



# Bolina

BOLINA HOLDING CO., LTD.  
航標控股有限公司

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



Interim Report 2014

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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](http://www.bolina.cc)

# Management Discussion and Analysis

## BUSINESS REVIEW

For the six months ended 30 June 2014, the Group recorded revenue of RMB436.8 million, increased by 6.0% as compared with the corresponding period last year, profit attributable to ordinary equity holders of the Company amounted to RMB98.4 million, decreased by 15.8% as compared with the corresponding period last year; basic earnings per share was RMB9.7 cents, decreased by 15.7% as compared with the corresponding period last year. The Board of Directors resolved to distribute an interim dividend of HK\$6.0 cents per share (approximately RMB4.8 cents) for the six months ended 30 June 2014.

### Sales Performance

The Group is one of the largest manufacturers of ceramic sanitary ware products in China, with annual design capacity of 4.9 million units from 5 production lines to produce “Bolina” brand (own branded products) as well as ODM (original design manufacturing) and OEM (original equipment manufacturing) products for international well-known brands. For the six months ended 30 June 2014, the proportion of sales from the Group’s own brand, ODM and OEM were 62.3%, 30.7% and 7.0% respectively. At present, China is the largest sales market for the Group, accounting for 61.9%, followed by the Americas market, accounting for 34.8%.

In the first half of 2014, the pace of China economy’s slow-down was faster than expected, a number of growth rate of certain economic indicators in relation to industrial, consumer and investment aspects were showing drastic drop as compared to the 3rd and 4th quarters of last year. Although there were not any further tightening policies during the period, market sentiment had become more negative as a result of the tightening lending practices by the banks as well as the continued decrease in sales volume of residential properties in most of the cities, which had led to the contraction on consumer spending. Thus, the Group’s own brand sales during the period was significantly impacted with sales of own branded products amounted to RMB271.9 million, represented an increase of 6.1% only, and the average selling unit price of the own branded one-piece toilet fell by 17.9% to RMB520.6 as compared to the corresponding period last year.

As regards to the sales of ODM and OEM products, due to the direction to increase the sales of higher value-added ODM products from international well-known brand customers and reduce the sales of OEM products, the Group’s ODM and OEM product sales accounted for 30.7% and 7.0% of total sales respectively (six months ended 30 June 2013: ODM and OEM product sales accounted for 21.8% and 16.0% of total sales respectively). Preference in sales direction had led to the rise of ODM products average selling price and the decline of OEM products average selling price.

### Sales Channels

The Group’s branded business in China was mainly carried out through third party distributor model. At 30 June 2014, the Group’s distribution network included 473 points of sale operated by 196 distributors. Besides, apart from relying on distributors to develop retail and local projects, the Group also established relationship with a number of national property developers. Although new buildings in China are still dominated by “unfurnished flats”, the Group expects the proportion of furnished new flats will gradually increase especially in those more developed regions.

Moreover, the Group has also actively developed e-commerce platforms, besides the set-up of e-commerce platforms such as Tmall, Gome, Amazon, etc to promote the sale of Bolina brand, the Group also participated to build Zhangzhou’s exclusive “Zhangzhou Made Online”, an online transaction platform, with a view to build Zhangzhou’s largest local online shopping center for the promotion of local renowned & quality brands of “Made in Zhangzhou” nationally and globally. At the same time this would also empower Bolina with new growth direction on e-commerce platforms.

On 25 August 2014, the Group and Western Pottery Group (“Western Pottery”) entered into a strategic cooperation agreement to develop series of cooperation plans, including mutual business agents, where the Company is the exclusive agent for Western Pottery in the PRC (including Hong Kong and Macao), while Western Pottery is exclusive agent for the Bolina brand products in the US market. By entering into the strategic cooperation agreement with Western Pottery, both parties will be able to make full use of the other party’s advantages in technology, design and service in their respective home market, to further improve the quality of management, technology and sales, and to bring both brands into the high-end sanitary ware market in the PRC and the US.

# Management Discussion and Analysis

## BUSINESS REVIEW *(continued)*

### Future Prospects

Looking towards the second half of 2014, the Group expects the structural changes in the China's economy to be continued, government's adjustment policy will put more emphasis on long-term mechanism in the property sector to allow flexibility in applying tightening measures for the property market, with first-tier cities maintaining tight controls while second- and third-tier cities are able to adjust policies to local conditions in order to maintain growth for China property market. According to the "National New Urbanization Plan (2014-2020)" released in March 2014, China's development objective is to promote the urbanization of the farmer population, enhance the urbanization planning, improve urban sustainable development capacity, with a target to increase the population urbanization rate approximately 60% by 2020. The Group is confident that the development potential of China sanitary ware market in the long run is huge, however, in the near term, the weakening of consumer spending sentiment as a result of the unstable property market caused by the structural adjustments in the economy will have an impact to the China sanitary ware industry.

As one of the strongest players in the industry, the Group had differentiated from other sanitary ware manufacturers in China by having a large scale of exporting ODM and OEM products to many well-known international brands, which contributed to the Group's stable revenue growth every year. At the same time, the Group will actively explore overseas markets for the own brand products sales. With the Group's innovative technology, distinguished product quality and very competitive price positioning, the Group is confident to achieve sustainable development of the business and accomplish good performance.

## FINANCIAL REVIEW

For the six months ended 30 June 2014, revenue of the Group was RMB436.8 million, up by 6.0% as compared with the corresponding period last year; gross profit of the Group was RMB189.4 million, down by 3.7% as compared with the corresponding period last year; profit before tax of the Group was RMB122.5 million, down by 19.3% as compared to the corresponding period last year; profit attributable to the ordinary equity holder of the Company amounted to RMB98.4 million, down by 15.8% as compared to the corresponding period last year.

### Revenue

The following table sets out the Group's revenue derived from its different product categories during the six months ended 30 June 2014 and 2013:

	Six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
<b>Ceramic sanitary ware products</b>				
One-piece toilets	192,697	44.1	186,420	45.2
Two-piece toilets (with water tanks)	150,447	34.5	140,894	34.2
Washbasins and stands	27,225	6.2	20,176	4.9
Other ceramic products including urinals and bidets	13,222	3.0	16,779	4.1
Sub-total	383,591	87.8	364,269	88.4
<b>Non-ceramic sanitary products</b>	53,169	12.2	47,813	11.6
Total	436,760	100.0	412,082	100.0

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Revenue *(continued)*

The following tables set out the breakdown of the Group's revenue by sale channels during the six months ended 30 June 2014 and 2013:

	Six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
<b>Branded products</b>				
Distributors	268,185	61.4	253,548	61.5
Direct sales in the PRC	2,300	0.5	2,424	0.6
Direct sales to overseas customers	1,414	0.4	198	0.1
Sub-total	271,899	62.3	256,170	62.2
<b>Non-branded products</b>				
ODM	134,152	30.7	89,902	21.8
OEM	30,709	7.0	66,010	16.0
Sub-total	164,861	37.7	155,912	37.8
Total	436,760	100.0	412,082	100.0

The following tables set out the breakdown of the Group's revenue by product category during the six months ended 30 June 2014 and 2013:

### OEM products

Products	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Units	Average price RMB	Revenue RMB'000	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	223,831	123.3	27,598	520,954	112.4	58,557
Washbasins and stands	50,025	60.9	3,048	66,251	59.7	3,953
Other ceramic products including urinals and bidets	211	94.8	20	31,288	104.0	3,253
Non-ceramic sanitary products	3,050	14.1	43	10,274	24.0	247
Total	277,117	110.8	30,709	628,767	105.0	66,010

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Revenue *(continued)*

#### ODM products

Products	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Units	Average price RMB	Revenue RMB'000	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	971,025	125.1	121,469	608,184	134.4	81,738
One-piece toilets	18,120	441.7	8,004	19,526	341.6	6,671
Washbasins and stands	63,233	73.8	4,667	21,147	68.4	1,446
Other ceramic products including urinals and bidets	170	70.6	12	509	92.3	47
<b>Total</b>	<b>1,052,548</b>	<b>127.5</b>	<b>134,152</b>	<b>649,366</b>	<b>138.4</b>	<b>89,902</b>

#### Own branded products

Products	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Units	Average price RMB	Revenue RMB'000	Units	Average price RMB	Revenue RMB'000
Two-piece toilets (with water tanks)	13,839	102.7	1,421	5,983	100.1	599
One-piece toilets	354,799	520.6	184,693	283,570	633.9	179,749
Washbasins and stands	201,121	97.0	19,510	148,306	99.6	14,777
Other ceramic products including urinals and bidets	114,594	115.1	13,190	109,861	122.7	13,479
Non-ceramic sanitary products	322,570	164.6	53,085	374,048	127.2	47,566
<b>Total</b>	<b>1,006,923</b>	<b>270.0</b>	<b>271,899</b>	<b>921,768</b>	<b>277.9</b>	<b>256,170</b>

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Gross Profit and Gross Profit Margin

For the six months ended 30 June 2014 and 2013, the Group's gross profit and gross profit margin by business segment was as follows:

	Six months ended 30 June			
	2014		2013	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Branded products	135,896	50.0	145,317	56.7
ODM	44,475	33.2	31,822	35.4
OEM	9,010	29.3	19,598	29.7
Total	189,381	43.4	196,737	47.7

### Selling and Distribution Expenses

Selling and distribution expenses increased by RMB17.5 million, or 104.8%, from RMB16.7 million for the six months ended 30 June 2013 to RMB34.2 million for the six months ended 30 June 2014. The increase was mainly attributable to the increase in advertising and marketing expenses for brand building purpose as well as the increase in related sales and distribution costs resulting from the increased revenue during the period.

### Administrative Expenses

Administrative expenses increased by RMB3.4 million, or 13.2%, from RMB25.7 million for the six months ended 30 June 2013 to RMB29.1 million for the six months ended 30 June 2014. The increase 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 six months ended 30 June 2014, finance costs increased by RMB2.2 million, or 38.6%, from RMB5.7 million for the six months ended 30 June 2013 to RMB7.9 million for the six months ended 30 June 2014. The increase was mainly attributable to the increased loan balance.

### Income Tax Expense

Income tax expense decreased by RMB10.9 million, or 31.1% from RMB35.0 million for the six months ended 30 June 2013 to RMB24.1 million for the six months ended 30 June 2014. The decrease was mainly attributable to the decrease in the provision of withholding tax levied on dividend declared as a result of the adoption of a lower tax rate in accordance with the tax treaty between Mainland China and Hong Kong, and the effect was partially offset by the increase in tax expense as a result of the cessation of preferential corporate income tax rate as a New and High Technology Enterprise previously enjoyed by a subsidiary, Zhangzhou Wanjia Ceramic Industry Co., Ltd.

### Net Profit and Net Profit Margin

For the six months ended 30 June 2014, profit attributable to equity holders of the Company amounted to RMB98.4 million, representing a decrease of 15.8% as compared to the corresponding period last year. Net profit margin for the six months ended 30 June 2014 was 22.5%.



# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Gearing Ratio

Gearing ratio is calculated by dividing total interest-bearing debts by total equity. The Group's gearing ratio as at 30 June 2014 was 37.0% (31 December 2013: 33.1%). The increase in gearing ratio was mainly due to the increase in loan balance.

### Capital Expenditure

The Group's capital expenditures were incurred primarily in connection with purchases of property, plant and equipment and leasehold improvement payments. The Group's capital expenditures, represented by the cash used for the purchase of property, plant and equipment, were RMB13.1 million for the six months ended 30 June 2014, mainly in connection with the construction of production facilities.

### Operating Lease Arrangements

The Group leases certain property, plant, equipment and land under operating lease arrangement for terms ranging from 1 to 17 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:

	<b>As at 30 June 2014 RMB'000</b>	As at 31 December 2013 RMB'000
Within 1 year	<b>15,104</b>	19,039
After 1 year but within 5 years	<b>39,438</b>	45,239
After 5 years	<b>8,333</b>	12,333
	<b>62,875</b>	76,611

### Commitments

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

	<b>As at 30 June 2014 RMB'000</b>	As at 31 December 2013 RMB'000
Contracted, but not provided for property, plant and equipment	<b>6,281</b>	16,181
Contracted, but not provided for land lease payments	<b>64,500</b>	–
Authorised, but not contracted for property, plant and equipment	<b>142,747</b>	268,677
	<b>213,528</b>	284,858

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### 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 30 June 2014, cash and cash equivalents of the Group amounted to RMB977.6 million, which was mainly denominated in RMB and US dollar.

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Net cash flows from operating activities	<b>122,823</b>	81,190
Net cash flows used in investing activities	<b>(10,680)</b>	(12,742)
Net cash flows (used in)/from financing activities	<b>(19,875)</b>	28,106
Net increase in cash and cash equivalents	<b>92,268</b>	96,554
Cash and cash equivalents at beginning of period	<b>887,855</b>	789,822
Effect of foreign exchange rate changes, net	<b>(2,489)</b>	(496)
Cash and cash equivalents at end of period	<b>977,634</b>	885,880

Set out below is an analysis of borrowings of the Group:

	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Secured	<b>280,190</b>	262,867
Guaranteed	<b>25,000</b>	23,000
Unsecured	<b>60,764</b>	30,000
Total	<b>365,954</b>	315,867
Fixed interest rate	<b>125,632</b>	174,967
Floating interest rate	<b>240,332</b>	140,900
Total	<b>365,954</b>	315,867

# 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 customers. The Group's trade receivables amounted to RMB104.9 million and RMB86.5 million as at 30 June 2014 and 31 December 2013, respectively.

The Group's average trade receivable turnover days were 39 days and 29 days for the six months ended 30 June 2014 and the year ended 31 December 2013 respectively. The increase in trade receivable turnover days was mainly due to the increase in receivables from certain oversea customers with relatively longer credit period.

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 six 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.

As at 30 June 2014 and 31 December 2013, 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 RMB84.4 million and RMB65.1 million as at 30 June 2014 and 31 December 2013, respectively.

The Group's average payables turnover days were 54 days and 36 days for the six months ended 30 June 2014 and the year ended 31 December 2013, respectively. The increase in trade payable turnover days was mainly due to the longer credit period offered by certain suppliers.

### Inventory Turnover Days

The Group's inventories increased from RMB90.1 million as at 31 December 2013 to RMB91.1 million as at 30 June 2014.

The Group's average inventory turnover days were 66 days and 61 days for the six months ended 30 June 2014 and the year ended 31 December 2013, respectively.

### Bank Borrowings and Other Borrowings

As at 30 June 2014, the balance of the Group's bank loans and other borrowings, was RMB366.0 million, up by RMB50.1 million or 15.9% from that of RMB315.9 million as at 31 December 2013.

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 RMB12.0 million and RMB12.1 million as at 30 June 2014 and 31 December 2013, respectively; (ii) mortgages over the Group's buildings, which had aggregate carrying values of approximately RMB77.8 million and RMB80.0 million as at 30 June 2014 and 31 December 2013, respectively; (iii) mortgages over the Group's forward letters of credit which amounted to RMB30.7 million and RMB7.2 million as at 30 June 2014 and 31 December 2013, respectively; and (iv) mortgages over the Group's pledged bank balances which amounted to RMB130.2 million as at 30 June 2014 (31 December 2013: RMB129.8 million).

# Management Discussion and Analysis

## 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 one foreign currency forward contract during the six months ended 30 June 2014 to hedge against fluctuations in the foreign currency.

### Major Investments and Disposal

For the six months period ended 30 June 2014, the Group had no material investment expenditure or disposal.

### Contingent Liabilities

As at 30 June 2014, neither the Group nor the Company had any significant contingent liabilities.

### Subsequent Events

There has been no material or important events affecting the Group's operation since 30 June 2014.

## 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.

As at 30 June 2014, the Group employed 2,288 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.

## INTERIM DIVIDEND

The Directors recommended the payment of an interim dividend of HK\$6.0 cents (approximately RMB4.8 cents) per ordinary share for the six months ended 30 June 2014 amounting to approximately HK\$60.5 million (approximately RMB48.1 million) to the shareholders of the Company whose names appear on the Company's register of members on 18 September 2014. The interim dividend is expected to be paid on or around 25 September 2014.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 September 2014 to 18 September 2014 (both days inclusive) for the purpose of determining the entitlement to the proposed interim dividend in respect of the six months period ended 30 June 2014. In order to be qualified for the interim dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 15 September 2014.

## Other Information

### DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, 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 HK\$0.01 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 <sup>(1)</sup>	599,993,023	59.27%
Ms. Ye Xiaohong ("Ms. Ye")	Long position	Interest of spouse <sup>(2)</sup>	599,993,023	59.27%
Max Lucky Group Limited ("Max Lucky")	Long position	Beneficial owner	599,993,023	59.27%

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

The interests of the directors and the chief executive in the share options of the Company are detailed in the "Share Options" section stated below.

Save as disclosed above, as at the date of this report, none of the directors nor the chief executive had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its subsidiaries or associated companies as defined in the SFO.

### SHARE OPTIONS

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 30 June 2014, no share options had been granted by the Company pursuant to the Share Option Scheme.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the reporting period was the Company, its ultimate holding companies or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

## Other Information

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, other than the interests disclosed in the section “Directors’ interest in Shares, underlying Shares and debentures”, 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 <sup>(1)</sup>	102,700,000	10.15%
Grand York Holdings Limited ("Grand York")	Long position	Beneficial owner	102,700,000	10.15%
Neuberger Berman LLC	Long position	Investment manager <sup>(2)</sup>	50,841,919	5.02%
Neuberger Berman Holdings LLC	Long position	Interest in a controlled corporation <sup>(2)</sup>	50,841,919	5.02%
Neuberger Berman Group LLC	Long position	Interest in a controlled corporation <sup>(2)</sup>	50,841,919	5.02%

Note:

1. Ms. Xiao is deemed to be interested in the shares held by Grand York by virtue of Grand York being controlled by Ms. Xiao directly.
2. These shares were held by Neuberger Berman LLC, a wholly-owned subsidiary of Neuberger Berman Holdings LLC, in the capacity as an investment manager. Accordingly, Neuberger Berman Holdings LLC and Neuberger Berman Group LLC were deemed to be interested in these shares held by Neuberger Berman LLC pursuant to the SFO.

### CORPORATE GOVERNANCE

#### Compliance with the 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.

The Board is of the view that the Company has complied with the Code Provisions set out in the Corporate Governance Code (“CG Code”) as contained in Appendix 14 to the Listing Rules during the six months period ended 30 June 2014, except for the following deviation:

#### **Code Provision A.2.1**

Code Provision A.2.1 of the CG 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 (“Mr. Xiao”) currently holds the positions of Chairman and Chief Executive Officer of the Company. He is the founder of the Group and has over 25 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 decisions and strategies, and will not impair the balance of power and authority between the Board and the management of the Company.

## Other Information

### CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, there was no change to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) during the reporting period.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry to all the directors, all the directors confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2014.

### DEED OF NON-COMPETITION

On 25 June 2012, Mr. Xiao, Max Lucky 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 and that they and their associates had not, directly or indirectly, engaged, participated or held any right or interest in or otherwise be involved in the Restricted Business (as defined in the prospectus of the Company dated 29 June 2012) since the listing of the Company on the Hong Kong Stock Exchange in 2012.

The following actions or procedures are adopted and taken by the Covenantors, the Company and its directors to ensure the Covenantors’ compliance with the terms of the Deed of Non-Competition:

- (a) The Covenantors signs and delivers to the board of the Company an annual confirmation letter confirming their compliance with the Deed of Non-Competition and that they did not have any interest in the Restricted Business during the preceding financial year of the Company;
- (b) At the board meeting where the annual results of the Group for the preceding financial year are considered and approved, the independent non-executive directors of the Company receives and reviews the abovementioned confirmation letter from the Covenantors, and also reviews the overall compliance by the Covenantors with the Deed of Non-Competition; and
- (c) A special committee, comprising of Mr. Stanley Yuen Chi Wai (the Company Secretary and Chief Financial Officer of the Company) and Mr. Yang Qingyun (the executive director of the Company), monitor and ensure the compliance with the Deed of Non-Competition by way of communicating and enquiring with each of the Covenantors on a regular (at least monthly) basis as to whether each of the Covenantors engages, participates or holds any right or interest in or otherwise be involved in the Restricted Business.

The Company has followed and complied with the abovementioned procedures since its listing on the Hong Kong Stock Exchange, and will make relevant disclosures with respect to the Covenantors’ compliance with the Deed of Non-Competition in its annual reports in due course.

## Other Information

### PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, the Company repurchased its own shares on the Hong Kong Stock Exchange as follows:

<u>Date of repurchase</u>	<u>Number of Shares repurchased</u>	<u>Highest price paid (HK\$)</u>	<u>Lowest price paid (HK\$)</u>	<u>Repurchase price (HK\$)</u>
2014/03/31	1,090,000	3.01	2.99	3,268,583
2014/04/01	310,000	3.00	2.98	929,256
2014/04/02	800,000	2.92	2.85	2,312,960
2014/04/25	<u>200,000</u>	2.83	2.82	<u>565,020</u>
	<u>2,400,000</u>			<u>7,075,819</u>

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2014.

### PUBLIC FLOAT

Since its listing at the Hong Kong Stock Exchange on 13 July 2012, the Company has maintained the prescribed public float under the Hong Kong Listing Rules, based on the information that is publicly available to the Company and within the best knowledge of the directors.

### AUDIT COMMITTEE

The Board has formed an Audit Committee in accordance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting procedure and internal control of the Company. The Audit Committee members currently comprise all the independent non-executive directors of the Company. The Audit Committee has reviewed and approved the Company's unaudited consolidated interim financial results for the six months ended 30 June 2014.

### REVIEWED RESULTS

The consolidated interim financial results for the six months ended 30 June 2014 have been reviewed by Ernst & Young, Certified Public Accountants.

For and on behalf of the Board

**BOLINA HOLDING CO., LTD.**

**Xiao Zhiyong**

*Chairman*

Hong Kong, 31 August 2014



# Report on Review of Interim Condensed Consolidated Financial Statements



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**To the board of directors of Bolina Holding Co., Ltd.**

*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 17 to 40, which comprise the condensed consolidated statement of financial position of Bolina Holding Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2014 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standards 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagements, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong  
31 August 2014

# Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>REVENUE</b>	4(a)	<b>436,760</b>	412,082
Cost of sales	5(b)	<b>(247,379)</b>	(215,345)
<b>Gross profit</b>		<b>189,381</b>	196,737
Other income and gains, net	4(b)	<b>4,232</b>	3,091
Selling and distribution expenses		<b>(34,182)</b>	(16,680)
Administrative expenses		<b>(29,057)</b>	(25,699)
<b>Profit from operations</b>		<b>130,374</b>	157,449
Finance costs	6	<b>(7,856)</b>	(5,680)
<b>Profit before tax</b>	5	<b>122,518</b>	151,769
Income tax expense	7	<b>(24,106)</b>	(34,966)
<b>Profit for the period attributable to owners of the parent</b>		<b>98,412</b>	116,803
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
<b>Basic – For profit for the period</b>	9	<b>RMB 9.7cents</b>	RMB 11.5cents
<b>Diluted – For profit for the period</b>	9	<b>RMB 9.7cents</b>	RMB 11.5cents

Details of the dividend are disclosed in note 8 to the interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
PROFIT FOR THE PERIOD	<u>98,412</u>	<u>116,803</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(2,489)</u>	<u>(496)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	<u>(2,489)</u>	<u>(496)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(2,489)</u>	<u>(496)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	<u><b>95,923</b></u>	<u><b>116,307</b></u>

# Interim Condensed Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	215,967	215,393
Prepaid land lease payments		11,981	14,257
Intangible assets		346	349
Available-for-sale investments		2,500	2,500
Deferred tax assets		6,419	8,955
Pledged bank balances	13	90,000	–
<b>Total non-current assets</b>		<b>327,213</b>	<b>241,454</b>
<b>CURRENT ASSETS</b>			
Inventories	11	91,092	90,123
Trade receivables	12	104,858	86,494
Prepayments, deposits and other receivables		17,107	13,259
Derivative financial instruments		–	583
Pledged bank balances	13	40,557	129,824
Cash and cash equivalents	13	977,634	887,855
<b>Total current assets</b>		<b>1,231,248</b>	<b>1,208,138</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	14	84,389	65,120
Other payables and accruals		76,381	69,147
Derivative financial instruments		1,003	1,102
Interest-bearing bank and other borrowings	15	284,322	315,867
Income tax payable		17,162	12,590
<b>Total current liabilities</b>		<b>463,257</b>	<b>463,826</b>
<b>NET CURRENT ASSETS</b>		<b>767,991</b>	<b>744,312</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,095,204</b>	<b>985,766</b>

continued/...

# Interim Condensed Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	15	81,632	–
Deferred tax liabilities		25,709	31,952
<b>Total non-current liabilities</b>		<b>107,341</b>	31,952
<b>Net assets</b>		<b>987,863</b>	953,814
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	16	8,254	8,274
Reserves		979,609	889,697
Proposed final dividend		–	55,843
<b>Total equity</b>		<b>987,863</b>	953,814

**Xiao Zhiyong**  
Director

**Yang Qingyun**  
Director

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the parent									Total
	Issued capital	Share premium*	Capital redemption reserve*	Dis-cretionary reserve fund*	Statutory reserve*	Capital reserve*	Exchange fluctuation reserve*	Retained profits*	Proposed final dividend	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2014 (audited)</b>	<b>8,274</b>	<b>360,808</b>	<b>-</b>	<b>21,894</b>	<b>34,729</b>	<b>101,081</b>	<b>6,231</b>	<b>364,954</b>	<b>55,843</b>	<b>953,814</b>
Profit for the period	-	-	-	-	-	-	-	98,412	-	98,412
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(2,489)	-	-	(2,489)
Total comprehensive income for the period	-	-	-	-	-	-	(2,489)	98,412	-	95,923
Repurchase of shares	(20)	(5,611)	20	-	-	-	-	-	-	(5,611)
2013 final dividend declared	-	-	-	-	-	-	-	(420)	(55,843)	(56,263)
<b>At 30 June 2014 (unaudited)</b>	<b>8,254</b>	<b>355,197</b>	<b>20</b>	<b>21,894</b>	<b>34,729</b>	<b>101,081</b>	<b>3,742</b>	<b>462,946</b>	<b>-</b>	<b>987,863</b>
<b>At 1 January 2013 (audited)</b>	<b>8,274</b>	<b>360,808</b>	<b>-</b>	<b>21,894</b>	<b>17,072</b>	<b>101,081</b>	<b>2,312</b>	<b>263,552</b>	<b>82,272</b>	<b>857,265</b>
Profit for the period	-	-	-	-	-	-	-	116,803	-	116,803
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(496)	-	-	(496)
Total comprehensive income for the period	-	-	-	-	-	-	(496)	116,803	-	116,307
2012 final dividend declared	-	-	-	-	-	-	-	1,490	(82,272)	(80,782)
<b>At 30 June 2013 (unaudited)</b>	<b>8,274</b>	<b>360,808</b>	<b>-</b>	<b>21,894</b>	<b>17,072</b>	<b>101,081</b>	<b>1,816</b>	<b>381,845</b>	<b>-</b>	<b>892,790</b>

\* These reserve accounts comprise the consolidated reserves of RMB979,609,000 (30 June 2013: RMB884,516,000) in the condensed consolidated statement of financial position.

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>122,518</b>	151,769
Adjustments for:			
Depreciation	10	<b>12,500</b>	8,127
Recognition of prepaid land lease payments		<b>179</b>	182
Amortisation of intangible assets		<b>44</b>	59
Interest income	4(b)	<b>(3,428)</b>	(2,110)
Net fair value losses on derivative instruments		<b>484</b>	–
Finance costs	6	<b>7,856</b>	5,680
Increase in trade receivables		<b>(18,364)</b>	(19,753)
Increase in prepayments, deposits and other receivables		<b>(758)</b>	(18,886)
Increase in inventories		<b>(969)</b>	(39,617)
Increase in trade payables		<b>19,269</b>	11,041
Increase in other payables and accruals		<b>6,733</b>	3,332
Cash generated from operations		<b>146,064</b>	99,824
Tax paid		<b>(23,241)</b>	(18,634)
<b>Net cash flows from operating activities</b>		<b>122,823</b>	81,190

continued/...

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of items of property, plant and equipment		(13,074)	(14,599)
Advances to third parties		(20,000)	(73,145)
Collection of advances to third parties		20,000	73,145
Cash flows from other investing activities		2,394	1,857
Net cash flows used in investing activities		(10,680)	(12,742)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bank loans and other borrowings		189,181	238,197
Repayment of bank loans and other borrowings		(139,094)	(114,411)
Cash flows used in other financing activities		(69,962)	(95,680)
Net cash (used in)/from financing activities		(19,875)	28,106
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of period		887,855	789,822
Effect of foreign exchange rate changes, net		(2,489)	(496)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>977,634</b>	<b>885,880</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	13	977,634	785,880
Time deposits	13	130,557	190,000
Less: Pledged bank balances	13	(130,557)	(90,000)
<b>Cash and cash equivalents as stated in the statement of cash flows</b>		<b>977,634</b>	<b>885,880</b>



# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 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 period.

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

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standards 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise stated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2013.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and interpretations as of 1 January 2014, noted below:

HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of these new and revised HKFRSs had no significant financial effect on these financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 2.3 IMPACT OF 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 9	<i>Financial Instrument</i> <sup>4</sup>
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> <sup>4</sup>
HKFRS 11 Amendments	<i>Amendments to HKFRS 11 – Accounting for Acquisitions of Interests in Joint Operations</i> <sup>2</sup>
HKFRS 14	<i>Regulatory Deferral Accounts</i> <sup>2</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
HKAS 16 and HKAS38 Amendments	<i>Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>2</sup>
HKAS 19 Amendments	<i>Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i> <sup>1</sup>
HKAS 16 and HKAS 41 Amendments	<i>Amendments to HKAS 16 and HKAS 41 – Agriculture: Bearer Plants</i> <sup>2</sup>
HKAS 27 Amendments	<i>Amendments to HKAS 27 Equity Method in Separate Financial Statements</i> <sup>2</sup>
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014 <sup>1</sup>
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 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 six months period ended 30 June 2014 and 2013, and non-current assets as at 30 June 2014 and 31 December 2013.

#### (a) Revenue from external customers

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Americas	152,005	141,555
Mainland China	270,485	255,972
Europe	4,864	6,052
Asia (excluding Mainland China)	9,406	8,503
	<b>436,760</b>	<b>412,082</b>

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

#### (b) Non-current assets

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
	Mainland China	<b>320,794</b>

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

### Information about major customers

For the six months ended 30 June 2014, revenue from two of the Group's customers amounting to RMB77,205,000 and RMB47,717,000 respectively (six months ended 30 June 2013: revenue from one customer amounting to RMB79,178,000) has individually accounted for over 10% of the Group's total revenue.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 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 periods ended 30 June 2014 and 2013.

An analysis of revenue, other income and gains, net is as follows:

### (a) Revenue

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from the sale of sanitary ware and accessories	<b>436,760</b>	412,082

### (b) Other income and gains, net

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Other income</b>		
Government grants*	<b>916</b>	896
Bank interest income	<b>3,428</b>	2,110
Others	<b>372</b>	85
	<b>4,716</b>	3,091
<b>Losses, net</b>		
Fair value losses, net:		
Derivative instruments	<b>(484)</b>	–
Other income and gains, net	<b>4,232</b>	3,091

\* Various government grants have been received for conducting export sales and processing trade within Fujian Province, Mainland China. There were no unfulfilled conditions or contingencies relating to these grants as at 30 June 2014.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
<b>(a) Employee benefit expense (including directors' and chief executive's remuneration)</b>		
Wages and salaries	49,058	37,003
Pension scheme contributions, social welfare and other welfare	5,442	4,807
	<b>54,500</b>	<b>41,810</b>
<b>(b) Cost of sales</b>		
Cost of inventories sold	181,757	162,599
Others	65,622	52,746
	<b>247,379</b>	<b>215,345</b>
<b>(c) Other items</b>		
Depreciation of property, plant and equipment*	12,500	8,127
Recognition of prepaid land lease payments	179	182
Amortisation of intangible assets	44	59
Operating lease expenses*	11,686	8,661
Advertisement and promotion expenses	8,621	1,779
Office expenses	1,195	897
Logistics expenses	6,192	4,823
Research and development expenses*	10,116	9,042
Foreign exchange differences, net	442	318
Auditors' remuneration	800	800

\* The depreciation amounts of property, plant and equipment of RMB5,234,000 (six months ended 30 June 2013: RMB5,012,000), the operating lease expenses of RMB5,465,000 (six months ended 30 June 2013: RMB5,238,000) and the research and development expenses of RMB5,543,000 (six months ended 30 June 2013: RMB5,291,000) are included in "Cost of sales" in the interim condensed consolidated statement of profit or loss.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings wholly repayable within five years	7,660	5,287
Interest expense on other borrowings wholly repayable within five years	196	393
	<b>7,856</b>	<b>5,680</b>

## 7. TAX

Tax in the interim condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – Mainland China corporate income tax	27,813	43,422
Deferred tax	(3,707)	(8,456)
	<b>24,106</b>	<b>34,966</b>

Subsidiaries incorporated in Hong Kong were subject to income tax at the rate of 16.5% for the six months period ended 30 June 2014 (six months ended 30 June 2013: 16.5%). No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months period ended 30 June 2014 (six months ended 30 June 2013: 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.

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.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 7. TAX (continued)

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 period.

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 5% (2013: 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.

## 8. INTERIM DIVIDEND

The directors of the Company proposed payment of an interim dividend of HK\$6.0 cents (approximately RMB4.8 cents) per ordinary share for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$4.5 cents (approximately RMB3.6 cents)).

## 9. 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 period attributable to the ordinary equity holders of the parent of RMB98,412,000 (six months ended 30 June 2013: RMB116,803,000) and the weighted average number of ordinary shares of 1,013,518,288 (six months ended 30 June 2013: 1,014,700,000) during the six months ended 30 June 2014.

The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation.

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
At beginning of period/year, net of accumulated depreciation	<b>215,393</b>	194,449
Additions	<b>13,074</b>	40,036
Depreciation provided during the period/year	<b>(12,500)</b>	(19,092)
At end of period/year, net of accumulated depreciation	<b>215,967</b>	215,393

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 11. INVENTORIES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Raw materials	8,008	10,812
Accessories	9,976	5,950
Work in progress	14,216	17,068
Finished goods	56,298	54,728
Wrappage	2,594	1,565
	<b>91,092</b>	<b>90,123</b>

## 12. TRADE RECEIVABLES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Trade receivables	105,164	86,800
Impairment	(306)	(306)
	<b>104,858</b>	<b>86,494</b>

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 is generally one month, extending up to six 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 major customers 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:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within 3 months	77,037	65,832
More than 3 months but less than 1 year	27,786	20,627
Over 1 year	35	35
	<b>104,858</b>	<b>86,494</b>



# Notes to the Interim Condensed Consolidated Financial Statements

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## 12. TRADE RECEIVABLES *(continued)*

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

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Neither past due nor impaired	<b>95,557</b>	80,190
Less than 3 months past due	<b>9,266</b>	6,233
3 to 12 months past due	–	36
Over 1 year past due	<b>35</b>	35
	<b>104,858</b>	86,494

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:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
At the beginning of the period/year	<b>306</b>	474
Amounts written off as uncollectible	–	(168)
At the end of the period/year	<b>306</b>	306

Included in the above provision for impairment of trade receivables as at 30 June 2014 is a provision for individually impaired trade receivables of RMB306,000 (31 December 2013: RMB306,000).

# Notes to the Interim Condensed Consolidated Financial Statements

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## 13. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Cash and bank balances	<b>977,634</b>	786,778
Time deposits	<b>130,557</b>	230,901
Less: Pledged bank balances:		
Long-term bank deposits	<b>(90,000)</b>	–
Short-term bank deposits	<b>(40,557)</b>	(129,824)
Cash and cash equivalents	<b>977,634</b>	887,855

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for one to two years, and earn interest at the respective deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 14. 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:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within 3 months	<b>72,710</b>	59,305
3 to 6 months	<b>9,358</b>	4,583
6 to 12 months	<b>1,441</b>	544
Over 12 months	<b>880</b>	688
	<b>84,389</b>	65,120

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

# Notes to the Interim Condensed Consolidated Financial Statements

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## 15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2014		31 December 2013	
	Effective interest rate (%)	RMB'000 (Unaudited)	Effective interest rate (%)	RMB'000 (Audited)
<b>Current</b>				
Current bank borrowings	5 – 8	255,196	5 – 8	308,886
Other borrowings	3 – 4	29,126	3 – 4	6,981
		<b>284,322</b>		<b>315,867</b>
<b>Non-current</b>				
Long term bank borrowings	3	81,632	–	–
		<b>365,954</b>		<b>315,867</b>

Interest-bearing bank borrowings and other borrowings represent:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
– Secured (note (a))	280,190	262,867
– Guaranteed (note (b))	25,000	23,000
– Unsecured	60,764	30,000
	<b>365,954</b>	<b>315,867</b>

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 RMB11,971,000 as at 30 June 2014 (31 December 2013: RMB12,126,000);
  - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB77,795,000 as at 30 June 2014 (31 December 2013: RMB79,963,000);
  - (iii) mortgages over the Group's forward letters of credit which amounted to RMB30,713,000 as at 30 June 2014 (31 December 2013: RMB7,169,000); and
  - (iv) mortgages over the Group's pledged bank balances which amounted to RMB130,189,000 as at 30 June 2014 (31 December 2013: RMB129,824,000).
- (b) Certain of the Group's bank borrowings which amounted to RMB5,000,000 as at 30 June 2014 (31 December 2013: RMB5,000,000) were guaranteed by the Controlling Shareholder. Certain of the Group's bank borrowings which amounted to RMB20,000,000 as at 30 June 2014 (31 December 2013: RMB18,000,000) were guaranteed by certain third party.

# Notes to the Interim Condensed Consolidated Financial Statements

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## 16. SHARE CAPITAL

	<b>Number of ordinary shares of HK\$0.01</b>	<b>Nominal value of ordinary shares HK\$'000</b>	<b>Nominal value of ordinary shares RMB'000</b>
<b>Authorised:</b>			
As at 30 June 2014 and 31 December 2013	<u>2,000,000,000</u>	<u>20,000</u>	<u>16,612</u>

	<b>Number of ordinary shares of HK\$0.01</b>	<b>Nominal value of ordinary shares RMB'000</b>	<b>Share premium RMB'000</b>
<b>Issued:</b>			
As at 31 December 2013	1,014,700,000	8,274	360,808
Repurchase of shares	<u>(2,400,000)</u>	<u>(20)</u>	<u>(5,611)</u>
As at 30 June 2014	<u>1,012,300,000</u>	<u>8,254</u>	<u>355,197</u>

As at 30 June 2014, all issued shares are registered, fully paid and divided into 1,012,300,000 shares (31 December 2013: 1,014,700,000 shares) of HK\$0.01 each.

The Company repurchased on the Hong Kong Stock Exchange a total of 2,400,000 shares of HK\$0.01 each of the Company for an aggregate consideration of HK\$7,076,000 (RMB5,611,000 equivalent). The repurchased shares were cancelled on 30 April 2014.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 17. 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:

**30 June 2014**

### *Financial assets*

	<b>Loans and receivables RMB'000 (Unaudited)</b>	<b>Available- for-sale financial assets RMB'000 (Unaudited)</b>	<b>Total RMB'000 (Unaudited)</b>
Trade receivables	104,858	–	104,858
Available-for-sale investments	–	2,500	2,500
Financial assets included in prepayments, deposits and other receivables	3,455	–	3,455
Pledged bank balances	130,557	–	130,557
Cash and cash equivalents	977,634	–	977,634
	<b>1,216,504</b>	<b>2,500</b>	<b>1,219,004</b>

### *Financial liabilities*

	<b>Financial liabilities held for trading at fair value through profit or loss RMB'000 (Unaudited)</b>	<b>Financial liabilities at amortised cost RMB'000 (Unaudited)</b>	<b>Total RMB'000 (Unaudited)</b>
Trade payables	–	84,389	84,389
Derivative financial instruments	1,003	–	1,003
Financial liabilities included in other payables and accruals	–	39,334	39,334
Interest-bearing bank and other borrowings	–	365,954	365,954
	<b>1,003</b>	<b>489,677</b>	<b>490,680</b>

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 17. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2013

### Financial assets

	Financial assets held for trading at fair value through profit or loss RMB'000 (Audited)	Loans and receivables RMB'000 (Audited)	Available- for-sale financial assets RMB'000 (Audited)	Total RMB'000 (Audited)
Trade receivables	–	86,494	–	86,494
Available-for-sale investments	–	–	2,500	2,500
Financial assets included in prepayments, deposits and other receivables	–	2,804	–	2,804
Derivative financial instruments	583	–	–	583
Pledged bank balances	–	129,824	–	129,824
Cash and cash equivalents	–	887,855	–	887,855
	<u>583</u>	<u>1,106,977</u>	<u>2,500</u>	<u>1,110,060</u>

### Financial liabilities

	Financial liabilities held for trading at fair value through profit or loss RMB'000 (Audited)	Financial liabilities at amortised cost RMB'000 (Audited)	Total RMB'000 (Audited)
Trade payables	–	65,120	65,120
Derivative financial instruments	1,102	–	1,102
Financial liabilities included in other payables and accruals	–	40,924	40,924
Interest-bearing bank and other borrowings	–	315,867	315,867
	<u>1,102</u>	<u>421,911</u>	<u>423,013</u>

# Notes to the Interim Condensed Consolidated Financial Statements

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## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair value of the Group's financial instruments approximate to their carrying amounts.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Derivative financial instruments		
Forward currency contract	-	583

### Liabilities measured at fair value:

	Fair value measurement using significant observable inputs (Level 2)	
	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Derivative financial instruments		
Interest rate swaps	616	1,102
Forward currency contract	387	-
	<b>1,003</b>	<b>1,102</b>

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

## 19. CONTINGENT LIABILITIES

As at 30 June 2014, neither the Group nor the Company had any significant contingent liabilities (31 December 2013: Nil).

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 20. 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:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	<b>6,281</b>	16,181
Prepaid land lease payments	<b>64,500</b>	–
	<b>70,781</b>	16,181
Authorised, but not contracted for:		
Property, plant and equipment	<b>142,747</b>	268,677
	<b>213,528</b>	284,858

### (b) Operating lease commitments

At 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	<b>30 June 2014 RMB'000 (Unaudited)</b>	31 December 2013 RMB'000 (Audited)
Within 1 year	<b>15,104</b>	19,039
After 1 year but within 5 years	<b>39,438</b>	45,239
After 5 years	<b>8,333</b>	12,333
	<b>62,875</b>	76,611

## 21. 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 15 to the financial statements. The time deposit of RMB368,000 is pledged for issuance of letter of guarantee.



# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

## 22. 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.

In addition to the transactions detailed in note 15(b), the Group had the following transactions with the related parties during the period:

### Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Short-term employee benefits	1,344	872
Pension scheme contributions and social welfare	16	13
Total compensation paid to key management personnel	1,360	885

## 23. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 31 August 2014.