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OVERVIEW

We are a manufacturer of non-porous crystallised stone in the PRC. We use our expertise and experience to develop our own patented technologies in manufacturing our products. We captured approximately 46.2%, 48.7% and 40.0% of the PRC non-porous crystallised stone market for each of the three years ended 31 December 2012, respectively, in terms of total sales volume, according to the ZhongAn Report. The domestic non-porous crystallised stone market is highly concentrated with three manufacturers accounting for approximately 91.0% of market share in terms of total sales volume in 2012, according to the ZhongAn Report. Non-porous crystallised stone accounted for approximately 10.6% of the domestic crystallised stone market in the PRC in terms of market demand in 2012. We captured approximately 4.2% of the market share in terms of sales volume in the overall crystallised stone market in 2012.

Crystallised stone are stone materials formed from inorganic materials melted in high temperature. Generally, crystallised stone have functional performances such as zero water absorption, high specular gloss and is resistant to staining. Crystallised stone are new construction and decoration materials. According to the ZhongAn Report, crystallised stone can generally be classified into three types, namely porous crystallised stone (有孔微晶石), composite crystallised stones (複合微晶石) and non-porous crystallised stone (無孔微晶石). Currently, composite crystallised stone account for a majority of the market share of the PRC crystallised stone market. The market share of non-porous crystallised stone in the PRC is expected to increase in the future due to the introduction of new non-porous crystallised stone products, increase of general market acceptance and capturing of market shares of other crystallised stone as well as other stone materials according to the ZhongAn Report.

We use our expertise and experience to develop our own patented technologies in manufacturing our products. We currently offer three series of non-porous crystallised stone: 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone. Our customers include trading companies, wholesalers and processing companies, who resell our products to their own customers. To the best knowledge of our Directors, the end customers of our products will apply our products for use as sanitary ware and kitchenware, flooring material, interior and exterior building walls, etc. As of the Latest Practicable Date, we had a total of three registered patents, one of which is an invention patent and is used in the production process of 3G Phoenix Stone. Such invention patent was also granted the Gold Award in the China International Patent and Brand Expo (中國國際專利與名牌博覽會金獎) in 2009. The two utility model patents are used in the manufacturing process of our products. Our products are marketed under our “” and “**KING BIRD**” brands and are primarily sold to trading companies, wholesalers and processing companies in the PRC and overseas markets. Our  brand was recognised as the “Famous Brand of Jiangxi Province (江西省著名商標)” in October 2010.

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Our business experienced significant growth in terms of revenue over the Track Record Period. Our revenue increased from approximately RMB282.7 million for the year ended 31 December 2010, to approximately RMB402.1 million for the year ended 31 December 2011 and to approximately RMB458.7 million for the year ended 31 December 2012. The following table sets forth the breakdown of the sales of our three series of non-porous crystallised stone during the Track Record Period:–

	For the year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
1G Phoenix Stone	86,452	30.6	87,344	21.7	51,858	11.3
2G Phoenix Stone	196,219	69.4	216,983	54.0	281,327	61.3
3G Phoenix Stone	–	–	97,783	24.3	125,531	27.4
	<u>282,671</u>	<u>100</u>	<u>402,110</u>	<u>100</u>	<u>458,716</u>	<u>100</u>

OUR BUSINESS MODEL

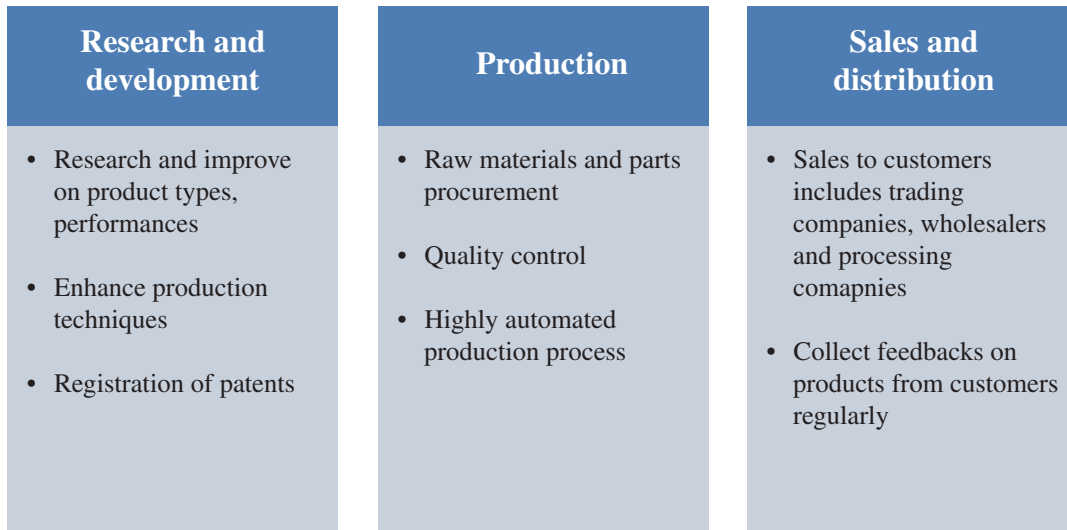
Our business model is vertically integrated starting from product development, production to sales of our non-porous crystallised stone products.

We have developed our own patented technologies to apply in our manufacturing process, which we believe improve the quality of our products and enhance our efficiency and production time.

We strive to broaden our product types and to improve and enhance the quality and functional performances of our products. We launched our first generation non-porous crystallised stone, 1G Phoenix Stone, in 2005. Leveraging on about 10 years of experience in manufacturing non-porous crystallised stone, we have been able to enhance the functional performance and characteristics of our products such as compression strength and impact toughness. We launched 2G Phoenix Stone in 2007 and 3G Phoenix Stone in 2011, providing our customers with better quality products with a wider scope of usage and application. Our three series of non-porous crystallised stone are white in colour, which we believe to have sufficient market demand currently. We will continue to diversify our product offerings and to improve and enhance our products. We have recently widened our focus and developed non-porous crystallised stones that are black and ivory in colour and we will launch these new products to the market when there is sufficient market acceptance and demand and when there is sufficient production capacity. With the expansion plan of our production plants, we intend to launch the non-porous crystallised in black and ivory colour to the market in 2014. Our non-porous crystallised stone are sold mainly to trading companies, wholesalers and processing companies in the PRC and overseas markets.

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The following diagram illustrates our business model:-



Research and development

We believe that our product development capabilities enable us to develop new products with features such as zero water absorption and enhanced compression and bending strengths. As of the Latest Practicable Date, we had a dedicated team of 47 research and development staff focusing on product development and improvement of our production technologies and process. We also cooperate with industry experts and tertiary institutions in our research and development projects. As of the Latest Practicable Date, we had a total of three registered patents, one of which is an invention patent and is used in the production process of 3G Phoenix Stone. Such invention patent was also granted the Gold Award in the China International Patent and Brand Expo (中國國際專利與名牌博覽會金獎) in 2009. The two utility model patents are used in the manufacturing process of our products. We believe that our product development capabilities have been and will continue to be critical to the success of our business. Please refer to the section headed “Further information about the business of our Group – Intellectual property rights of our Group” in Appendix VI of this prospectus for further details of our intellectual property portfolio.

Production

We manufacture non-porous crystallised stone at our Hengfeng Production Facilities and Yunshan Production Facilities, both located in Jiujiang City, Jiangxi Province, the PRC. We manufactured approximately 1.46 million square metres of non-porous crystallised stone in 2012. Our production process is highly automated and we apply our own patented technologies in our production process. Our production equipment and machinery are assembled in the PRC specifically for and to satisfy the technical requirements for the production of our products. With our highly automatic production facilities, we are able to maintain production efficiency and produce non-porous crystallised stone with enhanced functional performance and characteristics. We also set a high standard of quality control and have obtained the GB/T 19001/ISO9001 series certification in respect of our quality management system in our production process in our Hengfeng Production Facilities. We have specific quality control measures in place throughout our production process

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and submit our sample products to independent institutions for testing. We will continue to expand our production facilities to cater for our further development as well as to satisfy the increasing demand from our customers.

Our Hengfeng Production Facilities first commenced its operation in 2005 and four production lines are in full operation with a maximum annual production capacity of 1.96 million square metres as of 2012. Our Yunshan Production Facilities is our new production facilities and is expected to have four production lines. The construction of production line 1 of our Yunshan Production Facilities has been completed and it has commenced operation in February 2013. We expect the production line 2 of our Yunshan Production Facilities to commence operation in September 2013 and both the production lines 3 and 4 to commence operation in the second half of 2014. The estimated maximum designed annual production capacity of the four production lines of our Yunshan Production Facilities, upon full operation, will be approximately 3.2 million square metres. We believe that our sizeable production facilities provide us with economies of scale by increasing our production efficiency and lowering our production costs and expenses. Please refer to the sub-sections headed “Our expansion plans and source of funding” and “Production facilities” of this section for further details on our Hengfeng Production Facilities and Yunshan Production Facilities.

Sales and distribution

Our customers include trading companies and wholesalers and, to the best knowledge of our Directors, they in turn re-sell our products to both the domestic and overseas markets. We also sell our products to processing companies and they would arrange for additional processing of our non-porous crystallised stone which are then re-sold to their own customers. To the best knowledge of our Directors, the end customers of our products will apply our products for use as sanitary ware and kitchenware, flooring material, interior and exterior building walls, etc. Trading companies include companies that are engaged in the business of trading various products including decoration and building materials. Wholesalers include entities engaged in the business of wholesaling and they sell our products in their own stores to their customers. Processing companies include entities that have the capabilities to further process our products into sanitary ware and kitchenware and other products.

Our domestic sales are widely spread to cover customers in Beijing, Shanghai, Fujian Province, Guangdong Province, Zhejiang Province, Jiangsu Province, Jiangxi Province, Shandong Province, Liaoning Province, Anhui Province and Sichuan Province. We also directly export our products to our overseas customers such as those in Hong Kong, Brazil and the UAE. Our sales employees directly contact our customers and communicate with them regularly to collect information on their feedbacks, preferences, specifications and general requirements with respect to our products. Based on this information, we are able to research and improve our products to meet our customers’ requirements.

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The following table sets forth the breakdown of revenue by sales channels during the Track Record Period:-

	Year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Trading companies	147,073	52.0	239,905	59.7	218,080	47.5
Wholesalers	83,779	29.7	95,975	23.8	142,298	31.1
Processing companies	<u>51,819</u>	<u>18.3</u>	<u>66,230</u>	<u>16.5</u>	<u>98,338</u>	<u>21.4</u>
	<u><u>282,671</u></u>	<u><u>100.0</u></u>	<u><u>402,110</u></u>	<u><u>100.0</u></u>	<u><u>458,716</u></u>	<u><u>100.0</u></u>

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

We have approximately 46.2%, 48.7% and 40.0% market share in terms of sales volume in the non-porous crystallised stone industry in the PRC for each of the three years ended 31 December 2012, respectively

Our total sales volume for non-porous crystallised stone reached 1.36 million square metres in 2012, accounting for approximately 40.0% of the market share of non-porous crystallised stone, according to the ZhongAn Report.

According to the ZhongAn Report, the demand for non-porous crystallised stone in the PRC is expected to reach 4.76 million square metres by 2014, an increase from 2.26 million square metres in 2010, representing a CAGR of 20.5% over the period. We expect that the continuous growth in the PRC economy and increasing urbanisation will further drive the demand in the PRC for non-porous crystallised stone products as decoration and building materials. With the expansion plan of our production facilities, we believe that we are well-positioned to capture a significant portion of the growth of the non-porous crystallised stone market in the PRC and further develop our business.

Our product development capabilities enable us to improve and enhance our products

We launched 1G Phoenix Stone, being our first generation non-porous crystallised stone, in 2005. Over the years, we have continued to improve our products to enhance their functional performance, including water absorption, density, specular gloss, bending strength, hardness, thermal-shock resistance, compression strength and stain resistance. We launched, 2G Phoenix Stone, being our second generation non-porous crystallised stone in 2007 and 3G Phoenix Stone, being our third generation non-porous crystallised stone, in 2011, providing enhanced functionality with a wider scope of applications. In late 2012, we have successfully developed non-porous crystallised stone that is black and ivory in colour thereby expanding our product offerings. With the expansion plan of our production facilities, we intend to launch the non-porous crystallised stone in black and ivory to the market in 2014.

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We apply our own patented technologies in the manufacturing process of our products. As of the Latest Practicable Date, we had three registered patents, one of which was an invention patent and is used in the production process of 3G Phoenix Stone. Such invention patent was also granted the Gold Award in the China International Patent and Brand Expo (中國國際專利與名牌博覽會金獎) in 2009. The two utility model patents are used in the production process of our products.

Given the successful development and launch of three generations of non-porous crystallised stone and the use of our three registered patents in our manufacturing process, we are positioned to enhance and improve the quality of our products and expand the scope of their usages and applications.

Our highly automated production facilities enable us to manufacture non-porous crystallised stone efficiently and cost-effectively

Our production equipment and machinery are assembled in the PRC specifically for and to satisfy the technical requirements for the production of our products. We strived to achieve a highly automated production line for our key production processes to enhance efficiency.

We believe that substantial capital commitments are required in order to stay competitive in the non-porous crystallised stone industry and achieve economies of scale. The technical features of equipment and machinery determine product quality and performance. We have invested in our equipment and machinery to improve our production process. Our production lines at our Hengfeng Production Facilities and Yunshan Production Facilities are highly automated. As of the Latest Practicable Date, we had five production lines in operation with a maximum total annual production capacity of approximately 3.07 million square metres. Further information on our production facilities is set forth in the sub-section headed under “Production facilities” in this section. For the three years ended 31 December 2012, our capital expenditure in our production facilities was approximately RMB122.8 million, RMB143.7 million and RMB168.9 million, respectively. We provide our personnel with appropriate training such that they are equipped with the requisite technical capabilities to operate and maintain our production equipment and machinery.

In addition, we believe that maintaining an adequate utilisation rate of our production facilities is essential to reduce the unit cost of our products which, in turn, allows us to remain competitive. Our production facilities operate 24 hours a day and for 360 days per year. Our production facilities operated at an average utilisation rate of 81.0%, 78.0% and 74.6% for each of the three years ended 31 December 2012, respectively. Please refer to the sub-section headed “Production facilities” of this section for further details of our utilisation rate.

With our highly automatic production process and patented technologies, we are able to maintain production efficiency and produce non-porous crystallised stone with more reliable and functional features.

We have an experienced and cohesive senior management team with a proven track record of success

We have an experienced management team with strong operational experience and extensive industry expertise. Our chairman, Mr. Sui, has approximately 18 years of experience in the decoration and building materials industry. Mr. Zhu, our President and executive Director, has about 16 years of experience in the

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decoration and building materials industry. Mr. Zhu is principally responsible for the research and development of our products and is the inventor of the three patents which are registered under the name of Jiujiang Golden Phoenix.

Furthermore, we have an experienced senior management team with extensive operational expertise and an in-depth understanding of the crystallised stone market in China, which has allowed us to anticipate market trends when formulating our positioning and development strategies. Additionally, key members of our senior management team have worked together as a team for over 10 years. Further information of our executive Directors and senior management team is set forth in the section headed “Directors, senior management and staff” in this prospectus. We believe that their extensive knowledge and experience as well as cohesive working culture have been crucial to the success of our business.

OUR BUSINESS STRATEGIES

Our goal is to become the leading non-porous crystallised stone manufacturer in China and globally. We intend to achieve this objective by implementing the following strategies:

Expand our production capacities, improve our production technologies and increase production efficiency

As of the Latest Practicable Date, we have a total of five production lines in operation with an annual designed production capacity to produce approximately 3.07 million square metres of non-porous crystallised stone. We are actively seeking to expand our production facilities and increase our production capacity through construction and investment in production facilities. We expect that our annual designed production capacity will be increased progressively to 3.88 million square metres by the end of 2013 and further to 5.48 million square metres by the end of 2014. We believe that a larger production capacity will enable us to better control our production efficiency, allow us to respond to market changes promptly and enable us to provide timely and sufficient supply to our customers.

According to the ZhongAn Report, the sales volume of crystallised stone in the PRC is expected to increase from 32.09 million square metres in 2012 to 51.0 million square metres in 2015, representing a CAGR of 16.7% over the period. In addition, the export of crystallised stone is expected to increase from 3.80 million square metres in 2012 to 7.20 million square metres in 2015, representing a CAGR of 23.7% over the period. Although the market share of non-porous crystallised stone in the PRC is expected to range from approximately 10% to 12% by 2015 of the overall crystallised stone market according to the ZhongAn Report, our Directors believe that there are adequate market opportunities for our products.

Despite distinct functional performances, characteristics and production methods, the three types of crystallised stone (i.e. porous crystallised stone, non-porous crystallised stone and composite crystallised stone) are commonly applied as decoration and building materials and may be used as substitutes for one another. As compared with the other two types of crystallised stone, non-porous crystallised stone is better in terms of compression strength and water absorption. Stone materials such as marble and granite are naturally occurring substances and are non-renewable resources. During the mining and processing of marble and granite, certain amounts of waste materials are produced and such waste materials are non-recyclable while the materials are recyclable during the manufacturing and processing of non-porous crystallised stone. As such, non-porous crystallised stone could be considered as an environmentally friendly decoration and building material.

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Therefore, crystalised stone, in particular non-porous crystalised stone, is an attractive alternative for other decoration and building materials such as marble and granite. Generally, the choice of decoration and building materials is largely dependent on the requirements, needs and preference of customers and end consumers. In addition to requirements on functional performance of decoration and building materials, customers and consumers would also base their decision on the aesthetics of stone materials. We have recently developed non-porous crystalised stone in black and ivory colour thereby expanding our product offerings and we will launch these new products to the market when there is sufficient market acceptance and demand and when there is sufficient production capacity. With the expansion plan of our production facilities, we intend to launch the non-porous crystalised stone in black and ivory colour to the market in 2014. As such, our Directors intend to also capture market opportunities from porous crystalised stone, composite crystalised stone and other stone materials in various colours by expanding our production capacities and construction of additional production lines.

Optimise our product offerings and continue to leverage on our own patented technologies to enhance our products

We believe that product innovation and timely response to market trends and development are crucial to success in the crystalised stone industry. By enhancing our research and development capabilities, we can continue to optimise our product portfolio by adding new products and improving our existing products. To achieve this end, we intend to:

- establish a research and development centre on our Yunshan Production Facilities to diversify our product lines, enhance functional performance of our non-porous crystalised stone and expand their applications to other areas such as applications as utensils, electronic parts and components, etc.;
- recruit more experienced professionals and experts from the industry to further enhance our research and development expertise;
- cooperate with accredited research institutions, universities and industry experts to research and develop technologies and techniques to increase our production quality and reduce production costs; and
- purchase additional and upgrading existing product testing and research equipment to maintain our high quality standards and enhance our research capabilities.

We consider our research and development expertise to be a crucial element of our success and we intend to enhance our technical expertise and know-how to ensure continuous improvement of the functionality and unique features of our products.

Expand our existing market share by developing new customers and exploring new markets

We will continue to produce and supply non-porous crystalised stone to our customers and strengthen our relationship with them with an aim to increase our sales with our existing customers. We also aim to develop business relationship with new customers by attending and participating in trade shows and industry


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trade exhibitions. Furthermore, we will promote and advertise our products through various media such as billboards, industry magazines and the Internet. Our sales team will also proactively seek out and target potential customers.

Our Directors believe that there are opportunities to further expand into the overseas market. During the Track Record Period, our overseas sales increased from approximately RMB4.0 million in 2010 to RMB13.3 million in 2011 and further to RMB51.4 million in 2012, accounting for approximately 1.4%, 3.3% and 11.2% of our total sales, respectively. Further, to the best knowledge of our Directors, our products are re-sold overseas by some of our domestic customers.

According to the ZhongAn Report, the export volume of domestic crystallised stone increased from 0.65 million square metres in 2005 to 3.80 million square metres in 2012, representing a CAGR of 28.7% over the period and the export volume of crystallised stone is expected to increase to 7.20 million square metres in 2015, representing a CAGR of 23.7% from 2012 to 2015.

Accordingly, we plan to continue to develop and explore the overseas markets such as South Africa, Europe and the Middle East by attending and participating in overseas exhibitions in order to promote our products overseas and seek out overseas customers. Our sales staff will also take the initiative to communicate with our overseas customers regularly. During the Track Record Period, we actively participated in various exhibitions overseas, including those in Brazil, Middle East and Italy, such as the International Trade Fair for Stone Design and Technology 2012 (2012年意大利維羅納國際石材展覽會) and Victoria 2012 Stone Fair (2012年巴西維多利亞國際石材展覽會), to meet and approach new customers. For each for the three years ended 31 December 2012, our sales volume to our overseas customers were 12,015 square metres, 33,591 square metres and 114,489 square metres, respectively. We will explore other means to expand our overseas sales, including possible co-operation with building materials chain stores but in the near future, we will follow our existing marketing and promotion policies in relation to overseas customers. We will continue to focus on direct communication with our overseas customers and placing resources in participating in overseas exhibitions in the future as our Directors consider this as the most effective way to approach new customers directly and raise awareness and recognition of our Group and products among potential customers and overseas markets.

We also aim to actively increase the exposure of our “” and “*KING BIRD*” brands and products by cooperating with selected wholesalers to standardise the designs of their stores to feature only our non-porous crystallised stone. We target to select stores located in first-tier and selected major cities in the PRC. We target to begin our cooperation with eight wholesalers in 2013 and will select around seven to 10 additional wholesalers each year. At this stage, we expect to cooperate with a total of 25 wholesalers. Under the proposed cooperation with the selected wholesalers, we will bear the cost of the design and furnishing of the show room and the advertising and promotional cost to promote our presence in the selected city and products in the standardised store, which is expected to be approximately RMB1.0 million for each standardised store. Our contribution accounts for around 70.0% of the total amount required under the cooperation and the selected wholesalers will contribute around 30.0% of the amount required. The wholesalers are required to commit to the display and sale of our products on an exclusive basis for a period of not less than two years. If selected wholesalers terminate the cooperation before the expiration of the two-year period, they will be required to return an amount of up to 80.0% of our contribution depending on the remaining term of the cooperation. During the cooperation, the wholesalers are not permitted to amend the standardised design of the stores without our prior written approval. By assisting the wholesalers in

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decorating and outfitting the stores, we will be able to display our products and enable customers and consumers to see our products in an upmarket environment. We will not participate in the management and operations of these stores. We believe the standardised stores will help to further improve brand awareness among customers and enhance our image as a leading non-porous crystallised stone manufacturer in the domestic market. As of the Latest Practicable Date, we have not commenced such cooperation plan or enter into any cooperation agreements with our wholesaler customers.

OUR EXPANSION PLANS AND SOURCE OF FUNDING

We will continue to expand our production facilities to cater for our further development as well as to satisfy the increasing demand from our customers. Our sales volume has been increasing with our production capacity expansion. Our Directors believe that the market demand for our products is increasing based on the feedback from our customers and the industry knowledge of our Directors. Competitors in the decoration and building materials industry compete in aspects of quality, functions, and diversity of products that they can offer to the market. To maintain competitive, other than having strong research and develop capabilities, market players must also compete on production capacity. Manufacturers may lose its market share if it fails to maintain an efficient and large-scale production capacity. We have been increasing our production capacity gradually over the years and we will continue to adopt this strategy to remain competitive in the market. Our increases in revenue are in line with the increase in our production capacity by adding new production lines and upgrading existing production lines.

The table below shows the key information on our existing operations, market position and our expansion plans:

	2012	2013 (estimated)	2014 (estimated)
Market demand for crystallised stone in the PRC <i>(note 1)</i>	32.1 million square metres	37.8 million square metres	43.5 million square metres
Market demand of non-porous crystallised stone in the PRC <i>(note 1)</i>	3.40 million square metres	4.10 million square metres	4.76 million square metres
Our actual production volume	1.46 million square metres	not available	not available
Our maximum annual production capacity <i>(note 2)</i>	1.96 million square metres	3.21 million square metres	4.33 million square metres
Our utilisation rate <i>(note 3)</i>	74.6%	70.0% -75.0%	70.0% -75.0%
Our total indicated minimum sales volume based on the framework agreements <i>(note 4)</i>	not applicable <i>(note 5)</i>	1.02 million square metres	2.03 million square metres
Capital expenditure required for our expansion plan <i>(note 6)</i>	RMB262.7 million	RMB124.5 million	RMB312.8 million

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Notes:

1. Based on the ZhongAn Report.
2. The estimated maximum production capacity for 2013 and 2014 has taken into account the projected commencement dates of operation of our production lines at the Yunshan Production Facilities and the estimated overhaul period as disclosed on page 106 of this prospectus. Our designed maximum annual production capacity for 2013 and 2014 is 3.88 million square metres and 5.48 million square metres, respectively.
3. The basis of calculations our utilisation rate is set out in the sub-section headed “Hengfeng Production Facilities” in this section.
4. The indicated total sales volumes are based on the minimum purchase amounts in the framework agreements.
5. No framework agreements were signed in 2012.
6. We intend to apply approximately HK\$309.0 million of the net proceeds from the New Issue to finance the capital expenditure of our expansion plan. Please refer to the sub-section headed “Our expansion plans and source of funding” in this section.

According to the ZhongAn Report, the market demand for non-porous crystallised stone in the PRC is expected to reach 4.76 million square metres in 2014, an increase from 3.40 million square metres in 2012, representing a CAGR of 18.3% over the period.

Our estimated maximum annual production capacity of 4.33 million square metres for 2014 is close to the market demand for non-porous crystallised stone in the PRC of 4.76 million square metres in 2014. The market demand only refers to the non-porous crystallised stone segment in the PRC. Our expansion plan is not limited to the PRC market. We have to take into account the potential growth in our export sales, substitution as decoration and building materials for crystallised stone and our ability to capture the market share of other types of crystallised stone.

According to the ZhongAn Report, the sales volume of crystallised stone in the PRC is expected to grow from 32.09 million square metres in 2012 to 43.50 million square metres in 2014, representing a CAGR of 16.4% over the period, and the export volume of domestic crystallised stone is expected to increase from 3.80 million square metres in 2012 to 5.60 million square metres in 2014, representing a CAGR of 21.4% over the period.

Our utilisation rate during the Track Record Period is approximately 81.0%, 78.0% and 74.6%, respectively. We target to maintain our utilisation rate in 2013 and 2014 to be in the range of 70% to 75%, which is in line with the utilisation rate of the non-porous crystallised stone industry in the PRC of about 75%, according to the ZhongAn Report.

Our Yunshan Production Facilities is our new production facilities and will have four production lines. The construction of the production line 1 of our Yunshan Production Facilities has been completed and it has commenced operation in February 2013. We expect production line 2 of our Yunshan Production Facilities to commence operation in September 2013. As of the Latest Practicable Date, we had spent approximately RMB262.7 million on the construction of our Yunshan Production Facilities. We plan to commence operation of both the production lines 3 and 4 at our Yunshan Production Facilities in the second half of 2014. We expect the remaining capital expenditure required for the construction of the Yunshan Production Facilities

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will be approximately RMB437.3 million, whereby RMB191.5 million will be financed by internal resources and/or bank borrowing and RMB245.8 million will be financed by the proceeds from the New Issue. In addition, we had RMB121.1 million of outstanding borrowings as of 31 December 2012 which are due and payable within one year and we are required to make capital contribution of US\$2.5 million (approximately RMB15.5 million) by 31 December 2013.

The table below sets forth the details of our expansion plans for the Yunshan Production Facilities:–

	Estimated maximum designed annual production capacity (‘000 square metres)	Commencement date/expected commencement date of operation	Capital expenditure and source of funding
Yunshan Production Facilities			
Foundation work and ancillary facilities	N/A	N/A	RMB209.2 million (RMB208.8 million funded by internal resources and/or bank loans and RMB0.4 million funded by proceeds from the New Issue)
Production line 1	800	February 2013	RMB122.7 million funded by internal resources and/or bank loans
Production line 2	800	September 2013	RMB122.7 million funded by internal resources and/or bank loans
Production line 3	800	Second half of 2014	RMB122.7 million funded by proceeds from the New Issue
Production line 4	800	Second half of 2014	RMB122.7 million funded by proceeds from the New Issue

Please refer to the section headed “Future plans and proceeds” of this prospectus for details of our development plans.

As confirmed by our PRC legal adviser, the following permits and approvals are required for our production facilities expansion:–

- Approval Concerning the Annual Production of 5.0 Million Square Metres of Crystallised Stone by Jiangxi Golden Phoenix (關於核准江西金鳳凰納米微晶有限公司年產500萬平方米微晶玻璃裝飾板項目的批覆) (obtained on 3 December 2009);

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- Approval Concerning the Environmental Impact Assessment in Relation to the Annual Production of 5.0 Million Square Metres of Crystallised Stone by Jiangxi Golden Phoenix (關於<九江金鳳凰裝飾材料有限公司年產500萬平方米微晶玻璃專案環境影響評價報告表>的批覆) (obtained on 18 January 2010);
- Construction Planning Permit (No. 2009Y0209016) (建設用地規劃許可證(2009Y0209016號)) relating to total site area of 82,000.41 square metres (obtained on 28 September 2009);
- Construction Planning Permit (No. 2011Y0209059) (建設用地規劃許可證(2011Y0209059號)) relating to total site area of 61,565.78 square metres (obtained on 19 September 2011); and
- Ownership Rights Certificates and Land Use Rights certificates for the construction of nine buildings and structures (obtained on 16 July 2010).

We will apply for and complete the related procedures for obtaining the requisite permits and licenses to ensure compliance with the relevant laws and regulations. As advised by our PRC legal adviser, there would be no legal impediments for us to obtain the requisite permits and approvals.

Our Directors consider that we can secure sufficient funding to continue to operate at our existing levels and to meet capital requirements for our committed or planned expansion plan based on the following:


- the capital expenditure for the production capacity expansion plans will be gradually incurred from 2013 to 2014, which is expected to be approximately RMB124.5 million and RMB312.8 million, respectively;
- as at 30 April 2013, the existing bank loans amounting to RMB208.6 million. They are expected to be replaced with new bank loans upon repayment;
- the unutilised banking facilities of RMB270.5 million as at the Latest Practicable Date of which RMB98.0 million will expire in 2017;
- additional bank loans and/or banking facilities that could be secured by pledging the new production lines at the Yunshan Production Facilities; and
- the positive cash flows generated from our operations from 2013 to 2015; during the Track Record Period, we had positive cash flows from our operations of RMB70.4 million, RMB185.0 million and RMB136.9 million for each of the three years ended 31 December 2012, respectively.

Based on the framework agreements signed with some of our customers, the total indicative minimum sales volume is 1.02 million square metres during the period from May 2013 to December 2013 and 2.03 million square metres in 2014, representing approximately 24.9% and 42.6% of the market demand of non-porous crystallised stone in the PRC in 2013 and 2014, respectively. We formulate our expansion plan taking into various factors including the competitive industry landscape, the importance of maintaining a large scale and efficient production capacity, the management's knowledge on market demand, the feedbacks and demands from customers, the sales order on hand, the expected amount of sales orders and the domestic and

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global market trends. We believe that the proposed expansion of our production capacity is fair and reasonable and there is adequate market demand for our products. Our Directors will adopt a prudent approach and review our expansion plan from time to time taking into consideration factors such as our production volume, sales orders and market conditions. We will review our expansion plans from time to time and will keep the public informed on our expansion plans before commencing construction of each of our production lines. We will make announcements on a timely basis and include relevant disclosures in our interim and annual reports after Listing, including but not limited to, the basis of decisions of commencing construction, the commencement date of our new production lines, the stage of our expansion plans, the production capacity of our production lines, the utilisation rate of our production lines, the breakeven utilisation rate of our production lines, the expected outstanding capital expenditure, the source of funding, the utilised and unutilised portions of proceeds, the alternative use of proceeds earmarked for the construction of the production lines 3 and/or 4 if we decide not to commence the construction of production lines 3 and/or 4, and the expected sales volume. The net proceeds from the New Issue earmarked for the construction of the production lines 3 and 4 of our Yunshan Production Facilities will not be used for any other purpose until we decide otherwise. If we decide not to commence the construction of the production lines 3 and/or 4, such earmarked proceeds will be used for the repairs and maintenance and upgrade of our current production facilities. As such, the construction of production lines 3 and/or 4 of our Yunshan Production Facilities may or may not commence in accordance with the planned timetable.

OUR PRODUCTS

As of the Latest Practicable Date, we offered three series of non-porous crystalised stone, namely 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone. All our products are sold under our “” and “**KING BIRD**” brands.

All three series of non-porous crystalised stone produced and offered by us are white in colour, which we believe to have sufficient market demand currently. According to the ZhongAn Report, only white non-porous crystalised stone are currently offered in the market. Our Directors believe that non-porous crystalised stone products are only offered in white because there is a large demand for white non-porous crystalised stone as (i) there is a lack of naturally occurring stone materials in pure white and (ii) pure white decoration and building materials are highly sought after for its ease of integration in a variety of setting and environment and can be easily matched and paired with decoration and building materials in other colours. The three series of our products involve different production processes and have different functional performances and characteristics, such as bulk density, specular gloss, compression strength, bending strength and impact toughness. With different functional performances and characteristics, the three series of our products can be applied in a wide variety of settings and applications ranging from sanitary ware and kitchenwares to exterior building walls.

Our non-porous crystalised stone are generally produced as slabs. We are able to customise our non-porous crystalised stone slabs according to customers’ requirements and specifications.

To ensure the standard and quality of our products, samples of our products are submitted for testing at the National Research Centre of Testing Techniques for Building Materials.

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The table below is a summary of the average of the key functional performances, characteristics and general applications of our products:-

	1G Phoenix Stone	2G Phoenix Stone	3G Phoenix Stone
<i>Appearance</i>			
<i>Colour</i>	White	White	White
<i>Specular gloss⁽¹⁾</i>	91	98	92
<i>Physical state and performance</i>			
<i>Water absorption</i>	0.01%	0.004%	0.008%
<i>Bulk density</i>	2.44g/cm ³	2.64g/cm ³	2.50g/cm ³
<i>Bending strength/Flexural strength</i>	40 MPa	73.2 MPa	57 MPa
<i>Mohs scale⁽²⁾</i>	5	5	6
<i>Compression strength</i>	212 MPa	402 MPa	759 MPa
<i>Thermal shock resistance</i>	No crazing	No crazing	No crazing
<i>Impact toughness</i>	1.72kJ/m ³	2.08kJ/m ³	2.80kJ/m ³
<i>Reactive characteristics</i>			
<i>High temperature resistance</i>	No cracking, crazing, blistering	No cracking, crazing, blistering	No cracking, crazing, blistering, no colour differences
<i>General applications</i>	Sanitary ware and kitchenware	Flooring material, interior and exterior building walls and table tops	All applications of our 1G Phoenix Stone and 2G Phoenix Stone, including flooring material, interior and exterior building walls and table tops

Notes:

1. Specular gloss is quantified by measuring the amount of light reflected from the sample and comparing it with the amount of light reflected when a polished black glass calibration standard is measured under the same conditions. The glass standard is assigned a value of 100 units and in practice the highest attainable glass value for non-metallic paints is around 95 units.
2. Mohs scale characterises the scratch resistance of the sample through the ability of a harder material to scratch a softer material. The Moh's scale is a purely ordinal scale and ranges from 1 (very soft) to 10 (very hard).

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1G Phoenix Stone

1G Phoenix Stone is the first generation non-porous crystallised stone launched by us in 2005. Our 1G Phoenix Stone can be manufactured with thickness ranging from 12mm to 30mm. During the Track Record Period, the specifications of 1G Phoenix Stone that had the highest sales volume was 18mm, 20mm and 30mm.

Compared with 2G Phoenix Stone and 3G Phoenix Stone, 1G Phoenix Stone generally has lower compression strength and impact toughness and is relatively more brittle. 1G Phoenix Stone is ideal for undergoing further processing by our customers into sanitary ware and kitchenware such as washbasins, bidets and countertops. Due to its raw materials combination, 1G Phoenix Stone is relatively more fragile. As additional processing would generally yield products that are more resilient, 1G Phoenix Stone remain best suited for sanitary ware and kitchenware.

For the three years ended 31 December 2012, the revenue generated from our sales of 1G Phoenix Stone was approximately RMB86.5 million, RMB87.3 million and RMB51.9 million respectively, representing approximately 30.6%, 21.7% and 11.3%, respectively of our total sales.

2G Phoenix Stone

2G Phoenix Stone is our second generation non-porous crystallised stone and is an improvement and advancement of 1G Phoenix Stone. 2G Phoenix Stone was first commercially launched to the market in 2007. Our 2G Phoenix Stone can be manufactured with thickness ranging from 12mm to 30mm, with 18mm being the most popular specification among our customers during the Track Record Period.

We developed 2G Phoenix Stone as an advancement to 1G Phoenix Stone because there was a demand in the market for increased durability of flooring materials. 2G Phoenix Stone generally has a higher compression strength which contributes to its resilience as compared to 1G Phoenix Stone. 2G Phoenix Stone products are generally applied as flooring material, interior and exterior building walls and table tops. The improvement in the compression strength of 2G Phoenix Stone has enabled it to be used in a variety of applications as the products are more robust and resilient.

For the three years ended 31 December 2012, the revenue generated from our sales of 2G Phoenix Stone was approximately RMB196.2 million, RMB217.0 million and RMB281.3 million respectively, representing approximately 69.4%, 54.0% and 61.3%, respectively of our total sales.

3G Phoenix Stone

3G Phoenix Stone, being our third generation non-porous crystallised stone, is a further improvement and advancement of our 2G Phoenix Stone with better functional performances. 3G Phoenix Stone was recently launched to the market in 2011. Our 3G Phoenix Stone can be manufactured with thickness ranging from 12mm to 30mm, with 18mm being the most popular specification among our customers during the Track Record Period.

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With its high bending strength and high resilience, 3G Phoenix Stone is ideal for undergoing further processing and for use as flooring material, interior and exterior building walls as it allows for easy installation. With the best functional performances among our three generations of products, our 3G Phoenix Stone can generally be applied in all the usages and applications of 1G Phoenix Stone and 2G Phoenix Stone.

For the three years ended 31 December 2012, the revenue generated from our sales of the 3G Phoenix Stone approximately was nil, RMB97.8 million and RMB125.5 million respectively, representing approximately nil, 24.3% and 27.4%, respectively of our total sales.

The following table sets forth the sales volume of our three series of non-porous crystallised stone during the Track Record Period:--

	For the year ended 31 December		
	2010	2011	2012
	<i>square metres</i>	<i>square metres</i>	<i>square metres</i>
1G Phoenix Stone	378,690	386,547	224,210
2G Phoenix Stone	637,093	704,403	797,833
3G Phoenix Stone	—	268,520	338,028
	<u>1,015,783</u>	<u>1,359,470</u>	<u>1,360,071</u>

The following table sets forth the breakdown of the revenue of our products for the Track Record Period:--

	For the year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>
1G Phoenix Stone	86,452	30.6	87,344	21.7	51,858	11.3
2G Phoenix Stone	196,219	69.4	216,983	54.0	281,327	61.3
3G Phoenix Stone	—	—	97,783	24.3	125,531	27.4
	<u>282,671</u>	<u>100</u>	<u>402,110</u>	<u>100</u>	<u>458,716</u>	<u>100</u>

PRODUCTION FACILITIES

As of the Latest Practicable Date, we have two production facilities: the Hengfeng Production Facilities and the Yunshan Production Facilities.

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Hengfeng Production Facilities

As of the Latest Practicable Date, our Hengfeng Production Facilities located at Hengfeng Town, Yongxiu County, Jiujiang City, Jiangxi Province, the PRC, occupied a gross floor area of approximately 46,195.10 square metres. Our Hengfeng Production Facilities first commenced operation in early 2005. As of the Latest Practicable Date, our Hengfeng Production Facilities had four production lines with a maximum designed annual production capacity of 2.27 million square metres.

The following table sets forth certain key information about our Hengfeng Production Facilities:–

GFA (<i>square metres</i>)	46,195.10
First commencement date of operation:	Early 2005
Number of production lines as of 31 December 2012	four ⁽¹⁾

	Maximum production capacity⁽³⁾ for the year <i>('000 square metres)</i>	Actual production volume⁽⁴⁾ for the year <i>('000 square metres)</i>	Utilisation rate⁽⁵⁾
For the year ended 31 December 2010	1,272	1,030	81.0%
For the year ended 31 December 2011	1,818	1,417	78.0%
For the year ended 31 December 2012 ⁽²⁾	1,957	1,461	74.6%

Notes:

- In 2010, we upgraded one of the production lines, which increased our maximum production capacity. The production line 4 at the Hengfeng Production Facilities commenced production in the first half of 2011.
- In July 2012, operation of a production line was suspended for major upgrade. The production line resumed operation in January 2013.
- The maximum production capacity is calculated based on the manufacturing of 1G Phoenix Stone with thickness of 18mm and the production facilities operating at 24 hours per day and 360 days per year taking into account the ceasing of production lines for maintenance and repair.
- The actual production volume is calculated based on non-porous crystallised stone slabs with thickness of 18mm, being the most popular specification among our customers during the Track Record Period, without taking into account the difference in production time required for each of our series of products. Based on historical operating data, the average production time required for 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone is approximately 6.8, 7.9 and 8.4 hours, respectively.
- The utilisation rate is based on the actual production volume divided by the maximum production capacity.

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Our utilisation rate during each of the three years ended 31 December 2012 was 81.0%, 78.0% and 74.6%, respectively. For the three years ended 31 December 2012, we achieved a break-even point at the utilisation rate of approximately 43.4%, 33.4% and 30.4%, respectively, at our Hengfeng Production Facilities.

In our experience, we target to maintain the utilisation rate of our production facilities at a range of 70.0% to 80.0% based on the following reasons:

- (i) the crucial production processes of our products include melting of raw materials at high temperature and crystallisation of the melted materials. Different product thickness and product series require different melting temperatures and crystallisation timing and melting rate. Time must be allocated for the production techniques to be adjusted and controlled throughout the production process according to the product series, thickness and specification;
- (ii) as stated in paragraph (i) above, the temperature, crystallisation point and production time depends on the series and specifications of our products (generally, the crystallisation process would be longer for non-porous crystallised stone slabs that are thicker). As such, our utilisation rate must provide flexibility for adjustments;
- (iii) if our production facilities are almost fully utilised, we may not have sufficient time and capacity to make necessary adjustments in our production techniques and processes required for the different series and specification of our products and this may affect the quality of our products;
- (iv) our production involves a recycling process during which the excess materials from the pre-cutting process will be recycled and put back into the furnace;
- (v) extended dimension of non-porous crystallised stone slabs retained as rough edges for our customers, which are not calculated as part of the production volume; and
- (vi) intermittent suspensions of the operation of our production lines are required for regular maintenance and repairs.

According to ZhongAn, the utilisation rate of the non-porous crystallised stone industry in the PRC is around 75% by reference to research conducted by ZhongAn of other PRC non-porous crystallised stone manufacturers.

Based on the above and taking into account the expansion of our Yunshan Production Facilities, we expect our utilisation rate will remain in the range of 70% to 75% from 2013 to 2014. Our Directors believe that to maintain our utilisation rate at such rate is reasonable and beneficial to our Group. In order to capture growth in export sales and capture other market opportunities of crystallised stone and natural stone, we will continue to expand our production capacity by adding new production lines.

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Yunshan Production Facilities

We will continue to expand our production facilities to cater for our further development as well as to satisfy the increasing demand from our customers. We recently added a new production facilities which is located at Yunshan Economic and Technological Development Zone, Yongxiu County, Jiujiang City, Jiangxi Province, the PRC, which is about 15 km from our Hengfeng Production Facilities.

The estimated total investment amount for the Yunshan Production Facilities is approximately RMB700.0 million. As of the Latest Practicable Date, the aggregate investment amount used for the Yunshan Production Facilities amounted to approximately RMB262.7 million. We expect the remaining investment will be RMB437.3 million, whereby RMB191.5 million will be financed by internal resources and/or bank borrowings and RMB245.8 million will be financed by the net proceeds from the New Issue.

Our Yunshan Production Facilities occupies a gross floor area of approximately 39,702.87 square metres. Construction of our Yunshan Production Facilities commenced in September 2011 and our Yunshan Production Facilities will initially comprise of four production lines with an aggregate estimated annual production capacity of 3.2 million square metres. The construction of the production line 1 has been completed and it has commenced operation in February 2013. We expect the production line 2 to commence operation in September 2013 and both the production lines 3 and 4 to commence operation in the second half of 2014. Our Yunshan Production Facilities will principally be used for the production of the 3G Phoenix Stone which applies higher technology standards than those involved in the production of the other two series of our products. The production process in the Yunshan Production Facilities are highly automated which we believe will further increase our production efficiency and lower our production costs and expenses. Our Directors expect the Yunshan Production Facilities will contribute to the increase in our revenue and growth.

The table below sets forth the key details of our Yunshan Production Facilities:–

First commencement date of operation of production line 1:	February 2013
Construction date of production line 2:	June 2013
First commencement date of operation of production line 2:	September 2013
Construction date of production lines 3 and 4:	First half of 2014
First commencement date of operation of production lines 3 and 4:	Second half of 2014
Expected commencement date of full operation:	Second half of 2014
Estimated total investment amount:	RMB700.0 million
Total investment amount used as of the Latest Practicable Date:	RMB262.7 million
Number of production lines:	Four
Estimated maximum designed annual production capacity (<i>'000 square metres</i>):	3,200 ⁽¹⁾

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Note:

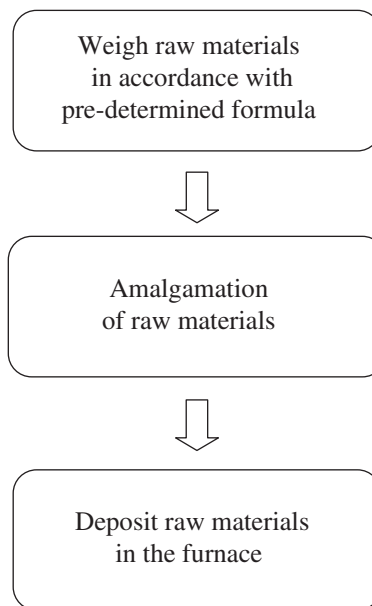
1. The maximum production capacity is calculated based on the manufacturing of 1G Phoenix Stone with thickness of 18mm and the production facilities operating at 24 hours per day and 360 days per year taking into account the ceasing of production lines for maintenance and repair.

PRODUCTION PROCESS

Our production process is highly automated. We use advanced equipment and machinery along with the use of our own patented technologies in our production. Our two registered utility model patents are used in the manufacturing process of our products. We have been granted GB/T 19001/ISO9001 certification in respect of the quality management in our production process. Our production equipment and machinery are assembled in the PRC and are designed and made specifically for and to satisfy the technical requirements for the production of our products.

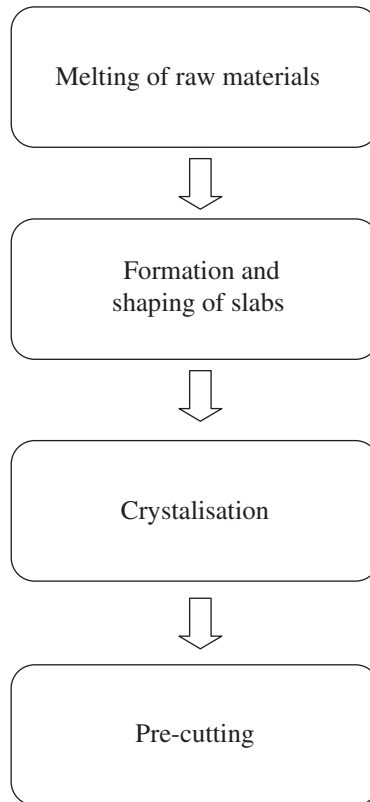
Typically, our production process can be divided in four major stages:–

Stage 1 – Preparation of raw materials for processing

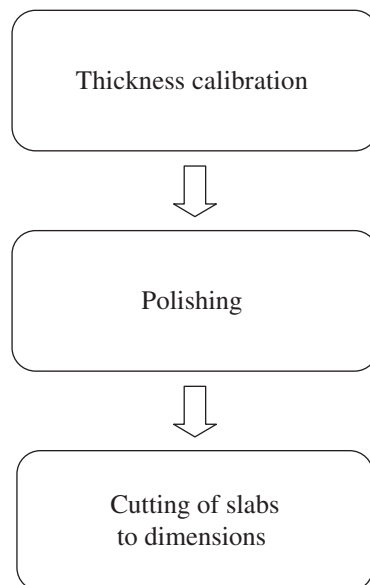


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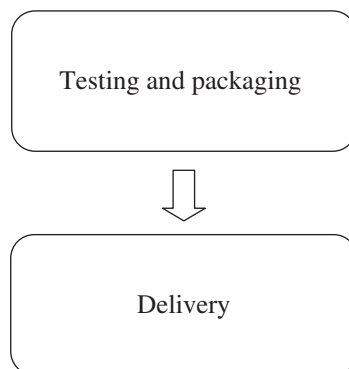
Stage 2 – Formation of non-porous crystallised stone slabs



Stage 3 – Processing and treatment



Stage 4 – Packaging and delivery



The key production process for our non-porous crystallised stone products includes the following steps. The raw materials are weighed according to the pre-determined formula and are amalgamated and deposited in the furnace for melting. After the raw material mixture is melted at high temperatures, the mixture is rolled out to form slabs. The formed slabs then undergo crystallisation and are pre-cut before the thickness of the slabs is calibrated. To ensure high levels of lustre and shine, the slabs are polished. We cut the slabs according to specifications of our customers as stated in the sales orders. All of our products are subject to in-process testing and quality control throughout the production process. We monitor our manufacturing process to verify conformity with specific quality control requirements. In addition, we conduct series of tests, such as gloss, density and hardness tests on our products to ensure that the product specifications have been complied with consistently. Our quality control employees will test and measure each slab and record its specifications. Further details are set out in the sub-section headed “Quality control” of this section. The finished products that pass the inspection and testing are packed and delivered to our customers. The average production time of our 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone is approximately 6.8, 7.9 and 8.4 hours, respectively.

During the Track Record Period, we did not experience any disruption in production which materially and adversely affected our operations and financial conditions.

Machinery and equipment

We employ highly automated machinery and equipment in the production process, including melting furnace, crystallisation kiln, cutting machines, polishing machines and various kilns. In general, our production machinery and equipment have useful lives and replacement cycles of 10 years. As of 31 December 2012, the average life of our production machinery and equipment is approximately 3.2 years. Our production equipment and machinery are assembled in the PRC and are designed and made specifically for and to satisfy the technical requirements for the production of our products. We own all of our production equipment and machinery. In addition to our unique production technique and process, our success is also attributable to the continuous improvement in our production efficiency.

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Maintenance and repair

Generally, our production machinery operate 24 hours a day. We have a comprehensive maintenance system for our production facilities and equipment including scheduled downtimes for maintenance and repairs by our qualified employees. Regular inspection of our production facilities and equipment are also conducted by us in order to ensure that our production lines operate efficiently and at optimal levels. Generally, our production lines currently require a complete overhaul once every three years primarily to repair the furnace and change various other ancillary parts. Each complete overhaul requires us to cease production on the particular production line for an average period of one month to three months. The overhauls are conducted on one production line at a time in order not to disrupt our overall production. In addition, we conduct assessments on our customer orders and inventory of our products prior to the overhauls to ensure that we can satisfy our orders with the suspension of one production line and to allocate our resources accordingly. For each of the three years ended 31 December 2012, the scheduled downtime for maintenance, repairs and overhaul was 52, 25 and 99 days, respectively. In July 2012, we commenced upgrade of one production line which involved the upgrade of certain machinery and equipment in the production line to enhance production efficiency and output from only 1G Phoenix Stone to all three types of products. The production line resumed operation in January 2013. The scheduled downtime for maintenance, repairs and overhaul is expected to be nil and 60 days for 2013 and 2014, respectively. Minor maintenance and repairs are also generally conducted on individual production line in order to not disrupt our overall production. Based on our policy to conduct overhauls on individual production line and the assessments conducted prior to each overhaul, our Directors confirm that we did not experience any disruption in production which materially adversely affected our operations and financial conditions during the Track Record Period.

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PROCUREMENT AND SUPPLIERS

The table below sets forth the breakdown of our total purchase of raw materials and coal for the three years ended 31 December 2012:–

	For the year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	<i>% of our total purchase</i>	<i>RMB'000</i>	<i>% of our total purchase</i>	<i>RMB'000</i>	<i>% of our total purchase</i>
Coal	32,552	35.3	33,409	22.5	33,441	21.4
Soda ash (純鹼)	8,420	9.1	25,042	16.9	24,557	15.7
Sodium fluorosilicate (氟硅酸鈉)	8,811	9.5	17,181	11.6	18,168	11.6
Potassium carbonate (碳酸鉀)	10,842	11.7	15,890	10.7	14,214	9.1
Lithium feldspar powder (鋰長石粉)	8,056	8.7	13,554	9.1	12,737	8.1
Calcite powder (滑石粉)	–	–	8,525	5.7	10,954	7.0
Quartz sand (石英砂)	6,235	6.8	9,363	6.4	8,920	5.7
Others ¹	17,428	18.9	25,330	17.1	33,632	21.4
	<u>92,344</u>	<u>100</u>	<u>148,294</u>	<u>100</u>	<u>156,623</u>	<u>100</u>

Note:–

¹ Other raw materials procured by us include sodium nitrate, fluorite powder, calcite powder, etc.

Raw materials and parts and components

Our principal raw materials include quartz sand (石英砂), lithium feldspar powder (鋰長石粉), soda ash (純鹼), potassium carbonate (碳酸鉀) and sodium fluorosilicate (氟硅酸鈉). Our principal parts and components include metal accessories (五金配件), packaging materials (包裝材料), abrasive tools (磨具) and saw blades (鋸片). Coal is also procured by us as fuel for the furnaces in our production process. We source our raw materials and parts and components from multiple suppliers in the PRC.

Our procurement team is responsible for the purchase of raw materials and parts and maintains an inventory to satisfy our production needs. Our policy is to maintain inventory of raw materials of not less than 15 days and inventory of parts and components of not less than five days to meet our production needs.

Procurement of raw materials and parts and components are normally carried in the following manner:

- regular procurement: for commonly used raw materials and parts and components, we purchase these raw materials and parts and components from time to time on a regular basis based on the monthly projection.

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- specific procurement: for raw materials and parts and components required for specific purpose, we will purchase such parts and components on a case by case basis pursuant to the customers' orders and projected demands.

Our procurement team would procure the raw materials necessary based on the monthly production plans and projections formulated by our production team. The monthly production plans and projections formulated by our production team is primarily based on internal sales forecast and the sales orders received from our customers which must be fulfilled during the relevant period. It is our policy to request for price quotations from the suppliers from our list of qualified suppliers to obtain the best price for the raw materials and the parts and components. In addition to procuring raw materials and parts and components based on the monthly projections, our procurement team may occasionally also make purchases to satisfy unexpected or urgent sales orders. We would then enter into purchase agreements with the selected suppliers. Our quality control employees conduct sampling inspection on the raw materials and parts and components.

We maintain long term business relationships with our key suppliers to secure a stable supply of raw materials. Purchase price is usually determined based on the prevailing market price when we place a particular purchase order. Any significant increase in the prices of our principal raw materials would have a significant impact on our cost of sales and we may experience difficulties in passing on these increased cost to our customers. As of the Latest Practicable Date, we did not have any hedging arrangements protecting us from price fluctuations in raw materials nor do we have any cost control measures to mitigate fluctuation of raw material prices. Please refer to the section headed "Financial Information – Price of major raw materials and coal" in this prospectus for the sensitivity analyses on the price fluctuation of key components of our cost of sales.

Coal

Coal is used as fuel in our production of non-porous crystallised stone. We purchase coal from third party coal suppliers in the PRC. We generally enter into supply agreements with each of our coal suppliers on a case-by-case basis. These agreements contain provisions for the return of goods in the event that the supply fails to meet the required quality.

Our average price of coal during the three years ended 31 December 2012 were RMB1,143, RMB1,011 and RMB997, respectively per tonne.

Electricity

We obtain our electricity supply on grid from the electricity supply bureau of Jiangxi Province. Our electricity consumption for the period ended 31 December 2010, 2011 and 2012 amounted to 29.7 million kWh, 26.8 million kWh and 23.4 million kWh, respectively.

During the Track Record Period, our average on grid electricity price per kWh (inclusive of VAT) was RMB0.75, RMB0.77 and RMB0.82, respectively. Our electricity costs amounted to approximately RMB19.1 million, RMB17.6 million and RMB16.3 million, respectively. We have a diesel back-up power supply facility which enables us to maintain a certain level of operation if there is a blackout or shortage of electricity.

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For the three years ended 31 December 2012, the cost of purchasing electricity accounted for approximately 11.0%, 7.8% and 6.7%, respectively of our total cost of sales.

During the Track Record Period, we did not experience any electricity shortage that had a material impact on our production.

Suppliers

As of the Latest Practicable Date, we had a total of approximately 135 suppliers. We believe we have established stable relationships with our major suppliers which enable us to obtain a reliable supply of raw materials and parts and components. During the Track Record Period, all of our suppliers are located in the PRC and half of them were located in the Jiangxi Province, which allow us to enjoy logistics and delivery benefits from the close proximity and easy access. Given our raw materials and parts and components are widely and commonly used, we believe there are readily available alternative suppliers for our raw materials and parts and components and we do not foresee any difficulty in obtaining an adequate and timely supply.

We have implemented a strict procedure in selecting our suppliers. Our procurement team will collect the background information of our potential suppliers through direct contacts and independent checks. Thereafter, we will inspect and assess the potential suppliers from various aspects, including their scale of operation, quality control system, quality, price and delivery time and financial position. More favourable terms offered under the supply agreements by suppliers will also be a factor we look into in selecting our suppliers. Having completed all the selection criteria, we will compile a report on our potential suppliers and submit such report for approval by the manager of our procurement team and our general manager.

We evaluate our suppliers on an annual basis on their prices, services, time and stability in delivery, supply co-ordination capacity, production size, financial position and management system.

Our raw materials and parts and components suppliers are Independent Third Parties located in the PRC. Our suppliers generally grant to us a credit period of 30 to 60 days. During the Track Record Period, we principally settled our payments with our suppliers in RMB by telegraphic transfer and bank bills.

Since we do not foresee any difficulty in sourcing substitute suppliers for our raw materials and parts and components, we do not enter into any long-term supply agreements with our suppliers. Instead, we place individual purchase orders with our suppliers on a case-by-case basis. Generally, these purchase orders provide that substandard raw materials and parts and components shall be returned unconditionally.

During 2012, we applied bank acceptance bills of approximately RMB109.5 million and these bank acceptance bills were delivered to suppliers for purchase of raw materials, coal and electricity. As of 31 December 2012, such bank acceptance bills obtained, which were delivered to suppliers, amounted to approximately RMB21.5 million and were disclosed under other commitments in our financial information. In addition to the four production lines at the Hengfeng Production Facilities, the commencement of operation of the first production line at the Yunshan Production Facilities, which is located at a separate location from our Hengfeng Production Facilities, in 2013 would require us to procure additional raw materials, coal and electricity for production. In order to avoid any negative effects of the fluctuation in the price of raw materials, coal and electricity and to ensure an adequate supply for our production needs, we entered into supply agreements with 11 suppliers. Under such supply agreements, the price of the raw materials, coal and

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electricity was capped at a specified price and in consideration of the fixed maximum capped price obtained from the suppliers, we made prepayments to the suppliers. Our Directors confirm that the supply agreements (including the terms of prepayment) were entered into on an arm's length basis upon normal commercial terms. The suppliers are principally engaged in selling and trading of industrial chemicals and raw materials (such as coal, quartz sand, fluorite powder, calcite powder) and the provision of liquefied gas and electricity. We have had past business relationships with each of the 11 suppliers and over three years of business relationships with two-thirds of these 11 suppliers. Our Directors believe that such suppliers do not consider our credit risks to be relatively high as we have made payments in due course to the suppliers under previous supply agreements with the suppliers. Our Directors believe that such prepayments made to suppliers are not a common industry practice and we expect that such prepayments were non-recurring in nature and made on a one-off basis in order to procure additional materials, coal and electricity for the commencement of operation of the first production line at our Yunshan Production Facilities, which is located at a separate location from our Hengfeng Production Facilities. As such, our Directors confirm that we do not expect to make advance prepayments to suppliers in the future in contemplation of our expansion plans at the Yunshan Production Facilities. For the three years ended 31 December 2012, we have transaction amounts, VAT inclusive, to these 11 suppliers, in aggregate, amounting to approximately RMB68.6 million, RMB115.4 million and RMB257.9 million. Apart from the aforesaid prepayments made to the 11 suppliers, we did not make any other similar prepayments during the Track Record Period.

For the three years ended 31 December 2012, purchases from our five largest suppliers accounted for approximately 77.5%, 56.1%, and 75.2%, respectively, of our total purchases and purchases from our largest supplier accounted for 35.3%, 14.7%, and 21.4%, respectively, of our total purchases. Our five largest suppliers are all located in the PRC and are engaged in the business of producing and selling industrial chemicals and raw materials or coal. The majority of our five largest suppliers have had business relationships with us for more than three years. Our Directors confirm that each of our five largest suppliers are Independent Third Parties and none of our Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital had any interest in any of these five largest suppliers during the Track Record Period.

We have not experienced any material disruption or dispute in relation to the supply of our raw materials and parts and components during the Track Record Period.

SALES AND MARKETING

Our sales and marketing strategies primarily focus on increasing our sales to our existing customers and expanding our sales network.

During the Track Record Period, we principally sold our products to domestic enterprises in the PRC. We also exported our products to overseas countries.

Our domestic sales are widely spread to cover customers in Beijing, Shanghai, Fujian Province, Guangdong Province, Zhejiang Province, Jiangsu Province, Jiangxi Province, Shandong Province, Liaoning Province, Anhui Province and Sichuan Province. During the Track Record Period, majority of our domestic sales were made to customers in Fujian Province and Guangdong Province. For the three years ended 31

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December 2012, sales to customers in Fujian Province accounted for approximately 47.4%, 45.9% and 30.7%, respectively, of our total revenue and sales to customers in Guangdong Province accounted for approximately 12.2%, 19.3% and 16.9%, respectively, of our total revenue.

In addition to domestic sales, we also directly exported our products to overseas customers in Hong Kong, Brazil and the UAE. The following table sets forth the breakdown of our sales to domestic and overseas customers during the Track Record Period:–

	For the year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Domestic sales	278,704	98.6	388,809	96.7	407,330	88.8
Overseas sales	<u>3,967</u>	<u>1.4</u>	<u>13,301</u>	<u>3.3</u>	<u>51,386</u>	<u>11.2</u>
TOTAL	<u><u>282,671</u></u>	<u><u>100.0</u></u>	<u><u>402,110</u></u>	<u><u>100.0</u></u>	<u><u>458,716</u></u>	<u><u>100.0</u></u>

Our products are delivered to our overseas customers under free on board (FOB) basis. According to such arrangements, we would be responsible for arranging delivery from our production facilities to specified ports in the PRC and our products' legal title, risks and rewards, among others, pass to the overseas customers at the spot of exporting ports in the PRC when our products pass the rail of ships appointed by the overseas customers.

Our overseas customers are responsible for the declaration of customs for our products to those overseas countries and are responsible for ensuring that our products are in compliance with the relevant overseas laws and regulations (including import regulations, quotas, product quality and safety, consumer protection, etc.). Under the FOB arrangements, we are not directly responsible for paying any duties or tariffs. The overseas customers, as importers, are responsible for tariffs and related expenses, which is in line with the industry practice. Our Directors confirm that they are not aware of any overseas laws or regulations on the import of our products. During the Track Record Period and up to the Latest Practicable Date, we neither received nor were we aware of any claims for non-compliance of overseas laws and regulations. Our Directors and senior management will closely monitor the trading policies and international trade information, including laws and regulations on imported goods, of the jurisdictions where our existing or potential overseas customers are located.

Our customers

Trading companies

Our products are sold to trading companies overseas and in the PRC and they further sell our products to their own customers. Trading companies include companies which are in the business of trading various products including decoration and building materials. We are not involved in any sales and marketing of our products sold by these trading companies nor do we have any policy to monitor sales of our products by these customers. We do not enter into long term sales agreements with the trading companies and our products are sold to trading companies on an order-by-order basis which, to the best knowledge of our

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Directors, are then further sold to their overseas and domestic customers. We have had an average of approximately two years of business relationship with our trading company customers. Due to the nature of the trading business which depends on the orders from their customers, the number of new customers and customers that did not place recurring sales orders is relatively larger compared to our other types of customers.

Wholesalers

We sell our products to wholesale customers, which are in the business of wholesaling, and they sell our products at their own stores to their customers. Our wholesale customers operate their own stores located both in the PRC and the overseas. We have had an average of more than five years of business relationship with our wholesaler customers. We do not enter into long term sales agreements with these wholesalers but enter into individual sales orders with wholesalers and our products are sold to them on a case-by-case basis. We are not involved in any sales and marketing of our products by these wholesalers nor do we have any policy to monitor sales of our products by these customers.

Processing companies

Our products are sold to processing companies in the PRC and overseas and they have the capabilities to further process our products into sanitary ware, kitchenware and other products. We have had an average of approximately four years of business relationship with our processing company customers. We do not enter into long term sales agreements with the processing companies and our products are sold to them on an order-by-order basis. After processing our products into sanitary ware, kitchenware or other products, to the best knowledge of our Directors, the processing companies sell the processed products to their own customers. We are not involved in any sales and marketing of our products by these processing companies nor do we have any policy to monitor sales of our products by these customers.

The following table sets forth the breakdown of our revenue by sales channels during the Track Record Period:–

	Year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>
Trading companies	147,073	52.0	239,905	59.7	218,080	47.5
Wholesalers	83,779	29.7	95,975	23.8	142,298	31.1
Processing companies	51,819	18.3	66,230	16.5	98,338	21.4
	<u>282,671</u>	<u>100.0</u>	<u>402,110</u>	<u>100.0</u>	<u>458,716</u>	<u>100.0</u>

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The following table sets forth the gross profit and gross profit margin by sales channels during the Track Record Period:–

	Year ended 31 December					
	2010		2011		2012	
	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)	<i>RMB'000</i>	(%)
Trading companies	57,148	38.9	104,971	43.8	105,358	48.3
Wholesalers	32,280	38.5	41,591	43.3	64,939	45.6
Processing companies	19,382	37.4	28,630	43.2	45,761	46.5
	<u>108,810</u>	<u>38.5</u>	<u>175,192</u>	<u>43.6</u>	<u>216,058</u>	<u>47.1</u>

The following table sets forth the number and the movement of each type of our customers during the Track Record Period:–

	As of 1 January 2010	Addition during the year	Customers that did not place recurring sales orders during the relevant year	
			31 December 2010	As of
Trading companies	54	34	7	81
Wholesalers	10	8	0	18
Processing companies	11	1	1	11

	As of 1 January 2011	Addition during the year	Customers that did not place recurring sales orders during the relevant year	
			31 December 2011	As of
Trading companies	81	55	49	87
Wholesalers	18	3	5	16
Processing companies	11	6	3	14

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	As of 1 January 2012	Addition during the year	Customers that did not place recurring sales orders during the relevant year	As of 31 December 2012
Trading companies	87	49	50	86
Wholesalers	16	4	4	16
Processing companies	14	4	4	14

Our customers are not distributors as we do not have any control or influence as to (i) how the customers re-sell our products onward to their own customers; (ii) their credit and pricing policy of our products; and (iii) their modes of operation and their management of their own sales networks.

We do not enter into long-term sales agreements with our customers. Instead, we enter into individual sales order with our customers on a case-by-case basis. These sales orders will in general provide for product standards and specifications, specific requirements for packaging of our products, payment terms and settlement terms. The sales orders generally provides that the defaulting party shall pay to the other party a penalty of 20% of the purchase price of the goods if we fail to deliver the goods on time or if the customers terminate the sales orders.

For the two years ended 31 December 2011, the sales to our five largest customers accounted for less than 30% of our total sales. For the year ended 31 December 2012, sales to our five largest customers accounted for approximately 30.4% of our total sales. Our largest customer accounted for 10.1% of our total sales in 2012. Our five largest customers are trading companies, wholesalers and processing companies and each of them had business relationship with us for more than one year. Our Directors confirm that each of our five largest customers are Independent Third Parties and none of our Directors, their respective associates of any Shareholder holding more than 5% of the issued share capital had any interest in any of these five largest customers during the Track Record Period. Our customers do not have any past or present relationship with our Group, our Shareholders, our Directors, our senior management and any of their respective associates.

Framework agreements

In view of the expansion of our production capacity as a result of the establishment of our Yunshan Production Facilities, in 2013, we entered into framework agreements with some of our key customers. Our framework agreements specify the minimum purchase amounts of non-porous crystallised stone during the term of the agreements and the customers are required to pay a compensation of 10% of the shortfall of the minimum purchase amount if they fail to meet the minimum purchase amount. The unit selling price of our products was not fixed in the framework agreements and will be based on the uniform selling price at the time of placing sales orders. The agreements will be automatically renewed for a period of one year upon expiry of their initial term on 31 December 2013, subject to the termination of the agreements by either party by prior written notice. Our customers are required to purchase our products from us on an exclusive basis and the customers may be required to pay all loss and damages suffered by us if they purchase non-porous

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crystalised stone from other manufacturers. We may offer discounts to our customers pursuant to the framework agreements. The orders pursuant to the framework agreements will be made by individual sales orders placed by our customers.

Based on the framework agreements signed with some of our customers, the total indicative minimum sales volume during the period from May 2013 to December 2013 is 1.02 million square metres and 2.03 million square metres in 2014.

Our PRC legal adviser, Beijing Tian Yuan Law Firm, has confirmed that these framework agreements are valid and legally binding on the parties to the agreements and are enforceable under the PRC laws within the term of validity.

We believe that it is beneficial to us to enter into framework agreements with only selected customers because of the fluctuations in the market demand and supply for non-porous crystalised stone. The framework agreements will also allow us to efficiently allocate our resources accordingly and to better manage production schedules.

Sales strategy

Our sales team is responsible for developing new customers, handling sales orders and formulating our sales policy. At present, we sell our products through direct contact with our customers. Our sales employees directly contact our customers and communicate with them regularly to collect information on their feedbacks, preferences, specifications and general requirements with respect to our products. Based on this information, we are able to research and develop our products to meet our customers' requirements in a timely manner. In addition, our sales team communicates regularly with each of our other teams to ensure up to date information exchange.

Marketing and promotion

We believe that effective marketing is important in expanding our market share and gaining recognition from potential customers. Our sales team is responsible for conducting marketing activities and building relationships with potential customers. We use various marketing channels to promote our brand recognition, reputation and productions, including placing advertisements in billboards, industry magazines and internet. We actively market our products overseas and in the PRC by participating in industry trade shows and exhibitions. During the Track Record Period, we participated in certain exhibitions in the PRC, Brazil, Middle East and Italy, such as the China Xiamen International Stone Fair (中國廈門國際石材展覽會), International Trade Fair for Stone Design and Technology 2012 (2012年意大利維羅納國際石材展覽會) and Victoria 2012 Stone Fair (2012年巴西維多利亞國際石材展覽會), to meet and approach new customers. From time to time, our sales personnel collect and analyse market information to enable our Group to keep abreast with the market trends and needs of the customers.

We will develop our market share and new domestic customers in locations such as Xi'an, Wuhan and Chengdu. At the same time, we also strive to explore the overseas markets and increase our export sales to overseas markets such as South Africa, Europe and the Middle East.

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For the three years ended 31 December 2012, our advertising expenses and exhibition fees represented approximately 1.3%, 0.8% and 0.5%, respectively, of our total revenue.

Pricing strategy and credit period

Our pricing strategy and pricing policy takes into account a number of factors, including market price, projected production volumes, specification requirements, raw material, coal and energy costs, logistics and other expenses and available production capacity, as well as our strategic business objective and plans. Any fluctuation in the price of our raw materials may impact our production cost, which we may also take into our consideration in our pricing strategy. We generally offer uniform selling prices to most of our customers. We will review and adjust our selling price from time to time taking into account factors as stated above.

Our products with thicknesses of 18mm, 20mm and 30mm accounted for the highest sales volume among different thicknesses of our products. The following table sets forth the average selling price of our products with the above thicknesses during the Track Record Period:–

	Year ended 31 December		
	2010	2011	2012
	<i>RMB per square metre</i>	<i>RMB per square metre</i>	<i>RMB per square metre</i>
1G Phoenix Stone			
18mm	202	202	194
20mm	232	220	225
30mm	396	460	427
Average	228	226	231
2G Phoenix Stone			
18mm	307	306	315
20mm	427	322	351
30mm	–	–	556
Average	308	308	353
3G Phoenix Stone			
18mm	–	364	371
20mm	–	–	381
30mm	–	–	590
Average	–	364	372
Overall	278	296	337

The increase in the overall average selling price of our products from RMB278 per square metre in 2010 to RMB296 per square metre in 2011 and further to RMB337 per square metre in 2012 was mainly attributable to (i) the increase of sales of products with thicker specifications which had higher selling prices; and (ii) the launch of our 3G Phoenix Stone, which had a higher average selling price.

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A sensitivity analysis on the average selling price of our products during the Track Record Period is set forth below, which illustrates the hypothetical effects on our net profit with 5%, 10% and 15% increase or decrease of the average selling price, representing the maximum fluctuation of our average selling price.

	Changes in our net profit for change in average selling price of		
	+/-5%	+/-10%	+/-15%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2010	+/-12,367	+/-24,734	+/-37,101
Year ended 31 December 2011	+/-15,079	+/-30,158	+/-45,237
Year ended 31 December 2012	+/-17,202	+/-34,404	+/-51,606

We usually grant credit periods to our customers ranging from 30 days to 90 days based on various factors including their scale of operation, their development prospects, our business relationship and history with them. For new customers, we would mainly consider their scale of operation and credit will not be granted if customers do not meet these criteria. We believe that our control over our trade receivables is adequate and we did not sustain any loss resulting from bad debts or experience any major defaults in payments during the Track Record Period. For further details of our accounts receivable, please refer to the paragraph headed "Financial Information – Trade and other receivables" in this prospectus.

Our domestic customers mainly settled their payments in RMB by way of telegraphic transfer. Our overseas customers mainly settled their payments in U.S. dollars by way of telegraphic transfer. For the three years ended 31 December 2012, the payments received by us in U.S. dollars accounted for approximately 1.3%, 2.9% and 9.5%, respectively, of the total payments received.

We have not adopted any arrangement to hedge any fluctuation in the foreign currency in relation to our overseas sales during the Track Record Period.

Delivery and logistics

Prior to 1 March 2011, delivery of our products to domestic customers were either (i) arranged by the customer or (ii) arranged by us. If delivery was arranged by us, we would arrange for third party logistics service providers to deliver our products from our production facilities to specified locations and pursuant to the logistics agreements, the logistics service providers were responsible for any product damage caused during delivery. Under such arrangement, the legal title, risks and rewards of our products are passed to our customers upon acceptance of goods at the specified locations. The average delivery time prior to 1 March 2011 was one day. If delivery was arranged by the customer, the customer would assume responsibility for any damage caused during delivery. The legal title, risks and rewards of our products are passed to our customers on the date of delivery. Under such arrangement, the customers who elected to arrange for their own delivery may not be familiar with the transportation routes to our production facilities which caused delays for customers to reach our production facilities. In addition, the logistics service providers arranged by the customers would often combine various orders for delivery to multiple locations which may increase the whole arrangement time to the customers. As such, the customers who elected to arrange their own delivery

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would experience a prolonged time from arranging logistics service providers to receiving the products while delivery time was approximately one day. As such, we decided to change our delivery policy to manage the delivery process of our products.

Subsequent to 1 March 2011, delivery of our products to our customers was arranged by us only by selected logistics service providers who are familiar with the transportation routes to our production facilities. We believe that the change in our delivery policy was an initiative taken by us in order to provide better services to our customers as the new policy allowed us to better control the timing and quality of the delivery of our products. As a result of the change in our delivery policy, we were able to reduce the whole arrangement time while the delivery time remained the same. During the Track Record Period, we outsourced the delivery of our products to logistics service providers, all of which are Independent Third Parties. According to the logistics agreements, the logistics service providers are responsible for any product damage caused during delivery. Through these arrangements, we are able to reduce our capital investment in logistics and eliminate the risk of liability for loss during transit. For the three years ended 31 December 2012, our delivery cost in contracting Independent Third Party logistics service providers represented 1.3%, 3.5% and 2.9%, respectively, of our total revenue.

Products sold to our overseas customers are delivered by shipment on free on board (FOB) basis, i.e. we are responsible for arranging delivery from our production facilities to specified ports in the PRC. Under such arrangement, the legal title, risks and rewards of our products are passed to our overseas customers when our products pass the rail of ships at the port of shipment. Our overseas customers arrange delivery of our products primarily by cargo vessels. We believe that such mode of delivery to our overseas customers is relatively low as compared to other modes of delivery (such as by aircraft). Our Directors confirm that we did not experience any material disruption to the delivery of our products during the Track Record Period.

AFTER-SALES SERVICES

Our sales personnel contact our customers to collect information and communicate with them regularly on their needs, preferences, special requirements, general demands and feedbacks with respect to our products. We will analyse the information collected and exchange such information with our other teams and follow up with any queries and feedbacks from our customers. Most importantly, we will enhance our existing products and research and develop new products in response to feedbacks from our customers.

If customers request for exchange of our products due to its own reasons such as requests for different specifications, we will exchange the products and the customers will be responsible for the cost of the product exchange. If there are any defects in our products, we may offer discounts ranging from approximately 10% to 30% of the price of the defective products as compensation to the customers subject to the extent of the defects and upon negotiations with the customers. The cost of the product exchange related to defective products will be borne by us and the customer equally. We do not accept return of products from our customers.

During the Track Record Period, we did not receive any requests for product exchange, make any compensation or offer any discount to customers. No warranty provision was made during the Track Record Period.

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RESEARCH AND DEVELOPMENT

We believe that our product development capabilities enable us to develop non-porous crystallised stone with features such as zero water absorption and enhanced compression and bending strengths. In order to produce non-porous crystallised stone with reliable functional performance and characteristics, we have focused, and will continue to focus on our research and development in improving the quality and functional performances of our products.

As of the Latest Practicable Date, our research and development team comprised of 47 employees and is led by Mr. Zhu, our executive Director and President. Mr. Zhu graduated from Wuhan University of Technology (武漢理工大學) with a bachelor's degree in chemical ceramic (化工陶瓷) in 1997 and has about 16 years of experience in the decoration and building materials industry. Other key team members are university graduates and in general have more than six years of experience in the research and development of decoration and building materials.

As of the Latest Practicable Date, we had a total of three registered patents. Two of the patents are utility model patents which are used in the production process of our products. The third one is an invention patent which is used in the production process of 3G Phoenix Stone and it was granted the Gold Award in China International Patent and Brand Expo in 2009.

Our three series of products, namely 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone, were developed by our research and development team. Recently in late 2012, we have successfully developed non-porous crystallised stone that are black and ivory in colour thereby expanding our product offerings. The new products will have the same functional performances and characteristics of 3G Phoenix Stone. Our newly developed non-porous crystallised stone in black and ivory have not been officially launched to the market and we have not sold non-porous crystallised stone in black or ivory as of the Latest Practicable Date. We will launch the new products to the market as and when considered appropriate by our Directors after taking into factors such as market acceptance and demand and our production capacity. With the expansion plan of our production facilities, we intend to launch the non-porous crystallised stone in black and ivory to the market in 2014. Our Directors believe that the addition of the new products will further solidify our Company's position in the crystallised stone industry and will attract new customers for our Group. The development of non-porous crystallised stone in different colours involve researching and testing of the product formula to develop a precise product formula customised for the specific colour of non-porous crystallised stone without compromising on the quality. The product formula would also be required to be tested with various melting temperatures and levels of crystallisation as variations of the product formula may affect the melting temperature and levels of crystallisation which may in turn affect the functional performances and characteristics of the resulting product. As such, the development of non-porous crystallised stone in various colours requires a certain level of experience and capability in the development and manufacturing of non-porous crystallised stone. Our Group will continue to explore new product opportunities and improve our production techniques and technologies so as to effectively capture customers' preferences and needs.

To enhance our research and development capacity, we have appointed Mr. Shi Zheng Dong as our consultant to provide advice and consulting services to us since May 2012, at an annual remuneration of RMB120,000. He has been providing advice and recommendations on our production process including improvement plans on the furnace and energy saving methods. Mr. Shi Zheng Dong has entered into an

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employment agreement with us and has agreed to be bound by the non-disclosure and exclusivity obligations relating to our production techniques and trade secrets. Mr. Shi Zheng Dong graduated from Wuhan Institute of Iron and Steel (武漢鋼鐵學院) (currently known as Wuhan University of Science and Technology (武漢科技大學)), where he studied metallurgy and silicate from 1973 to 1976. From 1985 to 1986, he studied at the East China Institute of Science and Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)), focusing on inorganic materials and operation of furnaces. Mr. Shi Zheng Dong was awarded the Labour Award Certificate in April 1993 by the All China Federation of Trade Unions for his work in technology. Mr. Shi Zheng Dong was also awarded the Government Subsidy Certificate (政府特殊津貼證書) for his skills in the engineering field by the PRC Government in April 1997.

We have cooperated with a research institution in Jiangxi Province since 2007 for development and improvement of some of our production techniques, product quality and performance. The cooperation agreement provides that we would provide the information and materials necessary for further development and improvement of our production techniques, product quality and performance would be provided by us to the research institution. The research institution would provide technical support if required by us during production. Pursuant to the cooperation agreement entered into between this research institution and our Group, the intellectual property rights relating to our production techniques developed by it were owned by our Group. The research institution also undertook to our Group that it would not disclose any information relating to our production techniques to third party without our prior consent.

Our three generations of non-porous crystalised stone were developed by our research and development team, led by Mr. Zhu. In general, our products are developed in three stages: initial development, testing and trial production. In the initial development stage, the product formula is formulated and tested with various melting temperatures and levels of crystallisation. The comparative results of the different variables and components are tested to ensure optimal results from the initial development stage. The testing stage involves applying the results from the initial development stage to a full production process. The products from the testing stage undergo physical performance and reactive characteristics testing and analysis to ensure the overall quality of our products. The trial production is conducted to ensure that the product can be manufactured on a mass production scale at our production facilities.

During the Track Record Period, our research and development were mainly focused on improving our production process, enhancement of product quality as well as the product feature improvement and the development of non-porous crystalised stone that are black and ivory in colour. Our total expenditures resulted from the aforementioned activities amounted to approximately RMB1.3 million, RMB1.7 million and RMB10.9 million, respectively, for each of the three years ended 31 December 2012, representing approximately 0.5%, 0.4% and 2.4%, respectively, of our revenue over the same period. Our average research and development expenditures were relatively less during the Track Record Period as the research and development efforts during the period were on the refinement and improvement of our existing products which did not involve significant capital expenditure.

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INVENTORY MANAGEMENT

We monitor and control the inventory levels of our raw materials, coal and parts and components and finished products to optimise our operations, sales and delivery of our products. Our inventory primarily consists of raw materials, coal and parts and components and finished products of non-porous crystallised stone. Our procurement team work closely with our production and sales teams to formulate the monthly projections of our procurement based on our production needs.

The raw materials and coal procured by us are stored in our storage facilities, which are located at our production facilities. Since our finished products are temperature and humidity resistant, they are not required to be stored indoors in specific storage facilities.

We have installed inventory management software such that our inventory management employees are able to closely monitor and keep track with our inventory level and respond to inventory needs on a timely basis. We generally conduct monthly stock-take on a sampling basis of our inventory level and conduct full stock-take annually. Our policy is to maintain an average 15-day inventory of raw materials to meet our production needs and five-day inventory of parts and components for maintenance and repair of our production machinery and equipment.

QUALITY CONTROL

Our quality control team is in charge of applying and monitoring consistent and strict standards for our products. We have implemented quality control procedures throughout our manufacturing process. We monitor our manufacturing process closely and conduct performance and reliability testing to ensure our products meet our customers' expectations. In addition, we seek regular feedback from our customers on the quality of our products. We strive to resolve any quality issues on-site before delivery of products to prevent returns or exchange of products.

Our quality control team, which as of the Latest Practicable Date consisted of 38 employees (including 20 employees that are also involved in the research and development aspects of our operations), is responsible for establishing strategies, standardised programs and quality control reporting. Most of the employees in our quality control team have relevant experience in quality control. We also provide induction programs and training to our quality control employees to ensure that they have the requisite quality control knowledge.

Our quality control process includes:-

Inspection of raw materials and components

We closely monitor the quality of our raw materials and components. Our quality control team conducts sampling tests on the raw materials and components purchased from qualified suppliers to ensure compliance with quality standards. Pursuant to the purchase orders entered into with our suppliers, any substandard raw materials and components shall be returned unconditionally.

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In-process quality control

We also monitor our manufacturing process to verify conformity with specific quality control requirements. In the polishing production process (拋光), we will use the automatic light sensor to monitor the lustre and gloss of our products. Quality testing will also be conducted after the cutting process to ensure that the products have met the density, hardness and solidity requirements. Each slab will be measured by our quality inspection employees for actual thickness and levelness and the specifications will be recorded. We also conduct colour tests to ensure that there are no deviations.

In addition to inspection during the production process, we submit our sample products to the National Research Centre of Testing Techniques for Building Materials (國家建築材料測試中心) for testing at least once annually. On occasion, our customers will also conduct an on-site inspection. Our Directors confirm that we have not received any reports from our customers for failing to pass their on-site inspection conducted by them during the Track Record Period and up to the Latest Practicable Date.

In 2005, we obtained the GB/T 19001/ISO9001 series certification which was renewed in 2011 in respect of our quality management system in our production process.

BUSINESS

AWARDS AND CERTIFICATIONS

In recognition of our quality and management, we have been granted a number of awards and certifications. The more significant awards and certifications we received are summarised as follows:

Date of grant	Award/Certification	Issuing authority/institution
October 2005 (renewed in 2011)	First granted the GB/T 19001/ISO 9001 certification	Beijing ZhongDaHua Yuan Certification Centre (北京中大華遠認證中心)
November 2009	Our invention patent a kind of decoration material and its preparation method (一種裝飾材料及其製備方法) was granted the Gold Award	China International Patent & Brand Expo (中國國際專利與名牌博覽會) organised by the State Intellectual Property Office of the PRC
December 2009	“AAA” Grade Credible Customer (AAA級信用客戶)	Agricultural Bank of China, Jiangxi Province Branch (中國農業銀行江西省分行)
October 2010	Our “  ” brand was recognised as a “Famous Brand of Jiangxi Province (江西省著名商標)”	Jiangxi Administration for Industry and Commerce (江西省工商行政管理局) and Famous Brand Recognition Committee of Jiangxi Province (江西省著名商標認定委員會)
November 2010	High and New Technology Enterprise (高新技術企業)	Jiangxi Provincial Department of Science and Technology (江西省科學技術廳), Jiangxi Provincial Finance Bureau (江西省財政廳), Jiangxi State Tax Bureau (江西省國家稅務局) and Local Tax Bureau of Jiangxi Province (江西省地方稅務局)
February 2011	2010 Corporation Scale Award (2010年度決戰工業—企業規模獎)	Yongxiu County Committee of the Communist Party of China (中共永修縣委) and People’s Government of Yongxiu County (永修縣人民政府)

BUSINESS

Date of grant	Award/Certification	Issuing authority/institution
March 2011	Top Ten Enterprises in Decorative Materials Industry of China (中國裝飾材料行業10強)	China Market Research Centre (中國市場調查研究中心) and China Social Economy Decision-making Consultation Centre (中國社會經濟決策諮詢中心)
July 2011	Jiujiang City Science and Technology Progress Award – Second Prize (九江市科學技術進步獎二等獎)	Jiujiang People’s Government (九江市人民政府)
February 2012	2011 Corporation Contribution Award (2011企業貢獻獎)	Yongxiu County Committee of the Communist Party of China (中共永修縣委) and People’s Government Yongxiu County (永修縣人民政府)
	2011 Excellent Member Enterprise Award (2011優秀會員企業)	Yongxiu Country Federation of Industry and Commerce (永修縣工商聯及永修縣總商會)
May 2012	Certificate of Green Building Material Products (綠色建材產品)	Technical Supervision and Research Centre of the Building Materials Industry (建築材料工業技術監督研究中心) and China Building Material Trade and Exhibition Centre (國家建築材料展貿中心)

PROPERTIES

As of 31 May 2013, our production facilities, offices buildings and other ancillary facilities occupied a total site area of 219,847.87 square metres with a total gross floor area of approximately 85,897.97 square metres. We also have obtained the land use rights for two parcels of land with a total site area of 61,565.78 square metres, which will be used to cater for the future expansion of our production facilities. For further details about our properties, please refer to the property valuation report set forth in Appendix III to this prospectus.

Land use rights

As of 31 May 2013, we owned or held 8 parcels of land with a total site area of 281,413.65 square metres in Yongxiu County, Jiujiang City, Jiangxi Province, the PRC. We have obtained land use rights certificates for all such land.

BUSINESS

Buildings

As of 31 May 2013, we owned and occupied 45 buildings with a total gross floor area of approximately 85,897.97 square metres. We have obtained the building ownership certificates to 36 buildings. Please refer to the paragraph headed “Material non-compliance incidents” in this section for further details relating to the permits, approvals and certificates of the nine buildings.

COMPETITION

According to the ZhongAn Report, there are 52 large-scale crystalised stone manufacturers in the PRC as of 30 September 2012. We captured approximately 4.2% of the market share in terms of sales volume in the overall PRC crystalised stone market in 2012. Key crystalised stone manufacturers produce various types of products including porous crystalised stone, composite crystalised stone and non-porous crystalised stone. We mainly compete with domestic manufacturers of crystalised stone in aspects of product quality, product differentiation, brand recognition, production capacity, production technology and proximity to customers. We believe that the principal competitive factors in our market segments include product quality, functional features, cost, price and experienced personnel with strong research and development capability.

There is no significant barrier for new market entrants. However, we believe that substantial capital commitments and the ability to produce high quality and reliable product are normally required in order to stay competitive in our industry segment. In particular, the production facilities would require substantial capital commitments to sustain the application of the production technology to produce products with high quality, reliability, stability and performance features. Our Directors confirm that, despite current low level of barrier for new market entrants, we are able to sustain a comparable level of business and gross profit margin going forward.


We are of the view that our product quality and the ability to develop products distinguished us from our competitors. For instance, we focus on the manufacturing of non-porous crystalised stone which we consider to have better functional performances and characteristics in terms of compression strength and impact toughness as compared to other crystalised stone produced by other manufacturers. In addition, we have successfully developed non-porous crystalised stone in black and ivory colour thereby expanding our product offerings. As non-porous crystalised stone is primarily offer in white, our successful development of non-porous crystalised stone in other colours would give us a competitive edge against other non-porous crystalised stone manufacturers. We believe that we have been able to sustain our market position and increase our gross profit margins due to the following:—

- We currently offer three series of non-porous crystalised stone. As confirmed by our Directors, other non-porous crystalised stone manufacturers offer a relatively fewer range of non-porous crystalised stone products;
- Our non-porous crystalised stone can be manufactured with thickness ranging from 12mm to 30mm and our thicker non-porous crystalised stone enjoy a relatively higher gross profit margin; and
- The economies of scale resulting from our increased production efficiency and relatively lower production costs and expenses.

BUSINESS

With our established management and operational teams and expertise, we believe we are well-positioned to compete in the industry.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had 36 registered trademarks in the PRC and one trademark in Hong Kong. We also had 10 trademark applications pending approval by the relevant PRC regulatory authorities. In 2010, our “” brand was recognised as a “Famous Brand of Jiangxi Province (江西省著名商標)”. We also had three registered patents, one of which is an invention patent and is used in relation to our production of 3G Phoenix Stone. The other two utility model patents are used in the production process of our products.

Our employees involved in research and development are bound by a confidentiality obligation, and have agreed to disclose and assign to us inventions conceived by them during their term of employment. The confidentiality agreements signed by our employees include non-disclosure obligation and the obligation to safeguard our production techniques and processes and trade secrets during and after the employment period. Our employees agree not to join companies producing similar and competitive products after their termination of employment with us. Only a few members of our senior management team have knowledge of the whole formulas for the manufacturing of our non-porous crystallised stone. This will ensure that our product formulas are protected.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any infringement of our intellectual property rights.

For details of our intellectual property rights, please refer to the paragraph headed “Statutory and General Information – Further information about the business of our Group – Intellectual property rights of our Group” in Appendix VI to this prospectus.

INSURANCE COVERAGE

We maintain property insurance and mandatory accident liability insurance policies with insurance companies covering the machinery and vehicles used in our operations. We do not maintain product liability insurance, business interruption insurance or third-party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. These insurance policies are not mandatory under PRC laws. We believe our insurance coverage to be consistent with the market practice in China.

During the Track Record Period and up to the Latest Practicable Date, we had not made or been the subject of any material insurance claims.

ENVIRONMENTAL PROTECTION

Our production process involves the handling and disposal of pollutants and the use of hazardous chemicals.

BUSINESS

The pollutants we generate and discharge in the course of our production include waste water and air pollutants. We are subject to PRC environmental laws and regulations, namely (a) the Environmental Protection Law; (b) the Prevention and Control of Water Pollution Law; (c) the Prevention and Control of Air Pollution Law; and (d) the Environment Impact Appraising Law. For details of these laws and regulations, please refer to the section headed “Summary of Principal Legal and Regulatory Provisions” in Appendix IV to this prospectus.

Our production process involves the handling and disposal of pollutants (waste water and air pollutants) and we have implemented an environmental protection system in compliance with the relevant PRC laws and regulations. In addition, we have taken the following measures to ensure our compliance with the PRC laws and regulations regarding environmental protection: (a) equipping our employees responsible for the handling of waste water and air pollutants with dust masks, helmets, safety shoes, safety gloves and other safety supplies; (b) providing relevant trainings to our employees in respect of environmental and safety protection; (c) applying environmental protection technologies to comply with the discharge standard and total discharge control index of local regulations on pollutant discharge; and (d) adopting various internal control and guidelines on environmental protection and pollution controls including establishing early warning mechanism which requires immediate report to and coordination with competent authorities in the event of any non-compliance incidents.

In addition, the Group has developed and implemented environmentally-friendly production technologies and production process. We have established a waste water treatment and recycle station in our manufacturing facilities to process, purify and recycle the waste water discharged. The waste water, after processed and purified by our waste water treatment, is reused in our production process. The air pollutants discharged during our production process undergo sulphur elimination and dust removal before its emissions.

We have carried out environmental impact assessment on our production facilities and obtained all the Approvals for Environment Protection Completion Check (竣工環境保護驗收的批覆) in relation to the manufacturing of our non-porous crystalised stone. We may be subject to environmental assessment and inspection by the environmental protection authorities from time to time. We have obtained two environmental compliance certificates issued by the Yongxiu Environmental Protection Bureau dated 3 December 2012 and 25 January 2013 confirming that our pollutant emissions comply with the statutory indicators and we have not violated any requirement and standard provided by the relevant environmental protection laws, regulations and policies and we do not have any record of violating any environmental protection laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we have passed all environmental impact assessments and inspections by the relevant environmental protection authorities.

The raw materials used in our production process include sodium fluosilicate (氟硅酸鈉) and sodium nitrate (硝酸鈉), which are classified as hazardous chemicals according to List of hazardous chemicals (version 2002) (危險化學品目錄(2002年版)). As such, we have implemented detailed measures for preventing and controlling environmental risks related to the use of such hazardous chemicals, including providing required trainings annually to our employees in respect of the storage and usage of hazardous chemicals for the purpose of managing and safeguarding the hazardous chemicals in a standardised and safe manner. Furthermore, we have applied for environmental administrative registration for producing and using hazardous chemicals in accordance with the Measures for the Environmental Administrative Registration of Hazardous Chemicals (Provisional) implemented on 1 March 2013.

BUSINESS

We have obtained a formal statement and confirmation issued by the Yongxiu Environmental Protection Bureau on 18 March 2013 confirming that it has accepted the application documents submitted by us in relation to the environmental administrative registration for producing and using hazardous chemicals and reported the application to its higher authority, namely the Jiujiang Environmental Protection Bureau. On 7 May 2013, we submitted our application to the Jiujiang Environmental Protection Bureau in relation to the environmental administrative registration for producing and using hazardous chemicals. However, as the Jiujiang Environmental Protection Bureau have not yet implemented the formal procedure for such registration in Jiangxi Province as of the date of our application, our application was temporarily deferred until such date as the formal procedure have been implemented. Our Directors confirm that we will closely monitor for any updates from the Jiujiang Environmental Protection Bureau regarding the environmental administrative registration for producing and using hazardous chemicals in Jiangxi Province and ensure that our application will be re-submitted as soon as the formal procedures have been implemented. Furthermore, Yongxiu Environmental Protection Bureau and Jiujiang Environmental Protection Bureau confirmed that our use of hazardous chemicals is in compliance with the state and local environmental protection policy and the relevant laws and regulations and that no accident had occurred during our use of hazardous chemicals since our establishment.

For each of the three years ended 31 December 2012, our cost of compliance with the applicable environmental protection laws and regulations was approximately RMB11.0 million, RMB6.5 million, and RMB8.4 million, respectively. Based on the historical cost and the expected commencement of the full operation of our Yunshan Production Facilities, we expect our annual cost of compliance with applicable environmental protection laws and regulations will be approximately RMB12.0 million and RMB12.0 million, for the years ending 31 December 2013 and 2014, respectively, which will be primarily applied for the construction of the waste water treatment system, waste water treatment control room and air pollutants treatment system at our production facilities.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. During the Track Record Period, we have not encountered any penalty for failure to comply with the applicable environmental laws and regulations.

EMPLOYEES

As of 31 December 2012, we had a total of 831 employees. The following table shows a breakdown of our employees by functions as at 31 December 2012:—

Team	Number of employees
Production	582
General and administration	90
Procurement and logistics	11
Research and development	47
Quality control	38 ⁽¹⁾
Sales and marketing	31
Finance	32
	<hr/>
Total	<hr/> 831

BUSINESS

Note:

¹ 20 employees in our quality control team are involved in research and development aspects of our operations.

We believe we have maintained a good relationship with our staff. We have not, in the past, experienced any disruption of our operations due to labour disputes or strikes.

We are of the view that the ability to recruit and retain experienced and skilled labour is crucial to our growth and development. We strive to create a harmonious, warm working and living environment for our staff.

We provide induction programs and training to our employees to ensure that they have the requisite technical, safety and quality control knowledge. We also provide training to our employees from time to time to enhance and reinforce their awareness of work safety.

SAFETY CONTROL

We place emphasis on the health and safety of our employees in our production facilities. Various measures have been implemented to ensure safe production process, including the formulation of production safety measures, safe inspection of our production facilities and holding regular production safety meetings, all with the purpose to provide a safe working environment and eliminate potential safety hazard in our production process. For new employees members, we provide safety-related training to them covering our safe production system, measures and requirements. We also provide training to our employees from time to time to enhance and reinforce their awareness of work safety. Furthermore, our employees would attend work safety seminars, trainings and programs organised by government authorities.

We have a set of procedures to handle work place accidents. We have a system of reporting work place accidents to our management team and our management will follow up the injured employee. An accident report would be compiled after investigations into the cause and factual circumstances of the accident. The report would also contain recommendations on how to improve work safety and any new safety measures would be implemented within five days of the accident. We keep a record of the accidents and analyse our safety control measures annually in order to improve work safety.

During the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC regulatory requirements on workplace safety and did not have any incidents or complaints related to workplace safety which had materially and adversely affected our operations.

GOVERNMENT REGULATIONS

As of the Latest Practicable Date, our business operations in China are subject to legislation or regulatory controls as set out in the section headed “Summary of Principal Legal and Regulatory Provisions” in Appendix IV to this prospectus. Other than disclosed in the paragraph headed “Material non-compliance incidents” of this section, as confirmed by our PRC legal advisers, we have obtained all the necessary licences and permits for our business operations in China and complied with all relevant laws and regulations since our establishment in 2003.

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INDUSTRY STANDARDS

Subject to the requirements of the Interim Regulations on the Quality Supervision and Inspection of Building Material Industrial Products (建築材料工業產品質量監督檢驗暫行條例), we have respectively submitted our 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone for testing. The National Research Centre of Testing Techniques for Building Materials (國家建築材料測試中心) (“**National Building Materials Testing Centre**”) is one of testing organisations authorised by the Certification and Accreditation Administration of the PRC (國家認證認可監督管理委員會) to engage in the testing of harmful substances in decoration materials. Based on the test reports issued by the National Building Materials Testing Centre, our first, second and third generation non-porous crystallised stone had been duly sent for test at the National Building Materials Testing Centre and certified to meet the technical indicators of category A decoration materials as provided by GB6566-2001/GB6566-2010 according to the above-mentioned provisions. As such, the production, marketing and range of usage of our non-porous crystallised stones are not limited. Further information on the Administrative Regulation is set forth in the section headed “Summary of Principal Legal and Regulatory Provisions – PRC laws relating to the industry – Relevant industry Standards” in Appendix IV to this prospectus.

BUSINESS

MATERIAL NON-COMPLIANCE INCIDENTS

No.	Non-compliance incident(s)	Reason(s) for non-compliance	Laws and Regulations concerning the penalty	Corrective actions and impact on our Group
1.	We did not fully comply with the housing provident fund and social insurance fund contributions requirement for our employees during the Track Record Period and up to the August 2012	The non-compliance with the housing provident fund requirements was principally due to (i) the Jiujiang Housing Provident Fund Centre had not yet widely introduced the establishment of housing provident fund in non-public enterprises in Jiujiang City; (ii) some employees are local workers and have and resided in their own home nearby, so they had no intention to pay housing provident fund; and (iii) we provided accommodation for our employees in our own dormitories.	<p>Under the relevant laws and regulations of the PRC, if an employer fails to register and make contribution of housing provident fund for its employees, the relevant housing provident fund authority is entitled to order the employer to pay such outstanding housing provident fund contributions within a prescribed time limit. If the employer fails to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 will be imposed. The housing provident fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may sort an order for payment from the relevant PRC court.</p> <p>Prior to August 2012, Jiujiang Golden Phoenix and Jiangxi Golden Phoenix did not register with the relevant authority or maintain accounts with a designated bank in respect of the housing provident fund, or make any contributions to the housing provident fund.</p>	The Housing Provident Fund Management Centre of Jiujiang, the competent and responsible authority in respect of our housing provident fund issued a letter of confirmation on 28 January 2013 to confirm that since the effective date of the Regulations on Management of the Housing Provident Fund (《住房公積金管理條例》), it has been progressively implementing the regulations on private enterprises, foreign-invested enterprises and other non state-owned enterprises in Jiujiang municipality and are currently taking steps to set up and contribute towards the housing provident funds. The Housing Provident Fund Management Centre of Jiujiang further confirmed that it will not require Jiujiang Golden Phoenix and Jiangxi Golden Phoenix to make any contribution payment in respect of the unpaid contributions from date of incorporation of Jiujiang Golden Phoenix and Jiangxi Golden Phoenix to August 2012 nor will any penalty or other form of administrative penalties be imposed on Jiujiang Golden Phoenix and Jiangxi Golden Phoenix for the unpaid contributions to the housing provident fund.

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No.	Non-compliance incident(s)	Reason(s) for non-compliance	Laws and Regulations concerning the penalty	Corrective actions and impact on our Group
		<p>The non-compliance with the requirements of registration and payment of social insurance was principally due to the following: (i) since its establishment until August 2012, Jiangxi Golden Phoenix had been focusing on the construction of the new production facilities and did not commence any production or management activities such as the establishment of its corporate structure (for instance, the establishment of a human resources department). Since the construction of the production facilities were handled and arranged by Jiujiang Golden Phoenix, Jiangxi Golden Phoenix only hired two employees at the time to handle miscellaneous logistics and security matters. In view of the small number of employees at the time and the lack of a human resources department, the management of Jiangxi Golden Phoenix omitted to arrange for the social insurance registration and payment; and (ii) as confirmed by our Directors, the Social Insurance Administration of Yongxiu County puts more emphasis on the social insurance payment of enterprises that have started commercial production while making no mandatory requirements for enterprises in the preparatory stage. As such, Jiangxi Golden Phoenix did not apply for social insurance registration and make payments for its employees until August 2012.</p>	<p>Prior to the implementation of the Social Insurance Law of the PRC, which came into force on 1 July 2011, under the PRC laws, a fine ranging from RMB1,000 to RMB5,000 or in case of material breach, a fine ranging from RMB5,000 to RMB10,000, will be imposed on the management and other persons with direct responsibilities of the employer for non-compliances that occurred prior to 1 July 2011. The social insurance authorities are also entitled to order the employer to pay the outstanding social insurance within or without a time limit and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding amount for work-related injury insurance and the late charge of 0.2% for the other four types of social insurance if the employer fails to rectify the breach of social insurance contribution. Since 1 July 2011, for non-compliances that occurred after 1 July 2011, according to Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the social insurance authorities are entitled to order the employer to pay the outstanding social insurance (including pension, medical, work injury, unemployment and maternity insurance), and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance.</p>	<p>On 28 January 2013, Jiangxi Golden Phoenix obtained a written confirmation from the Social Insurance Bureau of Yongxiu, the competent and responsible authority regarding the unpaid contributions from date of incorporation of Jiangxi Golden Phoenix to August 2012. According to such written confirmation, the Social Insurance Bureau of Yongxiu will not require Jiangxi Golden Phoenix to make any contribution payment in respect of the above unpaid contributions nor will any penalty or other form of administrative penalties be imposed on Jiangxi Golden Phoenix for the unpaid contributions to the social insurance fund.</p> <p>For the three years ended 31 December 2012, the amount of outstanding housing provident fund contribution was approximately RMB617,000, RMB941,000 and RMB991,000, respectively, and the amount of outstanding social insurance contribution by was approximately RMB8,000, RMB14,000 and RMB8,000, respectively. No provision for these amounts was made during the Track Record Period as we obtained the written confirmation from the competent authorities to not require us to make any contribution payment in respect of the unpaid contributions. Both Jiujiang Golden Phoenix and Jiangxi Golden Phoenix have made housing provident funds registration and commenced to make respective contribution for the employees from August 2012. Jiangxi Golden Phoenix have made social insurance registration and commenced to make contribution for the employees from August 2012. We will continue to contribute to the employee social welfare schemes pursuant to the relevant laws and regulations of the PRC.</p>

BUSINESS

No.	Non-compliance incident(s)	Reason(s) for non-compliance	Laws and Regulations concerning the penalty	Corrective actions and impact on our Group
			<p>Prior to August 2012, Jiangxi Golden Phoenix did not register with the relevant authority or maintained accounts with a designated bank in respect of the social insurance fund, or made any contributions to the social insurance fund. As such, Jiangxi Golden Phoenix has breached the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》).</p>	<p>As of the Latest Practicable Date, we had not received any order or enforcement actions by the relevant PRC authorities against us for the non-compliance as mentioned above.</p> <p>Each of Mr. Sui and Mr. Zhu have undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of our failure to make housing provident fund contributions for our employees prior to the Listing Date.</p>

BUSINESS

No.	Non-compliance incident(s)	Reason(s) for non-compliance	Laws and Regulations concerning the penalty	Corrective actions and impact on our Group
2.	We did not obtain the construction project planning permits and the building ownership certificates for certain buildings or structures constructed on part of our land	The non-compliance was principally due to the following: (i) six buildings were constructed by the previous owner of the land which we have not utilised since our occupation of the land; (ii) one building was constructed by a third party which we did not utilised; (iii) three buildings were constructed by a gas company and is currently co-managed by the gas company and us and we were not able to unilaterally apply for the relevant permits and certificates without their cooperation; and (iv) the inexperience of our employees in the handling the relevant process and failing to apply for the relevant permits and certificates for eight buildings in a timely manner.	<p>According to the Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法), if a construction project proceeded without obtaining the relevant planning permit or the construction project violated the provisions of the planning permit, the competent department of the local people's government urban and rural planning at or above the county level shall order the construction to cease. If measures can be taken to eliminate the impact on the implementation of urban and rural planning, the governmental department shall order the offender to rectify the situation within a certain time limit and impose a penalty of 5% to 10% of the construction cost. If it is impossible to take measures to eliminate the impact, the department shall order the offender to demolish the building or structure within a certain time limit or forfeit the building or structure and confiscate any illegal gain, and may also impose a penalty not more than 10% of the construction cost.</p> <p>Pursuant to the relevant PRC laws, the competent authorities may order the demolition, forfeiture of such buildings and/or require us to pay a penalty of up to RMB82,670.4.</p>	<p>Our production facilities, the Hengfeng Production Facilities and the Yunshan Production Facilities, are located at Jiujiang City, Jiangxi Province, the PRC with a gross floor area of approximately 46,195.10 square metres and 39,702.87 square metres, respectively.</p> <p>We currently own the land on which our production facilities are situated and we have obtained the land use rights certificate from the PRC Government relating to the land. However, we did not obtain the construction project planning permits and the building ownership certificates for 18 buildings or structures which are situated on our land which have a total gross floor area of approximately 1,882.8 square metre.</p> <p>As advised by our PRC Legal Advisers, our failure to obtain the requisite PRC government approvals, permits and the ownership certificates may result in such buildings or structures being considered illegal and unauthorised structures.</p> <p>We have applied for and were granted the building ownership certificates for the 15 structures comprising of two single-storey electricity supply rooms, five water closets, three gas supply rooms, one office structure, two single-storey guard houses, a molding control room. We have demolished three buildings and we do not intend to reconstruct these buildings in the future.</p> <p>Each of Mr. Sui and Mr. Zhu has agreed to indemnify us for all costs, expense, fine and losses incurred by us as a result of the above title defects.</p> <p>As of the Latest Practicable Date, we did not receive any orders for demolition, forfeiture or payment of penalty for the above non-compliance.</p> <p>On this basis, our Directors do not consider that the defects of the above buildings to be material to our business and operations.</p>

Save as set out above, we had not experienced any material non-compliances and irregularities in relation to our operations during the Track Record Period.

BUSINESS

INTERNAL CONTROLS

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

- (i) we have engaged PRC legal adviser to provide legal services to our Group in relation to future compliance with PRC laws and regulations;
- (ii) we have arranged for our Directors and senior management to attend training programs on applicable laws and regulations, including the Listing Rules, provided by our legal adviser prior to Listing. We will continue to arrange various training programs to be provided by the PRC legal adviser engaged by us and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations;
- (iii) our Group has improved the existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit;
- (iv) we will appoint a compliance officer who will be responsible for assessing and monitoring compliance with our internal control policies, recommending additional internal control measures if required, coordinating compliance training for our employees and reporting of the above to our Directors;
- (v) we will establish a compliance department which will oversee compliance matters for the day-to-day operation of our Group;
- (vi) we have strengthen training for our employees on compliance matters in order to develop a corporate culture and to enhance employee compliance perception and responsibility; and
- (vii) we have designated Mr. Lin Ren Ze, our executive Director, to oversee and monitor future compliance with the above-mentioned non-compliance incidents.

Based on the above, our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the PRC laws and regulations.

As of the Latest Practicable Date, there were no litigation or arbitration proceedings or administrative proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or results of operations.

CONNECTED TRANSACTIONS

During the Track Record Period, other than the transactions as set out in note 39 to the Accountants' Report in Appendix I to this prospectus, we did not enter into any other connected transactions. As of the Latest Practicable Date, we did not have any connected transactions which will be continued or carried out by us after the Listing which will be subject to reporting, announcement and shareholders' approvals requirements under the Listing Rules.