The following discussion and analysis should be read in conjunction with our consolidated financial information together with the accompanying notes set out in the Accountants' Report in Appendix I to this prospectus. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such risks and uncertainties include, without limitations, those discussed in the sections headed "Risk Factors" and "Business" in this prospectus.

OVERVIEW

We are a manufacturer of non-porous crystalised stone industry in the PRC. We use our expertise and experience to develop our own patented techniques in manufacturing our products. We captured approximately 46.2%, 48.7% and 40.0% of the PRC non-porous crystalised stone market in terms of total sales volume for each of the three years ended 31 December 2012, respectively, according to the ZhongAn Report. The domestic non-porous crystalised 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 crystalised stone accounted for approximately 10.6% of the domestic crystalised 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 PRC crystalised stone market in 2012.

We currently offer three series of non-porous crystalised stone: 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone. To our knowledge, 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***" brand 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.

Our business experienced significant growth in 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, to approximately RMB458.7 million for the year ended 31 December 2012.

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 crystalised stone, 1G Phoenix Stone, in 2005. Leveraging on about 10 years of experience in manufacturing non-porous crystalised 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 crystalised stone are white in colour, which we believe 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 crystalised 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 facilities, we intend to launch the non-porous crystalised stone in black and ivory to the market in 2014. Our non-porous crystalised stone are sold mainly to trading companies, wholesalers and processing companies in the PRC and overseas markets.

BASIS OF PREPARATION

Pursuant to the Reorganisation completed on 7 March 2012, our Company and its subsidiary, China Galaxy, were interspersed between Jiujiang Golden Phoenix and our shareholders, and our Company became the holding company of the companies now comprising our Group. Accordingly, our Group resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period which include the results, changes in equity and cash flows of the companies now comprising our Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of their incorporation/establishment where it is a shorter period.

The consolidated statements of financial position as of 31 December 2010 and 2011 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the respective dates of their incorporation/establishment, where applicable.

As of 31 December 2010, 2011 and 2012, our Group had net current liabilities of RMB51.9 million, RMB41.0 million and RMB39.7 million, respectively. We have unutilised banking facilities of approximately RMB270.5 million currently available to our Group and which the directors expect to be able to renew when the facilities expire. Accordingly, our directors are satisfied that our Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration the banking facilities already in place and funds generated internally from operation and consider that it is appropriate for our Financial Information to be prepared on a going concern basis.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and our financial condition have been and will continue to be affected by a number of factors, including those set out below.

Our ability to develop new products to respond to changing market trends and consumers' tastes

Our ability to develop new products is important to us. New products or techniques are subject to continuous evolution and changes and we cannot assure you that our products or techniques developed will be well accepted by the market, or such products or techniques can be developed and put into market in a timely manner or at all. In the event that we are unable to develop new products and techniques that meet the needs of our customers or that our competitors have developed new and more advanced products and techniques which are well-received by the market, our business, financial condition and results of operations may be materially and adversely affected. Our non-porous crystalised stone is mainly engineered and manufactured to be white in colour, which we believe have sufficient market demand currently. We launched our 3G Phoenix Stone to the market in 2011 and we have recently successfully developed non-porous crystalised stone that are black and ivory in colour. Our sales are subject to changing consumers' preference, development of the crystalised stone technology and the crystalised stone market trends which we may or may not be able to predict accurately. Our ability to understand the PRC and overseas crystalised stone industry and its trends, our ability to foresee market opportunities and direct our resources to product development projects, financial resources and the experience of our team members could all affect the result of our product development.

Price of major raw materials and coal

Our results of operations are significantly affected by the cost of coal; which is used as fuel in our production. The cost of coal is one of the principal components of our total purchase, which accounted for approximately RMB32.6 million, RMB33.4 million and RMB33.4 million, respectively, and representing 35.3%, 22.5% and 21.4%, respectively, of our total purchase during the Track Record Period. We endeavour to improve our production efficiency and reduce our coal cost. Our average purchase price for coal was approximately RMB1,143 per tonne, RMB1,011 per tonne and RMB997 per tonne, respectively, for the Track Record Period. During the Track Record Period, our business and results of operations were affected by the fluctuation of coal price.

Our operation also require a significant amount of soda ash as it is one of our major raw materials in 2011 and 2012, and our purchases of soda ash accounted for approximately RMB8.4 million, RMB25.0 million and RMB24.6 million, respectively, representing approximately 14.1%, 21.8% and 19.9%, respectively, which accounted for the largest portion of our total purchase after deduction of coal, during the Track Record Period. Our average purchase price for soda ash was approximately RMB1,117 per tonne, RMB1,794 per tonne and RMB1,589 per tonne, respectively, for the three years ended 31 December 2012.

We maintain long term business relationships with our suppliers to secure a stable supply of raw materials. Purchase price is usually determined based on the prevailing market price when we place an individual purchase order.

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. Any significant increase in the price of coal, soda ash and/or other major raw materials could have a significant impact on our cost of sales, which could in turn have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on a portion or all of such increased costs to our customer. We may experience difficulties in passing on these increased cost to our customers when market conditions are unfavourable and/or competition is intensified in the industry.

The table below sets forth the purchase of our major raw materials and coal as a percentage of our total purchase during the Track Record Period:–

	For the year ended 31 December		
	2010	2011	2012
	%	%	%
Coal	35.3	22.5	21.4
Soda ash (純鹼)	9.1	16.9	15.7
Sodium fluorosilicate (氟硅酸鈉)	9.5	11.6	11.6
Potassium carbonate (碳酸鉀)	11.7	10.7	9.1
Lithium feldspar powder (鋰長石粉)	8.7	9.1	8.1

The table below sets forth the average prices of our major raw materials and coal purchased during the Track Record Period:–

	Average price		
	2010	2011	2012
	RMB/tonne	*RMB/tonne*	*RMB/tonne*
Coal	1,143	1,011	997
Soda ash (純鹼)	1,117	1,794	1,589
Sodium fluorosilicate (氟硅酸鈉)	2,124	2,113	1,975
Potassium carbonate (碳酸鉀)	5,656	7,394	6,786
Lithium feldspar powder (鋰長石粉)	272	464	413

A sensitivity analysis on the price fluctuation of coal 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 coal price, representing the maximum fluctuation of our coal price.

	Changes in our net profit for change in coal price of		
	+/-5%	+/-10%	+/-15%
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2010	-/+1,416	-/+2,831	-/+4,247
Year ended 31 December 2011	-/+1,290	-/+2,580	-/+3,871
Year ended 31 December 2012	-/+1,291	-/+2,582	-/+3,874

A sensitivity analysis on the price fluctuation of soda ash during the Track Record Period is set out below, which illustrates the hypothetical effects on our net profit with 20%, 40% and 60% increase or decrease of soda ash price, representing the maximum fluctuation of our soda ash price.

	Change in our net profit for change in soda ash price of		
	+/-20%	**+/-40%**	**+/-60%**
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2010	-/+1,577	-/+3,154	-/+4,731
Year ended 31 December 2011	-/+3,628	-/+7,257	-/+10,885
Year ended 31 December 2012	-/+3,793	-/+7,585	-/+11,378

Direct labour costs

We experienced an increase in direct labour costs during the Track Record Period due to the increased number of employees we employed and the increase in average wages of 13.2% from 2010 to 2011. The number of our direct labour increased from 275 as of 31 December 2010 to 395 as of 31 December 2011 and further increased to 582 (including 96 that were employed in December 2012) as of 31 December 2012. The total amount of wages paid by us amounted to RMB5.1 million, RMB8.4 million and RMB9.9 million, respectively, representing 3.0%, 3.7% and 4.1%, respectively, of our cost of sales for the three years ended 31 December 2012. Our operational results and conditions may be adversely affected should we fail to monitor our direct labour costs.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial information and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial information. We believe that the following critical accounting policies are the most sensitive and are those that require the more significant estimates and assumptions used in the preparation of our consolidated financial information. We also have other policies that we consider to be significant accounting policies, which are set forth in "Accountants' Report – Note 4" in Appendix I to this prospectus.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, value added tax and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production of goods or for administrative purposes (other than construction in progress), are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

Financial assets

The Group's financial assets are classified into available-for-sale financial asset and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available for-sale equity investment, a significant or prolonged decline in fair value of the investment below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by the group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including other payables, bills payables, amount due to a director/a subsidiary and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

SUMMARY OF OPERATING RESULTS

The following table sets forth a summary of our consolidated statements of comprehensive income for the three years ended 31 December 2012, which are derived from the Accountants' Report as set forth in Appendix I to this prospectus.

	For the year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	282,671	402,110	458,716
Cost of sales	(173,861)	(226,918)	(242,658)
Gross profit	108,810	175,192	216,058
Other income	119	699	1,062
Other gains and losses	(1,647)	89	(4,157)
Administrative expenses	(8,350)	(10,698)	(14,618)
Distribution and selling expenses	(12,307)	(20,331)	(17,925)
Finance costs	(2,036)	(3,104)	(7,447)
Other expenses	(1,218)	(1,400)	(11,209)
Profit before tax	83,371	140,447	161,764
Income tax expense	(10,843)	(35,711)	(43,382)
Profit and total comprehensive income for the year	72,528	104,736	118,382
Earnings per share			
Basic (RMB cents)	17.93	14.23	15.78

PRINCIPAL INCOME STATEMENT ITEMS

Revenue

	Year ended 31 December					
	2010		**2011**		**2012**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
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
TOTAL	282,671	100.0	402,110	100.0	458,716	100.0

Our product mainly consists of the three different generations of non-porous crystalised stone. The quantities of our products sold varied and was influenced by our expanded production capacity and introduction of a new product as well as change in technology and product mix.

The increase in overall revenue during the Track Record Period was mainly due to (i) an increase in the quantity of products sold from approximately 1.02 million square metres in 2010 to approximately 1.36 million square metres in 2011 and 2012 following an increase in our production capacities during 2011; (ii) a general increase in our average selling prices during the Track Record Period from RMB278 per square metre in 2010 to RMB296 per square metre in 2011 and to RMB337 per square metre in 2012 as a result of increase in sales of product with thicker specifications that enjoy a higher selling price and (iii) the launch of 3G Phoenix Stone in the market in 2011 which had a higher selling price than 1G Phoenix Stone and 2G Phoenix Stone.

1G Phoenix Stone

1G Phoenix Stone is the first generation non-porous crystalised 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. With its high specular gloss, 1G Phoenix Stone has remained popular as it can be further processed 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 revenue. In July 2012, we suspended the production of 1G Phoenix Stone as the production line designated for its production was undergoing an upgrade 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 was then deployed for product feature improvement and research and development activities temporarily. As a result, we recorded a decrease in our revenue of 1G Phoenix Stone. The production of 1G Phoenix Stone resumed operation in January 2013.

2G Phoenix Stone

2G Phoenix Stone is our second generation non-porous crystalised 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 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 and 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 revenue.

The sales volume increased from approximately 637,000 square metre to approximately 704,000 square metre and further to approximately 798,000 square metre for the year ended 31 December 2010, 2011 and 2012.

3G Phoenix Stone

3G Phoenix Stone, being our third generation non-porous crystalised 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 among our customers during the Track Record Period.

With its high bending strength and high resilience, 3G Phoenix Stone is ideal for further processing and for use as flooring material, interior and exterior building walls as it is less fragile and 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.

Since the launch of 3G Phoenix Stone in 2011, the sales volume increased from approximately 269,000 square metre in 2011 to approximately 338,000 square metre in 2012. For the three years ended 31 December 2012 the revenue generated from our sales of the 3G Phoenix Stone was nil, RMB97.8 million and RMB125.5 million respectively, representing approximately nil, 24.3% and 27.4%, respectively of our total revenue.

The following tables set forth the geographical breakdown of our revenue by products. The geographical location of customers is based on the location to which our products were delivered:–

	Year ended 31 December 2010		
	Domestic	**Overseas**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
1G Phoenix Stone	83,985	2,467	86,452
2G Phoenix Stone	194,719	1,500	196,219
	278,704	3,967	282,671

	Year ended 31 December 2011		
	Domestic	**Overseas**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
1G Phoenix Stone	75,607	11,737	87,344
2G Phoenix Stone	215,419	1,564	216,983
3G Phoenix Stone	97,783	–	97,783
	388,809	13,301	402,110

	Year ended 31 December 2012		
	Domestic	**Overseas**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
1G Phoenix Stone	36,781	15,077	51,858
2G Phoenix Stone	250,567	30,760	281,327
3G Phoenix Stone	119,982	5,549	125,531
	407,330	51,386	458,716

During the Track Record Period, over 88% of our sales are domestic sales. For domestic sales, we achieved RMB278.7 million, RMB388.8 million and RMB407.3 million for the three years ended 31 December 2012 respectively.

Our Group has been developing into the overseas market since 2010, with sales to customers in countries such as Hong Kong, Brazil and the UAE. Our overseas sales increased drastically from RMB4.0 million in 2010 to RMB13.3 million in 2011 and further to RMB51.4 million in 2012 representing 1.4%, 3.3% and 11.2% of our total revenue, respectively, for each of the three years ended 31 December 2012. Such increase was mainly attributable to increase in sales to an overseas trading company from nil in 2010 to approximately RMB9.8 million in 2011 and further to approximately RMB46.5 million in 2012.

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**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
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
	282,671	100.0	402,110	100.0	458,716	100.0

Most of our sales were made to trading companies and wholesalers and they in turn may re-sell our products in both the domestic and overseas markets. Our sales to trading companies increased from RMB147.1 million in 2010 to RMB239.9 million in 2011 and such increase was mainly attributable to the increase in sales to our customers from an average of RMB1.8 million per trading company customer in 2010 to RMB2.8 million per trading company customer in 2011, and also as a result of sales to a new overseas trading company customer which contributed turnover of approximately RMB9.8 million. Our sales to wholesalers and processing companies experienced a relatively mild increase from 2010 to 2011.

In 2012, our sales to wholesalers customers increased from RMB96.0 million to RMB142.3 million which is mainly attributable to two new wholesaler customers with sales amount of RMB27.4 million in 2012. Sales to processing companies increased from RMB66.2 million in 2011 to RMB98.3 million in 2012, and during the year, we have secured a new processing company customer with sales amount of RMB13.7 million and a general increase in sales with some major processing companies customers contributing to the overall increase in sales and sales to processing companies.

Sales to trading companies accounted for 52.0%, 59.7% and 47.5%, respectively, of our revenue for each of the three years ended 31 December 2012. Our sales to wholesalers accounted for 29.7%, 23.8% and 31.1%, respectively, of our revenue for the three years ended 31 December 2012.

Pricing

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**
	RMB per square metre	*RMB per square metre*	*RMB per square metre*
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 average	**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 better functional features and therefore a higher average selling price.

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%**
	RMB'000	*RMB'000*	*RMB'000*
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

Cost of sales

Our cost of sales comprises the direct cost associated with the manufacturing of our products, which consists mainly of cost of inventory sold, direct labour and manufacturing overheads.

Cost of inventory sold primarily includes raw materials such as soda ash, potassium carbonate, sodium fluorosilicate and lithium feldspar powder and coal as our fuel in production. Direct labour refers to the compensation and benefits we provide to our manufacturing employees.

Manufacturing overheads includes depreciation, utilities, packing fee, consumables and others.

The table below sets forth the components of our cost of sales and the components as a percentage of total cost of sales during the Track Record Period:–

	Year ended 31 December					
	2010		**2011**		**2012**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Cost of inventory sold	94,706	54.5	140,114	61.7	161,266	66.4
Direct labour	5,143	3.0	8,365	3.7	9,917	4.1
Manufacturing overheads	74,012	42.5	78,439	34.6	71,475	29.5
	173,861	100.0	226,918	100.0	242,658	100.0

The total cost of sales were RMB173.8 million, RMB226.9 million and RMB242.7 million, respectively, during the three years ended 31 December 2012.

The increase in our cost of sales for 2010 to 2012 was in line with the increasing trend in our revenue in the corresponding period.

The cost of inventory sold increased from approximately RMB94.7 million in 2010 to RMB140.1 million in 2011 and further to RMB161.3 million in 2012.

The increase in cost of inventory from 2010 to 2011 was mainly attributable to the increase in price as well as the quantities of our raw material consumed. The price of our major raw material, soda ash, per tonne increased from RMB1,117 in 2010 to RMB1,794 in 2011 and the price of another major raw material, lithium feldspar powder, per tonne also increased from RMB272 in 2010 to RMB464 in 2011. The increase in quantities of raw material consumed is in line with the increase in sales volume as a result of more sales order obtained and expansion of production capacity during the year. The overall increasing trend in cost of inventory is in line with that of the increase in revenue.

In 2012, the cost of inventory sold increased from RMB140.1 million in 2011 to RMB161.3 million despite the constant sales volume in 2011 and decrease in the price level of raw materials.

During the last quarter of 2012, some new raw material types amounting to approximately RMB8.4 million have been consumed for product improvement purposes including better functional performances. Also, we introduced products with increased thicknesses during the year, such as 30mm for 2G Phoenix Stone and 20mm and 30mm for 3G Phoenix Stone. The quantities of raw materials consumed increased with the introduction of products with increased thicknesses accordingly. Hence, the cost of inventory sold increased approximately 15.1% in 2012, which is comparable with the 14.1% increase in revenue for the same period.

The proportion of cost of inventory sold increased from 54.5% in 2010 to 61.7% in 2011 and further to 66.4% in 2012.

The proportion of direct labour cost increased from 3.0% in 2010 to 4.1% in 2012, which was mainly attributable to the increase in the number of direct labour we employed increased from 275 as at 31 December 2010 to 395 as at 31 December 2011 and further to 582 (including 96 that were employed in December 2012) as at 31 December 2012 as a result of the increase in our production capacity.

The manufacturing overhead represents the utilities, maintenance, packing and overhead expenses incurred in the production process.

The manufacturing overhead increased from RMB74.0 million in 2010 to RMB78.4 million in 2011 despite the increase in sales and production volume. During 2011, the commencement of production of our new production line increased our production capacity, as such, we were able to benefit from the economies of scales generated from the expansion of production capacity.

The manufacturing overhead decreased to RMB71.5 million in 2012 from RMB78.4 million in 2011 as a result of decreasing maintenance expenses from the overhauls carried out previously. During 2012, we upgraded certain machinery and equipment in the production line designated for the manufacturing of 1G

Phoenix Stone. The cost of the upgrade have been recognised in our fixed assets in 2012 instead of it being recognised as maintenance expenses. The maintenance expenses from the overhauls carried out during 2010 and 2011 was approximately RMB12.2 million and RMB8.4 million, respectively.

Gross profit and gross profit margin

The table below sets forth the gross profit and gross profit margin by product during the Track Record Period:–

	Year ended 31 December					
	2010		**2011**		**2012**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
1G Phoenix Stone	25,755	29.8	29,591	33.9	17,887	34.5
2G Phoenix Stone	83,055	42.3	100,609	46.4	138,962	49.4
3G Phoenix Stone	–	–	44,992	46.0	59,209	47.2
	108,810	38.5	175,192	43.6	216,058	47.1

Our overall gross profit increased during the Track Record Period which was principally in line with the increase in our revenue. Our gross profit margin improved from 38.5% in 2010 to 43.6% in 2011 and further to 47.1% in 2012 principally due to the (i) increase of 2G Phoenix Stone and 3G Phoenix Stone sold and thus an increase in 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; (ii) increase in the sales volume of our products from approximately 1.02 million square metres in 2010 to approximately 1.36 million square metres in 2011 and 1.36 million square metres in 2012 as a result of our expansion in production capacity; (iii) the introduction of our 3G Phoenix Stone, which generally enjoy a higher selling price, into the market in 2011 and the increase in production capacity along with the increase in sales order, which lowered our average cost of production and (iv) the introduction of thicker product type for our 2G Phoenix Stone and 3G Phoenix Stone during 2012, which also enjoyed a higher average selling price and also contributed to the increase in gross profit margin.

For the three years ended 31 December 2012, the gross profit margin of our 1G Phoenix Stone increased from 29.8% in 2010 to 33.9% in 2011 and further to 34.5% in 2012. Such an increase in gross profit margin for our 1G Phoenix Stone mainly resulted from economies of scale in manufacturing overhead achieved by the increase in our production capacity as a new production line commenced operations in June 2011. The increase in our average selling price also contributed to the increase in gross profit margin in the same period.

The gross profit margin of 2G Phoenix Stone improved from 42.3% in 2010 to 46.4% in 2011 and further to 49.4% in 2012. The increasing trend of the gross profit margin of 2G Phoenix Stone is attributable to (i) economies of scale achieved by expanding our production facilities in 2011; (ii) more products with thicknesses, such as 30mm, that had higher average selling prices were introduced in 2012 and (iii) the increase in average selling price in 2012.

For 3G Phoenix Stone, the gross profit margin increased from 46.0% in 2011 to 47.2% in 2012. 3G Phoenix Stone was introduced to the market in 2011, the increase in gross profit margin is the combined effect of increasing in our average selling price in 2012 together with the introduction of new product thicknesses such as 20mm and 30mm in 2012, which generally enjoying a higher average selling price as well as better profit margin.

Other income

Other income mainly represents bank interest income generated from our bank deposits during the period.

Other gains and losses

Other gains and losses represents (i) foreign exchange gains or losses during the period as a result of transactions with overseas customers and (ii) loss on disposal/write off of property, plant and equipment on certain production equipment as a result of replacement of assets from time to time.

Administrative expenses

Administrative expenses mainly represent staff costs for our administrative staff, depreciation and amortisation, travelling expenses and other administrative expenses.

The table below sets forth the components of our administrative expenses during the Track Record Period:–

	Year ended 31 December					
	2010		**2011**		**2012**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Staff costs	2,887	34.6	4,146	38.8	5,478	37.5
Depreciation and amortisation	1,620	19.4	2,364	22.1	2,602	17.8
Professional and service fees	661	7.9	121	1.1	1,029	7.0
Travelling expenses	416	5.0	628	5.9	996	6.8
Stamp duty and land use tax	493	5.9	781	7.3	796	5.4
Motor vehicle expenses	239	2.9	358	3.3	319	2.2
Others[1]	2,034	24.3	2,300	21.5	3,398	23.3
	8,350	100.0	10,698	100.0	14,618	100.0

Note:–

1 Other administrative expenses mainly represents insurance expenses, office supplies, telecommunication, donations and miscellaneous expenses.

The increase in administrative expenses was mainly attributable to the increase in staff costs and depreciation and amortisation of office building and office equipment. The increase in staff costs from RMB2.9 million in 2010 to RMB4.1 million in 2011 and further to RMB5.5 million in 2012 was principally due to the increase in administrative headcount as well as the general increase in average salary of our administrative staff as a result of expansion in our operations. The increase in depreciation and amortisation was due to increase in office equipment as a result of the expansions of operation.

Distribution and selling expenses

Distribution and selling expenses mainly represent delivery charges, advertising expenses and exhibition fees, staff costs, travelling and other miscellaneous expenses.

The table below sets forth the components of our distribution and selling expenses during the Track Record Period:–

	Year ended 31 December					
	2010		**2011**		**2012**	
	RMB'000	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*
Delivery charges	3,670	29.8	14,081	69.3	13,344	74.4
Advertising expenses and exhibition fee	3,713	30.2	3,331	16.4	2,299	12.8
Staff costs	709	5.9	981	4.8	1,118	6.2
Travelling expenses	3,526	28.5	580	2.8	335	1.9
Others	689	5.6	1,358	6.7	829	4.7
	12,307	100.0	20,331	100.0	17,925	100.0

Delivery charges and travelling expenses are major components of our distribution and selling expenses amounting to approximately 58.3%, 72.1% and 76.3% of our distribution and selling expenses for the three years ended 31 December 2012, respectively.

The majority of delivery charges incurred are for delivery of our products to our customers. The significant increase in distribution and selling expenses was mainly due to the increase in delivery charges as result of the change in our policy to deliver products to our customers since March 2011. Before March 2011, most of our customers arranged their own delivery and logistics. Subsequent to 1 March 2011, we changed our delivery policy so that delivery of our products was arranged by us only. The change in our delivery policy was because logistics service providers would often combine shipments of their various orders for delivery to multiple locations, which increased our delivery time to our own customers. In addition, our customers who elected to arrange for their own delivery may not be familiar with the transportation routes to our production facilities and the whole arrangement time to customers was consequently prolonged. In order to better manage the delivery process, we changed our delivery policy in 2011 so that we are responsible for delivery of our products by selected logistics service providers. 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. In 2012, the delivery charges decreased mildly as a result of more portion of export sales incurred in terms of quantities and the delivery charges to the export port is usually lower than the delivery charges to customer in other location in the PRC.

Our travelling expenses decreased from RMB3.5 million in 2010 to RMB0.6 million in 2011 and RMB0.3 million in 2012, as we took more business trips in 2010 to several new customers and relatively high travelling expenses were incurred in 2010. Since then, we have built up a stable and recurring customer base. Therefore, our travelling expenses decreased significantly in 2011 and remained stable in 2012 as a result of the decrease in business trips for the purpose of engaging new customers.

Finance costs

Finance costs mainly represent interest expense on bank borrowings. The increase in finance costs is mainly as a result of the increase in interest rates for the bank borrowings obtained by us ranging from 5.31% to 8.5% in 2010 to 5.94% to 11.36% in 2011 and further to 5.94% to 11.82% in 2012 and balances of bank loans from RMB84.9 million as at 31 December 2010 to RMB113.6 million as of 31 December 2011 and to RMB204.1 million as of 31 December 2012.

Other expenses

Other expenses mainly represent research and development expenses and listing expenses incurred in 2012 in relation to the Global Offering.

The total amount of listing expenses, including underwriting commissions, that will be borne by us in connection with the Global Offering is estimated to be approximately HK$40.2 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately HK$19.2 million is expected to be capitalised after the Listing. The remaining approximately HK$21.0 million fees and expenses was or is expected to be charged to our profit and loss accounts, of which HK$10.9 million (equivalent to RMB8.7 million) were charged for the year ended 31 December 2012, and approximately HK$10.1 million is expected to be charged for the year ending 31 December 2013.

Income tax expense

In 2010, we were in our final year of 2+3 tax holiday. As such, our standard tax rate was 12.5% in 2010.

We were accredited as a High and New Technology enterprise in November 2010 for an initial period of three years from November 2010 to November 2013. Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "PRC EIT Law") and its relevant regulations, High and New Technology enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC EIT Law).

In 2011 and 2012, we were unable to pass the annual review as our research and development activities namely, the number of our research and development employees and capital expenditures, did not meet the specified criteria as a High and New Technology enterprise for enjoying 15% tax rate during 2011 and 2012. Hence, our applicable tax rate for 2011 and 2012 was 25%. This was mainly due to relative less research and development expenditures as our research and development efforts during the relevant period were on the refinement of our existing products and did not involve significant capital expenditure.

Our income tax expenses increased from RMB10.8 million in 2010 to RMB35.7 million in 2011 and to RMB43.4 million in 2012, mainly because of the increase in profit. In 2010, our effective tax rate was about 13%. Our effective tax rate increased to 25.4% in 2011 and 26.8% for 2012, mainly because of the completion of the 2 + 3 tax holiday in 2010 and the standard income tax at 25% was applied thereafter.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended 31 December 2012 Compared with Year Ended 31 December 2011

Revenue

Our revenue increased by approximately RMB56.6 million or 14.0% to RMB458.7 million for the year ended 31 December 2012 from RMB402.1 million for the year ended 31 December 2011. This increase was primarily due to (i) the increase in the average selling price of our products from RMB296 per square metre in 2011 to RMB337 per square metres in 2012 and (ii) the introduction of products with thicknesses that had higher selling prices during 2012. We introduced 30mm thickness for our 2G Phoenix Stone with an average selling price of approximately 57% higher than that of the overall average selling price of 2G Phoenix Stone. We also introduced 20mm and 30mm thicknesses for our 3G Phoenix Stone with higher average selling prices.

Our 1G Phoenix Stone sales decreased by RMB35.4 million or 40.5% from RMB87.3 million in 2011 to RMB51.9 million in 2012. Such decrease in sales was mainly attributable to the upgrade of the production line used for the manufacturing of 1G Phoenix Stone. The upgrade of production line commenced in July 2012 and after completion of the upgrade, the production line can be used for the manufacturing of all three types of products. The production line resumed operations in January 2013.

Sales from the 2G Phoenix Stone increased by RMB64.3 million or 29.6% from RMB217.0 million in 2011 to RMB281.3 million in 2012. We have introduced 2G Phoenix Stone in 30mm during 2012 with higher average selling of RMB556 per square metre compared with 18mm (RMB315 per square metre) and 20mm (RMB351 per square metre) in 2012.

Also, we secured a new overseas trading company customer in 2011 who contributed RMB46.5 million of sales in 2012 as compared to RMB9.8 million in 2011. As a majority of their purchase were 2G Phoenix Stone in 2012, our sales of 2G Phoenix Stone increased.

The 3G Phoenix Stone was introduced to the market in 2011 with positive feedback and its sales achieved RMB97.8 million in the same year. Sales from the 3G Phoenix Stone increased by RMB27.7 million or 28.3% from RMB97.8 million in 2011 to RMB125.5 million in 2012 as a result of introduction of product with thicknesses of 20mm and 30mm compared to 18mm in 2011.

Our sales to overseas customers increased significantly by RMB38.1 million or 286.6% from RMB13.3 million in 2011 to RMB51.4 million in 2012 as we have increased sales to one of our overseas trading customers from RMB9.8 million in 2011 to RMB46.5 million in 2012.

Cost of sales

Our cost of sales comprises of the direct cost associated with the manufacturing of our products including cost of inventory sold, direct labour and manufacturing overhead. Our cost of sales increased by RMB15.7 million or 6.9% to RMB242.7 million for the year ended 31 December 2012 from RMB226.9 million for the year ended 31 December 2011. The increase was mainly attributable to the increase in cost of inventory sold and direct labour despite the effect has been partially offset by the decrease in manufacturing overhead.

Cost of inventory sold. The cost of inventory sold increased by approximately RMB21.2 million or 15.1% from approximately RMB140.1 million in 2011 to RMB161.3 million in 2012. The increase in cost of inventory sold was due to (1) new types of raw material consumed, which amounted to RMB8.4 million, for product improvement purpose and (2) the increase in the quantities of key raw materials consumed as a result of increased quantities of product with thicker size sold. The increasing effect from the (1) and (2) has been partially offset by the mild decrease in the prices of the raw material. Such increase was in line with the increase in our total revenue by 14.1% during the same period.

Direct labour. The cost of direct labour increased by approximately RMB1.5 million or 17.9% from approximately RMB8.4 million in 2011 to approximately RMB9.9 million in 2012. The change was attributable to the increase in the number of production employees we employed from 395 as at 31 December 2011 to 582 (including 96 that were employed in December 2012) as at 31 December 2012.

Manufacturing overhead. Manufacturing overhead represents the utilities and overhead expenses incurred in the production process. The manufacturing overhead decreased by RMB7.0 million or 8.9% from 2011 to 2012 despite the production volume remaining stable in the same period. The upgrade of one of the production lines which involved the upgrade of certain machinery and equipment in 2012 was capital in nature and the related cost was capitalised as fixed assets instead of recognised as maintenance expense. The maintenance expense for the overhaul carried out in 2011 was RMB8.4 million.

Gross profit and gross profit margin

Our gross profit increased by 23.3% or RMB40.9 million from RMB175.2 million for the year ended 31 December 2011 to RMB216.1 million for the year ended 31 December 2012. Gross profit margin increased from 43.6% to 47.1% during the same period. The increase in our gross profit margin was mainly due to:–

(1) the increase in the average selling price of our products from RMB296 per square metre to RMB337 per square metre;

(2) the change in product mix where a higher proportion of products with higher profit margin were sold. The proportion of sales of 2G Phoenix Stone and 3G Phoenix Stone was 88.7% in 2012 as compared to 78.3% in 2011;

(3) the introduction of new products with thickness that enjoyed a higher average selling price, such as 30mm for 2G Phoenix Stone and 20mm and 30mm for 3G Phoenix Stone; and

(4) the decrease in the prices of raw materials as well as the decrease in manufacturing overhead as explained above.

As a result, the overall gross profit margin increased from 43.6% in 2011 to 47.1% in 2012. The gross profit margins of 1G Phoenix Stone, 2G Phoenix Stone and 3G Phoenix Stone improved from 33.9%, 46.4% and 46.0%, respectively, in 2011 to 34.5%, 49.4% and 47.2%, respectively, in 2012.

Other income

Other income increased by RMB0.4 million or 57.1% to RMB1.1 million for the year ended 31 December 2012 from RMB0.7 million for the year ended 31 December 2011. Such increase was mainly due to the increase in interest income from pledged bank deposits as a result of increase in interest rate from 2.2% per annum in 2011 to 3.3% per annum in 2012.

Other gains and losses

Other gains and losses mainly represent net foreign exchange losses and loss on disposal/write off of property, plant and equipment arising from the replacement of equipment.

Administrative expenses

Our administrative expenses increased by RMB3.9 million or 36.4% to RMB14.6 million for the year ended 31 December 2012 from RMB10.7 million for the year ended 31 December 2011. The reason for the increase was primarily due to the increase in labour costs as a result of the increase in headcount and general increase in average salaries due to the expansion of our Group.

Distribution and selling expenses

Our distribution and selling expenses decreased by RMB2.4 million or 11.8% from RMB20.3 million for the year ended 31 December 2011 to RMB17.9 million for the year ended 31 December 2012. Such decrease was mainly due to the decrease in delivery charges of approximately RMB0.8 million from RMB14.1 million in 2011 to RMB13.3 million in 2012 as a result of increased quantities for export sales delivered in 2012 and the delivery charges to the port is generally lower than those to the domestic customers.

Finance costs

Our finance costs increased by RMB4.3 million or 138.7% to RMB7.4 million for the year ended 31 December 2012 from RMB3.1 million for the year ended 31 December 2011. The increase was mainly due to the increase in bank borrowings from RMB113.6 million as at 31 December 2011 to RMB204.1 million as at 31 December 2012.

Other expenses

Other expenses mainly represent listing expenses in connection to the Global Offering.

Income tax expense

Income tax expense increased by RMB7.7 million or 21.6% to RMB43.4 million for the year ended 31 December 2012 from RMB35.7 million for the year ended 31 December 2011. Our Group's effective tax rates calculated based on the tax charged to the consolidated statements of comprehensive income over the profit before tax increased from 25.4% for the year ended 31 December 2011 to 26.8% for the year ended 31 December 2012.

Profit for the year

Our profit for the year increased by RMB13.7 million or 13.1% to RMB118.4 million for the year ended 31 December 2012 from RMB104.7 million for the year ended 31 December 2011. Our net profit margin remained fairly stable at approximately 25.8% for the year ended 31 December 2012 and 26.0% for the year ended 31 December 2011. The reason for the increase in our profit for the year was mainly attributable to the increase in revenue and gross profit margin as a result of the increase in the average selling price of our products.

Year Ended 31 December 2011 Compared with Year Ended 31 December 2010

Revenue

Our revenue increased by approximately RMB119.4 million or 42.2% to RMB402.1 million for the year ended 31 December 2011 from RMB282.7 million for the year ended 31 December 2010. This increase was primarily due to (i) the increase in sales volume from 1.02 million square metres in 2010 to approximately 1.36 million square metres in 2011 following an increase in our production capacity during the year and (ii) the launch of 3G Phoenix Stone which had a higher average selling price at RMB364 per square metre compared with the average selling price of 1G Phoenix Stone and 2G Phoenix Stone at RMB226 per square metre and RMB308 per square metre, respectively, which caused our average selling price of RMB278 per square metre in 2010 to increase to RMB296 per square metre in 2011.

Our 1G Phoenix Stone sales remained constant with a mild increase of RMB0.8 million or 0.9% from RMB86.5 million in 2010 to RMB87.3 million in 2011 as a result of the effect of increase in sales volume being partially offset by the mild decrease in average selling price.

Sales from 2G Phoenix Stone increased by RMB20.8 million or 10.6% from RMB196.2 million in 2010 to RMB217.0 million in 2011 which was mainly attributable to the increase in the sales volume with higher production capacity.

During 2011, we designated a production line for the production of 3G Phoenix Stone and introduced 3G Phoenix Stone to the market.

As a result, we achieved sales of RMB97.8 million in the same year. 3G Phoenix Stone achieved a higher average selling price compared to 1G Phoenix Stone and 2G Phoenix Stone due to its high bending strength and high resilience.

Cost of sales

Our cost of sales comprises of the direct cost associated with the manufacturing of our products including cost of inventory sold, direct labour and manufacturing overhead. Our cost of sales increased by RMB53.0 million or 30.5% to RMB226.9 million for the year ended 31 December 2011 from RMB173.9 million for the year ended 31 December 2010. The increase was mainly attributable to the increase in cost of inventory sold and direct labour.

Cost of inventory sold. The cost of inventory sold increased by approximately RMB45.4 million or 48.0%, from approximately RMB94.7 million in 2010 to RMB140.1 million in 2011. The change was attributable to the increase in the price of key raw materials, such as soda ash with an average selling price increase from RMB1,117 per tonne in 2010 to RMB1,794 per tonne in 2011 as well as increase in an average selling price per tonne of lithium feldspar powder from RMB272 in 2010 to RMB464 in 2011. The increase in cost of inventory sold was also due to the increase of the quantities of these material consumed. Such increase was in line with the increase in our total revenue by 42.2% during the same period.

Direct labour. The cost of direct labour increased by approximately RMB3.3 million or 64.7%, from approximately RMB5.1 million in 2010 to approximately RMB8.4 million in 2011. The change was attributable to the increase in the number of production employees we employed from 275 as at 31 December 2010 to 395 as at 31 December 2011. The average wages of our direct labour increased by 10.5% from 2010 to 2011.

Manufacturing overhead. Manufacturing overhead represents the utilities and overhead expenses incurred in the production process. The manufacturing overhead increased slightly by 6.0% from 2010 to 2011 despite the increase in the cost of sales by approximately 30.5% in the same period as a result of the economics of scale enjoyed followed by expansion of production capacity during the period.

Gross profit and gross profit margin

Our gross profit increased by 61.0% or RMB66.4 million from RMB108.8 million for the year ended 31 December 2010 to RMB175.2 million for the year ended 31 December 2011. Gross profit margin increased from 38.5% to 43.6% during the same period. The increase in our gross profit margin was mainly due to the:–

(1) increase in the production volume of our products which reduced our overall average production cost;

(2) the introduction of 3G Phoenix Stone during the year which enjoy a higher average selling price of RMB364 per square metre compared to that of our 1G Phoenix Stone (RMB226 per square metre) and 2G Phoenix Stone (RMB308 per square metre); and

(3) increase in proportion sales of our product with higher gross profit margin. In 2011, our gross profit margin of 2G Phoenix Stone was 46.4% and our gross profit margin of 3G Phoenix Stone was 46.0% while our gross profit margin of 1G Phoenix Stone was 33.9%. In 2011, the combined percentage for 2G Phoenix Stone and 3G Phoenix Stone was 78.3% of our sales as compared to that of 69.4% in 2010.

As a result, the overall gross profit margin increased from 38.5% in 2010 to 43.6% in 2011. The gross profit margin of 1G Phoenix Stone and 2G Phoenix Stone improved from 29.8% and 42.3%, respectively, to 33.9% and 46.4%, respectively. The 3G Phoenix Stone was introduced to the market in 2011, with gross profit margin at 46.0% in the period.

Other income

Other income increased by RMB0.6 million or 600.0% to RMB0.7 million for the year ended 31 December 2011 from RMB0.1 million for the year ended 31 December 2010. Such increase was mainly due to the increase in interest income from the increase of pledged bank deposits and bank balance and cash from RMB57.7 million as at 31 December 2010 to RMB103.4 million as at 31 December 2011.

Administrative expenses

Our administrative expenses increased by RMB2.3 million or 27.4% to RMB10.7 million for the year ended 31 December 2011 from RMB8.4 million for the year ended 31 December 2010. The reason for the increase was primarily due to the increase in staff costs as a result of increase in headcount and general increase in average salary due to the expansion of our Group.

Distribution and selling expenses

Our distribution and selling expenses increased by RMB8.0 million or 65.0% from RMB12.3 million for the year ended 31 December 2010 to RMB20.3 million for the year ended 31 December 2011. Such increase was mainly due to the increase in delivery charges of approximately RMB10.4 million or 281.1%, from RMB3.7 million in 2010 to RMB14.1 million in 2011 as a result of the change in our delivery policy from March 2011 onwards to arrange delivery of products for our customers.

Finance costs

Our finance costs increased by RMB1.1 million or 55.0% to RMB3.1 million for the year ended 31 December 2011 from RMB2.0 million for the year ended 31 December 2010. The increase was mainly due to the increase in bank borrowings balance from RMB84.9 million as at 31 December 2010 to RMB113.6 million as at 31 December 2011.

Other expenses

Other expenses represent research and development expenses which remained fairly stable over the period.

Income tax expense

Income tax expense increased significantly by RMB24.9 million or 230.6% to RMB35.7 million for the year ended 31 December 2011 from RMB10.8 million for the year ended 31 December 2010. The significant increase was mainly due to the completion of 2 + 3 tax holiday. Our Group's effective tax rates calculated based on the tax charged to the consolidated statements of comprehensive income over the profit before tax increased significantly from 13.0% for the year ended 31 December 2010 to 25.4% for the year ended 31 December 2011.

Profit for the year

Our profit for the year increased by RMB32.2 million or 44.4% to RMB104.7 million for the year ended 31 December 2011 from RMB72.5 million for the year ended 31 December 2010. Our net profit margin increased slightly to 26.0% for the year ended 31 December 2011 from 25.7% for the year ended 31 December 2010. The reason for the increase in our profit for the year was mainly attributable to the increase in revenue and gross profit margin as a result of the increase in the average selling price of our products.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we met our working capital needs primarily through cash flow from operating activities, bank loans and the use of trade and other payables. Our primary uses of cash were for our working capital needs and capital expenditures.

Upon the completion of the Global Offering, we expect to meet our working capital needs primarily through cash flows from operating activities, bank loans, the use of trade and other payables and the net proceeds to our Company from the Global Offering. We are satisfied that, after due and careful inquiry, we have available sufficient working capital for our Group's present requirements, which is for at least the next 12 months from the date of this prospectus.

Cash flows

Set out below are our net cash flows for the periods indicated:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Net cash from operating activities	70,400	184,979	136,906
Net cash used in investing activities	(124,627)	(173,089)	(182,375)
Net cash from financing activities	53,237	33,310	35,337
Net increase (decrease) in cash and cash equivalents	(990)	45,200	(10,132)

Net cash from operating activities

Our cashflow from operating activities comprises of our profit before taxation and adjusted for non cash item such as depreciation and amortisation, finance costs, the effect of changes in working capital such as trade and other receivables and payables and inventories.

Net cash generated from operating activities for the year ended 31 December 2012 was RMB136.9 million. The amount was mainly attributable to our profit before income tax of RMB161.8 million from our operations, decrease in inventories of RMB4.6 million and increase in other payables of RMB4.5 million. The amount was partially offset by the increase in trade and other receivables of RMB42.4 million and income tax paid of RMB25.6 million.

Net cash generated from operating activities for the year ended 31 December 2011 was RMB185.0 million. The amount was mainly attributable to our profit before income tax of RMB140.4 million from our operations, increase in bills payables of RMB37.4 million, decrease in trade and other receivables of RMB5.7 million and increase in other payables of RMB1.4 million. The amount was partially offset by the increase in inventories of RMB8.2 million and income tax paid of RMB20.6 million.

Net cash generated from operating activities for the year ended 31 December 2010 was RMB70.4 million. The amount was mainly attributable to our profit before income tax of RMB83.4 million from our operations, increase in bills payables of RMB21.2 million, decrease in inventories of RMB2.4 million. The amount was partially offset by the decrease in other payables of RMB20.1 million, the increase in trade and other receivables of RMB28.4 million and income tax paid of RMB9.1 million.

Net cash used in investing activities

Our cashflow in investing activities mainly consists of the payment of and proceeds from the sale and purchase of prepaid lease premium and property, plant and equipment.

Net cash used in investing activities for the year ended 31 December 2012 was RMB182.4 million. The amount was mainly attributable to the purchase of property, plant and equipment of RMB195.7 million as well as the net withdrawal of pledged bank deposit of RMB11.7 million.

Net cash used in investing activities for the year ended 31 December 2011 was RMB173.1 million. The amount was mainly attributable to the purchase of property, plant and equipment of RMB158.7 million.

Net cash used in investing activities for the year ended 31 December 2010 was RMB124.6 million. The amount was mainly attributable to the purchase of property, plant and equipment of RMB97.4 million as well as the net placement of pledged bank deposit of RMB20.0 million.

Net cash from financing activities

Our cashflow from financing activities mainly consists of the proceeds from bank loans, advance and repayment of the amount due to a director and repayment of bank loans.

Net cash generated from financing activities for the year ended 31 December 2012 was RMB35.3 million. The amount was mainly attributable to the proceeds from the advance from a director and the bank borrowings of RMB11.4 million and RMB142.0 million respectively, which were partially offset by the repayment of the amount due to a director amounting to RMB50.2 million, repayment of bank borrowings of RMB51.5 million and interest paid amounted to RMB16.4 million in the same period.

Net cash generated from financing activities for the year ended 31 December 2011 was RMB33.3 million. The amount was mainly attributable to the proceeds from the advance from a director and the bank borrowings of RMB123.7 million and RMB83.6 million respectively, which were partially offset by the repayment of the amount due to a director amounting to RMB121.5 million and repayment of bank borrowings of RMB54.9 million. Capital injection from shareholders amounted to RMB9.9 million or US$1.5 million for capital injection into Jiujiang Golden Phoenix in the same year.

Net cash generated from financing activities for the year ended 31 December 2010 was RMB53.2 million. The amount was mainly attributable to the proceeds from the advance from a director and the bank borrowings of RMB19.0 million and RMB85.0 million respectively, which were partially offset by the repayment of the amount due to a director amounting to RMB34.5 million and repayment of bank borrowings of RMB39.2 million. Capital injection from shareholders amounted to RMB26.8 million or US$4.0 million for capital injection into Jiujiang Golden Phoenix in the year.

Capital expenditures

We have financed our historical capital expenditure through cash flows generated from operating activities and bank borrowings. The following table sets forth a summary of our capital expenditures during the Track Record Period:–

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Building	–	–	2,400
Plant and machinery	17,893	82,489	20,307
Furniture, fixtures and equipment	120	160	932
Motor vehicles	106	–	1,162
Construction in progress	104,920	61,221	146,183
	123,039	143,870	170,984

Capital expenditures for the purchase of property, plant and equipment during the Track Record Period primarily went towards the expansion of our maximum production capacity from approximately 1.3 million square metres in 2010 to approximately 1.8 million square metres in 2011. Our maximum production capacity was approximately 2.0 million square metres in 2012. Capital expenditures for construction in progress during the Track Record Period was primarily due to the construction of new production facilities and additions of new production lines.

We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacity and actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also be changed due to changes in business plans such as potential acquisitions, progress of individual projects and market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other jurisdictions in which we may operate.

Should any financing needs arises in the future, our Directors expect to finance such needs with internal resources, unutilised banking facilities and/or debt or equity financing.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to us including the estimated net proceeds from the New Issue, the available credit facilities and our internally generated funds, our Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this prospectus.

The Sole Sponsor is of the view, after reviewing the relevant documents, discussions with our Directors and senior management and taking into account the financing resources available to us, that subject to any unforeseen circumstances, we have sufficient working capital to meet our present requirements and our expansion plans for at least the next 12 months from the date of this prospectus.

NET CURRENT LIABILITIES

Set forth below is the breakdown of our Group's net current liabilities:–

	As at 31 December			As at 30 April
	2010	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
CURRENT ASSETS				
Prepaid lease payments	1,550	2,028	2,028	2,028
Inventories	18,163	26,342	21,700	28,802
Trade and other receivables	49,367	43,685	86,090	123,898
Amount due from a director	–	273	–	–
Pledged bank deposits	55,000	55,486	43,810	29,720
Bank balances and cash	2,724	47,924	37,792	29,587
	126,804	175,738	191,420	214,035
CURRENT LIABILITIES				
Trade and other payables	(4,083)	(5,482)	(9,993)	(22,561)
Bills payables	(85,000)	(102,854)	(61,467)	(30,000)
Amount due to a director	(41,410)	(43,571)	(4,821)	(7,261)
Tax payables	(4,336)	(18,245)	(33,767)	(15,827)
Bank borrowings	(43,850)	(46,600)	(121,100)	(169,600)
	(178,679)	(216,752)	(231,148)	(245,249)
NET CURRENT LIABILITIES	(51,875)	(41,014)	(39,728)	(31,214)

Our net current liabilities position improved from approximately RMB51.9 million as of 31 December 2010 to approximately RMB41.0 million as of 31 December 2011 and to approximately RMB39.7 million as of 31 December 2012 and to RMB31.2 million as at 30 April 2013. The improvement was mainly due to the increasing trend of our profits made during the Track Record Period and up to 30 April 2013.

We were at a net current liabilities position as of 31 December 2010, 2011 and 2012 and as of 30 April 2013 because we had financed our purchases of property, plant and equipment with various bank borrowings and working capital.

Our net current liabilities improved from RMB39.7 million as of 31 December 2012 to RMB31.2 million as of 30 April 2013, which was primarily due to increase in trade and other receivables and decrease in bills payables which was partially set off by the increase in other payables. Our increase in trade and other receivables was mainly due to revenue generated with the commencement of operation of our production line 1 of our Yunshan Production Facilities in February 2013. Our Company used less bills to finance our payables as at 30 April 2013 and the increase in trade and other payables was mainly attributable to the listing related expenses accrued or payables in relation to the Global Offering. Our Directors confirm that there is no material change in our indebtedness position since 30 April 2013.

Trade and other receivables

Set forth below are our trade and other receivables balances:–

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	49,046	43,457	82,533
Prepayments	–	144	2,798
Others	321	84	759
	49,367	43,685	86,090
Average trade receivables turnover days	45	42	50

Significant increase in trade receivable from RMB43.5 million as of 31 December 2011 to RMB82.5 million as at 31 December 2012 was mainly due to the combined effect of (1) increase in sales during the year, in particular, to customers which were granted a higher credit limit and (2) a longer credit periods granted to selected customers who have built up good relationships with us, the credit period of these selected customers have been generally extended, but was within 90 days.

Average trade receivables equals the average of the net trade receivables at the beginning and the end of the year. Average trade receivables turnover days for each of the three years ended 31 December 2012 equals average trade receivables divided by the revenue for the relevant year multiplied by 365 days.

We were able to maintain a stable average trade receivable turnover days during the Track Record Period as a result of our close monitoring of our trade receivable positions. The average trade receivables turnover days for the Track Record Period were within our credit periods granted to customers, which was generally within 30 days to 90 days.

The following table shows the aging analysis of trade receivables of our Group:

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	32,292	24,641	45,770
31 – 60 days	15,366	17,583	29,205
61 – 90 days	1,388	1,233	7,558
	49,046	43,457	82,533

Up to 30 April 2013, all of the total trade receivable as of 31 December 2012 have been subsequently settled.

Our Directors consider that the outstanding amount will be received and bad debt provision on the amount is not required at the present stage. No provision for doubtful debts were made during the Track Record Period.

Prepayments

Prepayments as of 31 December 2012 mainly represents prepayment of research and development expenses.

During 2012, we applied bank acceptance bills of approximately RMB109.5 million and these bank acceptance bills were delivered to suppliers as prepayments for raw materials, coal and electricity. As of 31 December 2012, such bank acceptance bills 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 each of the 11 suppliers. Under such supply agreements, the price of the raw materials, coal and 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. We have over three years of business relationships with two-thirds of the 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 are 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 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 its expansion plans at the Yunshan Production Facilities. Apart from the aforesaid prepayments made to the 11 suppliers, we did not make any other similar prepayments during the Track Record Period.

Our Group obtained bank acceptance bills of RMB21.5 million as of 31 December 2012. As of 30 April 2013, they have been subsequently utilised.

Other payables

Other payables during the Track Record Period mainly represent other tax and duties payable including real estate tax, VAT payable and urban maintenance and construction tax, listing expenses payable and other operating expense accrued.

The increase of the balance of other payables from RMB5.5 million at 31 December 2011 to RMB10.0 million at 31 December 2012 was mainly attributable to the listing related expenses accrued or payable of RMB5.6 million in relation to the Global Offering.

Trade and bills payables

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	–	–	–
Bills payables (trade nature)	31,510	68,898	61,167
	31,510	68,898	61,167
Trade and bills payables (trade nature)	31,510	68,898	61,167
Average trade and bills payables (trade nature) turnover days	27	46	52

The average credit period for trade purchase is 30 to 60 days.

During the Track Record Period, we settled our trade payables through telegraph transmit as well as bank bills. For bank bills, we repay the bills to the bank when they were due, which was normally 180 days after the bills were issued.

Average trade and bills payables (trade nature) equals the average of the trade and bills payables (trade nature) at the beginning and end of year. Average trade and bills payables (trade nature) turnover days for each of the three years ended 31 December 2012 equals average trade and bills payables (trade nature) divided by the revenue for the relevant year multiplied by 365 days.

The increasing trend in our average trade and bills payables (trade nature) turnover days during the Track Record Period from 27 days in 2010 to 46 days in 2011 and further to 52 days in 2012 was mainly due to the increase in using bank bills to settle our trade payables along with the increase in our production activities. As the bills payable have a longer credit period of 180 days in general, our average trade and bills payables turnover days increased accordingly. The trade and bills payable balance increased significantly from RMB31.5 million as at 31 December 2010 to RMB68.9 million as at 31 December 2011 and RMB61.2 million as at 31 December 2012 accordingly.

An ageing analysis of our bills payables with trade nature is set forth below:

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	7,000	11,970	18,987
31 – 60 days	13,700	28,036	11,126
61 – 90 days	702	2,670	8,909
91 – 180 days	10,108	26,222	22,145
	31,510	68,898	61,167

Up to 30 April 2013, all of the total bills payable with trade nature as of 31 December 2012 have been subsequently settled.

Inventories

Our inventories comprises of raw materials, work in progress and finished goods. Set forth below are our inventories balances:

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	6,802	11,633	8,474
Work in progress	1,019	1,564	1,452
Finished goods	10,342	13,145	11,774
	18,163	26,342	21,700
Average inventory turnover days	25	20	19

Average inventory equals the average of inventory at the beginning and the end of the year. Average inventory turnover days for each of the three years ended 31 December 2012 equals average inventory divided by revenue for the relevant year multiplied by 365 days.

The increase in the inventories of RMB8.1 million from RMB18.2 million as of 31 December 2010 to RMB26.3 million as of 31 December 2011 was due to a higher inventory level maintained in 2011 as a result of the increase in production capacity for the year ended 31 December 2011. The inventories balance as of 31 December 2012 was less than that as of 31 December 2011, and such decrease was mainly attributable to (1) the ongoing upgrade of our 1G Phoenix Stone production line, which resulted in, no finished inventory of 1G Phoenix Stone in the warehouse as at 31 December 2012; (2) the decrease in the average price of our key raw materials. The decrease in average inventory turnover days in 2011 was attributable to the significant increase in revenue from RMB282.7 million in 2010 to RMB402.1 million in 2011 and such increase in revenue outweighed the effect of the increase in inventories balance for the same period. The improvement in inventory turnover was in line with the increase in product demand from the market which attributed to such decrease in turnover day. The average inventory turnover days remained fairly stable at 20 days and 19 days in 2011 and 2012, respectively, as a result of our strict control over our inventory management.

As of 30 April 2013, all of our inventories as of 31 December 2012 have been utilised or sold.

INDEBTEDNESS

We financed our operations and constructing of new production facilities through bank borrowings. All of our bank borrowings are secured by our prepaid lease payment, pledged bank deposit and property, plant and equipment. The table below sets forth the repayable schedule of our bank borrowings:

	As at 31 December		
Secured bank borrowings	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Current	43,850	46,600	121,100
More than one year, but not exceeding two years	8,000	20,000	47,000
More than two years, but not exceeding five years	33,000	33,000	36,000
More than five years	–	14,000	–
	84,850	113,600	204,100

Total bank borrowings increased by RMB28.7 million or 33.8% from RMB84.9 million as at 31 December 2010 to RMB113.6 million as of 31 December 2011 and increased by 90.5 million or 79.7% to RMB204.1 million as of 31 December 2012. During the Track Record Period, our bank borrowings were primarily used for the construction of our production facilities and for general working capital purpose, including day to day operation and trade finance. The increase in our bank borrowings as at 31 December 2012 was mainly attributable to the funding need for the construction of our new production facilities, Yunshan Production Facilities, as well as the increase in the use of our general working capital and trade finance.

As of 31 December 2010, 2011 and 31 December 2012, bank borrowings were secured by certain property, plant and equipment, prepaid lease payment and pledged bank deposit of our Group with a net book value of approximately RMB223.6 million, RMB402.5 million and RMB423.1 million, respectively.

At the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement, our Group had outstanding borrowings of:

	RMB'000
Bank borrowings (secured)	208,600
Bills payables (secured)	30,000
Amount due to a director (unsecured)	7,261
	245,861

At the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement, the Group had pledged the following assets to secure the credit facilities granted to our Group:

	RMB'000
Property, plant and equipment	313,871
Prepaid lease payments	36,598
Pledged bank deposits	29,720
	380,189

As at 30 April 2013, included in above pledged assets are plant and machineries with a carrying amount RMB18,122,000 which were pledged to independent surety companies for counter-guarantee in return for banking facilities granted to our Group by banks.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have, at the close of business on 30 April 2013, any outstanding loan capital issued or agreed to be issued, bank overdrafts and loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

There is no restriction on utilising our unutilised banking facilities of RMB270.5 million as at the Latest Practicable Date, including RMB98.0 million will expire in 2017.

We have not experienced any withdrawal of facilities, default in payment of bank borrowing or breach of financial covenants up to the Latest Practicable Date.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the Track Record Period and none of our Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings. Our Directors confirm that there is no material change in our indebtedness position since 30 April 2013.

The amount due to a director will be settled before Listing. As at 30 April 2013, our Company has no reserve available for distribution to our equity holders.

SUMMARY OF FINANCIAL RATIOS

	As at 31 December		
	2010	2011	2012
Gearing ratio (%)	38%	33%	44%
Net debt to equity ratio (%)	36%	19%	36%
Return on equity (%)	41%	37%	30%
Return on total assets (%)	21%	20%	17%
Current ratio	0.71	0.81	0.83
Quick ratio	0.61	0.69	0.73

Gearing ratio

Gearing ratio is calculated based on total borrowings divided by the total equity at the end of the respective period.

The gearing ratio increased from 33% as of 31 December 2011 to 44% as of 31 December 2012, which was due to the increase in average total borrowings which was derived from the increase of total bank borrowings from RMB113.6 million as of 31 December 2011 to RMB204.1 million as of 31 December 2012, an increase of RMB90.5 million or 79.7% for the construction of our Yunshan Production Facilities. The impact of the increase in borrowing out-weight the increase in equity contribution by the profit for the year ended 31 December 2012.

The gearing ratio decreased from 38% as of 31 December 2010 to 33% as of 31 December 2011 due to increase in average total equity which derived from increase of total equity from RMB225.6 million as of 31 December 2010 to RMB340.5 million as of 31 December 2011, an increase of RMB114.9 million or 50.9%. The reason for such decrease was mainly attributable to the increase in our total equity with the improvement in our profit for the year ended 31 December 2011.

Net debt to equity ratio

Net debt to equity ratio is calculated based on net debt divided by total equity at the end of the respective year.

The net debt to equity ratio increased significantly from 19% as of 31 December 2011 to 36% as of 31 December 2012 which was primarily due to the significant increase in total bank borrowings from RMB113.6 million as of 31 December 2011 to RMB204.1 million as of 31 December 2012, an increase of RMB90.5 million or 79.7% for the construction of our Yunshan Production Facilities.

The net debt to equity ratio dropped significantly from 36% as at 31 December 2010 to 19% as at 31 December 2011, which was primarily due to increase in bank balance and cash from RMB2.7 million as at 31 December 2010 to RMB47.9 million as at 31 December 2011, as a result of our significant increase in our net cash from operating activities.

Return on equity

Return on equity is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total equity of the relevant year expressed as a percentage.

We were able to maintain a stable return on equity as we experienced significant increase in net profit in 2011 with the increase in total equity with the improvement in our profits. Despite the increase in net profit in 2012, our return on equity decreased from 37% in 2011 to 30% in 2012. Our average balance of equity increased with our profit for the year and such effect out-weighted the increase in net profit for the year.

Return on total assets

Return on total assets is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total asset of the relevant year expressed as a percentage.

We were able to maintain a stable return on total assets as we experienced significant increase in net profit in 2011 with the increase in total assets together with the expansion in our production capacity.

The return on total assets decreased slightly in 2012 as a result of the increase in average total assets out-weighted the effect of the increase in net profit for the year.

Current ratio

Current ratio is calculated by dividing current assets by current liabilities.

Our current ratio experienced growth during the Track Record Period. The current ratio increased from 0.71 as of 31 December 2010 to 0.81 as of 31 December 2011 and further improved to 0.83 as of 31 December 2012. The increase was primarily due to the significant increase in the bank balances and cash by RMB45.2 million or 1,674% from RMB2.7 million as of 31 December 2010 to RMB47.9 million as of 31 December 2011 and increase in trade and other receivables from RMB43.7 million as of 31 December 2011 to RMB86.1 million as of 31 December 2012, despite such effect being offset by the increase in current portion bank borrowing from RMB46.6 million as of 31 December 2011 to RMB121.1 million as of 31 December 2012.

Quick ratio

Quick ratio is calculated by dividing current assets less inventories by current liabilities.

Our quick ratio improved during the Track Record Period. Our quick ratio increased slightly from 0.61 as of 31 December 2010 to 0.69 as of 31 December 2011 and further increased to 0.73 as of 31 December 2012. The increase was primarily due to the significant increase in bank balances and cash by RMB45.2 million or 1,674% from RMB2.7 million as of 31 December 2010 to RMB47.9 million as of 31 December 2011 and increase on trade and other receivables for RMB43.7 million as of 31 December 2011 to RMB86.1 million as of 31 December 2012, despite such effect being offset by the increase in current portion bank borrowing from RMB46.6 million as of 31 December 2011 to RMB121.1 million as of 31 December 2012.

COMMITMENTS

(a) Capital Commitment

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:			
– Contracted for but not provided	40,010	15,224	7,925

(b) Operating leases

	As at 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	114	114	–

(c) Other commitments

As at 31 December 2012, the Group obtained bank acceptance bills of RMB21.5 million and these have been delivered to suppliers as deposits for purchase of raw materials and electricity. The bills will mature by the end of March 2013. There was no such arrangement at 31 December 2010 and 31 December 2011. Details are set out in note 36(b) of the Accountant's Report in Appendix I to this prospectus.

CONTINGENT LIABILITIES

As of 31 December 2010, 2011 and 2012, we did not have any significant contingent liabilities and we confirm that as of the Latest Practicable Date there had been no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

Save as disclosed above in section headed "Other commitments", up to the Latest Practicable Date, we had not entered into any off-balance sheet transaction or arrangements.

RELATED PARTY BALANCES

With respect to the related party transactions set out in the consolidated financial information of our Group included in the Accountants' Report in Appendix I to this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of the Shareholders.

FINANCIAL RISKS

We are exposed to various types of financial risks in the normal course of business, including credit, liquidity and interest rate.

Credit risk

Our credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of cash and cash equivalents, we only place deposits with major financial institutions, which management believe are of high credit rating.

Liquidity risk

Our policy is to regularly monitor our liquidity requirements to ensure that we maintain sufficient reserve of cash and adequate committed lines of funding from major banks and financial institutions to meet our liquidity requirements in the short and long term. For further quantitative information, please see note 34(b) of the Accountants' Report in Appendix I to this prospectus.

Interest rate risk

Our interest rate risk arises primarily from bank borrowings issued at variable or fixed rates that expose us to cash flow interest rate risk and fair value interest rate risk, respectively. For further quantitative information, please see note 34(b) of the Accountants' Report in Appendix I to this prospectus.

DIVIDEND POLICY

No dividends have been declared or paid by our Company since its incorporation.

The payment and the amount of any dividend, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on our Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Our PRC subsidiary may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Furthermore, pursuant to the relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the above factors, our expected dividend policy is that not less than approximately 20% of our profits available for distribution will be recommended for distribution in each financial year. The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Company since 31 December 2012 (being the date to which our latest consolidated financial results were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our Company's property interests are set out in Appendix III to this prospectus. GA Valuation Limited has valued the property interests of our Company as of 31 May 2013. A summary of values and valuation certificates issued by GA Valuation Limited are included in Appendix III to this prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our Group's property interests from our consolidated financial information as of 31 December 2012 to the valuation of property interests as of 31 May 2013:

	RMB'000
Valuation of properties as of 31 May 2013 as set out in Appendix III to this prospectus	260,570
Lease prepayments *(Note 1)*	51,119
Buildings *(Note 1)*	85,830
Construction in progress *(Note 2)*	84,600
Net book value of property interests of our Group as at 31 December 2012	221,549
Add: Additions of Buildings	1,601
Less: Depreciation and amortisation for the five months ended 31 May 2013	(4,310)
Net book value of property interests of our Group as at 31 May 2013	218,840
Valuation surplus	41,730

Notes:

1. The net book values are extracted from the accountants' report set out in Appendix I to this prospectus.

2. The net book value excludes amount relating to plant and machinery which are included in the balance of construction in progress.