



Production Audit Report

Presented to

China Hookah Manufactory Co., Ltd.

宁波市鄞州姜山申利达机械配件厂

| | |
|---|--|
| Gold Supplier & Assessed Company Relationship | <input checked="" type="checkbox"/> Wholly Owned <input type="checkbox"/> Shareholder/Partner <input type="checkbox"/> Capacity Contract |
| Company Address: | No. 1, Dongyi Road, Jiangshan Town, Yinzhou District, Ningbo City, Zhejiang Province, China |
| City / Country: | Ningbo / China |
| Consigner of Assessment: | Alibaba |
| Gold Supplier Member ID: | cnchinahookah |
| Gold Supplier Company Name: | China Hookah Manufactory Co., Ltd. |
| Contact Person: | Enfeng Zhang |
| Phone Number: | 0086-574-27896222, 0086-13958200711 |
| Fax Number: | 0086-574-27896220 |
| Email: | sales@complant.net |
| Factory Website Address (URL): | http://chinahookah.en.alibaba.com http://www.chinahookah.com |

Service provided by Intertek
Report No.: 201105060005449_1-P



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|---------------------|----------------------------|-------------------|---|
| Report Number: | 201105060005449_1-P | Assessment: Type: | Production Assessment |
| Date of Assessment: | 30 th May, 2011 | Report Date: | 30 th May, 2011 |
| Assessor's Name: | Bruce Wu | Validity Period: | 31 st May, 2011-30 th May, 2012 |
| Reviewed By: | Lee Ren | Online Report: | www.intertek-sha.com/certification |

Important Notes:

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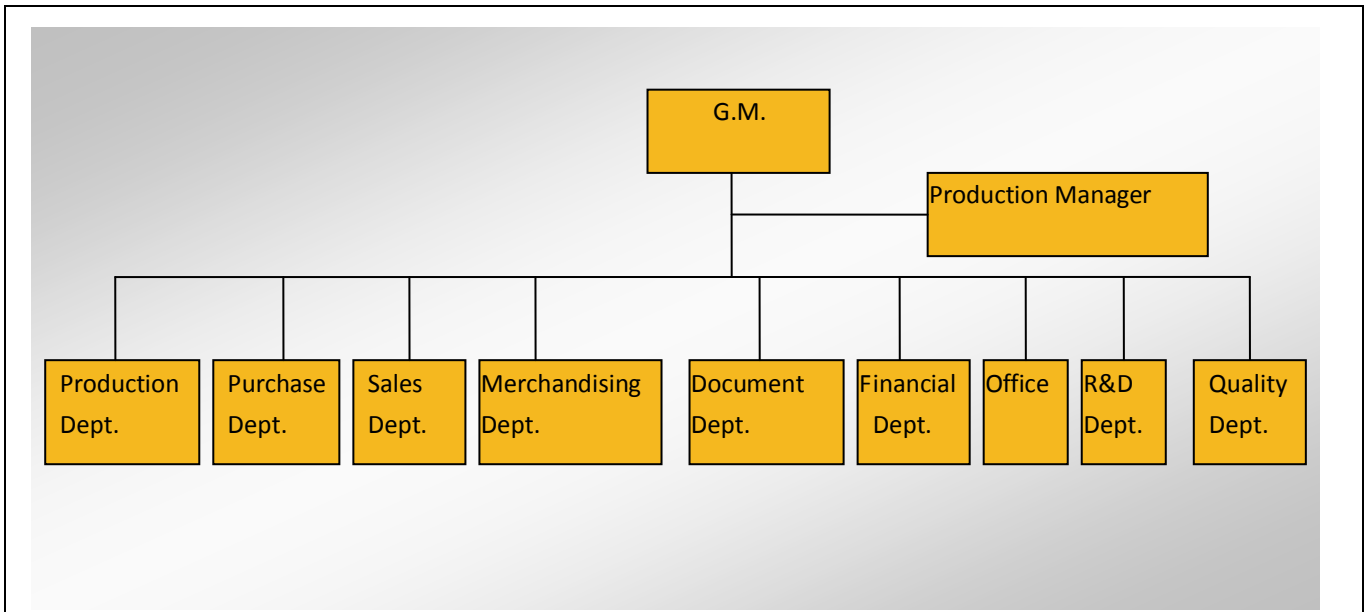
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Section 1: Company Overview

| Company Overview | | | |
|--|--|--|--|
| 1.1 Legal Validity | | | |
| Does the company have a valid business license? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | Business License Number: | 330212000219519 |
| Year Established: | 6 th Feb., 2004 | Validity Period: | 6 th Feb., 2004-5 th Feb., 2024 |
| Registered Address: | Building 55, Zhanghuashan New Village, Jiangshan Town, Yinzhou District, Ningbo City, Zhejiang Province, China | | |
| Company Address: | No. 1, Dongyi Road, Jiangshan Town, Yinzhou District, Ningbo City, Zhejiang Province, China | | |
| Annual review conducted by the Industrial & Commercial Bureau? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | Reviewed By: | Industrial and Commercial Bureau of Ningbo, Yinzhou Branch |
| Registered Capital: | RMB 100,000 | | |
| Corporate Representative: | Cuizhu Fang | | |
| Industry: | Smoking Item | | |
| Business Type: | <input type="checkbox"/> Manufacturer | <input type="checkbox"/> Trading Company | <input checked="" type="checkbox"/> Combined |
| Type of Ownership: | <input checked="" type="checkbox"/> Private Owner | <input type="checkbox"/> Public Company | <input type="checkbox"/> Joint Venture |
| | <input type="checkbox"/> Stated Owned | <input type="checkbox"/> Sole Proprietorship | <input type="checkbox"/> Other |
| Products Manufactured: | Hookah, Shisha, Smoking Pipe, Narghile | | |
| 1.2 Company Building Information | | | |
| Certification Type: | | | |
| <input type="checkbox"/> Land Certification <input type="checkbox"/> Real Estate Certification <input type="checkbox"/> Lease Agreement+ Actually Observed <input checked="" type="checkbox"/> Factory Officer Claimed | | | |
| Total Building Size (m2): <u>3450</u> | | | |
| Number of Building(s) : <u>4</u> | | | |

Section 2: Human Resources

| Human Resources | | | |
|--------------------------|---------------------|---------------------|----------------------------|
| 2.1 Company Chart | | | |
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2.2 Employee Headcount

| Department Name | Full Time Employee(s) | Part-Time Employee(s) | Total |
|----------------------|-----------------------|-----------------------|-----------|
| G.M. | 1 | 0 | 1 |
| Production Manager | 0 | 0.5 | 0.5 |
| Production Dept. | 52 | 0.5 | 52.5 |
| Purchase Dept. | 3 | 0 | 3 |
| Sales Dept. | 4 | 0 | 4 |
| Merchandising Dept. | 4 | 0 | 4 |
| Document Dept. | 1 | 0 | 1 |
| Financial Dept. | 2 | 0 | 2 |
| Office | 2 | 0 | 2 |
| R&D Dept. | 5 | 0 | 5 |
| Quality Dept. | 3 | 0 | 3 |
| Total Number: | 77 | 1 | 78 |

2.3 Management

| Department | Name | Title | Education | Year(s) in Current Company |
|---------------------|---------------|----------|----------------|----------------------------|
| G.M. | Enfeng Zhang | G.M. | Graduate | 5 |
| Production Manager | Guofeng Zheng | Manager | High School | 7 |
| Production Dept. | Guofeng Zheng | Manager | High School | 7 |
| Purchase Dept. | Hao Zhang | Manager | Graduate | 4 |
| Sales Dept. | Qin Zhou | Manager | Post-Graduate | 4 |
| Merchandising Dept. | Dandan Shen | Manager | Graduate | 4 |
| Document Dept. | Jingmei Liu | Manager | Graduate | 4 |
| Financial Dept. | Chunyan Li | Manager | Junior College | 7 |
| Office | Yinjie Wu | Director | Graduate | 4 |

| | | | | |
|---------------|--------------|---------|----------|---|
| R&D Dept. | Xiaoling Liu | Manager | Graduate | 4 |
| Quality Dept. | Binjie Qian | Manager | Graduate | 4 |

Section 3: Production Capacity

| Production Capacity | | | | |
|---|---------------------------------|------------------------|--|------------------|
| 3.1 Annual Production Capacity (Previous Year) | | | | |
| Hookah, Shisha, Smoking Pipe, Narghile 1,800,000 Sets | | | | |
| 3.2 Production Capacity | | | | |
| Product Name | Production Line Capacity | | Actual Units Produced (Previous Year) | |
| Hookah, Shisha, Smoking Pipe, Narghile | 3,000,000 Sets | | 1,800,000 Sets | |
| 3.3 Production Machinery | | | | |
| Machine Name | Brand & Model No. | Quantity | Number of Year(s) Used | Condition |
| Injection molding machine | HTL140 | 2 | 1 | Good |
| Instrument lathe | CO20 | 28 | 5 | Acceptable |
| CNC lathe | CJK0630 | 6 | 4 | Acceptable |
| Punch | J23-5A, J23-40A | 15 | 2 | Good |
| Rubber machine | YD-C500 | 2 | 2 | Good |
| Packing line | Unavailable | 4 | 4 | Good |
| 3.4 Testing Machinery | | | | |
| Machine Name | Brand & Model No. | Quantity | Number of Year(s) Used | Condition |
| None | None | None | None | None |
| 3.5 Subcontractors | | | | |
| Subcontractor Name | Product Subcontracted | Volume Supplied | Cooperation Period (Years) | |
| Ningbo Yinzhou Shengye Plating Co., Ltd. | Plating | 4,000,000 Pieces | 7 | |

Section 4: Quality Assurance

| Quality Assurance | | | | | |
|--|---------------------|------------------------|-------------------------------------|-----------------------|---------------------|
| 4.1 Quality Management System Certification | | | | | |
| Certification | Certified By | Certificate No. | Business Scope | Available Date | Expired Date |
| None | None | None | None | None | None |
| 4.2 Product Certification | | | | | |
| Certification | Certified By | Certificate No. | Product Name & Model No. | Available Date | Expired Date |
| None | None | None | None | None | None |
| 4.3 Quality Control Management | | | | | |
| Item | Content | | Observations /Comments | | |
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| | | |
|-------|--|---|
| 4.3.1 | Is there quality control on all production lines? | <input checked="" type="checkbox"/> Yes, all production lines have adequate quality control <input type="checkbox"/> Yes, some production lines have adequate quality control <input type="checkbox"/> No |
| 4.3.2 | Do the QA/QC inspectors work independently from the production line? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| 4.3.3 | Who does the QC/QA Manager /Supervisor report to? | G.M. |
| 4.3.4 | How many QA/QC inspectors in total? | 3 |

No. of Employees in Each Production Line:

| Production Line | Supervisor | No. of Operators | No. of In-line QC/QA |
|-----------------|------------|------------------|----------------------|
| Blanking | 1 | 5 | 0.5 |
| Molding | 1 | 17 | 0.5 |
| Tapping | 1 | 4 | 0.5 |
| Assembling | 1 | 19 | 0.5 |

4.4 Supplier Management

| Item | Content | Observations /Comments |
|-------|---|--|
| 4.4.1 | Does the company have an supplier assessment procedure? | <input type="checkbox"/> Yes (HIDE) <input checked="" type="checkbox"/> No |
| 4.4.2 | Does the company have an updated list of approved suppliers? | <input type="checkbox"/> Yes (HIDE) <input checked="" type="checkbox"/> No |
| 4.4.3 | Does the company establish and implement a standard procedure for purchasing contract review and approval? | <input type="checkbox"/> Yes, with written standard procedures <input checked="" type="checkbox"/> Yes, with written procedure but lack of consistent standard <input type="checkbox"/> No |
| 4.4.4 | Does the company keep its Supplier Assessment Reports? | <input type="checkbox"/> Yes, Assessment Reports are available for more than 3 years <input type="checkbox"/> Yes, Assessment Reports are available for the last 1-3 years <input type="checkbox"/> Yes, Assessment Reports are available for the previous 12 months <input checked="" type="checkbox"/> No (HIDE) |
| 4.4.5 | Are the company's purchasing documents sufficient to ensure product safety control and their customers' requirements? | <input checked="" type="checkbox"/> Yes, the purchasing document includes all the information required <input type="checkbox"/> Yes, however the purchasing document includes incomplete information <input type="checkbox"/> No |
| 4.4.6 | Is there a procedure to conduct random product inspections after final packaging? | <input checked="" type="checkbox"/> Yes, with clear standard and written inspection records <input type="checkbox"/> Yes, with inspection records but no procedures <input type="checkbox"/> Yes, with procedures but no inspection records <input type="checkbox"/> No, inspections are not necessary |

4.5 After Sales Service

| Item | Content | Observations /Comments |
|------|---------|------------------------|
|------|---------|------------------------|

| | | |
|-------|--|---|
| 4.5.1 | Is customer feedback, including complaints, clearly recorded and maintained? | <input type="checkbox"/> Yes, with a standard feedback form and records <input type="checkbox"/> Yes, with a standard feedback form but no records <input type="checkbox"/> Yes, with records but no standard feedback form <input checked="" type="checkbox"/> No (HIDE) |
| 4.5.2 | Are there any clear procedures for handling customer complaints? | <input type="checkbox"/> Yes, with clear procedures and written records <input type="checkbox"/> Yes, with clear procedures but no written records <input type="checkbox"/> Yes, with written records but no clear procedures <input checked="" type="checkbox"/> No (HIDE) |
| 4.5.3 | Is there a closed-loop corrective action system in place? | <input type="checkbox"/> Yes (HIDE) <input checked="" type="checkbox"/> No |
| 4.5.4 | Can finished/packaged products be traced by lot identification to the appropriate raw material test reports? | <input type="checkbox"/> Yes, with procedures to trace raw materials <input type="checkbox"/> Yes, main raw material can be traced <input type="checkbox"/> No, only the production date can be traced <input checked="" type="checkbox"/> No (HIDE) |
| 4.5.5 | Is there a product alert and recall procedure? | <input type="checkbox"/> Yes (HIDE) <input checked="" type="checkbox"/> No |

Section 5: Production Process Management

| Production Process Management | | |
|-------------------------------|--|---|
| Item | Content | Observations /Comments |
| 5.1 | Is the factory tidy and clean enough for production? | <input type="checkbox"/> Yes, very good <input checked="" type="checkbox"/> Yes, acceptable <input type="checkbox"/> No, needs improvement <input type="checkbox"/> No, very poor |
| 5.2 | Are the following items /documents provided at the appropriate location? | <input checked="" type="checkbox"/> Work Instructions <input type="checkbox"/> Approved sample <input type="checkbox"/> Product picture <input type="checkbox"/> No, the above mentioned was not available |
| 5.3 | Are written instructions available for onsite material inspection/testing? Are the relevant records maintained? | <input checked="" type="checkbox"/> Yes, with clear written instructions and records <input type="checkbox"/> Yes, with written instructions but no records <input type="checkbox"/> Yes, with records but no written instructions <input type="checkbox"/> No |
| 5.4 | Are written inspection/testing instructions available for finished products? Are the relevant records maintained? | <input checked="" type="checkbox"/> Yes, with clear written instructions and records <input type="checkbox"/> Yes, with written instructions but no records <input type="checkbox"/> Yes, with records but no written instructions <input type="checkbox"/> No |

| | | |
|-----|---|---|
| 5.5 | How are finished products inspected? | <input type="checkbox"/> 100% of products with detailed inspection <input checked="" type="checkbox"/> Random inspection <input type="checkbox"/> No inspection <input type="checkbox"/> No inspection necessary |
| 5.6 | Are units that failed inspection clearly marked and separated to prevent accidental dispatch? | <input checked="" type="checkbox"/> Yes, the units are separated and marked clearly <input type="checkbox"/> Yes, the units are separated but not marked clearly <input type="checkbox"/> No |
| 5.7 | How are finished products that failed inspection handled? | <input checked="" type="checkbox"/> Repaired and re-inspected <input checked="" type="checkbox"/> Thrown away <input type="checkbox"/> No inspection necessary |

Section 6: R & D Capacity

| R&D Capacity | | | |
|---|-----------|---|-----------|
| 6.1 Current Situation | | | |
| There is/are <u>5</u> R&D Engineer(s) in the company. | | | |
| Education Level | Headcount | Work Experience | Headcount |
| Doctorate | 0 | Over 30 Years | 0 |
| Post-Graduate | 1 | 21-30 Years | 0 |
| Graduate | 2 | 11-20 Years | 0 |
| Junior College | 2 | 6-10 Years | 1 |
| Technical School | 0 | 2-5 Years | 1 |
| High School | 0 | Less than 2 years | 3 |
| List of successful project(s) (Example: Patented products): | | Patent type: Utility model patent Patent name: Hookah Patent No.: ZL201020518548.2 Patent type: Utility model patent Patent name: Disposable portable hookah Patent No.: ZL201020571223.0 Patent type: Utility model patent Patent name: Smoked censer Patent No.: ZL201020281247.2 | |
| Does the company have its own brand? | | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | |
| If yes, please specify: | | None | |
| Does the company provide ODM service for others? | | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | |

| | |
|--|--|
| Are there relevant design input/output, review, and verification documents available for the assessment company? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Based on inspection, are R & D employees equipped with adequate specialized equipment? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| If yes, please list all key equipment used: | CNC lathe |
| Do R& D employees use any specific software for designing new products? | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| If yes, please list the main software used: | CAD, Pro/E |
| Please list all certifications and/or qualifications of the R & D department: | None |

Section 7: Company Development / Expansion Plans

| Company Development / Expansion Plans | | |
|---------------------------------------|--|--------------------|
| Item | Company Development Action | Timeframe |
| 1 | The total employees would increase to 200. | To the end of 2014 |
| 2 | Total Building Size would increase to 10000 m ² . | To the end of 2014 |
| 3 | The total export revenue would increase to USD 20,000,000. | To the end of 2014 |

Section 8: Production Flow

| Production Flow | | | | | |
|-----------------|---|----|---|----|--|
| No | Production Process | No | Production Process | No | Production Process |
| 1 |  | 2 |  | 3 |  |
| | Punch | | Punch | | Injection molding machine |
| 4 |  | 5 |  | 6 |  |
| | Instrument lathe | | CNC lathe | | Rubber machine |
| 7 |  | 8 | | 9 | |
| | Packing line | | | | |

Section 9: Certification & Photos

Certification & Photos

Business License(Original)



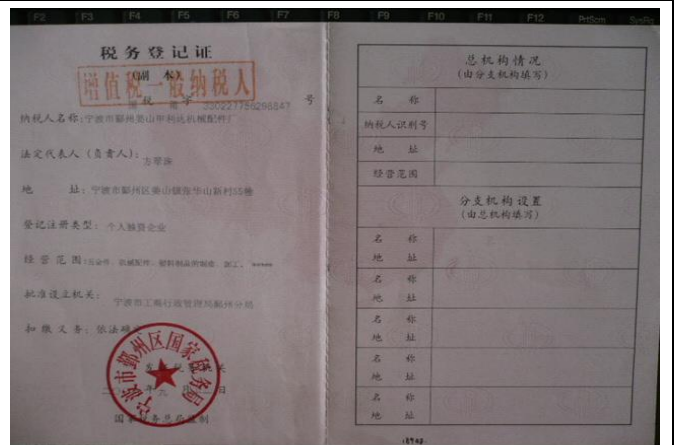
Business License(Duplicate)



Nation Tax Registration Certificate(Original)



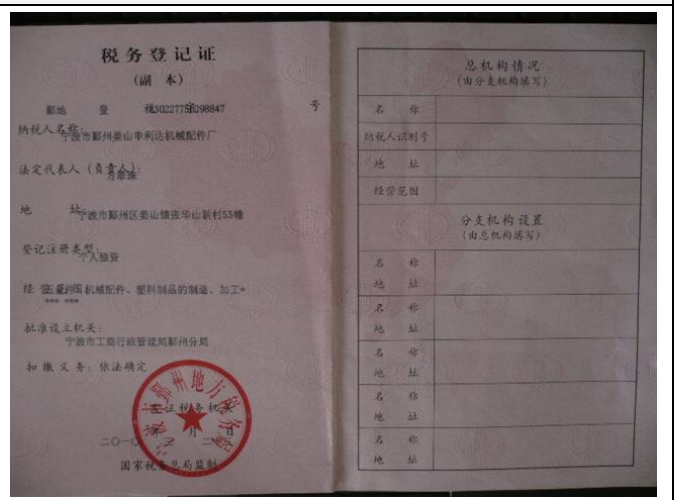
Nation Tax Registration Certificate(Duplicate)



Local Tax Registration Certificate(Original)



Local Tax Registration Certificate(Duplicate)



Organization Code Certificate(Original)



Organization Code Certificate(Duplicate)



Permit for Opening Bank Account



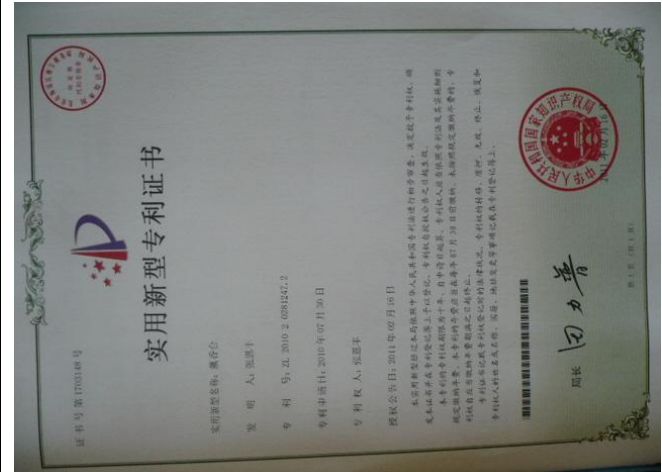
Patent Certification



Patent Certification



Patent Certification



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Section 10: Company and Product Samples

| Company and Product Samples | | | |
|---|--|----------------------|-------------------|
| Company Gate | Office | | |
|  |  | | |
| Workshop | Workshop | | |
|  |  | | |
| Product Sample | Product Sample | | |
|  |  | | |
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