789,999,900 shares of HK$0.01 each were allotted and issued, credited as fully paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appear on the register of members of the Company at the close of business on 25 June 2012 in proportion to their respective shareholdings. This allotment and the capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in note (f) below.

(f) In connection with the Company's initial public offering, 210,000,000 shares of HK$0.01 each were issued at a price of HK$2.15 per share for a total cash consideration, before expenses, of approximately HK$451,500,000. Dealings in these shares on the Stock Exchange commenced on 13 July 2012.

(g) Pursuant to the international underwriting agreement dated 29 June 2012, the Company granted an option (the "Over-allotment Option") to the international underwriters, exercisable by CCB International Capital Limited and BOCI Asia Limited on behalf of the international underwriters. On 3 August 2012, the Over-allotment Option was partially exercised, whereby 14,700,000 shares were issued to cover over-allocations in the international offering. The exercise price per share under the Over-allotment Option is HK$2.15. Dealings in these shares on the Stock Exchange commenced on 8 August 2012.

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27. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein for the years ended 31 December 2012 and 2011 are presented in the consolidated statement of changes in equity.

(i) *Discretionary reserve fund*

Pursuant to the articles of association of certain subsidiaries of the Group established in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China (revised), the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity shareholders' existing equity holdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(ii) *Statutory reserve*

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 34 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

(iii) *Merger reserve*

The merger reserve of the Group represents the capital contributions from the equity holders of the Company. The additions during the year ended 31 December 2011 represent the injection of additional paid-in capital by the equity holders of the subsidiaries to the respective companies. The deductions during the year ended 31 December 2011 represent the acquisition of paid-in capital of the subsidiaries by the Group from the Controlling Shareholder which is accounted for as distribution to the Controlling Shareholder. The merger reserve has been transferred to the capital reserve during the year upon completion of the Reorganisation.

(iv) *Exchange fluctuation reserve*

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China.

27. RESERVES (continued)

(b) Company

	Contributed surplus* RMB'000	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
On incorporation	–	–	–	–	–
Effect of reorganisation	170,886	–	–	–	170,886
Total comprehensive income for the year	–	–	(22)	17,563	17,541
Dividends declared to the shareholders of the Company	–	–	–	(17,563)	(17,563)
At 31 December 2011 and 1 January 2012	170,886	–	(22)	–	170,864
Total comprehensive income for the year	**–**	**–**	**(2,431)**	**84,986**	**82,555**
Issue of shares	**–**	**385,710**	**–**	**–**	**385,710**
Share issue expenses	**–**	**(24,902)**	**–**	**–**	**(24,902)**
Proposed final dividend	**–**	**–**	**–**	**(82,272)**	**(82,272)**
At 31 December 2012	**170,886**	**360,808**	**(2,453)**	**2,714**	**531,955**

* The contributed surplus arose when the Company acquired the entire issued share capital of Bolina (China) Holding Co., Ltd. at a consideration of RMB1 in connection with the Reorganisation. This surplus represents the difference between the nominal value of the consideration and the value of net assets of the subsidiaries acquired.

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28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	Loans and receivables	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**58,395**	58,296
Financial assets included in prepayments, deposits and other receivables	**2,138**	4,381
Cash and cash equivalents	**789,822**	261,458
	850,355	324,135

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Trade payables	**31,774**	25,426
Financial liabilities included in other payables and accruals	**36,515**	30,335
Dividends payable	**–**	17,563
Amounts due to the Controlling Shareholder	**–**	807
Bank loans and other borrowings	**170,549**	225,037
	238,838	299,168

28. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	Loans and receivables	
	2012	2011
	RMB'000	RMB'000
Amounts due from subsidiaries	**352,858**	–
Cash and cash equivalents	**17,334**	–
	370,192	–

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Dividends payable	**–**	17,563
Amounts due to a subsidiary	**11,714**	520
	11,714	18,083

29. CONTINGENT LIABILITIES

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities (31 December 2011: Nil).

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30. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding at the end of the reporting period not provided for in the financial statements are as follows:

	2012 **RMB'000**	2011 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**24,072**	5,135
Authorised, but not contracted for:		
Property, plant and equipment	**273,626**	184,781
	297,698	189,916

(b) Operating lease commitments

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases as follows:

Group

	2012 **RMB'000**	2011 RMB'000
Within 1 year	**8,169**	8,126
After 1 year but within 5 years	**31,833**	26,139
After 5 years	**20,333**	22,000
	60,335	56,265

Company

	2012 **RMB'000**	2011 RMB'000
Within 1 year	**389**	719
After 1 year but within 5 years	**–**	389
	389	1,108

31. PLEDGE OF ASSETS

Details of the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in note 23 to the financial statements.

32. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Mr. Xiao Zhiyong and Ms. Ye Xiaohong are collectively the Controlling Shareholder of the Group. They are also considered to be related parties of the Group.

Fujian Wanhui Investment Co., Ltd. ("Wanhui Investment") is a company controlled by the Controlling Shareholder and considered to be a related party of the Group.

(a) Transactions with related parties

The following transactions were carried out with related parties during the years ended 31 December 2012 and 2011:

	2012 **RMB'000**	2011 RMB'000
(i) Advances to a related party:		
– Wanhui Investment	**33,000**	671,628
(ii) Collection of advances to a related party:		
– Wanhui Investment	**33,000**	750,179
(iii) Advances from the Controlling Shareholder:	**2,919**	53,617
(iv) Repayment of advances from the Controlling Shareholder:	**3,726**	68,590

(v) The Group's bank borrowings which amounted to RMB49,900,000 (2011: RMB30,000,000) were guaranteed by the Controlling Shareholder.

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32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

(vi) Pursuant to a deed of share charge ("Deed of Share Charge") entered into between Jinny (HK) International Limited ("Jinny (HK)", a limited liability company wholly owned by Mr. Xiao) and Lead Rise Limited ("Lead Rise") dated 28 March 2011, Jinny (HK) charged the entire issued share capital of Nelson Marketing International Limited ("Nelson Marketing") to Lead Rise as security to guarantee Mr. Xiao, Ms. Ye and Jinny (HK)'s obligations for an exchangeable bond in the aggregate principal amount of HK$60 million issued by Mr. Xiao to Lead Rise on 31 March 2011 ("Exchangeable Bond") and the fixed interest bond in the principal amount of HK$60 million issued by Mr. Xiao to Lead Rise on 11 August 2011 ("Fixed Interest Bond") pursuant to the Exchangeable Bond Subscription Agreement (collectively, the exchangeable bond subscription agreement dated 28 March 2011 entered into between Mr. Xiao, Ms. Ye, Jinny (HK) and Lead Rise; the supplemental agreement dated 11 August 2011 entered into between Mr. Xiao, Ms. Ye, Jinny (HK), Bolina (China) Holding Co., Ltd. ("Bolina China") and Lead Rise; and the supplemental agreement dated 28 June 2012 entered into between Mr. Xiao, Ms. Ye, Max Lucky, Bolina China and Lead Rise, pursuant to which Mr. Xiao issued the Exchangeable Bond and the Fixed Interest Bond to Lead Rise). Following the completion of the Reorganisation, Bolina China replaced Jinny (HK) as the shareholder of Nelson Marketing and a deed of novation dated 11 August 2011 was entered into between Mr. Xiao, Ms. Ye, Jinny (HK), Bolina China and Lead Rise to substitute Jinny (HK) by Bolina China as a party to the Deed of Share Charge and to assume Jinny (HK)'s obligations thereunder. Pursuant to the Exchangeable Bond Subscription Agreement, the share charges in relation to both the Exchangeable Bond and Fixed Interest Bond in favour of Lead Rise have been released in July 2012.

(b) Balances with related parties

The Group had the following significant balances with its related parties at each of the reporting period end:

	2012 **RMB'000**	2011 RMB'000
Due to the Controlling Shareholder		
– non-trade related	**–**	807

32. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Compensation of key management personnel of the Group:

	2012 RMB'000	2011 RMB'000
Salaries and short-term employee benefits	**1,991**	730
Pension scheme contributions and social welfare	**24**	18
Total compensation paid to key management personnel	**2,015**	748

The emoluments of the senior management fell within the following bands:

	Number of individuals	
Emoluments Bands	**2012**	2011
Nil to HK$1,000,000	**4**	5
HK$2,000,000 to HK$2,500,000	**1**	–

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than the cash and cash equivalents (note 19).

The Group's interest rate risk arises from bank loans and other borrowings, which are predominantly denominated in RMB. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group's debt obligations were either with fixed interest rates or short-term floating interest rates.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

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31 December 2012

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales denominated in US$ by operating units whose the functional currency is the RMB. Approximately 38% and 42% of the Group's sales for the years ended 31 December 2012 and 2011 respectively, were denominated in US$ and undertaken by these operating units.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to the change in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax	
		2012	2011
		RMB'000	RMB'000
If RMB weakens against the US$	(100)	**700**	540
If RMB strengthens against the US$	100	**(700)**	(540)
If RMB weakens against the HK$	(100)	**61**	9
If RMB strengthens against the HK$	100	**(61)**	(9)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2012 and 31 December 2011, all bank balances were deposited in creditworthy financial institutions without significant credit risk.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. As at 31 December 2012, the Group had certain concentrations of credit risk as 62% (31 December 2011: 58%) and 95% (31 December 2011: 85%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. As the major customers of the Group are all companies with world-famous brands, and long-term business relationship has been established by both parties and insurances were purchased to protect the Group against the potential losses from unrecovered trade receivables, the concentrations of credit risk are well managed by the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2012					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Bank loans and other borrowings	**–**	**30,996**	**146,530**	**–**	**–**	**177,526**
Trade payables	**1,383**	**28,030**	**2,361**	**–**	**–**	**31,774**
Other payables	**11,326**	**14,612**	**6,004**	**4,573**	**–**	**36,515**
	12,709	**73,638**	**154,895**	**4,573**	**–**	**245,815**

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	51,966	181,746	–	–	233,712
Trade payables	1,681	22,482	1,263	–	–	25,426
Other payables	12,689	12,713	3,398	1,535	–	30,335
Dividends payable	–	17,563	–	–	–	17,563
Amounts due to the Controlling Shareholder	807	–	–	–	–	807
	15,177	104,724	186,407	1,535	–	307,843

Notes to Financial Statements

31 December 2012

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2012.

The Group monitors capital using a gearing ratio, which is calculated by bank loans and other borrowings divided by the equity attributable to owners of the parent. The gearing ratio as at 31 December 2012 is 19.9% (31 December 2011: 92.5%).

34. INVESTMENTS IN SUBSIDIARIES

Company

	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**170,886**	170,886

As at 31 December 2012, the amounts due from and to subsidiaries included in the Company's non-current assets and current liabilities of RMB352,858,000 (31 December 2011: Nil) and RMB11,714,000 (31 December 2011: RMB520,000), respectively, are unsecured, interest-free and are repayable on demand.

34. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations and type of legal entity	Authorised/registered/ paid-in/issued capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
漳州萬佳陶瓷工業有限公司 (Zhangzhou Wanjia Ceramic Industry Co., Ltd.)	Zhangzhou, the PRC 2002, limited liability company	Registered and paid-in capital of RMB15,000,000	–	100%	Manufacture and sale of sanitary ware and accessories
漳州萬暉潔具有限公司 (Zhangzhou Wanhui Sanitary Ware Co., Ltd.)	Zhangzhou, the PRC 2005, foreign invested company	Registered and paid-in capital of RMB250,000,000	–	100%	Investment holding, manufacture and sale of sanitary ware and accessories
福建萬榮衛浴有限公司 (Fujian Wanrong Sanitary Ware Company Limited, "Fujian Wanrong") (note (a))	Zhangzhou, the PRC 2006, limited liability company	Registered and paid-in capital of RMB20,000,000	–	100%	Manufacture and sale of sanitary ware and accessories
東山縣萬興衛浴有限公司 (Dongshan Wanxing Sanitary Ware Company Ltd., "Dongshan Wanxing") (note (a))	Zhangzhou, the PRC 2010, limited liability company	Registered and paid-in capital of RMB2,000,000	–	100%	Manufacture and sale of sanitary ware and accessories
Nelson Marketing International Limited	Hong Kong 2004, limited liability company	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
Bolina (China) Holding Co., Ltd.	BVI 2011, limited liability company	Issued capital of US$10	100%	–	Investment holding
天津市航標倉儲有限公司 (Tianjin Bolina Warehousing Co.,Ltd.)	Tianjin, the PRC 2012, limited liability company	Registered and paid-in capital of RMB1,000,000	–	100%	Warehousing service

(a) In order to streamline the Group structure after the Reorganisation, Zhangzhou Wanhui merged with Fujian Wanrong in December 2012 and Fujian Wanrong has been dissolved as at 31 December 2012. Dongshan Wanxing has been deregistered in January 2013.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2013.

Financial Summary

RESULTS

	Year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**816,739**	655,482	371,303	240,418
Gross profit	**389,823**	303,725	134,700	87,039
Profit before tax	**282,709**	215,155	93,326	57,556
Profit for the year attributable to the owners of the parent	**246,246**	160,394	82,146	53,085

ASSETS AND LIABILITIES

	As at 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,147,227**	584,883	505,832	376,962
Total liabilities	**289,962**	341,576	336,573	232,310

Note:

The summary of the consolidated results of the Group for each of the three years ended 31 December 2009, 2010 and 2011 and of the assets and liabilities as at 31 December 2009, 2010 and 2011 have been extracted from the Company's prospectus dated 29 June 2012. Such summary was prepared as if the current structure of the Group has been in existence throughout these financial years. The consolidated results of the Group for the year ended 31 December 2012 and the consolidated assets and liabilities of the Group as at 31 December 2012 are set out in the audited financial statements.