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28 June 2013

The Directors
China Golden Phoenix International (Holdings) Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to China Golden Phoenix International (Holdings) Limited (formerly known as Strong Elite Limited) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2012 (the "Track Record Period") (the "Financial Information") for inclusion in the prospectus of the Company dated 28 June 2013 (the "Prospectus") in connection with the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

The Company was incorporated in the Cayman Islands on 4 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a group reorganisation, as more fully explained in the section headed "Reorganisation" in the Prospectus (the "Reorganisation"), the Company became the holding company of the Group on 7 March 2012.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Group				Principal activities
			At 31 December			At date of issuance of this report	
			2010	2011	2012		
Directly owned							
China Galaxy Limited ("China Galaxy") *(note (i))*	Hong Kong 11 January 2011	HK$1.00	N/A	100%	100%	100%	Investment holding
Indirectly owned							
Jiujiang Golden Phoenix Decoration Material Co., Limited 九江金鳳凰裝飾材料有限公司 ("Jiujiang Golden Phoenix") *(notes (ii) and (iii))*	The People's Republic of China ("PRC") 2 December 2003	US$13,000,000 (Paid-up capital: US$10,500,000)	100%	100%	100%	100%	Production and sales of crystallised stone
Jiangxi Golden Phoenix Nanocrystalline Co., Limited 江西金鳳凰納米微晶有限公司 ("Jiangxi Golden Phoenix") *(notes (ii) and (iv))*	PRC 25 September 2009	RMB10,000,000	100%	100%	100%	100%	Production and sales of crystallised stone

notes:

(i) The subscriber of China Galaxy transferred one share of HK$1.00, being the entire issued capital of China Galaxy, to the Company for cash at par on 14 February 2011.

(ii) The English name is for identification only. The official name of the company is in Chinese.

(iii) Jiujiang Golden Phoenix is wholly foreign-owned enterprise established in the PRC. On 18 January 2011, the registered capital of Jiujang Golden Phoenix was increased to US$13,000,000. As at 31 December 2012, the paid-in capital of Jiujiang Golden Phoenix was US$10,500,000. Pursuant to the Memorandum and Articles of Association of Jiujiang Golden Phoenix, the registered capital shall be paid in full no later than two years from the date of renewed business license which was granted on 18 January 2011. On 27 December 2012, Jiujiang Golden Phoenix obtained approval from the relevant bureau for extension of the deadline of full payment of registered capital to 30 June 2013. On 20 June 2013, Jiujiang Golden Phoenix obtained approval from the relevant bureau for further extension of the deadline of full payment of registered capital to 31 December 2013.

(iv) Jiangxi Golden Phoenix is registered as a limited liability company under PRC law and has been a wholly owned subsidiary of Jiujiang Golden Phoenix since its establishment on 25 September 2009.

The financial year end date of the companies now comprising the Group is 31 December.

No statutory financial statements have been prepared for the Company since the date of its incorporation as it has not carried out any business other than the Reorganisation and there is no statutory audit requirement in the Cayman Islands. We have, however, reviewed all relevant transactions of the Company since the date of its incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to the Company in this report.

The statutory financial statements of China Galaxy for the period from the date of its incorporation to 31 December 2011 and for the year ended 31 December 2012 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Hong Kong Companies Ordinance and were audited by us.

The statutory financial statements of Jiujiang Golden Phoenix and Jiangxi Golden Phoenix for each of the three years ended 31 December 2012 were prepared in accordance with PRC accounting rules and regulations and were audited by Jiujiang Longcheng Certified Public Accountants (九江龍城會計師事務所有限公司), certified public accountants registered in the PRC.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Track Record Period in accordance with HKFRSs issued by the HKICPA (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 2A of Section A below. No adjustment is considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The preparation of the Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 2A of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011 and 2012 and of the Group as at 31 December 2010, 2011 and 2012 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
		2010	**2011**	**2012**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	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	*7*	119	699	1,062
Other gains and losses	*8*	(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	*9*	(2,036)	(3,104)	(7,447)
Other expenses	*10*	(1,218)	(1,400)	(11,209)
Profit before tax		83,371	140,447	161,764
Income tax expense	*11*	(10,843)	(35,711)	(43,382)
Profit and total comprehensive income for the year attributable to owners of the Company	*12*	72,528	104,736	118,382
Earnings per share	*15*			
Basic (RMB cents)		17.93	14.23	15.78

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		At 31 December		
		2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*16*	278,731	398,192	535,799
Prepaid lease payments	*17*	39,280	51,119	49,091
Intangible assets	*18*	497	456	415
Available-for-sale investment	*20*	200	200	–
		318,708	449,967	585,305
CURRENT ASSETS				
Prepaid lease payments	*17*	1,550	2,028	2,028
Inventories	*21*	18,163	26,342	21,700
Trade and other receivables	*22*	49,367	43,685	86,090
Amount due from a director	*23*	–	273	–
Pledged bank deposits	*24*	55,000	55,486	43,810
Bank balances and cash	*24*	2,724	47,924	37,792
		126,804	175,738	191,420
CURRENT LIABILITIES				
Other payables	*25*	4,083	5,482	9,993
Bills payables	*26*	85,000	102,854	61,467
Amount due to a director	*27*	41,410	43,571	4,821
Tax payables		4,336	18,245	33,767
Bank borrowings	*29*	43,850	46,600	121,100
		178,679	216,752	231,148
NET CURRENT LIABILITIES		(51,875)	(41,014)	(39,728)
TOTAL ASSETS LESS CURRENT LIABILITIES		266,833	408,953	545,577
NON-CURRENT LIABILITIES				
Bank borrowings	*29*	41,000	67,000	83,000
Deferred tax liabilities	*30*	229	1,405	3,647
		41,229	68,405	86,647
NET ASSETS		225,604	340,548	458,930
CAPITAL AND RESERVES				
Paid-in/issued share capital	*31*	62,800	73,008	329
Reserves		162,804	267,540	458,601
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		225,604	340,548	458,930

STATEMENTS OF FINANCIAL POSITION

		At 31 December	
		2011	**2012**
	Notes	*RMB'000*	*RMB'000*
NON-CURRENT ASSET			
Investment in a subsidiary	*19*	–	–
CURRENT ASSETS			
Prepayments	*22*	–	2,132
Amount due from a director	*23*	273	–
		273	2,132
CURRENT LIABILITIES			
Other payables	*25*	–	5,727
Amount due to a director	*27*	–	4,792
Amount due to a subsidiary	*28*	–	255
		–	10,774
NET CURRENT ASSETS (LIABILITIES)		273	(8,642)
TOTAL ASSETS LESS CURRENT LIABILITIES		273	(8,642)
CAPITAL AND RESERVE			
Share capital	*31*	329	329
Accumulated losses	*32*	(56)	(8,971)
TOTAL EQUITY (NET DEFICIT)		273	(8,642)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in/ issued share capital	Capital reserve	Statutory reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
At 1 January 2010	36,045	–	7,580	82,696	126,321
Profit and total comprehensive income for the year	–	–	–	72,528	72,528
Capital injection by the owners	26,755	–	–	–	26,755
Transfer of reserve	–	–	7,941	(7,941)	–
At 31 December 2010	62,800	–	15,521	147,283	225,604
Profit and total comprehensive income for the year	–	–	–	104,736	104,736
Issue of share capital	329	–	–	–	329
Capital injection by the owners	9,879	–	–	–	9,879
Transfer of reserve	–	–	12,409	(12,409)	–
At 31 December 2011	73,008	–	27,930	239,610	340,548
Profit and total comprehensive income for the year	–	–	–	118,382	118,382
Arising on the Reorganisation	(72,679)	72,679	–	–	–
Transfer of reserve	–	–	13,510	(13,510)	–
At 31 December 2012	329	72,679	41,440	344,482	458,930

Note: Statutory reserve represents appropriations from the profits after tax of the Group's subsidiaries established in the PRC and forms part of shareholders' equity. In accordance with the PRC Company Law and the articles of association of these subsidiaries, these subsidiaries are required to appropriate an amount at a minimum of 10% of their profits after tax each year to a statutory reserve until the statutory reserve reaches 50% of their registered capital. The statutory reserve can be used for converting into additional capital of these subsidiaries.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	83,371	140,447	161,764
Adjustments for:			
Depreciation of property, plant and equipment	16,053	24,409	29,357
Finance costs	2,036	3,104	7,447
Loss on disposal/write off of property, plant and equipment	1,399	–	3,932
Release of prepaid lease payments	1,559	2,013	2,028
Amortisation of intangible assets	41	41	41
Unrealised exchange loss	4	–	–
Interest income	(115)	(699)	(1,062)
Operating cash flows before movements in working capital	104,348	169,315	203,507
Decrease (increase) in inventories	2,361	(8,179)	4,642
(Increase) decrease in trade and other receivables	(28,390)	5,682	(42,405)
(Decrease) increase in other payables	(20,056)	1,399	4,511
Increase (decrease) in bills payables	21,210	37,388	(7,731)
Cash generated from operations	79,473	205,605	162,524
Income tax paid	(9,073)	(20,626)	(25,618)
NET CASH FROM OPERATING ACTIVITIES	70,400	184,979	136,906
INVESTING ACTIVITIES			
Withdrawal of pledged bank deposits	75,045	135,083	232,376
Interest received	115	699	1,062
Repayment from a director	–	–	273
Proceeds from disposal of available-for-sale investment	–	–	200
Proceeds from disposal of property, plant and equipment	1,290	–	88
Placement of pledged bank deposits	(95,045)	(135,569)	(220,700)
Purchase of property, plant and equipment	(97,417)	(158,699)	(195,674)
Addition to prepaid lease payments	(8,615)	(14,330)	–
Advance to a director	–	(273)	–
NET CASH USED IN INVESTING ACTIVITIES	(124,627)	(173,089)	(182,375)
FINANCING ACTIVITIES			
New bank borrowings raised	85,000	83,600	142,000
Advance from a director	19,000	123,670	11,410
Capital injection from owners	26,755	9,879	–
Issue of shares	–	329	–
Repayment of bank borrowings	(39,150)	(54,850)	(51,500)
Repayment to a director	(34,500)	(121,509)	(50,160)
Interest paid	(3,868)	(7,809)	(16,413)
NET CASH FROM FINANCING ACTIVITIES	53,237	33,310	35,337
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(990)	45,200	(10,132)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,718	2,724	47,924
Effect of foreign exchange rate changes	(4)	–	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	2,724	47,924	37,792

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated in the Cayman Islands on 4 January 2011 as an exempted company with limited liability. The name of the Company was changed from Strong Elite Limited to China Golden Phoenix International (Holdings) Limited on 25 February 2013. Its immediate and ultimate parent is Golden Phoenix Nanotechnology Holding Limited which was incorporated in Hong Kong on 3 January 2011 and is wholly owned by Mr. Sui He Zuo. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands and its principal place of business is located at Hengfeng Town, Yongxiu Country, Jiujiang City, Jiangxi Province, the PRC.

The Company is an investment holding company. The principal activities of the Group are production and sales of crystallised stone.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2A. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Reorganisation completed on 7 March 2012, the Company and its subsidiary, China Galaxy, were interspersed between Jiujiang Golden Phoenix and its shareholders, and the Company became the holding company of the companies now comprising the Group. Accordingly, the 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 the 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 at 31 December 2010 and 2011 have been prepared to present the assets and liabilities of the companies now comprising the 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.

2B. BASIS OF PREPARATION OF FINANCIAL INFORMATION

As at 31 December 2010, 2011 and 2012, the Group had net current liabilities of RMB51,875,000, RMB41,014,000 and RMB39,728,000, respectively. Up to the date of issuance of this report, the Group has unutilised banking facilities of approximately RMB270,500,000 currently available to the Group and which the directors of the Company expect to be able to renew when the facilities expire. After taking into consideration the banking facilities already in place and funds generated internally from operation, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future and consider that it is appropriate for the Financial Information to be prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently applied Hong Kong Accounting Standards ("HKASs"), HKFRSs and Interpretations ("HK(IFRC) – Int") issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2012 throughout the Track Record Period.

At the date of this report, the Group has not early applied the following new and revised standards, amendments or interpretation that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised 2011)	Employee Benefits[1]
HKAS 27 (as revised 2011)	Separate Financial Statements[1]
HKAS 28 (as revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretation will have no material impact to the results and the financial positions of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on historical cost basis in accordance with the accounting policies set out below which conform with HKFRSs. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible assets can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets, which represent trademarks and patents with finite useful lives, are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation of trademarks and patents is recognised to write off the cost of the intangible assets over their useful lives, using the straight-line method.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment 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 instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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 is 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.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Retirement benefit costs

Payments to stated-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases where substantially all the risks and rewards of ownerships of assets remain with the lessors are accounted as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial positions and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Useful lives, residual values and impairment of property, plant and equipment

The Group estimates useful lives, residual values and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. The depreciation charge will increase where useful lives are less than previously estimated. Details of the useful lives of property, plant and equipment are disclosed in Note 16.

In addition, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount which is the higher of the value in use and fair value less cost to sell of the assets. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the continuing use of the assets and from its ultimate disposal and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of property, plant and equipment as at 31 December 2010, 2011 and 2012 were RMB278,731,000, RMB398,192,000 and RMB535,799,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company who are identified as the chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment focuses on the three types of products produced by the Group. The following three types of products form the basis of the Group's operating and reportable segments:

- 1G Phoenix Stone
- 2G Phoenix Stone
- 3G Phoenix Stone

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
– 1G Phoenix Stone	86,452	87,344	51,858
– 2G Phoenix Stone	196,219	216,983	281,327
– 3G Phoenix Stone	–	97,783	125,531
	282,671	402,110	458,716
Segment profit			
– 1G Phoenix Stone	25,755	29,591	17,887
– 2G Phoenix Stone	83,055	100,609	138,962
– 3G Phoenix Stone	–	44,992	59,209
	108,810	175,192	216,058

The reportable and operating segment results are reconciled to profit before tax of the Group as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Segment profit	108,810	175,192	216,058
Unallocated income and expenses			
– 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

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in Note 4. Segment revenue represents sales to external parties. There is no inter-segment transactions during the Track Record Period. Segment profit represents the gross profit of each type of products. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM. Accordingly, segment assets and liabilities are not presented.

Other segment information

Amounts included in the measure of segment profit:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation and amortisation ***(Note)***			
– 1G Phoenix Stone	5,946	6,827	4,743
– 2G Phoenix Stone	10,003	12,441	16,877
– 3G Phoenix Stone	–	4,743	7,150
Segment total	15,949	24,011	28,770
Unallocated depreciation and amortisation	1,704	2,452	2,656
	17,653	26,463	31,426

Note: The amounts set out above include depreciation of property, plant and equipment, amortisation of intangible assets and release of prepaid lease payments.

Geographical information

The analysis of revenue by geographical location of customer is as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
The PRC	278,704	388,809	407,330
Other countries *(Note)*	3,967	13,301	51,386
	282,671	402,110	458,716

Note: Other than the PRC, the Group also exports its products to overseas countries. The revenue contributed by overseas countries is individually insignificant for the two years ended 31 December 2010 and 2011.

For the year ended 31 December 2012, the Group exported its products to United Arab Emirates amounting to RMB46,542,000.

As at 31 December 2010, 2011 and 2012, all of the Group's non-current assets excluding available-for-sale investment are located in the PRC.

Information about major customers

Revenue from customer contributing over 10% of the total sales of the Group is as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	*(Note)*	*(Note)*	46,542

Note: The corresponding revenue did not contribute over 10% of the total sales of the Group.

7. OTHER INCOME

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	115	699	1,062
Government grants	4	–	–
	119	699	1,062

8. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Net foreign exchange (losses) gains	(248)	89	(225)
Loss on disposal/write off of property, plant and equipment	(1,399)	–	(3,932)
	(1,647)	89	(4,157)

9. FINANCE COSTS

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank borrowings wholly repayable within five years	3,657	7,411	15,928
Less: Amount capitalised	(1,832)	(4,705)	(8,966)
	1,825	2,706	6,962
Financing arrangement fee	211	398	485
	2,036	3,104	7,447

Borrowing cost capitalised during the three years ended 31 December 2010, 2011 and 2012, arose on the general borrowing pool were calculated by applying a capitalisation rate of 8.4%, 9.9% and 10.5% per annum, respectively, for the Group's expenditure on construction of buildings and manufacturing plant and machineries. Other than that, for funds borrowed specifically for the purpose of construction of buildings, borrowing costs that directly relate to these assets are fully capitalised.

10. OTHER EXPENSES

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Research and development expenses	1,218	1,400	2,539
Listing expenses	–	–	8,670
	1,218	1,400	11,209

11. INCOME TAX EXPENSE

	Year ended 31 December		
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
PRC Enterprise Income Tax ("EIT")			
– current year	10,553	34,220	41,140
– underprovision in prior years	61	315	–
	10,614	34,535	41,140
Deferred tax *(Note 30)*			
– current year	229	1,176	2,242
	10,843	35,711	43,382

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

According to the old Law of PRC on Foreign Enterprise Income Tax (cancelled on 1 January 2008), Jiujiang Golden Phoenix is entitled to an exemption from EIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief in the three years thereafter (the "Tax Holiday"). Under the new Law of PRC on Enterprise Income Tax (the "EIT Law", effective from 1 January 2008) and Implementation Regulation of the EIT Law, the statutory EIT rate of PRC enterprises is 25% from 1 January 2008 onwards. The above Tax Holiday could continue to be enjoyed until expiry. The first profit making year for Jiujiang Golden Phoenix was 2006. Jiujiang Golden Phoenix was therefore subject to a reduced tax rate of 12.5% for the year ended 31 December 2010. The income tax rate has resumed to 25% for the two years ended 31 December 2011 and 2012.

Under the EIT Law and Implementation Regulation of the EIT Law, the statutory tax rate of Jiangxi Golden Phoenix is 25% during the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	Year ended 31 December		
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	83,371	140,447	161,764
Tax at the domestic income tax rate of 25% *(Note)*	20,843	35,112	40,441
Tax effect of expenses not deductible for tax purpose	630	126	2,370
Tax effect of tax losses not recognised	91	158	571
Underprovision in respect of prior years	61	315	–
Tax effect of reduced tax rate	(10,782)	–	–
Income tax expenses for the year	10,843	35,711	43,382

Note: The applicable tax rate represents EIT rate of 25% where the operation of the Group is substantially based.

12. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:			
Directors' emoluments *(Note 13)*	408	398	448
Other staff costs:			
Salaries and other allowances	7,421	13,891	17,293
Retirement benefit scheme contributions, excluding those of directors	1,940	2,538	3,060
Total staff costs	9,769	16,827	20,801
Auditor's remuneration	45	55	65
Cost of inventories recognised as expenses	173,861	226,918	242,658
Depreciation of property, plant and equipment	16,053	24,409	29,357
Release of prepaid lease payments	1,559	2,013	2,028
Amortisation of intangible assets (included in cost of sales)	41	41	41

During the three years ended 31 December 2010, 2011 and 2012, staff costs in respect of research and development amounting to RMB103,000, RMB275,000 and RMB946,000, respectively, are included in total staff costs above.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid by the Group to the executive directors of the Company during the Track Record Period are as follows:

	Mr. Sui He Zuo (Chairman) *RMB'000*	Mr. Sze Shun Pan *RMB'000*	Mr. Zhu Xin Ming (Chief Executive Officer) *RMB'000*	Mr. Lin Ren Ze *RMB'000*	Ms. Zeng Xiao Ying *RMB'000*	Total *RMB'000*
For the year ended 31 December 2010						
Salaries and other allowances	96	48	84	58	52	338
Discretionary bonus *(Note)*	20	5	10	5	5	45
Retirement benefits scheme contributions	5	5	5	5	5	25
Total remuneration	121	58	99	68	62	408
For the year ended 31 December 2011						
Salaries and other allowances	107	53	92	63	58	373
Retirement benefits scheme contributions	5	5	5	5	5	25
Total remuneration	112	58	97	68	63	398
For the year ended 31 December 2012						
Salaries and other allowances	117	62	102	73	69	423
Retirement benefits scheme contributions	5	5	5	5	5	25
Total remuneration	122	67	107	78	74	448

Note: The bonus is discretionary and is determined by reference to the individuals' performance.

No remuneration was paid to the independent non-executive directors during the Track Record Period.

Employees

The five highest paid individuals of the Group included four executive directors for each of the three years ended 31 December 2010, 2011 and 2012. Details of their emoluments are set out above. The emoluments of the remaining one highest paid individuals for the respective years are as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other allowances	58	63	73
Retirement benefit scheme contributions	5	5	5
	63	68	78

The emolument of each of the five highest paid individuals (including the directors) during the Track Record Period were within HK$1,000,000.

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

14. DIVIDENDS

During the Track Record Period, no dividend was paid or declared by the Company or by any of the companies now comprising the Group.

No special dividend was proposed to be distributed after 31 December 2012.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the following data:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Earnings			
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	72,528	104,736	118,382
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	404,551,267	736,227,992	750,000,000

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined based on 404,551,267, 736,227,992 and 750,000,000 ordinary shares for the three years ended 31 December 2010, 2011 and 2012, respectively, after adjusting retrospectively for the effect of the Reorganisation set out in Note 2A and the capitalisation issue set out in Section C(a).

No diluted earnings per share are presented for the Track Record Period as there were no potential ordinary shares in issue.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2010	23,424	117,478	1,003	1,048	63,227	206,180
Additions	–	17,893	120	106	104,920	123,039
Disposals/write off	–	(5,490)	(8)	–	–	(5,498)
Transfer	19,998	58,610	–	–	(78,608)	–
At 31 December 2010	43,422	188,491	1,115	1,154	89,539	323,721
Additions	–	82,489	160	–	61,221	143,870
Transfer	53,693	6,459	–	–	(60,152)	–
At 31 December 2011	97,115	277,439	1,275	1,154	90,608	467,591
Additions	2,400	20,307	932	1,162	146,183	170,984
Disposals/write off	–	(12,720)	(22)	(282)	–	(13,024)
Transfer	–	30,882	–	–	(30,882)	–
At 31 December 2012	99,515	315,908	2,185	2,034	205,909	625,551
DEPRECIATION						
At 1 January 2010	3,274	27,603	424	445	–	31,746
Provided for the year	1,890	13,808	195	160	–	16,053
Eliminated on disposals/ write off	–	(2,802)	(7)	–	–	(2,809)
At 31 December 2010	5,164	38,609	612	605	–	44,990
Provided for the year	3,614	20,427	205	163	–	24,409
At 31 December 2011	8,778	59,036	817	768	–	69,399
Provided for the year	4,907	23,894	250	306	–	29,357
Eliminated on disposals/ write off	–	(8,725)	(11)	(268)	–	(9,004)
At 31 December 2012	13,685	74,205	1,056	806	–	89,752
CARRYING VALUE						
At 31 December 2010	38,258	149,882	503	549	89,539	278,731
At 31 December 2011	88,337	218,403	458	386	90,608	398,192
At 31 December 2012	85,830	241,703	1,129	1,228	205,909	535,799

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis, after taking into account their estimated residual values, at the following year/rates per annum:

Buildings	20 years
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

The Group's buildings are erected on land under a medium-term land use right in the PRC.

The Group pledged its property, plant and equipment with the following carrying amounts to secure credit facilities granted to the Group.

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Buildings	38,258	84,408	74,269
Plant and machinery	110,562	172,925	175,364
Construction in progress	4,090	50,593	78,491

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC held under a medium-term lease.

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purposes as:			
Non-current asset	39,280	51,119	49,091
Current asset	1,550	2,028	2,028
	40,830	53,147	51,119

As at 31 December 2010, 2011 and 2012, the Group pledged prepaid lease payments with a carrying amount of RMB15,695,000, RMB39,131,000 and RMB51,119,000 to banks to secure banking facilities granted to the Group, respectively.

18. INTANGIBLE ASSETS

	Trademarks	Patent	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2010, 31 December 2010, 2011 and 2012	110	600	710
AMORTISATION			
At 1 January 2010	37	135	172
Provided for the year	11	30	41
At 31 December 2010	48	165	213
Provided for the year	11	30	41
At 31 December 2011	59	195	254
Provided for the year	11	30	41
At 31 December 2012	70	225	295
CARRYING VALUE			
At 31 December 2010	62	435	497
At 31 December 2011	51	405	456
At 31 December 2012	40	375	415

All trademarks and patent are internally generated assets.

The Group registered two trademarks for 10 years each, expiring in 2016 and 2021, respectively, and the patent of decorative material production formula for 20 years, expiring in 2029.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Trademarks	10 years
Patent	20 years

19. INVESTMENT IN A SUBSIDIARY

	At 31 December	
	2011	2012
	RMB	*RMB*
Unlisted investment, at cost	1	1

20. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represented an unlisted investment in Yongxiu County Rural Credit Cooperatives (永修縣農村信用合作聯社) ("Yongxiu Credit"), a joint-equity cooperative enterprise (股份合作制企業) incorporated in the PRC engaged in deposit taking, money lending, bills acceptance and discounting, issuing, redeeming and underwriting of bonds on behalf of PRC government and financial institutions in the PRC, insurance service and other services authorised by China Banking Regulatory Commission (中國銀行業監督管理委員會) in the PRC.

As at 31 December 2010 and 2011, the directors of the Company considered that the Group could not exercise significant influence or control on Yongxiu Credit and accordingly, it was classified as an available-for-sale investment. It was measured at cost less impairment at the end of each reporting period due to financial information of Yongxiu Credit available to the Group was limited and the directors of the Company are of the opinion that the fair value cannot be measured reliably because the range of reasonable fair value estimate is significant.

In June 2012, the Group derecognised the entire investment which had been carried at cost less impairment upon withdrawal of the investment. The investment cost of RMB200,000 was refunded by Yongxiu Credit in June 2012. No gain or loss has been recognised in profit or loss for the year ended 31 December 2012 for such derecognition.

21. INVENTORIES

	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

22. TRADE AND OTHER RECEIVABLES/PREPAYMENTS

The Group

	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

The Group generally allows a credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date which approximated revenue recognition date at the end of the reporting period.

	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

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits. Credit sales are mainly available for existing customers with good repayment history. Credit limits to customers are reviewed regularly.

With reference to the track records of these customers, the directors of the Company consider all trade receivables at the end of each reporting period are of good credit quality with reference to the past repayment record. At the end of each reporting period, all of the trade receivable balance was neither past due nor impaired. The Group does not hold any collateral over the above balances.

The trade receivables that are denominated in foreign currency is set out below:

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
United States dollars ("USD")	–	–	4,833

The Company

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	–	–	2,132

23. AMOUNT DUE FROM A DIRECTOR

The Group and the Company

The balance at 31 December 2011 represents an amount due from Mr. Sui He Zuo, a director and the ultimate controlling party of the Company, of RMB273,000 which was unsecured, non-interest bearing, repayable on demand and mainly denominated in USD. The amount was fully settled during the year ended 31 December 2012.

Maximum amount outstanding during the year/period are as follows:

The Group

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Mr. Sui He Zuo	–	273	273

The Company

	Period from 4 January 2011 (date of incorporation) to 31 December 2011	Year ended 31 December 2012
	RMB'000	*RMB'000*
Mr. Sui He Zuo	273	273

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

As at 31 December 2010, 2011 and 2012, the entire pledged bank deposits represent deposits pledged to banks to secure banking facilities (mainly for issuance of bank acceptance bills) utilised by the Group. The pledged bank deposits carry interest at fixed rates and variable rates as follows:

	At 31 December		
	2010	**2011**	**2012**
Interest rate per annum:			
Fixed rates	2.20%	2.20%	3.30%
Variable rates	0.36%	0.36 – 0.5%	0.35 – 0.5%

Bank balances and cash comprise cash and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest at variable rates as follows:

	At 31 December		
	2010	**2011**	**2012**
Interest rate per annum	0.36% to 1.15%	0.36% to 1.15%	0.01% to 1.15%

Except for the amount set out below which is denominated in foreign currency, all the Group's pledged bank deposits and bank balances were denominated in RMB and were subject to foreign exchange control.

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
USD	172	–	–
Hong Kong dollars ("HKD")	–	–	8

25. OTHER PAYABLES

The Group

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Accrued listing expenses	–	–	4,521
Accrued operating expenses	665	1,238	2,333
Other tax payables	3,418	4,244	2,020
Listing expenses payable	–	–	1,119
	4,083	5,482	9,993

The Company

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Accrued listing expenses	–	–	4,521
Accrued operating expenses	–	–	87
Listing expenses payable	–	–	1,119
	–	–	5,727

The other payables of the Group and the Company that are denominated in foreign currency is set out below:

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
HKD	–	–	1,119

26. BILLS PAYABLES

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade nature	31,510	68,898	61,167
Non-trade nature *(Note)*	53,490	33,956	300
	85,000	102,854	61,467

All bills will mature within 180 days from the end of the reporting periods.

Note: The bills with non-trade nature were mainly issued for settlement of construction cost payables and plant and machineries procured as at 31 December 2010 and 2011. As at 31 December 2012, the bills with non-trade nature were only issued for plant and machineries procured.

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

An ageing analysis of the Group's bills payables with trade nature is presented based on the invoice date at the end of each reporting period is as follows:

	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

27. AMOUNT DUE TO A DIRECTOR

The Group

The amounts represent advances from Mr. Sui He Zuo to finance the Group's operations and are unsecured, non-interest bearing and repayable on demand. In the opinion of the directors of the Company, the amounts will be fully settled before the Listing. The balance at 31 December 2012 is mainly denominated in HKD.

The Company

The balance at 31 December 2012 represents advances from Mr. Sui He Zuo to finance the Company's operations, is unsecured, non-interest bearing and repayable on demand, and is mainly denominated in HKD. In the opinion of the directors of the Company, the amounts will be fully settled before the Listing.

28. AMOUNT DUE TO A SUBSIDIARY

The Company

The amount is unsecured, non-interest bearing and repayable on demand.

29. BANK BORROWINGS

	At 31 December		
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
The entire bank borrowings are secured and repayable as follows:			
On demand and/or within one year	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
Less: amounts due on demand and/or within one year shown under current liabilities	(43,850)	(46,600)	(121,100)
Amount shown under non-current liabilities	41,000	67,000	83,000
Fixed-rate borrowings	75,850	94,600	142,100
Variable-rate borrowings	9,000	19,000	62,000
	84,850	113,600	204,100

Details of assets pledged for the above borrowings are set out in Note 37 and Note 39(e).

The Group's floating-rate borrowings are mainly subject to interest at RMB Benchmark Loan Rates offered by the People's Bank of China. The ranges of effective interest rates on the Group's bank borrowings are as follows:

	At 31 December		
	2010	2011	2012
Effective interest rate:			
Fixed-rate borrowings	5.31% to 7.14%	5.94% to 11.36%	5.94% to 11.82%
Variable-rate borrowings	5.94% to 8.50%	5.94% to 7.14%	5.94% to 7.14%

30. DEFERRED TAX LIABILITIES

The deferred tax liabilities are attributable to the capitalisation of finance costs as detailed in Note 9 and movements thereon during the Track Record Period are as follows:

	RMB'000
At January 1, 2010	–
Charged to profit or loss	229
At December 31, 2010	229
Charged to profit or loss	1,176
At December 31, 2011	1,405
Charged to profit or loss	2,242
At December 31, 2012	3,647

At 31 December 2010, 2011 and 2012, the Group had unused tax losses of approximately RMB382,000, RMB1,014,000 and RMB3,296,000, respectively, available for offset against future profit. No deferred tax asset has been recognised in respect of all the unused tax losses as the amounts involved are insignificant. All unused tax losses arising from the PRC may be carried forward for the next five years.

According to a joint circular of Ministry of Finance and the PRC State Administration of Taxation ("SAT"), Cai Shui (2008) No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when declared to distribute to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend declared to distribute out of the profits generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity declaring to make the distribution. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China-HK TA) and Bulletin of the SAT (2012) No. 30, either a Hong Kong-incorporated company listed in Hong Kong or an offshore incorporated company normally managed or controlled and listed in Hong Kong should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. The Company and China Galaxy are neither company listed in Hong Kong nor normally managed or controlled in Hong Kong. Therefore, the Group is subject to EIT at 10%. However, as the directors of the Company have determined to set aside the earnings for the period from 1 January 2008 to 31 December 2012 for expansion of operations and the Group is able to control the timing of paying dividend by its PRC subsidiaries. As such, the above earnings will not be distributed and therefore no deferred tax liabilities has been provided for in the Financial Information in respect of temporary differences attributable to accumulated profits of the Group's PRC companies generated after 1 January 2008 amounting to RMB141,737,000, RMB235,862,000 and RMB351,931,000 as at 31 December 2010, 2011 and 2012, respectively.

31. PAID-IN/ISSUED SHARE CAPITAL

For the purpose of the presentation of the consolidated statements of financial position, the balance of the capital as at 31 December 2010 represents the then paid-in capital of Jiujiang Golden Phoenix, the balance of the capital as at 31 December 2011 represents the then paid-in capital of Jiujiang Golden Phoenix and the then issued and fully paid share capital of the Company, and the balance of the capital as at 31 December 2012 represents the issued and fully paid share capital of the Company.

Details of movements of share capital of the Company are as follows:

	Number of shares	Amounts
		USD
Authorised:		
Ordinary shares of USD1 each on date of incorporation, 31 December 2011 and 2012	50,000	50,000
Issued and fully paid:		
Ordinary shares of USD1 each		
– issue of share upon incorporation on 4 January 2011	1	1
– issue of shares on 15 February 2011	49,999	49,999
Balance at 31 December 2011 and 2012	50,000	50,000
		RMB'000
Shown in the statements of financial position as		329

On 15 February 2011, 40,999 and 9,000 shares of USD1 each were issued and alloted to Golden Phoenix Nanotechnology Holding Limited and Hong Kong Dragon Yu New Material Co., Limited, respectively. The ordinary shares issued rank pari passu with the existing ordinary shares in all respects.

32. ACCUMULATED LOSSES

The Company	*RMB'000*
At 4 January 2011	–
Loss for the period	(56)
At 31 December 2011	(56)
Loss for the year	(8,915)
At 31 December 2012	(8,971)

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of amount due to a director and bank borrowings as disclosed in Notes 27 and 29 and equity attributable to owners of the Company, comprising capital and various reserves.

The capital structure of the Company consists of amount due to a director and amount due to a subsidiary as disclosed in Notes 27 and 28 and equity attributable to owners of the Company, comprising capital and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
The Group			
Financial assets			
Loans and receivables (including cash and cash equivalents)	106,834	147,224	164,894
Available-for-sale investment	200	200	–
Financial liabilities			
Amortised cost	211,260	260,025	271,507
The Company			
Financial assets			
Loans and receivables		273	–
Financial liabilities			
Amortised cost		–	6,166

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investment, trade and other receivables, amount due from a director, pledged bank deposits, bank balances and cash, other payables, bills payables, amount due to a director and bank borrowings. The Company's major financial instrument includes amount due from (to) a director/a subsidiary and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Except for certain trade receivables, amount due from a director, bank balances, other payables and amount due to a director which were denominated in USD and HKD (see Notes 22, 23, 24, 25 and 27) and expose the Group to foreign currency risk, almost all of the Group's transactions are denominated in RMB, functional currency of the relevant group entities. In addition, the Company's amount due from a director was mainly denominated in USD (see Note 23) and other payables and amount due to a director were mainly denominated in HKD (see Notes 25 and 27), which expose the Company to foreign currency risk. Directors of the Company have closely monitored foreign exchange exposure and will undertake procedures necessary to mitigate the currency risk.

The Group is mainly exposed to the currency risk of USD and HKD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies, USD and HKD, which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes USD denominated trade receivables, amount due from a director and bank balances and HKD denominated bank balances, other payables and amount due to a director and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number below indicates an increase in post-tax profit where the foreign currency strengthen 5% against RMB and vice versa.

	Profit for the year		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
The Group			
USD	8	11	181
HKD	–	–	(247)
The Company			
USD	–	11	–
HKD	–	–	(247)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 29 for details of these borrowings) and bank balances (see Note 24 for details of these bank balances) because they carry interest at variable interest rates.

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings (see Note 29 for details of these borrowings) and pledged bank deposits (see Note 24 for details of these bank deposits). It is the Group's policy to maintain a majority of borrowings at fixed rate of interest so as to reduce the cash flow interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the directors of the Company monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Loan Rates offered by the People's Bank of China from its bank borrowings. The Company has no material interest rate risk exposure.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for bank balances and variable-rate bank borrowings of the Group at the end of the reporting period.

The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. 10 basis points and 50 basis points increase or decrease for bank balances and variable-rate bank borrowings are used and represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points and 50 basis points higher/lower for bank balances and variable-rate bank borrowings, respectively, and all other variables were held constant, the Group's post-tax profits for the Track Record Period, taking into account the effect of interest capitalised, would (decrease) increase as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	(9)	13	(132)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of reporting period does not reflect the exposure during the relevant year.

Credit risk

At the end of each reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and related party is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position of the Group and statements of financial position of the Company, respectively.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits. Credit sales are mainly available for existing customers with good repayment history. Credit limits to customers are reviewed regularly. In order to minimise the credit risks, the directors of the Company reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors of the Company consider the Group's credit risk is significant reduced.

As at 31 December 2010, 2011 and 2012, 47%, 47% and 36% of trade receivables is due from customers situated in Fujian Province, the PRC, respectively.

The credit risk on liquid funds is limited because the counterparties are either state-owned banks in the PRC or banks with high credit ratings assigned by reputable credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with the terms of borrowings. The Group relies on bills payables and bank borrowings as significant source of liquidity. Up to the date of issuance of this report, the Group has unutilised banking facilities of approximately RMB270,500,000 currently available to the Group and which the directors of the Company expect to be able to renew when the facilities expire. The Company relies on fund from a director and a subsidiary as major source of liquidity.

The following tables detail the Group's and the Company's remaining contractual maturity for its financial liabilities and commitments. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group and the Company can be required to pay. Specifically, bank loan with a repayable on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	More than 1 year but not exceeding 2 years	More than 2 years but not exceeding 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group									
As at 31 December 2010									
Non-derivative financial liabilities									
Bills payables	–	–	19,298	65,702	–	–	–	85,000	85,000
Amount due to a director	–	41,410	–	–	–	–	–	41,410	41,410
Bank borrowings									
– fixed rate	6.25	18,297	594	24,574	10,250	31,500	–	85,215	75,850
– variable rate	7.08	52	105	4,480	354	5,708	–	10,699	9,000
		59,759	19,997	94,756	10,604	37,208	–	222,324	211,260
As at 31 December 2011									
Non-derivative financial liabilities									
Bills payables	–	4,964	30,464	67,426	–	–	–	102,854	102,854
Amount due to a director	–	43,571	–	–	–	–	–	43,571	43,571
Bank borrowings									
– fixed rate	6.77	14,448	897	36,711	23,250	29,896	–	105,202	94,600
– variable rate	6.82	107	213	976	1,296	6,296	14,955	23,843	19,000
		63,090	31,574	105,113	24,546	36,192	14,955	275,470	260,025
As at 31 December 2012									
Non-derivative financial liabilities									
Other payables	–	1,119	–	–	–	–	–	1,119	1,119
Bills payables	–	3,000	58,467	–	–	–	–	61,467	61,467
Amount due to a director	–	4,821	–	–	–	–	–	4,821	4,821
Bank borrowings									
– fixed rate	7.99	30,736	29,473	45,164	42,517	5,056	–	152,946	142,100
– variable rate	6.77	3,328	656	23,009	10,640	34,926	–	72,559	62,000
		43,004	88,596	68,173	53,157	39,982	–	292,912	271,507
Commitment									
Bills payables		–	21,533	–	–	–	–	21,533	–
The Company									
The Company has no financial liability as at 31 December 2011.									
As at 31 December 2012									
Non-derivative financial liabilities									
Other payables	–	1,119	–	–	–	–	–	1,119	1,119
Amount due to a director	–	4,792	–	–	–	–	–	4,792	4,792
Amount due to a subsidiary	–	255	–	–	–	–	–	255	255
		6,166	–	–	–	–	–	6,166	6,166

The amounts included above for variable rate bank borrowings are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2010, 2011 and 2012, the aggregate undiscounted principal amounts of these bank borrowings amounted to RMB18,000,000, RMB14,000,000 and RMB30,000,000, respectively. Taking into account the Group's financial position, the directors of the Company believe that it is probable that the banks will not exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid after the end of each reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

For the purpose of managing liquidity risk, management reviews the expected cash flow information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the tables below:

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year but not exceeding 2 years	More than 2 years but not exceeding 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group									
As at 31 December 2010									
Bank borrowings									
– fixed rate	6.25	390	3,779	40,280	10,250	31,500	–	86,199	75,850
– variable rate	7.08	52	105	4,480	354	5,708	–	10,699	9,000
		442	3,884	44,760	10,604	37,208	–	96,898	84,850
As at 31 December 2011									
Bank borrowings									
– fixed rate	6.77	526	15,053	36,711	23,250	29,896	–	105,436	94,600
– variable rate	6.82	107	213	976	1,296	6,296	14,955	23,843	19,000
		633	15,266	37,687	24,546	36,192	14,955	129,279	113,600
As at 31 December 2012									
Bank borrowings									
– fixed rate	7.99	933	59,867	45,164	42,517	5,056	–	153,537	142,100
– variable rate	6.77	3,328	656	23,009	10,640	34,926	–	72,559	62,000
		4,261	60,523	68,173	53,157	39,982	–	226,096	204,100

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

35. OPERATING LEASE

The Group's minimum lease payments paid during the three years ended 31 December 2010, 2011 and 2012 under operating lease in respect of rented premise amounted to RMB114,000, RMB114,000 and RMB114,000, respectively.

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premise which fall due as follows:

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

The lease was negotiated for a term of one year with fixed rentals.

36. COMMITMENTS

(a) Capital commitments

	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) Other commitments

As at 31 December 2012, the Group obtained bank acceptance bills of RMB21,533,000 and these bank acceptance bills were delivered to suppliers for purchase of raw materials in 2013. The bills matured in March 2013. There was no such arrangement at 31 December 2010 and 2011.

37. PLEDGE OF ASSETS

At the end of each reporting period, the Group had pledged the following assets to secure the credit facilities granted to the Group:

	At 31 December		
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment *(Note 16)*	152,910	307,926	328,124
Prepaid lease payments *(Note 17)*	15,695	39,131	51,119
Pledged bank deposits *(Note 24)*	55,000	55,486	43,810
	223,605	402,543	423,053

As at 31 December 2010 and 2012, included in above pledged assets are plant and machineries with a carrying amount of RMB9,657,000 and RMB18,862,000, respectively, which were pledged to independent surety companies for counter-guarantee in return for banking facilities granted to the Group by banks. There was no such arrangement as at 31 December 2011.

38. RETIREMENT BENEFIT SCHEMES

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The Group's PRC companies are required to contribute certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

39. RELATED PARTY DISCLOSURES

(a) Related party transactions

During the Track Record Period, the Group had the following transactions with related party:

Name of related party	Nature of transaction	Year ended 31 December 2010	2011	2012
		RMB'000	*RMB'000*	*RMB'000*
Mr. Sui He Zuo	Rental expenses paid by the Group	114	114	114

The above transaction was discontinued after 31 December 2012.

Lease commitment in respect of the Group's operating lease arrangement with Mr. Sui He Zuo is disclosed in Note 35.

(b) Related party balances

Details of the balances with related parties are set out in Notes 23, 27 and 28.

(c) Compensation of key management personnel

The directors of the Company and the five highest paid employees are identified as key management members of the Group. Details of their compensation during the Track Record Period are set out in Note 13.

(d) Shareholders' indemnity

As explained in the section headed "Statutory and General Information" in Appendix VI of the Prospectus and pursuant to the deed of indemnity dated 22 June 2013 entered into between (i) Mr. Sui He Zuo, Mr. Zhu Xin Ming, both are directors and beneficial shareholders of the Company, Golden Phoenix Nanotechnology Holding Limited (owned by Mr. Sui He Zuo) and Hong Kong Dragon Yu New Material Co., Limited (owned by Mr. Zhu Xin Ming); and (ii) the Company, pursuant to which the parties mentioned in (i) above agreed to give, among others, certain indemnities in favour of the Group subject to and in accordance with the terms and conditions set out therein.

(e) Other disclosures

During the year ended 31 December 2012, the Group obtained banking facilities amounting to RMB4,000,000 and RMB20,000,000 which were secured by (i) a property located in the PRC and owned by Ms. Leng Su Min, the wife of Mr. Zhu Xin Ming; and (ii) bank deposits amounted to RMB20,001,000 of Mr. Zhu Xin Ming, respectively. These facilities were fully utilised by the Group during the year ended 31 December 2012. The pledge of the property was fully released in December 2012 while the pledge of bank deposits was fully released in February 2013. There was no such arrangement as at 31 December 2010 and 2011.

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no other remuneration has been paid or is payable by the Group to the directors of the Company in respect of the Track Record Period.

C. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2012:

(a) Increase of authorised and issued share capital

Pursuant to the written resolutions of all the shareholders of the Company passed on 21 June 2013, (a) the authorised share capital was changed from USD50,000 divided into 50,000 shares of USD1 each to HKD390,000 divided into 3,900,000 shares of HKD0.1 each; (b) the authorised share capital of the Company was increased from HKD390,000 to HKD1,000,000,000 by the creation of an additional 9,996,100,000 shares of HKD0.1 each; and (c) 3,900,000 shares of HKD0.1 each were allotted and issued to Golden Phoenix Nanotechnology Holding Limited as to 2,558,400 shares of HKD0.1 each, Hong Kong Dragon Yu New Material Co., Limited as to 561,600 shares of HKD0.1 each, Goldyield Group Limited as to 273,000 shares of HKD0.1 each, City Expect Investments Limited as to 273,000 shares of HKD0.1 each and Grand City Capital Limited as to 234,000 share of HKD0.1 each. The 50,000 shares of USD1 each were repurchased by the Company.

Pursuant to the written resolutions of all of the shareholders of the Company passed on 22 June 2013, conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares (as defined in the Prospectus) by the Company pursuant to the Global Offering (as defined in the Prospectus), the directors of the Company were authorised to capitalise an amount of HKD74,610,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 746,100,000 shares of HKD0.1 each, such shares to be allotted and issued to the shareholders whose names appearing on the register of member of the Company at the close of business on 22 June 2013 (or as such shareholders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in the Company.

(b) Share option scheme

Pursuant to the written resolution of all the shareholders of the Company passed on 22 June 2013, the Company has conditionally adopted a share option scheme (the "Share Option Scheme"). The principal terms of the Share Option Scheme are set out in section headed "Share Option Scheme" in Appendix VI to the Prospectus. No option was granted as at the date of this report.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong