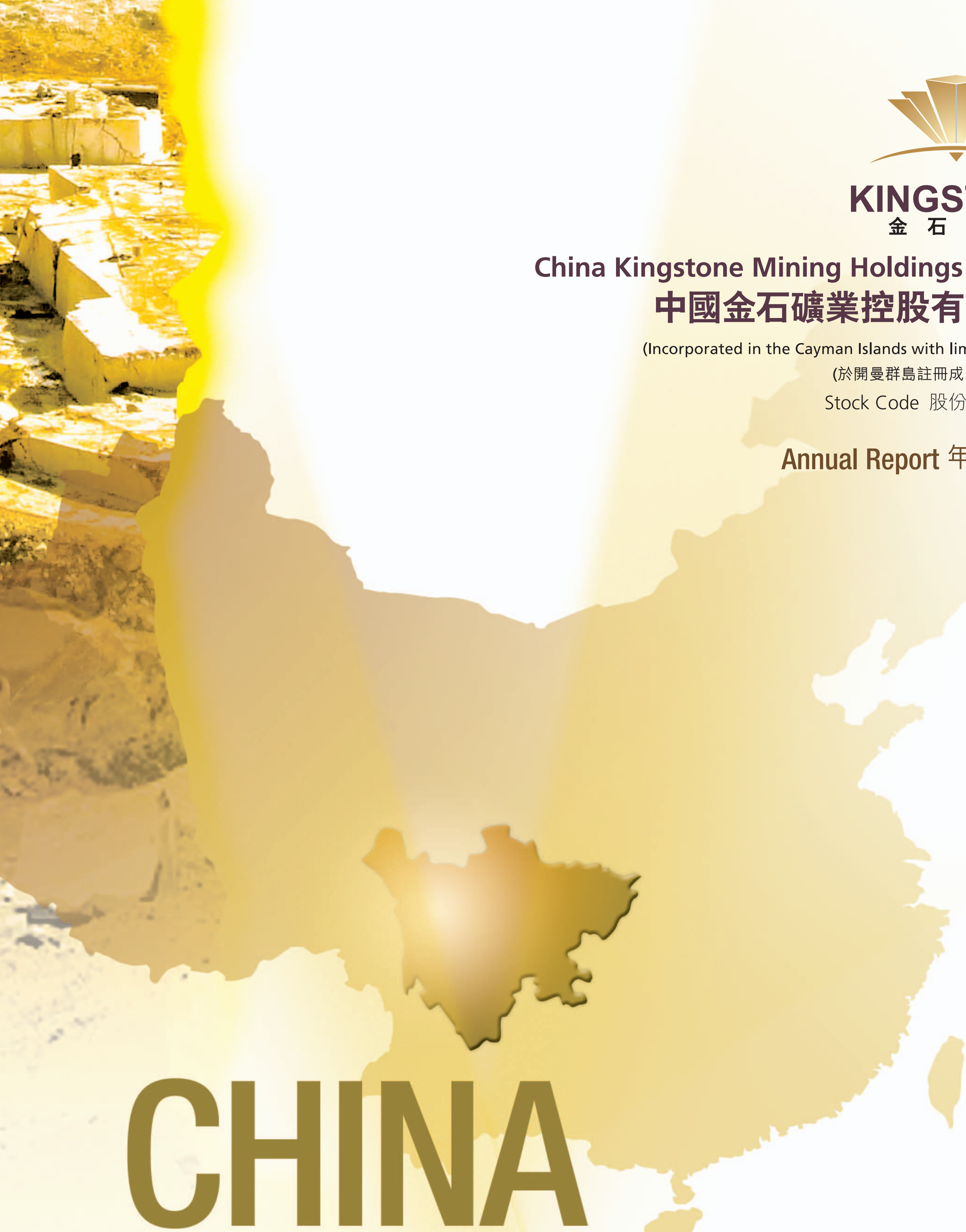
KINGSTONE
金 石 礦 業

# China Kingstone Mining Holdings Limited
# 中國金石礦業控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：1380

Annual Report 年報 2010



# CHINA KINGSTONE MINING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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Ms. Chen Tao *(Chairlady and Chief Executive Officer)*
Mr. Lin Yuhua
Mr. Liao Yuanshi
Mr. Xiong Wenjun

### Non-executive Director

Mr. He Ji

### Independent Non-executive Directors

Mr. Deng Huiqing
Mr. Chu Ho Hwa, Howard
Mr. Liu Yuquan

## Audit Committee

Mr. Chu Ho Hwa, Howard *(chairman)*
Mr. Deng Huiqing
Mr. Liu Yuquan

## Remuneration Committee

Ms. Chen Tao *(chairlady)*
Mr. Liu Yuquan
Mr. Deng Huiqing

## Nomination Committee

Ms. Chen Tao *(chairlady)*
Mr. Liu Yuquan
Mr. Deng Huiqing

## Authorised Representatives

Ms. Chen Tao
Mr. Lou Sai Tong

## Company Secretary

Mr. Lou Sai Tong

## Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## Headquarter of Business in the PRC

288 Shicheng Road
Jinpeng Modern Town
Jiangyou City
Sichuan Province
the PRC

## Principal Place of Business in the PRC

32/F East, International Finance Place,
No. 8 Huaxia Road, Zhujiang New Town,
Guangzhou City
Guangdong Province
the PRC

## Principal Place of Business in Hong Kong

43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## Auditors

Ernst & Young
*Certified Public Accountants*
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

## Legal Advisers

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## Compliance Adviser

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

## Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

Agricultural Bank of China
Jiangyou City, Jiangyou Branch
Sichuan Province
the PRC

Industrial and Commercial Bank of China
Guangzhou Huacheng Branch
Guangdong Province
the PRC

Industrial and Commercial Bank of China
Guangzhou Tianpingjia Branch
Guangdong Province
the PRC

Industrial and Commercial Bank of China (Asia) Limited
Hong Kong

## Stock Name

China Kingstone Mining Holdings Limited
(Chi Kingstone)

## Stock Code

1380

## Website of the Company

www.kingstonemining.com


**Chen Tao**
*Chairlady*

On behalf of China Kingstone Mining Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), I hereby present the annual results for the year ended 31 December 2010 (the "Year"). On behalf of the Board of Directors (the "Board"), I would also like to express my heartfelt gratitude to all shareholders and friends from various communities for their care extended to the Group.

Dear Shareholders,

2010 has been a year of exciting events, with Asian Games held in Guangzhou and the rapid development of commercial constructions such as high-end commercial buildings, public buildings and hotels in China. The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 March 2011 (the "Listing Date"), which has turned a new and memorable chapter for our further development and for our initiatives to access to the international financing platform. The proceeds from the Global Offering allow us to accelerate the growth via (i) our ramp-up plan; (ii) our brand building and distribution efforts; and (iii) acquisitions of additional marble resources. All of these efforts will contribute to sustainable value to our shareholders. We also have an outstanding, experienced and fully incentivized director team of the Company. We are honored to have them as our Directors and believe that they will make great contribution to the Group. In addition, we are privileged to have a new group of shareholders and we are committed to turning in performance that meets their expectations.

The Group commenced commercial production in September 2010. During the Year, our revenue amounted to approximately RMB6.6 million. Our gross profit was approximately RMB4.6 million, and our gross profit margin was approximately 69%. We recorded a loss in 2010 at the initial stage of production.

We commenced limited preliminary mine construction at our Zhangjiaba Mine in July 2008 and full-scale mine construction in January 2010. We completed the construction of the first two knolls of our mine at the end of 2010. Commercial production at these two knolls was commenced in September 2010. We are currently constructing the other two knolls. Following completion of all four knolls at our Zhangjiaba Mine, the mining capacity for marble blocks will be increased to 150,000 $m^3$ per annum. We are also planning to construct large-scale marble slab processing facilities in close proximity to our Zhangjiaba Mine. After reaching our full mining and processing capacities, we expect to continue to outsource approximately 32% of our annual mined marble blocks to the third-party processing plants for slab processing as the volume of the marble slabs that can be processed from the marble blocks we mine annually is expected to exceed the full processing capacity at our processing facilities.

Our primary growth strategy is to effectively execute our ramp-up plan to reach the full mining capacity of our Zhangjiaba Mine and full processing capacity at our processing facilities. In addition, we seek to grow through active participation in industry consolidation, which is supported by the local government policy to promote the acquisition of small-scale mines by larger mining enterprises. We believe that the exploration potential beyond our permitted mining area and in other neighboring marble mines in Sichuan Province is high, and that we are well positioned to capitalize on such potential. We regularly seek out and evaluate potential acquisition opportunities. In July 2010 and January 2011, we entered into two legally binding letters of intent with a mining company and a stone material company, both of which are independent third parties, under which we have the right to negotiate and consider the acquisition of certain mining rights for two neighboring marble mines containing approximately 3.7 million $m^3$ and 5.0 million $m^3$ of estimated marble resources respectively. Other than these two letters of intent which had been disclosed in our prospectus (the "Prospectus"). We entered into another letter of intent with the independent third parties in March 2011, who holds mining right to a marble mine with approximately 6.1 million $m^3$ of estimated resources. The parties expect to enter into a final agreement for the relevant mining rights and assets upon completion of satisfactory due diligence and agreement on the substantive terms and conditions. These three potential acquisitions will further strengthen our premium marble resources reserve.

Looking forward, the continuous boom of marble demand and increase of marble price will create a favorable business environment for the Company. Our Zhangjiaba Mine has abundant marble reserves, significant planned mining and processing capacities and immediate expansion potential. Our efficient mining and processing methods ensure that we are the low operating costs and high profit margin marble mining and processing company. We will also expedite the process of identifying acquisition and integration targets, so as to increase the future profit growth potential of the Company.

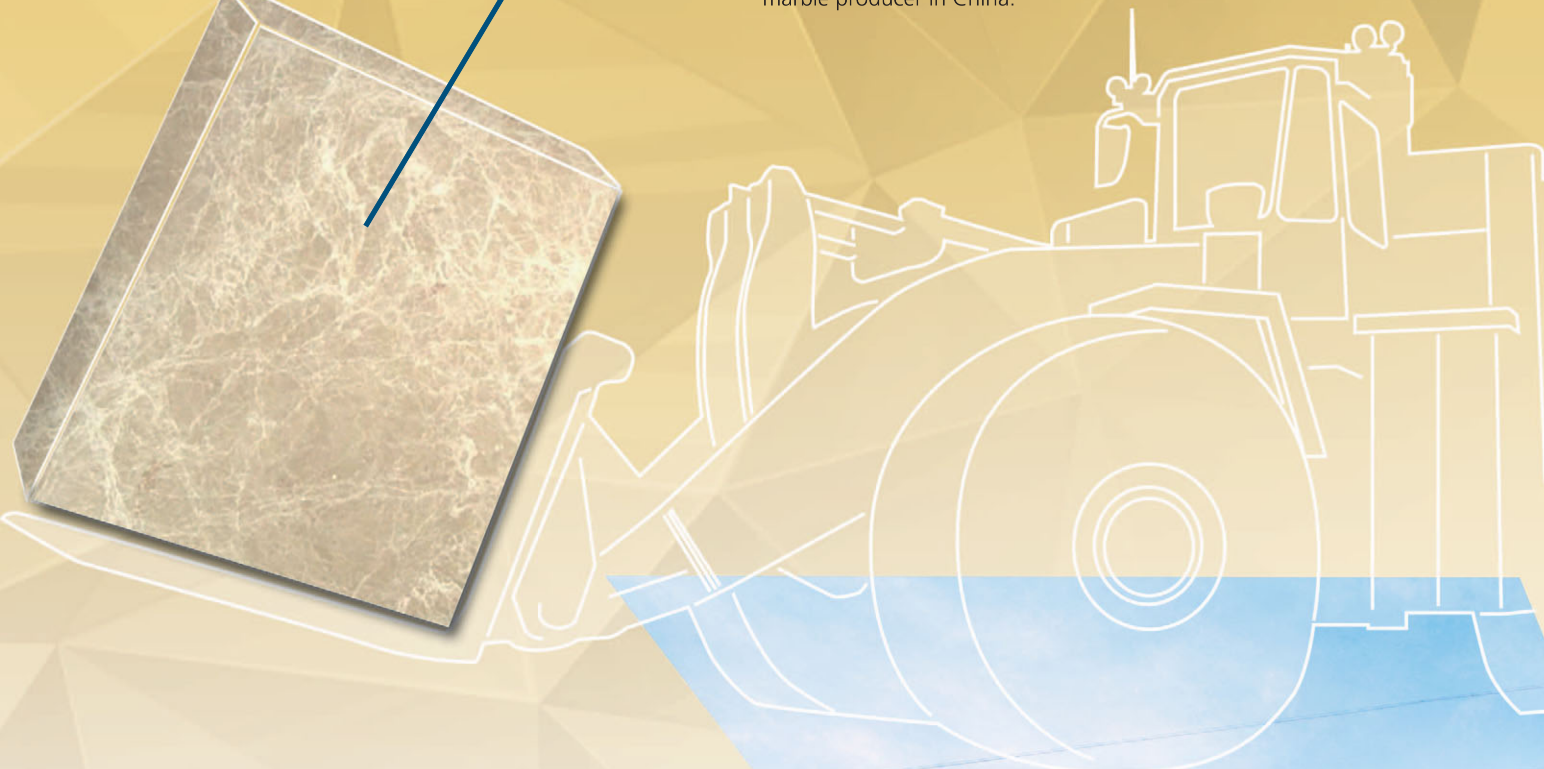
On behalf of the Board, I would like to express my sincere gratitude to our shareholders, investors, partners and customers for their continued trust and support and all our management and staff members for their contribution and devotion. We are confident in achieving a brighter performance in the coming year and at the same time, deliver fruitful rewards to our shareholders and investors.

**Chen Tao**
*Chairlady and Chief Executive Officer*

31 March 2011

# MARBLE

Our goal is to be the largest
marble producer in China.



# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Review

As China is short of beige marble resources, there are few domestic large-scale enterprises focusing on beige marble production. Therefore, competition among domestic large beige marble mining companies in China is not observed. According to an independent panel review organized by CSMA, our mine contains high-quality beige marble reserves, and the color and texture of our marble products are similar to those of well-recognized, premium international branded marble products currently available in the market, based on the physical specifications and the appearance of our marble samples. Our premium beige marble products primarily compete with imported marble products in the domestic market, such as Royal Batticino from Iran, Cream Marfil from Spain, Frans Beige from France and others, which account for approximately 70% of the beige marble product consumption in the domestic market. Our marble products compete with these international brands based on a number of factors, including quality, ability to supply large quantities, brand recognition, short delivery cycle and competitive price. We believe that we are able to provide premium marble products which meet the customers' needs and preference when competing with imported marble products. We do not intend to directly compete with domestically produced marble products as we believe our products are priced significantly higher and of higher quality.

## Business Review

We are a marble mining company at the initial stage of production. We currently own and operate one marble mine, the Zhangjiaba Mine, which is the largest beige marble mine in China in terms of marble reserves, according to a certification issued by China Stone Material Association ("CSMA") in August 2010. As at 31 December 2010, the Zhangjiaba Mine, located in Sichuan Province of China, contains 44.2 million $m^3$ of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") compliant measured and indicated marble resources, which represents 16.8 million $m^3$ of proved and probable marble reserves based on a block rate of 38% according to the report dated 7 March 2011 prepared by Behre Dolbear Asia, Inc. Our Zhangjiaba Mine contains high-quality beige marble reserves, and our principal products are premium beige marble slabs and blocks. We commenced commercial production at our Zhangjiaba Mine in September 2010 and began generating revenue in October 2010.

**Zhangjiaba Mine Marble Resource and Reserve Summary, as of 31 December 2010 (JORC Compliant)**

| JORC Resource and Reserve Class | ($Mm^3$) |
|---|---|
| Measured Resource | 15.74 |
| Indicated Resource | 28.41 |
| **Total Resource** | 44.15 |
| Proved Reserve | 5.98 |
| Probable Reserve | 10.80 |
| **Total Reserve** | 16.78 |

Our operation results from September 2010 to December 2010 are summarized as follow:

| | September – November 2010 | December 2010 | September – December 2010 |
|---|---|---|---|
| **Marble Block Mining** | | | |
| Marble blocks mined ($m^3$) | 415 | 730 | 1,145 |
| Marble blocks for direct sales ($m^3$) | 24 | — | 24 |
| Marble blocks for slab processing ($m^3$) | 391 | 730 | 1,121 |
| **Marble Slab Processing & Sales** | | | |
| **Outsourced Marble Slab Processing** | | | |
| Marble slabs processed ($m^2$) | 3,165 | 9,287 | 12,452 |
| Pure Beige ($m^2$) | 1,044 | 2,043 | 3,087 |
| Mixed Beige ($m^2$) | 2,121 | 7,244 | 9,365 |
| **Total Marble Slabs Sold ($m^2$)** | 3,000 | 9,000 | 12,000 |
| Pure Beige ($m^2$) | 1,000 | 2,000 | 3,000 |
| Mixed Beige ($m^2$) | 2,000 | 7,000 | 9,000 |
| **Average Selling Prices (ASP)** | | | |
| Marble block ASP (RMB/$m^3$) | 3,414 | — | 3,414 |
| Marble slab ASP (RMB/$m^2$) | | | |
| Pure Beige (RMB/$m^2$) | 842 | 842 | 842 |
| Mixed Beige (RMB/$m^2$) | 570 | 570 | 570 |
| **Unit Production Cost** | | | |
| Marble block production cash cost (RMB/$m^3$) | 14,670 | 2,655 | 7,012 |
| Marble block production total cost (RMB/$m^3$) | 14,917 | 2,939 | 7,280 |
| Equivalent marble slab production cash cost (RMB/$m^2$) | 577 | 196 | 325 |
| Equivalent marble slab production total cost (RMB/$m^2$) | 585 | 204 | 332 |

From September to December 2010, we mined 1,145 $m^3$ marble blocks and produced 12,452 $m^2$ marble slabs. From September to December 2010, we sold 12,000 $m^2$ marble slabs and recorded total revenue of approximately RMB6.6 million. The VAT inclusive Average Selling Prices (ASP) was RMB842 per $m^2$ for Pure Beige slab and RMB570 per $m^2$ for Mixed Beige slab. The unit production cash cost of marble block mainly included the cost of workforce employment, fuel, water and electricity, administration cost and marketing cost. The decrease of the unit cash cost in December of 2010 was mainly due to the economy of scale of production. For the same reason, our outsourcing marble slab production cash cost, which mainly consisted of marble block production cash cost and slab processing cost for the contractors and transportation cost, decreased from RMB577 per $m^2$ to RMB196 per $m^2$ in December of 2010.

The gross margin was 59.5% for September to November 2010 due to the low production volume, and increased to 69.4% for September to December 2010 as production volume increased. As we continue our ramp-up plan and increase the production volume, we expect that the gross margin will further increase.

In addition to marble block mining, we plan to construct large-scale marble slab processing facilities in close proximity to our mine. Following the completion of our ramp-up plan in 2014, our mining capacity for marble blocks is expected to reach 150,000 $m^3$ per annum and our marble slab processing capacity at our processing facilities is expected to reach 3.0 million $m^2$ per annum from 2013 onwards. The estimated mine life of our Zhangjiaba Mine is 112 years, based on our current marble reserves and planned marble block mining capacity at 150,000 $m^3$. Prior to the commencement of commercial operations of our processing facilities, we engaged third-party processing plants to process our marble blocks into marble slabs.

Our principal products are marble slabs processed and blocks mined from our marble reserves. According to an independent panel review organized by CSMA, our Pure Beige and Mixed Beige products are premium marble products and our Wood Grain and Gray Net products are mid- to high-end marble products. Our Pure Beige, Mixed Beige, Wood Grain and Gray Net marble account for 51.0%, 32.7%, 6.4% and 9.9% of our marble reserves, respectively. Our mine contains high-quality beige marble reserves, and the color and texture of our marble products are similar to those of well-recognized, premium international branded marble products currently available in the market, based on the physical specifications and the appearance of our marble samples. Due to these characteristics, our premium marble products are suitable for use in the decoration of high-end commercial and public buildings.

## Business Strategy

Our goal is to be the largest marble producer in China. We plan to accomplish this goal by pursuing the following strategies:

- ramp up our mining and processing capacities;
- establish a strong customer base and strengthen customer relationships;
- develop high product recognition and strengthen pricing power; and
- expand our marble resources through further expansion and selective acquisitions.

We have entered into long-term sales contracts for our premium marble products at relatively favorable prices. In 2010, we entered into long-term sales contracts with seven customers in China to sell our marble products. Among the seven customers, six mainly supply construction materials to large-scale property developers, government projects, and/or decoration companies and undertake decoration works, and one is engaged in trading. The ASP of these long term contracts was RMB830 per $m^2$ for pure beige slabs, RMB540 per $m^2$ for mix beige slabs and RMB520 per $m^2$ for other marble slabs. Our realized ASP had approximately a 40% discount to the imported premium beige marble slabs, given we are a new company, just commenced commercial operation and we are using discounted prices to win contracts and establish our brand name. With continuous production expansion and brand build efforts, we are well positioned to narrow the price gap to those imports, providing further margin expansion potential.

We also sold a limited volume of marble blocks during the Year. We intend to develop and strengthen our customer relationships in order to stabilize and grow our revenues, as well as to better service our customers.

## Financial Review

### Consolidated Income Statement

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| **Revenue** | **6,615** | — |
| Cost of sales | **(2,023)** | — |
| **Gross profit** | **4,592** | — |
| Other income | **64** | 2 |
| Selling and distribution costs | **(477)** | (270) |
| Administrative expenses | **(25,748)** | (2,610) |
| Other expenses | **(1,371)** | (690) |
| Finance costs | **(2,320)** | (2,042) |
| **Loss before tax** | **(25,260)** | (5,610) |
| Income tax benefit | **4,205** | 241 |
| **Loss for the year** | **(21,055)** | (5,369) |
| Other comprehensive loss: | | |
| Exchange differences on translation of foreign operations | **(2,568)** | — |
| **Total comprehensive loss for the year attributable to owners of the Company** | **(23,623)** | (5,369) |

### Revenue

We commenced commercial production at our Zhangjiaba Mine in September 2010 and began generating revenue in October 2010 and recorded revenue of approximately RMB6.62 million for the year ended 31 December 2010. Comparing with 2009, during which time, we focused on mine planning, construction and infrastructure development and did not generate revenue from our operations in 2009. We had a significantly growth in 2010.

### Cost of sales

During 2009, we did not incur any cost of sales prior to the commencement of our commercial production in September 2010. For the year ended 31 December 2010, we incurred cost of sales of RMB2.02 million.

### Gross profit and gross margin

During 2009, we did not record gross profit because we had not commenced commercial production. For the year ended 31 December 2010, we recorded gross profit of RMB4.59 million and our gross margin was 69.42%.

## Other income

Our other income increased from RMB2,000 for the year ended 31 December 2009 to RMB64,000 for the year ended 31 December 2010 due to the increase in interest income as a result of bank deposits increased.

## Selling and distribution costs

Our selling and distribution costs increased from RMB0.27 million for the year ended 31 December 2009 to RMB0.48 million for the year ended 31 December 2010. The increase was primarily due to the increase in advertisement costs of our products prior to our commercial production as well as staff costs.

## Administrative expenses

Our administrative expenses increased from RMB2.61 million for the year ended 31 December 2009 to RMB25.75 million for the year ended 31 December 2010. The increase was primarily due to the increase in consultation and service fees in relation to our listing on the Stock Exchange and staff costs as a result of our business expansion.

## Other expenses

Our other expenses increased from RMB0.69 million for the year ended 31 December 2009 to RMB1.37 million for the year ended 31 December 2010. The increase was primarily due to foreign exchange losses incurred as a result of the depreciation of U.S. dollars during the year ended 31 December 2010.

## Finance costs

Our finance costs increased from RMB2.04 million for the year ended 31 December 2009 to RMB2.32 million for the year ended 31 December 2010. The increase was primarily due to the increase in interest on loans as a result of the increase in the average balance of interest-bearing borrowings.

## Income tax benefit

Our income tax benefit increased from RMB0.24 million for the year ended 31 December 2009 to RMB4.21 million for the year ended 31 December 2010 due to an increase in loss before tax in 2010.

## Loss for the year

As a result of the foregoing factors, our loss increased from RMB5.37 million for the year ended 31 December 2009 to RMB21.06 million for the year ended 31 December 2010.

## Dividend

No dividends were declared for the two years ended 31 December 2009 and 2010.

## Consolidated Cash Flow Statement

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| **Cash and cash equivalents at beginning of year** | **5,670** | 739 |
| **Net cash flows used in operating activities** | **(23,752)** | (1,966) |
| **Net cash flows used in investing activities** | **(68,779)** | (12,489) |
| **Net cash flows from financing activities** | **170,031** | 19,386 |
| **Net increase in cash and cash equivalents** | **77,500** | 4,931 |
| **Net foreign exchange difference** | **(3,088)** | — |
| **Cash and cash equivalents at end of year** | **80,082** | 5,670 |

### Operating activities

Net cash outflows from operating activities for the year ended 31 December 2010 were RMB23.75 million primarily as a result of a loss before tax for the year in the amount of RMB25.26 million, and adjusted for: (i) an interest on borrowings of RMB2.14 million primarily due to an increase in the balance of borrowing required for our business development; (ii) an increase in other payables and accruals of RMB6.12 million; and (iii) an increase in trade receivables of RMB5.68 million.

### Investing activities

Net cash flows used in investing activities for the year ended 31 December 2010 were RMB68.78 million primarily due to purchase of items of property, plant and equipment of RMB63.29 million.

### Financing activities

Net cash inflows from financing activities were RMB170.03 million for the year ended 31 December 2010. Our cash inflows from financing activities during the Year primarily consisted of: (i) capital injection of RMB143.36 million; (ii) advances from the ultimate controlling shareholder of RMB52.26 million to support our mine development; and (iii) proceeds from interest-bearing borrowings of RMB73.31 million; and partly offset by (i) repayment of interest-bearing borrowings of RMB11.86 million; (ii) repayment to the ultimate controlling shareholder of RMB79.68 million; and (iii) payment of part of the consultation and services fees in relation to our listing on Stock Exchange of RMB5.46 million.

### Cash and cash equivalents at the end of the year

Cash and cash equivalents net increased RMB77.50 million and the exchange loss was RMB3.09 million as at 31 December 2010. The increase in cash and cash equivalents was from RMB5.67 million as at 31 December 2009 to RMB80.08 million as at 31 December 2010. Of the RMB80.08 million, the equivalent of RMB2.88 million was held in Hong Kong Dollars ("HKD" or "HK$"), the equivalent of RMB62.84 million was held in United States Dollars ("USD" or "US$") and the rest was held in RMB.

## Liquidity and financial resources

Our primary uses of liquidity were to invest in the development of our mine, to service our indebtedness and to fund our working capital. We financed our cash requirements through a combination of interest-bearing bank borrowings, cash generated from operating activities, capital contributions by our holding company using the proceeds from the issuance of the Exchangeable Note and other debt financing. As at 31 December 2010, gearing ratio (calculated as interest-bearings divided by total assets) was 0.34.

## Interest-bearing Borrowings

| **Group** | Notes | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|---|
| Repayable within one year: | | | |
| Bank loans | | | |
| — unsecured | (a) | **70,000** | — |
| — secured | (b) | **3,308** | — |
| — secured and guaranteed | (c) | **—** | 4,000 |
| Other borrowings — unsecured | (d) | **—** | 7,860 |
| | | **73,308** | 11,860 |

*Notes:*

*Except for a secured bank loan which is denominated in United States dollars, all borrowings are in RMB.*

*(a) These unsecured bank loans are borrowed from Guangdong Development Bank and China Construction Bank, with amounts of RMB60.00 million and RMB10.00 million, respectively, and bear interest at respective fixed rates in the range from 4.00% to 5.00% per annum.*

*(b) The secured bank loan is borrowed from Industrial and Commercial Bank of China with amount of US$0.50 million (equivalent to approximately RMB3.31 million), and bears interest at 2.00% per annum above the LIBOR. It is secured by the pledge of the Group's time deposit amounting to US$0.50 million.*

*(c) As at 31 December 2009, the secured and guaranteed bank loan bore interest at a fixed interest rate of 6.90% per annum and was guaranteed by Jiangyou Yintong Credit Guarantee Co., Ltd. (江油銀通信用擔保有限公司), which is a non-related party engaged in the guarantee business. In accordance with the guarantee agreement entered into among Sichuan Jinshida, Jiangyou Yintong Credit Guarantee Co., Ltd. and Guangzhou Jiucheng Mining Co., Ltd. ("Jiucheng Mining"), a related party of the Company, Sichuan Jinshida agreed to pay guarantee costs at a rate of 2.00% of the guaranteed loan principal, and to secure certain of its property, plant and equipment with a net carrying amount of approximately RMB4.96 million to Jiangyou Yintong Credit Guarantee Co., Ltd.; and Jiucheng Mining agreed to provide a counter-guarantee to Jiangyou Yintong Credit Guarantee Co., Ltd. free of charge. The guarantee was fully released in August 2010 when the Group fully repaid this bank loan.*

*(d) The other borrowings were borrowed from several independent third party individuals and bore interest at a fixed interest rate of 36.00% per annum. The other borrowings were fully repaid in June 2010.*

## Treasury policies

The Group has established a treasury policy with the objective of achieving better control of treasury operations and lowering cost of funds. Therefore, funding for all its operations and foreign exchange exposure have been centrally reviewed and monitored at the Group level. To manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates on specific transactions, foreign currency borrowings, currency structured instruments and other appropriate financial instruments were used to hedge material exposure. It is the policy of the Group not to enter into any derivative products for speculative activities.

The treasury policies followed by the Group aim to:

**(a) Minimise interest risk**

This is accomplished by loan re-financing and negotiation. The Board will continue to closely monitor the Group's loan portfolio and compare the loan margin spread under its existing agreements against the current borrowing interest rates under different currencies and new offers from banks.

**(b) Minimise currency risk**

In view of the current volatile currency market, the Board closely monitors the Group's foreign currency borrowings. As the amount of foreign currency borrowings is insignificant, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

## Cost of borrowing

Average borrowing costs in financial year 2010 were approximately 9.88% per annum as compared to 24.04% per annum in financial year 2009.

## Proceed from the Company's IPO

The Company was listed on the Main board of the Stock Exchange on 18 March 2011. The net proceeds from the Company's issue of new shares (after deducting expenses related specially to the issue of new shares in the IPO and expenses relating generally to the listing of all the shares of the Company, whether existing or new) amounted to approximately HK$1.02 billion (equivalent to approximately RMB858.53 million).

## Capital expenditures

For the year ended 31 December 2010, the Group invested approximately RMB67.21 million in purchase of items of property, plant and equipment. These capital expenditures were fully financed by internal resources and bank borrowings.

## Capital commitments

The Group made capital expenditure commitments mainly for the construction and purchase of property plant and equipment of approximately RMB0.40 million which were contracted but not provided for in the financial statement. These commitments were mainly related to the purchase and installation of machineries and equipment for the expansion of the Group's production capacity and improvement of efficiency of the production for a better cost control and enhancement of its profitability.

## Operating lease commitments

As at 31 December 2010, we had contracted obligations consisting of operating leases which totaled approximately RMB1.05 million with approximately RMB0.13 million due within one year, approximately RMB0.37 million due between two to five years and the rest of RMB0.55 million due after five years.

## Contingencies

On 13 August 2010, MS China 3 Limited (the "MS China 3"), an independent third party, entered into a note purchase agreement (the "Note Purchase Agreement") with the Company, Wongs Investment Development Holding Group Limited ("Wongs Investment") and the ultimate controlling shareholder of the Company, pursuant to which MS China 3 agreed to purchase an exchangeable note in the aggregate principal amount of US$15 million issued by Wongs Investment, exchangeable into the shares of the Company owned and held by Wongs Investment.

Pursuant to the Note Purchase Agreement, the Company has indemnified each of MS China 3's stakeholder and their directors, officers and agents (collectively, the "Indemnified Persons") against any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever, including any investigative, legal and other expenses incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding (collectively, "Losses") that any Indemnified Person may at any time become subject to or liable for in connection with claims by third parties by reason of the status of such stakeholder as stakeholder of the Company or of such director as a director of the Company, as the case may be, other than Losses arising from the gross negligence, willful misconduct, fraud or dishonesty of such Indemnified Person.

Moreover, the Company, Wongs Investment and the ultimate controlling shareholder have undertaken to jointly and severally indemnify, defend and hold harmless MS China 3 from and against any Losses resulting from or arising out of any claims against the Company or the Group relating to any tax liabilities that arose before the date of the Note Purchase Agreement (whether or not (i) such claims have been disclosed to MS China 3, (ii) such claims arise before or after the date hereof or (iii) MS China 3 has actual or constructive knowledge of such claims) for which full provision or reserve has not been made in the accounts and the management accounts of the Group as provided to MS China 3 prior to the date of the Note Purchase Agreement.

### Financial instruments

The Company did not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2010 and 2009.

### Segment information

The Group is organized into business units based on the products and services. The Group has one operating segment, which is mining development, for the year ended 31 December 2010 and 2009. Further, all the principal assets employed by the Group are located in Sichuan Province, the PRC. Accordingly, no segment analysis is provided.

### Employees and emoluments policy

As at 31 December 2010, the number of employees of the Group was 134 (31 December 2009: 48). During the year ended 31 December 2010, the staff costs (including Directors' remuneration in the form of salaries and other allowance) were approximately RMB6.70 million (2009: approximately RMB2.60 million).

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for the their contribution to the Group. The Group has adopted a share option scheme for its employees, the details of which are set out under the section of "Share Option Scheme" in the Directors' Report of this annual report.

## Future Plans

Our goal is to be the largest marble producer in China through continuous ramp-up our mine, increase in marble production volume and enhancement in economic efficiency. Once we fully ramp up to our mining capacity to 150,000 $m^3$ from 2014 onwards, we will be the largest marble producer in China. We ramp up our mine to strive for a gradual growth of production capacity and revenue of existing mine on a stable basis. We have signed letters of intent to acquire three neighboring mines. Meanwhile, we are under negotiation with two beige marble mines and one white marbles mine in Sichuan Province, the PRC. Other than that we also launch extensive information search nationwide to acquire and integrate high quality mines to increase our marble resources.

# CORPORATE GOVERNANCE

The Company has adopted the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. The Directors consider that since the listing of the shares of the Company on the Main Board of the Stock Exchange on Listing Date and up to the date of this annual report, the Company has complied with the code provisions under the CG Code. The Directors recognize the importance of incorporating the elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability to the shareholders as a whole. Set out below is detailed discussion of the corporate governance practices adopted and observed by the Company from the Listing Date up to the date of this annual report (the "Review Period").

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. Having made specific enquiries of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the Review Period.

## Board of Directors

### (i) Composition of the Board of Directors

The Board currently comprises a combination of executive Directors, non-executive Director and independent non-executive Directors. At least one of the independent non-executive Directors possesses appropriate professional qualifications (or accounting or related financial management expertise) as required by the Listing Rules. As of the date of this annual report, the composition of the Board is as follows:

**Executive Directors**
Ms. Chen Tao *(Chairlady and chief executive officer)*
Mr. Lin Yuhua
Mr. Liao Yuanshi
Mr. Xiong Wenjun

**Non-executive Director**
Mr. He Ji

**Independent non-executive Directors**
Mr. Deng Huiqing
Mr. Chu Ho Hwa, Howard
Mr. Liu Yuquan

The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan of the Company and its subsidiaries (together, the "Group") and the senior management are responsible for supervising and executing the plans of the Group. The biographical details of all Directors are set out in pages 24 to 31 of this annual report.

### (ii) Functions of the Board

The principal functions of the Board is to (i) convene general meetings and report the Board's work at general meetings; (ii) implement the resolutions passed by the shareholders in general meetings; (iii) consider and approve strategies, financial objectives, annual budget, investment proposals of the Group; (iv) formulate the proposals for profit distributions; (v) assume the responsibilities of corporate governance of the Group; and (vi) exercise other powers, functions and duties conferred by the shareholders in general meetings.

### (iii) Board Meeting and Attendance Record

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda for the regular Board meetings. Generally, at least 14 days notice will be given for the regular Board meetings by the Company. The Directors will receive details of agenda items for decision at least 3 days before each regular Board meeting. The Company Secretary is responsible for distributing detailed documents to the Directors prior to the meetings of the Board, to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail, including matters considered and decisions reached by the Board.

During the Review Period, there was one Board meeting held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2010. Prior notice convening the Board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary is responsible for keeping minutes for the Board meetings.

The following is the attendance record of the Board meeting during the Review Period:

| | **Attendance at the meeting** |
|---|---|
| **Executive Directors** | |
| Ms. Chen Tao *(Chairlady and chief executive officer)* | 1/1 |
| Mr. Lin Yuhua | 1/1 |
| Mr. Liao Yuanshi | 1/1 |
| Mr. Xiong Wenjun | 1/1 |
| **Non-executive Director** | |
| Mr. He Ji | 1/1 |
| **Independent non-executive Directors** | |
| Mr. Deng Huiqing | 1/1 |
| Mr. Chu Ho Hwa, Howard | 1/1 |
| Mr. Liu Yuquan | 1/1 |

The board meeting was held on 31 March 2011.

## Appointment and Re-Election of the Directors

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years. The service contracts and letters of appointment will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other (for the executive Directors) and one month's notice in writing served by either party on the other (for the non-executive Director and independent non-executive Directors).

In compliance with the code provision in A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. By virtue of article 83(3) of the articles of association of the

Company, Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In compliance with the code provision in A.4.2 of the CG Code, all Directors are subject to retirement by rotation at least once every three years. Furthermore, pursuant to the article 84(1) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

## Independent Non-Executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

## Chairman and Chief Executive Officer

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. For the year ended 31 December 2010, Ms. Chen Tao is both the Chairlady of the Board and the chief executive officer.

The Board considered that Ms. Chen Tao was instrumental to the development of the Company and was the most appropriate person to manage the Group. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make necessary arrangements.

## Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 24 January 2011 with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG code. At present, the Audit Committee consists of three members, all of the members are independent non-executive Directors, namely Mr. Deng Huiqing, Mr. Chu Ho Hwa, Howard and Mr. Liu Yuquan. Mr. Chu Ho Hwa, Howard currently is the chairman of the Audit Committee.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of external auditor, the review of the financial statements and material advice in respect of financial reporting and the oversight of internal control procedures of the Group. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010.

During the Review Period, the Audit Committee has held one meeting, at which the members of the Audit Committee have reviewed and discussed with the external auditors of the Company the Group's combined financial statements for the year ended 31 December 2010. The Audit Committee is of the opinion that such statements have complied with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosure have been made.

The following is the attendance record of the Audit Committee meeting during the Review Period:

| | **Attendance at the meeting** |
|---|---|
| Mr. Chu Ho Hwa, Howard *(chairman)* | 1/1 |
| Mr. Deng Huiqing | 1/1 |
| Mr. Liu Yuquan | 1/1 |

The Audit Committee meeting was held on 30 March 2011.

## Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 24 January 2011 with terms of reference in compliance with paragraph B1 of the CG code. At present, the Remuneration Committee consists of three members, namely Ms. Chen Tao, Mr. Liu Yuquan and Mr. Deng Huiqing, majority of the members are independent non-executive Directors. Ms. Chen Tao currently is the chairlady of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and the senior management of the Group, review performance-based remuneration and ensure none of the Directors determine their own remuneration.

As the Company was listed on 18 March 2011, the Remuneration Committee did not conduct any meeting up to the date of this annual report.

## Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 24 January 2011. At present, the Nomination Committee consists of three members, namely Ms. Chen Tao, Mr. Liu Yuquan and Mr. Deng Huiqing, majority of which are independent non-executive Directors. Ms. Chen Tao currently is the chairlady of the Nomination Committee.

The primary duty of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and to identify suitable individuals to become members of the Board.

As the Company was listed on 18 March 2011, the Nomination Committee did not conduct any meeting up to the date of this annual report.

## Auditors' Remuneration

During the year ended 31 December 2010, the remuneration paid or payable to the Company's auditor, Ernst & Young, in respect of their audit and non-audit services was as follows:

| **Type of Services** | **RMB'000** |
|---|---|
| Audit services | — |
| Non-audit services (listing fee) | 5,480 |
| **Total** | 5,480 |

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by its shareholders.

## Director's and Auditor's Responsibility on the Financial Statements

The Board acknowledges its responsibility to prepare the Group's financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company deploys appropriate and sufficient resources to prepare audited accounts. In preparing the financial statements for the year ended 31 December 2010, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## Internal Control

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Company has prepared an internal control report, covering all material controls, including financial, operational and legal compliance controls, for the year ended 31 December 2010. Subsequent to the date of this annual report, the Company will engage an independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Group. The said internal control report compiled by the Company has been brought to the attention of the Board and the Audit Committee and concluded that the Group operate satisfactorily and there was no material discrepancy.

## Investors and Shareholders Relations

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders and the investors. The Board also recognizes that effective communication with the investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at *www.kingstonemining.com*. The Board continues to maintain regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the committee members are available to answer questions at annual general meetings of the Company. Separate resolutions would be proposed at general meetings of the Company on each substantially separate issue.

## Shareholders' Right

The Company shall adhere to the amendments to the Listing Rules effective from 1 January 2009 such that all votes of the shareholders at general meetings will be taken by poll. The results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

The shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

## Going Concern

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

# CORPORATE AND SOCIAL RESPONSIBILITY

## Environmental Protection

Our operations are subject to a variety of PRC environmental protection laws and regulations, as well as local environmental protection regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental protection matters, such as mining control, land rehabilitation, air emissions, noise control, discharge of wastewater and pollutants, waste disposal and radioactive element disposal control. The PRC Government has taken an increasingly stringent stance on the adoption and enforcement of rigorous environmental protection laws and regulations. Our operations generate, among other things, dust and noise pollution. The Environmental Protection Bureau of Jiangyou City (江油市環境保護局), as the competent authority, issued two confirmation letters to confirm that we were in compliance with the relevant environmental protection laws and regulations with respect to our Zhangjiaba Mine as at 14 February 2011 and based on such confirmation letters, we have complied with all relevant PRC laws and regulations in all material respects regarding environmental protection as at 14 February 2011. We were not subject to any environmental protection claims, lawsuits, penalties or administrative sanctions.

We are committed to following environmentally responsible practices and have adopted measures to minimize the impact and risk of our operations on the environment. We utilize water with drilling, cutting and sawing activities, water sprays at material transfer points, and water trucks to spray the roads during dry periods to reduce dust from mining operations. The mine site has also been designed to recycle used water for production activities and dust suppression. Production water and rain falling on the mine area are drained to a central sump where the water is settled and cleared of sediment before being recycled back into ongoing production activity. No toxic or hazardous substances are contained in the drainage water. We have a limited amount of tailings because our Zhangjiaba Mine is highly utilizable and, as a result, we do not incur additional handling costs. Methods of noise control include use of silencers, noise and vibration dampening and absorbing materials, isolation and enclosure of noisy equipment, and regular equipment maintenance. We also undertake regular noise, water and air quality monitoring as well as an ongoing reclamation and re-planting program for disturbed areas.

## Land Rehabilitation

Our mining operations may adversely affect surface and underground land and cause landslides and other types of environmental damage. To manage the adverse effects that the mining industry has on the environment, China has promulgated a series of laws and regulations. Through these laws and regulations, China has established national and local environmental protection legal frameworks applicable to land rehabilitation and reforestation. The rehabilitation of mining sites is a priority of the PRC Government. Under the Land Administration Law of the PRC, promulgated on 25 June 1986, as amended, and the Land Rehabilitation Regulations, issued by the State Council which became effective on 1 January 1989, we must undertake measures to restore a mining site to its original state within a prescribed time frame if our mining activities result in damage to arable land, grassland or forestry land. The rehabilitated land must meet rehabilitation standards, as required by law from time to time, and may only be subsequently used upon examination and approval by the land authorities. Any failure to comply with this requirement or failure to restore the mining site to its original state will result in the imposition of fines, rehabilitation fees and/or rejection of applications for land use rights by the local bureau of land and resources.

Land rehabilitation typically involves the removal of buildings, equipment, machinery and other physical remnants of mining, the restoration of land features in mined areas and dumping sites, and contouring, covering and revegetation of waste rock piles and other disturbed areas. In accordance with the relevant PRC laws and regulations, we have developed an operational closure planning process for our Zhangjiaba Mine that is in line with PRC legislative requirements and incorporates recognized international industry practices.

## Occupational Health and Safety

We have implemented a corporate safety policy which incorporates national safety standards. We hold a valid safety permit for our Zhangjiaba Mine issued by the Sichuan Provincial Safety and Production Supervision Bureau (四川省安全生產監督管理局) with a validity period from 17 June 2009 to 16 June 2012. We conduct our operations in accordance with the relevant national laws and regulations in relation to occupational health and safety in mining, production, blasting and explosives handling, mineral processing, waste rock disposal, construction, fire protection and fire extinguishment, sanitary provision in material aspects. Mianyang City Health Bureau (綿陽市衛生局) may conduct random inspections pursuant to law.

With respect to matters relating to occupational health and safety, we are subject to, among other PRC laws and regulations, the PRC Production Safety Law (中華人民共和國安全生產法), the PRC Labor Law, the PRC Labor Contract Law and the PRC Law on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法). Under the PRC Production Safety Law, we are required to maintain safe working conditions as provided in the PRC Production Safety Law and other relevant laws, administrative regulations, national standards and industry standards. We are also required to provide production safety training to our employees. The design, manufacture, installation, use, inspection and maintenance of our equipment are required to conform to the applicable national or industry standards.

Under the PRC Labor Law and the PRC Labor Contract Law, we are required to establish a system for labor safety and sanitation, to abide by applicable rules and standards and to provide training to our employees on relevant rules and standards. We are also required to provide our employees with a work environment that complies with labor safety and sanitation standards set forth in relevant regulations and to provide regular health examinations for our employees engaged in hazardous activities.

Pursuant to the PRC Law on the Prevention and Treatment of Occupational Disease, we are required to: (i) establish and perfect the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the laborers for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees. We have developed and implemented a system to monitor and record employee occupation health and safety statistics.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## Profile of Directors

### Executive Director

**Ms. Chen Tao,** *Executive Director, Chairlady and Chief Executive Officer*

Ms. Chen, aged 36, was appointed as the executive Director, chairlady of the Board and chief executive officer of the Company on 4 August 2010 in view of Ms. Chen's extensive experience in mining enterprise management. She is primarily responsible for business strategies, overall operations, financing and investment activities of the Company. She has over 6 years of experience in corporate finance, capital management and investment in mines, and mine management, including over two years of work experience in Sichuan Jinshida. Before the acquisition of the Zhangjiaba Mine, she assisted in identifying and acquiring the Zhangjiaba Mine. She joined us in August 2008. Since her joining, Ms. Chen has established a high-quality management team, and formulated the overall strategy for the mine development of our Company. She was substantially involved in, among others, the studies of mine geology and exploration of the resources, the preparation of the feasibility report and the Competent Person's Report of the Zhangjiaba Mine, environmental impact assessment, the construction of infrastructure, the design and execution of the ramp-up plan and the marketing strategy. Ms. Chen led a team of experts to carry out a preliminary analysis in respect of the geological conditions of the mining area of Zhangjiaba Mine. Based on the results of this preliminary analysis, Ms. Chen, together with the experts, concluded that the area had a very high potential and should be further explored. Such exploration and discovery led to the expansion of the total permitted mining area of our Zhangjiaba Mine from 0.289 $km^2$ to 0.495 $km^2$. Ms. Chen led the process to successfully convert the Zhangjiaba Mine's previous exploration permit and mining permit to a new mining permit in February 2011 and obtained all the material government permits and approvals for the construction and mining of the Zhangjiaba Mine and the construction and operating of the processing facilities. She oversaw the design and construction of the Zhangjiaba Mine and the processing facilities. She also led the management team to successfully commence the commercial production of the Zhangjiaba Mine in September 2010. In September 2010, Ms. Chen attended the 45th International Exhibition of Stone Design and Technology on behalf of our Company in Verona, Italy, to exchange views with experts and other industry players on the current development of the stone industry. Ms. Chen has 13 years of working experience and she began her mining career in June 2004. Details of such experience are set out below.

*July 1998–May 2004*
Credit customer manager and deputy general manager for business development, Industry and Commerce Bank of China Guangdong Branch (中國工商銀行廣東省分行). Ms. Chen was responsible for reviewing and managing bank loans to enterprises.

*June 2004–July 2008*
Deputy general manager of corporate finance department, Sunshiny Group Co., Ltd. (賢成集團有限公司), a company principally involved in coal mining activities through its subsidiaries.

Deputy general manager, Guangdong Mingcheng Mining Co., Ltd. (廣東明成礦業有限公司), a subsidiary of Sunshiny Group Co., Ltd. and a company principally involved in the exploration and extraction of coal mines.

Ms. Chen was responsible for overseeing investment, financing option and identifying and acquiring mining assets. She was involved in the strategic operations including mine-related transactions, and financing options. During this period, she performed due diligence duties on various coal and stone mines, and she participated in and completed various coal mine projects, including acquisitions or transfer of mining right projects of Guizhou Pan County Baiguo Town Baiping Coal Mine (貴州省盤縣柏果鎮柏平煤礦), Guizhou Pan County Banqiao Senlin Coal Mine (貴州省盤縣板橋森林煤礦), Guizhou Pan County Baiguo Town Yunshang Coal Mine (貴州省盤縣柏果鎮雲尚煤礦), Guizhou Renhuai Zhongshu Jiaotong Guangfu Coal Mine (貴州省仁懷中樞交通光富煤礦) and Guizhou Pan County Laochang Town Selvcun Yungui Coal Mine (貴州省盤縣老廠鎮色綠村雲貴煤礦) and was mainly responsible for the exploration and mining rights, commercial negotiations and government liaison for each of the projects.

*August 2008–now*

Deputy general manager, Sichuan Jinshida (since July 2010, she has been a director of Sichuan Jinshida). Ms. Chen has been responsible for establishing a high-quality management team, and formulating the overall strategy for the mine development of our Company. She was substantially involved in the studies of mine geology and exploration of resources, the preparation of the feasibility report and the Competent Person's Report of the Zhangjiaba Mine, environmental impact assessment, the construction of infrastructure, the design and execution of the ramp-up plan and the marketing strategy and etc.

Her broad knowledge and experience in the mining industry and mining companies allows her to coordinate and advise our Directors on the operational, financial and strategic aspects of the Company's business, which is critical to the success of the Company's marble mining activities and operations.

Ms. Chen graduated from Guangdong University of Foreign Studies (廣東外語外貿大學) and received a diploma in international business English in June 1997. She is qualified as an intermediate level economist (中級經濟師) with a certificate issued by the Ministry of Personnel of the PRC (中華人民共和國人事部).

Up to the date of this annual report, Ms. Chen personally holds share options in respect of 30,000,000 underlying Shares. Save as aforementioned, Ms. Chen has no interest in the Company within the meaning of Part XV of the Securities and Future Ordinance.

### **Mr. Lin Yuhua,** *Executive Director, Head of Geology and Mine Design and Production and Environmental Safety*

Mr. Lin, aged 54, was appointed as an executive Director of the Company on 4 August 2010. In April 2009, Mr. Lin joined Sichuan Jinshida as the chief engineer and has been overseeing the geological exploration and construction of the Zhangjiaba Mine and preparation of the geological study and feasibility plan of our mine.

Mr. Lin has approximately 28 years of experience in the mining industry. Details of such experience are set out below.

*February 1982–December 1987*

Project leader and assistant engineer, Geology Company of the Construction Materials Ministry, Beijing Geological Survey Brigade, Second Team (建材部地質公司北京地質勘探大隊二分隊). Mr. Lin was responsible for conducting exploration and survey of limestone mines and drafting survey report.

*January 1988–December 1989*

Deputy-captain and engineer, Geology Company of State Construction Materials Bureau, Beijing Geological Survey Brigade, Integrated Team (國家建材局地質公司北京地質勘探大隊綜合隊). Mr. Lin was responsible for geological surveying activities, technology and project management.

*January 1990–December 1991*

Captain and chief engineer, project sponsored by Beijing Geological Survey Brigade, Integrated Team (北京地質勘探大隊綜合隊) and Hainan Tongli Stone Joint Stock Limited Company (海南同利石材股份有限公司). Mr. Lin was responsible for identifying and exploring mine reserves, improving mine extraction technology and skills and overseeing mine operation.

*In 1992*

Director of the Planning Technical Section, China Construction Materials Industry Geological Survey Center (中國建材工業地質勘查中心北京總隊計劃技術科). Mr. Lin was responsible for managing limestone mine exploration and identifying non-metal mines.

*January 1993–January 1994*

Deputy director and senior engineer, Mineral Exploration Department of Zhongda Construction Materials and Mineral Resources Company (subordinated to China Construction Materials Industry Geological Survey Center)(中達建材礦產公司(中國建材工業地質勘查中心所屬)礦產開發部). Mr. Lin was responsible for managing extraction activities for non-metal mines and drafting feasibility reports for various mines.

*February 1994–October 2001*

General manager and the director of chief engineers, Chengde Zhongcheng Stone Co., Ltd. (承德中成石業有限公司) and Mineral Department of Zhongda Construction Materials and Mineral Resources Company (中達建材礦產公司礦產部). Mr. Lin was responsible for managing overall operations of the companies and promoting the popularity of Yanshan green granite produced by the companies.

*November 2001–August 2010*

Director, Industrial Working Department of CSMA (中國石材協會行業工作部). Mr. Lin was responsible for providing advices with regard to the development of mineral resources, mine construction and promoting advanced technologies to stone and mining companies nationwide.

*November 2005–December 2009*

Standing deputy director and member, Expert Committee of the Mineral Stone Resources of CSMA (中國石材協會礦山石材資源專業委員會). Mr. Lin was responsible for providing advices with regard to the development of mineral resources, mine construction and promoting advanced technologies to stone and mining companies nationwide.

*June 2006–December 2009*

Member, Expert Committee of the Stone Application and Maintenance of CSMA (中國石材協會石材應用護理專業委員會). Mr. Lin was responsible for providing advices with regard to the development of mineral resources, mine construction and promoting advanced technologies to stone and mining companies nationwide.

*March 2007–now*

Expert judicaire, Beijing Guoke Forensic Expertise Center of Intellectual Property (北京國科知識產權司法鑒定中心). Mr. Lin has mainly been responsible for stonerelated test and identification.

*December 2008–now*

Member, Sub-commission of Codes and Applied Technology of the National Technical Commission of Stone Standardization (全國石材標準化技術委員會管理規範和應用技術及規範分技術委員會). Mr. Lin has mainly been responsible for managing the drafting and revision of stone industry standards and specifications.

Member and deputy secretary of the Sub-commission, Special Machines of the National Technical Commission of Stone Standardization (全國石材標準化技術委員會專用機械分技術委員會).

*April 2009–now*

Chief engineer, Sichuan Jinshida (since July 2010, he has been a director of Sichuan Jinshida). Mr. Lin has been responsible for overseeing the geological exploration and construction of the Zhangjiaba Mine and preparation of the geological study and feasibility plan of the Zhangjiaba Mine.

Apart from serving the above positions, Mr. Lin has also made various accomplishments and achievements since 1993. He drafted a research report named Current Situation of Chinese Quarrying Industry (中國石材開採業現狀) and he edited a tool book of quarrying industry, Standard Illustrating Handbook on National and Foreign Natural Stone (中外天然石材標準圖鑒). Mr. Lin presided over the drafting of Technical Specifications on Open-pit Quarries of Decorative Stone (裝飾石材露天礦山技術規範) (JC/T1081-2008), which has been approved and issued by the NDRC and came into effect on 1 December 2008, as well as the Unit Consumption Standards for Processing of Standard Marble and Granite Slabs (大理石、花崗石規格板材加工貿易單耗標準), which has been jointly approved by the General Administration of Customs of the PRC (中華人民共和國海關總署) and the NDRC and has come into effect on 20 September 2010. He also participated in the drafting of or amendments to various important quarrying industry related literatures, including Research on Checking Method of Unit Consumption of Stone Products (石材產品單耗核定方法的研究與探索), national standards for Uniform Coding of Natural Stones (天然石材統一編號), as well as National Occupational Training Materials for Stone Production Workers (石材生產工國家職業培訓講義). He also participated in drafting National Occupational Standards for Stone Production Workers (國家職業標準 — 石材生產工), which has been submitted to the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) for approval, as well as industry standards for Quarry Stone of Natural Granite (天然花崗石荒料) and Quarry Stone of Natural Marble (天然大理石荒料), which has been submitted to the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) for approval.

Mr. Lin received his bachelor's degree in geological survey from Hebei Geological Institute (河北地質學院) (currently known as Shijiazhuang University of Economics (石家莊經濟學院)) in August 1982. Mr. Lin holds the title of senior engineer awarded by State Construction Materials Bureau (國家建築材料工業局) in December 1992. He also holds the title of professorial senior engineer awarded by China National Materials Group Corporation Ltd. (中國中材集團公司) in November 2008.

### **Mr. Liao Yuanshi,** *Executive Director, Head of Mining and Processing*

Mr. Liao, aged 54, was appointed as an executive Director of the Company on 4 August 2010. Mr. Liao is a deputy general manager of Sichuan Jinshida. Since January 2010, he has been the technical adviser of Sichuan Jinshida and has been providing specialized instructions on mine construction, mining and selection of quarry machinery and equipment.

Mr. Liao has more than 26 years of experience in mining industry and mining machinery. Details of such experience are set out below.

*February 1982–July 1987*
Deputy section chief of the technological section, Beijing Machinery Plant (Beijing No. 394 Plant) (北京機械廠(北京 394 廠)). Mr. Liao was responsible for designing and developing machinery products and overseeing technical management related to production process.

*July 1987–March 1991*
Engineer and deputy manager of the technology and equipment section, China Jianbei Stone Industry Company (中國建北石材工業公司). Mr. Liao was responsible for the design, development, manufacturing and technical management of stone machinery products and stone machinery equipment, which were used in stone mining and processing.

*April 1991–September 1998*
Senior engineer and deputy manager of the stone products section, China National Materials Group Co., Ltd. (formerly known as China Nonmetallic Minerals Industrial Corporation) (中國中材集團有限公司，前身為中國非金屬礦工業總公司). Mr. Liao was responsible for technical management of stone machinery equipment which were used in stone mining and processing.

*June 1998–December 2003*
Product manager and serve engineer, Beijing representative office of Benetti Macchine S.P.A. Mr. Liao was responsible for the sales of stone machinery equipment and providing technical support to the clients.

*March 2004–December 2004*

Chief engineer, Xinjiang Urumqi Baiqing Industrial Co., Ltd. (新疆烏魯木齊柏青實業有限公司). Mr. Liao was mainly responsible for technical assessment of the exploration of mining resources and management of the mining techniques.

*January 2005–January 2010*

General manager, Xiamen Xinande Group Co., Ltd. (廈門新安德集團有限責任公司). General manager, Fujian Nanping San Lida Mining Industrial Co., Ltd. (福建南平三立達礦業有限公司). Mr. Liao was responsible for quarrying, mine exploration and mining production, overseeing stone slab production and managing stone export business.

*October 2005–December 2009*

Expert, Expert Committee of the Mineral Stone Resources of CSMA (中國石材協會礦山石材資源專業委員會). Mr. Liao was responsible for providing advices with regard to the development of mineral resources, mine construction and promoting advanced technologies to stone and mining companies nationwide.

*December 2004–now*

Expert, Materials Expert Committee of China Construction and Decoration Association (中國建築裝飾協會材料委員會). Mr. Liao has been responsible for providing technical advices.

*July 2009–now*

Expert, Expert Committee of the Stone Machinery and Tools of CSMA (中國石材協會石材機械與工具專業委員會). Mr. Liao has been responsible for providing technical advices with regard to stone machinery and tools and promoting advanced technologies to stone and mining companies nationwide.

*April 2010–now*

Expert, Work Safety Expert Panel of the Non-coal Mines of Fujian Provincial Administration of Work Safety (福建省安監局非煤礦山安全生產專家組). Mr. Liao has been responsible for providing advices on work safety measures for open-pit mining and use of explosive materials in mining.

*January 2010–now*

Technical adviser, Sichuan Jinshida (since July 2010, he has been a director of Sichuan Jinshida). Mr. Liao has been responsible for providing specialized instructions on mine construction, mining and selection of quarry machinery and equipment.

Mr. Liao has also made academic achievements by publishing (as author or co-author) more than 20 papers and translation works related to quarrying and stone products processing on several academic magazines and journals, including Stone (石材) and Overseas Nonmetallic Minerals and Stone (國外非金屬礦與寶石). Mr. Liao is the author of the following books: Technologies and Equipment of Quarrying (石材礦山開採技術及設備), Application Techniques of the Diamond Wire Saw in Decorative Stone Slab Production (金剛石串珠鋸在飾面石材生產中的應用技術), Mechanized Mining of Decorative Stone Slabs — Application and Development Diamond Wire Saw (飾面石材的機械化開採 — 金剛石串珠鋸的應用與發展) and Shaped Stone (異型石材).

Mr. Liao received his bachelor's degree in engineering from East China Engineering Institute (華東工程學院), which is currently known as Nanjing University of Science & Technology (南京理工大學), in May 1982. From 1988 to 1989, he obtained a certificate issued by the Department of International Cooperation and Development of the Italian Ministry of Foreign Affairs after studying courses related to stone mining techniques at CARRARA in Italy. Mr. Liao also holds the title of senior engineer awarded by State Construction Materials Bureau (國家建築材料工業局) in 1993.

**Mr. Xiong Wenjun,** *Executive Director, Head of Marketing and Sales*

Mr. Xiong, aged 51, was appointed as an executive Director of the Company on 4 August 2010. Mr. Xiong is a deputy general manager of Sichuan Jinshida and is primarily responsible for the marketing and sale of our marble products. Since January 2007, Mr. Xiong has assisted Mr. Huang in identifying and acquiring the Zhangjiaba Mine. He has also been the marketing director of Sichuan Jinshida since August 2007.

Mr. Xiong has approximately 28 years of experience in mining industry and geology. Details of such experience are set out below.

*July 1982–November 1989*
Teaching assistant, China University of Geosciences (中國地質大學). Mr. Xiong was responsible for teaching courses on physical geology.

*December 1989–February 1998*
Lecturer, China University of Geosciences. Mr. Xiong was responsible for teaching courses on physical geology and marine geology.

*March 1998–March 2006*
Deputy general manager, Shenzhen Kangli Stone Co., Ltd. (深圳康利石材集團有限公司), one of the largest stone companies in China. Mr. Xiong was responsible for procurement of blocks which requires significant geological and mining knowledge, managing the stone processing and production activities, assisting the Company to obtain ISO9000 system and overseeing domestic sale. During the tenure with Shenzhen Kangli Stone Co., Ltd., he performed due diligence duties on various stone mines throughout the country, which required substantial knowledge and experience in the scales and geological conditions of the different stone mines, the technologies, equipment and techniques used for mining and the stone processing.

*August 2007–now*
Marketing director, Sichuan Jinshida (since July 2010, he has been a director of Sichuan Jinshida). Mr. Xiong has been responsible for the marketing and sale of our marble products.

In addition to the above positions, Mr. Xiong also provided a range of trainings on geology, stone procurement, stone processing, equipment installment, quality control and marketing to the trainees from various stone, design and decoration companies. Mr. Xiong is a member of the Sub-commission of Products and Auxiliary Materials of the National Technical Commission of Stone Standardization (全國石材標準化技術委員會產品及輔助材料分技術委員會) and participated in reviewing stone industry-related standards. Due to the past academic experiences at top geological university in China and long- term commitment to the management and marketing practice in mineral enterprises, Mr. Xiong has abundant expertise in geological and mining industry as well as practical working experience in stone products marketing. He is familiar with the current stone markets in China and worldwide as well as their developing trends. More than 10 years of managerial experience of mineral enterprises has familiarized him with, among other things, the geological distribution and conditions of marble mines in China, capable of positioning the market and making overall strategic planning.

Mr. Xiong received his bachelor's degree in coal geology from Wuhan College of Geology (武漢地質學院) in July 1982, and master's degree in petrology from China University of Geosciences in June 1989. Mr. Xiong has in-depth experience and knowledge in geology, especially in the areas of the chemical composition and structure of minerals, the exploration and recovery of natural resources, and erosion and deposition of rock particles. He is also a certified constructor in China.

## Non-Executive Director

**Mr. He Ji**, aged 35, was appointed as an non-executive Director of the Company on 19 August 2010. He is currently an executive director of Morgan Stanley Asia Limited, and he primarily focuses on principal investment activities in the Asia Pacific region, especially China. Prior to joining Morgan Stanley Asia Limited in 2005, he worked in Morgan Stanley and Goldman Sachs in New York. Mr. He received an MBA degree from Columbia Business School, a master's degree in information systems management from Carnegie Mellon University, as well as a bachelor's degree in international finance from Renmin University of China (中國人民大學). Mr. He is a CFA charter holder.

## Independent Non-Executive Directors

**Mr. Deng Huiqing**, aged 61, was appointed as an independent non-executive Director of the Company on 4 August 2010. He has over 20 years of experience working in stone industry. From December 1987 to January 1989, he was the deputy office director in China Jianbei Stone Industry Company (中國建北石材工業公司). From January 1989 to January 1997, he worked as the deputy general manager in Shandong Laizhou Yin Lei Stone Products Co., Ltd. (山東萊州銀磊石材有限公司), and he was responsible for marketing and sales of the stone products. He was appointed as the executive secretary of CSMA from July 1996 to January 1997. From January 1997 to April 2002, he worked in China Nonmetallic Minerals Industrial Corporation (中國非金屬礦工業總公司) and held several positions including the deputy office director from January 1997 to April 1997, the deputy general manager and general manager of the enterprise management department from April 1997 to March 2001 and the director of party relationship department (黨群工作部) from March 2001 to April 2002. Since April 2002, he has been the deputy secretary general, the standing deputy director of the Expert Committee of the stone Application and Maintenance (石材應用護理專業委員會), where he has been responsible for managing the administrative work of the association, identifying different varieties of stones, conducting on-site visits to different stone mines and providing technical consultancy to stone mining and processing companies, and the standing deputy secretary general of the board of National Stone Standardization Technical Committee (全國石材標準化技術委員會) in the CSMA, where he has been responsible for organizing and managing the drafting and revision of stone industry standards and specifications.

Mr. Deng graduated from Beijing Building Materials Industry School (北京建築材料工業學校), currently known as Beijing Jinyu Polytechnic (北京金隅科技學校) majoring in machinery in July 1982 and received a secondary school diploma. He graduated from Beijing Open University (北京廣播電視大學) and received a college diploma in enterprise administration in December 1988. Mr. Deng also holds the title of senior engineer awarded by State Construction Materials Bureau in 1999.

**Mr. Chu Ho Hwa, Howard**, aged 46, was appointed as an independent non-executive Director of the Company on 2 September 2010. Mr. Chu has approximately 18 years of experience in finance and investment activities. From September 1992 to August 1999, he worked in ABN AMRO Asia Corporate Finance Limited, and his last position was head of Hong Kong Origination. From February 2001 to February 2006, he worked at the Hongkong and Shanghai Banking Corporation Limited, and his last position was corporate finance director of telecom and media department. From June 2006 to April 2008, he worked as a consultant in Shanghai Century Acquisition Corporation, where he was responsible for sourcing, evaluating and implementing various investment opportunities in China. From September 2008 to June 2009, he was the assistant to the chairman in United Energy Group Limited which is a publicly listed company on the Stock Exchange (stock code: 467), where he was actively involved in the merger and acquisitions. Since July 2009 he was the chief financial officer of Trony Solar Holdings Company Limited which is a publicly listed company on the Stock Exchange (stock code: 2468), where he was responsible for the overall financial management of this company. Since May 2010, Mr. Chu has been appointed as an independent non-executive Director in Directel Holding Limited, which is a publicly listed company on the Stock Exchange (stock code: 8337).

Mr. Chu received a bachelor's degree in electrical engineering from University of Rochester in May 1986. He received a master's degree in business administration from Columbia University in May 1990. Mr. Chu acquired substantial financial and accounting knowledge during his study in Columbia University for his master's degree in business management. Due to his past academic achievements and working experience in various companies, including four publicly listed companies, Mr. Chu has substantial experience in preparing and reviewing financial statements and financial management.

**Mr. Liu Yuquan**, aged 59, was appointed as an independent non-executive Director of the Company on 4 August 2010. Prior to that, from May 1985 to September 1998, he worked in Kenluck Technology Co., Ltd. (建運科技有限公司) as the deputy general manager and the general manager of the company successively, where he was responsible for the market expansion and overall management of this company. From November 1998 to December 2009, he was the chairman of the board of directors in Beijing North Yichuan Technology Co., Ltd. (北京北方儀創科技有限責任公司). From October 1998 to December 2009, he worked as the marketing director of China Energy and Mining Limited (中國能源礦業有限公司). Since January 2010, he worked as the general manager of Straits Telecom Limited (海峽通信有限公司). Mr. Liu received a diploma in Indonesian from Peking University in January 1974.

## Profile of Senior Management

**Mr. Lou Sai Tong**, aged 43, was appointed as the chief financial officer and company secretary of the Company on 4 August 2010. He is primarily responsible for the overall financial management and administration of the Company. Mr. Lou has over 17 years of professional experience working in international audit firms and as financial officer in various publicly listed companies. He worked as an accountant from June 1993 to August 1996 in Kwan Wong Tan & Fong (currently known as Deloitte Touche Tohmatsu). He then worked as audit senior and supervisor from August 1996 to October 1998 in Coopers & Lybrand (currently known as PricewaterhouseCoopers), Hong Kong, and his last position was supervisor II in Audit Division. From December 1998 to January 1999, he was the accounting manager at Midas Printing Company Limited (勤達印刷有限公司) (currently known as Midas International Holdings Limited (勤達集團國際有限公司), which is a publicly listed company on the Stock Exchange (stock code: 1172). From June 1999 to May 2000, he was the project analyst of Pillsbury Hong Kong Limited. From June 2000 to July 2004, he worked as the chief financial officer and company secretary of China Everbright Technology Limited (中國光大科技有限公司) (currently known as China Haidian Holdings Limited (中國海澱集團有限公司), which is a publicly listed company on the Stock Exchange (stock code: 256), where he was responsible for the overall accounting, financial, company secretary and administration operation of this company and its subsidiaries. From August 2004 to November 2005, he worked as the chief financial officer and company secretary of China Shineway Pharmaceutical Group Limited (中國神威藥業集團有限公司), which is a publicly listed company on the Stock Exchange (stock code: 2877), where he was responsible for the overall accounting, financial reporting of this company and its subsidiaries. From December 2005 to October 2008, he worked as the chief financial officer of NT Pharma (Group) Company Limited (泰凌醫藥(集團)有限公司).

From October 2008 to July 2010, he worked as the deputy chief financial officer at C&G Environmental Protection Holdings Limited, which is a publicly listed company in Singapore (stock code: SGX: D79). He also assumed the position as chief financial officer at C&G Environmental Protection International Limited during the same period. During the Track Record Period, Mr. Lou did not hold any directorship in listed public companies.

Mr. Lou graduated from University of South Australia and received a master's degree in business administration in October 1996. He is a member of Association of International Accountants (FAIA) as well as a member of Hong Kong Institute of Certified Public Accountants (HKICPA).

**Mr. Jia Yinggong**, aged 48, was appointed as the mine manager (礦長) and manager of the equipment department of Sichuan Jinshida in May 2010. He has been primarily responsible for improving the mining technology, supervising the mine production, managing the quality control department and equipment department as well as overseeing the infrastructure construction of the Zhangjiaba Mine. Since his joining, he worked under the strategic instruction from Ms. Chen Tao to formulate the production plan, optimize the production processes and organize various trainings for the workers. He has 17 years of experience in mine exploration and extraction. Details of such experience are set out below.

*October 1993–January 2003*
Mine manager, Guangxi Cenxi Stone Development Co., Ltd. (廣西岑溪市石材開發公司). Mr. Jia was responsible for overseeing the work safety of the mine, evaluating the performance of mine workers and planning the use of raw materials.

*January 2003–May 2010*
Mine manager, Wuhan Yongsong Mine Development Co., Ltd. (武漢永松礦業開發有限公司). Mr. Jia was responsible for overseeing the work safety of the mine and evaluating the performance of the mine workers.

*May 2010–now*
Mine manager and manager of the equipment department, Sichuan Jinshida. Mr. Jia has been responsible for improving the mining technology, supervising the mine production, managing the quality control department and equipment department as well as overseeing the infrastructure construction of the Zhangjiaba Mine.

Mr. Jia received a college diploma (cadres correspondence) in Politics from Engineering Corps Academy of PLA (中國人民解放軍工程兵指揮學院) in July 1990.

**Mr. Li Jun**, aged 41, was appointed as the deputy mine manager (副礦長) of Sichuan Jinshida in May 2010. He has been primarily responsible for assisting the mine manager in overall production management, planning the construction of work safety facilities, managing the transportation in the mine area and quality control of our marble stone products. Prior to joining our Company, he dedicated himself to the mine-related work in Shanxi Xinyue Stone Material Development Co., Ltd. (山西鑫岳石材開發有限公司) and assumed various positions in this company. Mr. Li has 16 years of experience in mining industry. Details of such experience are set out below.

*June 1994–March 1995*
Quality control personnel, Shanxi Xinyue Stone Material Development Co., Ltd. (山西鑫岳石材開發有限公司). Mr. Li was responsible for assessing the quality of stone blocks and classifying the stone blocks according to their respective qualities.

*March 1995–March 1998*
Assistant to the deputy chairman of the board and the office director, Shanxi Xinyue Stone Material Development Co., Ltd. Mr. Li was responsible for formulating the management systems and coordinating the work of various departments.

*March 1998–August 2005*
Director of mining department, Shanxi Xinyue Stone Material Development Co., Ltd. Mr. Li was responsible for overseeing the production work safety, improving the work safety facilities and managing transportation and water and electricity supply in the mine area.

*September 2005–April 2010*
Mine manager, Shanxi Xinyue Stone Material Development Co., Ltd. Mr. Li was responsible for the overall production and operation of the mine.

*May 2010–now*
Deputy mine manager, Sichuan Jinshida. Mr. Li has been responsible for assisting the minemanager in overall production management, planning the construction of work safety facilities, managing the transportation in the mine area and quality control of our marble stone products.

Mr. Li received a college diploma in industrial enterprise management engineering from Shanxi Mining College (山西礦業學院) in June 1991.

# DIRECTORS' REPORT

The Board hereby presents its report and the audited consolidated financial statements of the Group for the year ended 31 December 2010.

## Corporate Reorganization

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on 29 March 2010. Through a series of the Group reorganization procedures, the Company became the holding company of the Group on 29 July 2010. Details of the reorganization are set out in the paragraph headed "Corporate reorganization" on pages VII-4 of Appendix VII (Statutory and General Information) to the Prospectus. The Company's shares were listed on the Main Board of the Stock Exchange on 18 March 2011.

## Principal Activities

The Company acts as an investment holding company. Particulars of the principal activities of its principal subsidiaries are set out in note 14 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 47 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2010.

## Property, Plant and Equipment

Details of the movements during the Year in the Group's property, plant and equipment are set out in note 11 to the consolidated financial statements.

## Share Capital

Details of the movements during the Year in the issued share capital of the Company are set out in note 27 to the consolidated financial statements.

## Distributable Reserves of the Company

Details of the movements during the Year in the reserves of the Group are set out in the consolidated statements of changes in equity on page 49 of this annual report.

As at 31 December 2010, the Company's reserves available for distribution to shareholders in accordance with the articles of association of the Company is RMB121.5 million.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the period from 14 March 2008 to 31 December 2010 are set out on page 91 to page 92 of this annual report.

## Major Customers and Suppliers

For the year ended 31 December 2010, the Group sold most of its products to one customer, in aggregate represented 98.8% of the Group's total sales.

For the years ended 31 December 2010 and 2009, our purchases of auxiliary materials from our five largest suppliers accounted for approximately 63.4% and 95.7% respectively of the Group total purchases. For the year ended 31 December 2010 and 2009, purchases from the single largest supplier accounted to approximately 38.6% and 46.0% of our total purchases respectively.

For the year ended 31 December 2009, none of the Directors or any of their associates or any shareholders who, to the knowledge of our Directors, owns more than 5% of the Company's issued capital, had any interest in our five largest suppliers or customers.

## Directors

The Directors during the Year and up to the date of this annual report are as follows:

### Executive Directors

| | |
|---|---|
| Ms. Chen Tao | (appointed on 4 August 2010 and designated as an executive director on 24 January 2011) |
| Mr. Lin Yuhua | (appointed on 4 August 2010 and designated as an executive director on 24 January 2011) |
| Mr. Liao Yuanshi | (appointed on 4 August 2010 and designated as an executive director on 24 January 2011) |
| Mr. Xiong Wenjun | (appointed on 4 August 2010 and designated as an executive director on 24 January 2011) |

### Non-executive Director

| | |
|---|---|
| Mr. He Ji | (appointed on 19 August 2010 and designated as a non-executive director on 24 January 2011) |

### Independent Non-Executive Directors

| | |
|---|---|
| Mr. Deng Huiqing | (appointed on 4 August 2010 and designated as an independent non-executive director on 24 January 2011) |
| Mr. Chu Ho Hwa, Howard | (appointed on 2 September 2010 and designated as an independent non-executive director on 24 January 2011) |
| Mr. Liu Yuquan | (appointed on 4 August 2010 and designated as an independent non-executive director on 24 January 2011) |

In accordance with Article 83(3) of the Articles of Association, each of Ms. Chen Tao, Mr. Lin Yuhua, Mr. Liao Yuanshi, Mr. Xiong Wenjun, Mr. He Ji, Mr. Deng Huiqing, Mr. Chu Ho Hwa, Howard, and Mr. Liu Yuquan will retire from office of Directors at the Annual General Meeting. Ms. Chen Tao, Mr. Lin Yuhua, Mr. Liao Yuanshi, Mr. Xiong Wenjun, Mr. He Ji, Mr. Deng Huiqing, Mr. Chu Ho Hwa, Howard, and Mr. Liu Yuquan, the retiring Directors, being eligible, will offer themselves for re-election as Directors at the Annual General Meeting. At the Annual General Meeting, ordinary resolutions will be proposed to re-elect Ms. Chen Tao, Mr. Lin Yuhua, Mr. Liao Yuanshi and Mr. Xiong Wenjun as executive Directors, Mr. He Ji as a non-executive Director and Mr. Deng Huiqing, Mr. Chu Ho Hwa, Howard, Mr. Liu Yuquan as independent non-executive Directors.

## Directors' Service Contracts and Letters of Appointment

Each of our existing executive Directors has entered into a service agreement with the Company for an initial fixed term of three years commencing on 18 March 2011.

Our existing non-executive Director has entered into a letter of appointment with the Company for an initial fixed term of three years commencing on 18 March 2011.

Each of our existing independent non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of three years commencing on 18 March 2011.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service agreement with the Company which is not determinable by the Group when one year without payment of compensation (other than statutory compensation).

## Remuneration of the Directors

The remuneration of each Director is approved at general meeting. Other emoluments will be determined by the members of the Remuneration Committee with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 7 to the consolidated financial statements of this annual report.

## Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Company are set out on pages 24 to 33 of this annual report.

## Emoluments Policy

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees.

## Retirement Benefit Schemes

The Group participates in a state-managed defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% of the local standard basic salaries.

## Independence of Independent Non-Executive Directors

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent in accordance with Rule 3.13.

## Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares or Debentures of the Company or its Associated Corporations

For the year ended 31 December 2010, since the shares of the Company were not listed on the Stock Exchange, Division 7 and 8 of Part XV of the Securities and Future Ordinance (the "SFO"), Section 352 of the SFO, and the Model Code as set out in Appendix 10 to the Listing Rules were not applicable to the Company, the Directors and chief executives.

## Share Options

### Pre-IPO Share Option Scheme

#### 1. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to give our employees, advisers, consultants and business partners an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to our Company and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees, advisers, consultants and business partners who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Company. The principal terms of the Pre-IPO Share Option Scheme, approved by our shareholder pursuant to the written resolutions of our shareholder dated 24 January 2011, are substantially the same as the terms of the Share Option Scheme except that:

(a) the subscription price per Share under the Pre-IPO Share Option Scheme shall be HK$0.6; and

(b) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner and, in any event, cannot be exercised for a period of twelve months after the Listing:

| Exercise period | Maximum percentage of options exercisable |
|---|---|
| Any time after the first anniversary of the Listing Date | 100% of the total number of options granted |

The option period shall commence on the first anniversary of the Listing Date and expire on the fifth anniversary of the Listing Date.

The total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 40,000,000 Shares, representing approximately 2% of the enlarged issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue. Save for the options which were granted as at the Latest Practicable Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 40,000,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

## 2. Outstanding Options granted

As at the Latest Practicable Date, options to subscribe for an aggregate of 40,000,000 Shares (representing approximately 2% of the enlarged issued share capital of the Company immediately following completion of the Global Offering and the Capitalization Issue) at an exercise price of HK$0.6 were conditionally granted to two participants by the Company under the Pre-IPO Share Option Scheme. All the options under the Pre-IPO Share Option Scheme were granted on 24 January 2011 at a consideration of HK$1.0 paid by each grantee and no further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

A full list of such grantees containing all the details in respect of each option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix I to the Listing Rules is set out below:

| No. | Name of grantee | Title | Address | Date of joining our Company | Number of Shares to be issued upon full exercise of the Pre-IPO Share Option entitlement | Percentage of total issued share capital of the Company |
|---|---|---|---|---|---|---|
| | *Director* | | | | | |
| 1. | Ms. Chen Tao | executive director, chairlady of the Board and chief executive officer of the Company | Room 1503, No 8 Lantingjie, Huangzhuangnan Road, Baiyun District, Guangzhou, China | August 2008 | 30,000,000 | 1.5% |
| | *Other employee* | | | | | |
| 2. | Ms. Chen Dong Dong | director and general manager of Kingstone (Guangzhou) Stone Industry Co., Ltd. | Room 401, No. 19, Lane 630, Xuchang Road Shanghai, China | August 2008 | 10,000,000 | 0.5% |

The total number of Shares to be issued under all options granted under the Pre-IPO Share Option Scheme represents approximately 2% of the Company's enlarged issued share capital immediately following completion of the Global Offering and the Capitalization Issue. If all options are exercised, this would have a dilutive effect on the shareholdings of our Shareholders of approximately 0.6% and a dilutive effect of approximately HK$0.0003 on loss per Share such that the forecast loss per Share for the financial year ended 31 December 2010 will be diluted from HK$0.013 to HK$0.013. However, as the options are exercisable for a period of up to the fifth anniversary of the Listing Date, any such dilution and impact on earnings per Share will be staggered over several years. No further options have been granted under the Pre-IPO Share Option Scheme after the Listing Date.

Our Directors have undertaken to our Company that they will not exercise the options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after the Listing Date will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

## Share Option Scheme

The Company has also adopted a share option scheme on 24 January 2011 (the "Share Option Scheme"). The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by the sole shareholder on 24 January 2011.

### (a) Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to our Company and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Company, and additionally in the case of Executives (as defined below), to enable our Company to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

### (b) Who may join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Company ("Executive"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Company ("Employee");

(ii) a director or proposed director (including an independent non-executive director) of any member of our Company;

(iii) a direct or indirect shareholder of any member of our Company;

(iv) a supplier of goods or services to any member of our Company;

(v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Company;

(vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Company; and

(vii) an associate of any of the persons referred to in paragraphs (i) to (v) above. (the persons referred above are the "Eligible Persons").

**(c) Maximum Number of Shares**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not in aggregate exceed 10% of the Shares in issue (a maximum of 200,000,000 Shares) as at the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the "Scheme Mandate Limit") provided that:

(i) The Company may at any time as the Board may think fit seek approval from our Shareholder to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by Shareholder in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, canceled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.

(ii) The Company may seek separate approval from our Shareholder in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to our Shareholder containing the details and information required under the Listing Rules.

(iii) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

**(d) Maximum Entitlement of each Participant**

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholder of the Company in general meeting with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of the Company's Shareholder and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

### (e) Minimum Holding Period, Vesting and Performance Target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

### (f) Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(i) the nominal value of the Shares;

(ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(iii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

### (g) Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles and the laws of the Cayman Islands from time to time and shall rank pari passu in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date. Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

### (h) Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

Further details of the Share Option Scheme are set out in Appendix VII to the Prospectus.

No Option was granted under the Share Option Scheme for the year ended 31 December 2010.

## Rights to Purchases Shares or Debentures of Directors and Chief Executives

At no time during the Year did any existing Directors or chief executive hold any Share of the Company. None of the existing Directors and chief executive had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in SFO). None of the Directors, chief executives and their spouses and children under eighteen years old was granted rights to subscribe for the share capital or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of such persons.

At no time during the Year had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the existing Directors or chief executives to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other legal entities.

## Substantial Shareholders

The register of member maintained by the Company pursuant to section 366 of part XV of the SFO shows that, as at 31 December 2010, Wongs Investment held 100% issued shares of the Company.

Save as disclosed above, none of the existing Directors is aware that any person (not being a Director or chief executives of the Company) had an interest or short position in the shares and underlying shares of the Company as at 31 December 2010.

## Management Contracts

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the Year.

## Directors' Interests in Contracts of Significance

No contract of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of Year or at any time during the Year.

## Directors' Interests in Competing Business

None of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

## Connected Transaction

Details of the connected transactions of the Group are set out in note 30 to the consolidated financial statements of this annual report.

## Deed of Non-Competition

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-Competition (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealing as set out in the Model Code throughout the period from the date of the listing of the Company's shares on the Main Board of the Stock Exchange and up to the date of this annual report.

## Code of Corporate Governance Practice

The Company has adopted the CG Code. According to the provision A.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Up to the date of this annual report, Ms. Chen Tao is both the chairlady of the Board and the chief executive officer of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The Board will review the need of appointing suitable candidate to assume the role of the chief executive officer when necessary. Except for the issues mentioned above, the Company has complied with all the applicable code provisions as set out in the CG Code.

For details of the Corporate Governance Report, please refer to pages 17 to 21 of this annual report.

## Purchases, Sale or Redemption of the Company's Listed Securities

The listing of the Company's Shares commenced on 18 March 2011. Since the date of listing of the Company on the Main Board of the Stock Exchange and up to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## Use of Net Proceeds From the Company's IPO

The Company was listed on the Main Board of the Stock Exchange on 18 March 2011. The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the IPO and expenses relating generally to the listing of all the shares of the Company) amounted to approximately HK$1.02 billion (equivalent to approximately RMB858.53 million), which are intended to be applied in accordance with the proposed application set out in the section headed "Future Plans and Use of Proceeds") in the Prospectus.

## Sufficiency of Public Float

The shares of the Company were listed on 18 March 2011 on the Main Board of the Stock Exchange. Based on the publicly available information and to the best of the Directors' knowledge, information and belief and as at the date of this annual report, the Company has maintained sufficient public float since the listing of the shares of the Company on the Main Board of the Stock Exchange on 18 March 2011.

## Events after the Reporting Period

The details of events after the reporting period are set out in note 32 to the consolidated financial statements.

## Audit Committee

The Audit Committee had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2010.

## Auditors

The Company has appointed Ernst & Young as auditors of the Company for the year ended 31 December 2010. Ernst & Young retired and, being eligible, offer themselves for re-appointment. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

## Closure of the Register of Members

The register of members will be closed by the Company from Wednesday, 18 May 2011 to Friday, 20 May 2011, both days inclusive. During such period, no transfer of shares of the Company will be registered. In order to qualify for entitlement to attend the forthcoming annual general meeting of the Company, all completed transfer forms accomplished by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 17 May 2011.

On behalf of the Board
**Chen Tao**
*Chairlady*

31 March 2011

# INDEPENDENT AUDITORS' REPORT

To the shareholders of
**CHINA KINGSTONE MINING HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Kingstone Mining Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 90, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

31 March 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **6,615** | — |
| Cost of sales | | **(2,023)** | — |
| **Gross profit** | | **4,592** | — |
| Other income | 5 | **64** | 2 |
| Selling and distribution costs | | **(477)** | (270) |
| Administrative expenses | | **(25,748)** | (2,610) |
| Other expenses | | **(1,371)** | (690) |
| Finance costs | 6 | **(2,320)** | (2,042) |
| **Loss before tax** | 6 | **(25,260)** | (5,610) |
| Income tax benefit | 8 | **4,205** | 241 |
| **Loss for the year** | | **(21,055)** | (5,369) |
| **Other comprehensive loss:** | | | |
| Exchange differences on translation of foreign operations | | **(2,568)** | — |
| **Total comprehensive loss for the year attributable to owners of the Company** | 9 | **(23,623)** | (5,369) |
| Loss per share attributable to ordinary equity holders of the Company: | | | |
| – Basic | 10 | **N/A** | N/A |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

| | *Notes* | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *11* | **87,863** | 23,812 |
| Intangible assets | *12* | **23,645** | 23,677 |
| Prepaid land lease payments | *13* | **2,389** | — |
| Goodwill | *15* | **2,966** | 2,966 |
| Deferred tax assets | *16* | **384** | — |
| | | **117,247** | 50,455 |
| **Current assets** | | | |
| Cash and cash equivalents | *17* | **80,082** | 5,670 |
| Pledged deposits | *18* | **3,308** | — |
| Trade receivables | *19* | **5,675** | — |
| Prepayments, deposits and other receivables | *20* | **10,243** | 422 |
| Inventories | *21* | **1,839** | — |
| | | **101,147** | 6,092 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | *22* | **73,308** | 11,860 |
| Trade payables | *23* | **998** | — |
| Other payables and accruals | *24* | **16,325** | 5,396 |
| Tax payable | | **462** | — |
| Due to the ultimate controlling shareholder | *25* | **—** | 27,419 |
| | | **91,093** | 44,675 |
| **Net current assets/(liabilities)** | | **10,054** | (38,583) |
| **Total assets less current liabilities** | | **127,301** | 11,872 |
| **Non-current liabilities** | | | |
| Deferred income | *26* | **207** | 230 |
| Deferred tax liabilities | *16* | **—** | 4,283 |
| | | **207** | 4,513 |
| **Net assets** | | **127,094** | 7,359 |
| **Equity** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *27* | **—** | — |
| Reserves | *28* | **127,094** | 7,359 |
| Total equity | | **127,094** | 7,359 |

**Chen Tao**
*Director*

**Lin Yuhua**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

| | Share capital | Capital reserve* | Contributed reserve* | Foreign currency translation reserve* | Accumulated losses* | Total equity |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | *note 27* | *note 28(a)* | *note 28(b)* | | | |
| At 1 January 2009 | — | — | 14,480 | — | (1,752) | 12,728 |
| Total comprehensive loss for the year | — | — | — | — | (5,369) | (5,369) |
| At 31 December 2009 and 1 January 2010 | — | — | 14,480 | — | (7,121) | 7,359 |
| Issue of ordinary share** | — | — | — | — | — | — |
| Capital injection | — | 143,358 | — | — | — | 143,358 |
| Total comprehensive loss for the year | — | — | — | (2,568) | (21,055) | (23,623) |
| At 31 December 2010 | — | 143,358 | 14,480 | (2,568) | (28,176) | 127,094 |

* *These reserve accounts comprise the combined reserves in the consolidated statement of financial position.*

** *On 29 March 2010, the Company issued one share with a par value of HK$0.10.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | **(25,260)** | (5,610) |
| Adjustments for: | | | |
| Depreciation of items of property, plant and equipment | *6, 11* | **1,593** | 873 |
| Less: Depreciation capitalized | *6* | **(1,257)** | (793) |
| | | **336** | 80 |
| Amortization of intangible assets | *6* | **32** | — |
| Amortization of prepaid land lease payments | *6* | **9** | — |
| Loss on disposal of items of property, plant and equipment | *6* | **265** | 666 |
| Interest on borrowings | *6* | **2,136** | 1,946 |
| Guarantee costs | *6* | **120** | 80 |
| Foreign exchange loss | *6* | **520** | — |
| Interest income | *5* | **(57)** | (2) |
| Deferred income released | | **(23)** | — |
| | | **(21,922)** | (2,840) |
| Increase in prepayments, deposits and other receivables | | **(1,214)** | (90) |
| Increase in inventories | | **(1,839)** | — |
| Increase in trade receivables | | **(5,675)** | — |
| Increase in trade payables | | **998** | — |
| Increase in other payables and accruals | | **5,900** | 964 |
| Net cash flows used in operating activities | | **(23,752)** | (1,966) |

Year ended 31 December 2010

| | Note | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of items of property, plant and equipment | | **(63,294)** | (11,521) |
| Proceeds from disposal of items of property, plant and equipment | | **164** | 1,117 |
| Purchase of mining rights | | **—** | (2,317) |
| Payment for prepaid land lease payments | | **(2,398)** | — |
| Proceeds from government grants | | **—** | 230 |
| Payment of deposits as security of bank borrowings | | **(3,308)** | — |
| Interest received | | **57** | 2 |
| Net cash flows used in investing activities | | **(68,779)** | (12,489) |
| **Cash flows from financing activities** | | | |
| Proceeds from interest-bearing borrowings | | **73,308** | 11,060 |
| Capital injection | | **143,358** | — |
| Repayment of interest-bearing borrowings | | **(11,860)** | — |
| Advance from the ultimate controlling shareholder | | **52,260** | 11,594 |
| Repayment to the ultimate controlling shareholder | | **(79,679)** | (1,375) |
| Payment of global offering costs | | **(5,464)** | — |
| Interest and guarantee costs paid | | **(1,892)** | (1,893) |
| Net cash flows from financing activities | | **170,031** | 19,386 |
| **Net increase/(decrease) in cash and cash equivalents** | | **77,500** | 4,931 |
| Cash and cash equivalents at beginning of year | | **5,670** | 739 |
| Net foreign exchange difference | | **(3,088)** | — |
| **Cash and cash equivalents at end of year** | | **80,082** | 5,670 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | *17* | **80,082** | 5,670 |

# STATEMENT OF FINANCIAL POSITION

31 December 2010

| | Notes | 2010 RMB'000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in subsidiaries | *14* | — |
| Due from subsidiaries | *14* | **137,678** |
| | | **137,678** |
| **Current assets** | | |
| Cash and cash equivalents | *17* | **391** |
| Prepayments, deposits and other receivables | *20* | **5,464** |
| | | **5,855** |
| **Current liabilities** | | |
| Other payables and accruals | *24* | **3,129** |
| Due to subsidiaries | *14* | **18,898** |
| | | **22,027** |
| **Net current liabilities** | | **(16,172)** |
| **Total assets less current liabilities** | | **121,506** |
| **Net assets** | | **121,506** |
| **Equity** | | |
| Share capital | *27* | — |
| Reserves | *28* | **121,506** |
| **Total equity** | | **121,506** |

**Chen Tao**
*Director*

**Lin Yuhua**
*Director*

## 1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 March 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands under the name of China Kingstone Mining Holdings Limited. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the production and sale of marble and marble related products. There were no significant changes in the nature of the Group's principal activities during the year.

Pursuant to the reorganization in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group. Details of the reorganization were set out in the Prospectus. The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since 18 March 2011.

In the opinion of the directors, the holding company of the Company is Wongs Investment Development Holdings Group Limited ("Wongs Investment"), which is incorporated in the British Virgin Islands, and the ultimate controlling shareholder of the Company is Mr. Huang Xianyou.

## 2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise standards and interpretations issued by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards ("IAS") and the Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consisting accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The acquisition of the subsidiaries pursuant to the reorganization was regarded as a business combination under common control. Accordingly, the consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the consolidated results for the years ended 31 December 2010 and 2009 include the results of the Company and its subsidiaries with effect from 1 January 2009 or since their respective dates of incorporation, whichever is shorter. The comparative consolidated statement of position as at 31 December 2009 has been prepared as if the existing Group had been in place at that date.

## 2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| IFRS 3 (Revised) | *Business Combinations* |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements* |

Other than as further explained below regarding the impact of amendments to IFRS 3 (Revised) and IAS 27 (Revised) included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

(a) The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisition, loss of control and transactions with non-controlling interests after 1 January 2010.

## 2.3 Issued but not yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

| | |
|---|---|
| IAS 32 Amendment | *Presentation — Classification of Rights Issues* [1] |
| IFRS 1 Amendment | *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2] |
| IFRS 1 Amendment | *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4] |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* [2] |
| IAS 24 (Revised) | *Related Party Disclosures* [3] |
| IFRIC 14 Amendments | *Prepayments of a Minimum Funding Requirement* [3] |
| IFRS 7 Amendments | *Financial Instruments: Disclosures -Transfers of Financial Assets* [4] |
| IFRS 9 | *Financial Instruments* [6] |
| IAS 12 Amendments | *Deferred Tax: Recovery of Underlying Assets* [5] |

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Effective for annual periods beginning on or after 1 July 2010*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

## 2.3 Issued but not yet Effective IFRSs (continued)

The IFRS 1 Amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced by *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7) issued in March 2009. As the Group is not a first-time adopter of IFRSs when IFRS 1 becomes effective, the amendment will not have any financial impact on the Group.

IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories as currently required by IAS 39, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirement of IAS 39.

In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly. The adoption of the revised standard is unlikely to have any significant impact on the related party disclosures of the Group. The Group is not a government entity.

The IAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the IAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The IFRIC 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the IFRIC 14 Amendments from 1 January 2011. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation will only have a material financial impact on the Group in the event that it undertakes such a transaction in the future.

## 2.3 Issued but not yet Effective IFRSs (continued)

IFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets, including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 January 2012 and the comparative disclosures are not required for any period beginning before that date.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt all these amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies and additional disclosures, none of these amendments are expected to have a significant financial impact on the Group.

## 2.4 Summary of Significant Accounting Policies

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

### Business combination and goodwill

#### Merger accounting for business combinations under common control

The financial statements of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of controlling parties.

#### Business combination from 1 January 2010

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the aquiree's identifiable net assets. Acquisition costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment testing of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

## 2.4 Summary of Significant Accounting Policies (continued)

### Business combination and goodwill (continued)

#### Business combination from 1 January 2010 (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit (group of cash-generating units) retained.

#### Business combination prior to 1 January 2010

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impairment asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

## 2.4 Summary of Significant Accounting Policies (continued)

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation of items of property, plant and equipment, other than mining infrastructure, is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 10–15 years |
| Plant and machinery | 5–15 years |
| Office equipment | 5 years |
| Motor vehicles | 5–10 years |

Depreciation of mining infrastructure is calculated using the Units of Production ("UOP") method to write off the cost of the assets proportionately to the extraction of the proved and probable mineral reserves.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

## 2.4 Summary of Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation (continued)

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine and subsequently amortized over the life of the mine on a UOP basis.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year end.

### Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortized over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the UOP method. Mining rights are written off to profit or loss if the mining property is abandoned.

### Leases

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

## 2.4 Summary of Significant Accounting Policies (continued)

### Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments represent the acquisition cost of state-owned land use rights in Mainland China. Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

### Investments and other financial assets

#### Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, deposits and other receivables.

#### Subsequent measurement

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in profit or loss. The loss arising from impairment is recognized in profit or loss.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to the ultimate controlling shareholder and interest-bearing borrowings.

#### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

### Loans and borrowings

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

### Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

### Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 2.4 Summary of Significant Accounting Policies (continued)

### Income tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

## 2.4 Summary of Significant Accounting Policies (continued)

### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Foreign currencies

The Financial Information is presented in RMB, as this is the principal currency of the economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into RMB at the rate of exchange prevailing at end of the reporting period and their income and expenses are translated at the weighted average exchange rates of each reporting period. The exchange differences arising on the translation are recognized in other comprehensive income.

### Employee benefits

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organized by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to profit or loss as they become payable in accordance with the rules of the defined contribution retirement benefit plans.

## 3. Significant Accounting Estimates

The preparation of the Financial Information requires management to make significant estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, the inherent uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

### Estimation uncertainty

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 and liabilities within the next financial year, are discussed below:

#### (a) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 and 2009 was RMB2,966,000. More details are given in note 15 to the financial statements.

#### (b) Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful 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. Management will increase the depreciation charge where useful lives are less than those previously estimated, or it will record reserve for technically obsolete assets that have been abandoned.

#### (c) Impairment of non-financial assets (other than goodwill)

The Group assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The carrying amount of the property, plant and equipment, including mining infrastructure, and mining rights, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment as at 31 December 2010 and 2009 were RMB87,863,000 and RMB23,812,000, respectively. The carrying amounts of mining rights as at 31 December 2010 and 2009 were RMB23,645,000 and RMB23,677,000, respectively.

## 3. Significant Accounting Estimates (continued)

### Estimation uncertainty (continued)

#### (d) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in both depreciation and amortization rates calculated on a UOP basis and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

#### (e) Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognized tax losses at 31 December 2010 was RMB5,261,000 (2009: RMB852,000).

## 4. Segment Information

For management purposes, the Group is organized into business units based on their products and services. The Group has one operating segment, which is mining development, for the years ended 31 December 2010 and 2009. Further, all the principal assets employed by the Group are located in Sichuan Province, the PRC. Accordingly, no segment analysis is provided.

Revenue from one customer amounted to RMB6,533,000 arising from sales of marble slabs for the year ended 31 December 2010.

## 5. Revenue and other Income

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable. The Group commenced its commercial production in September 2010, and there were no revenue, trade discounts or returns before then.

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Revenue: | | |
| Sale of marble slabs | **6,533** | — |
| Sale of marble blocks | **82** | — |
| | **6,615** | — |
| Other income | **64** | 2 |
| | **6,679** | 2 |

Other income mainly represents bank interest income for the years ended 31 December 2010 and 2009.

## 6. Loss before Tax

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

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Staff costs (including directors' remuneration *(note 7)*): | | | |
| Wages and salaries | | **5,326** | 1,838 |
| Pension scheme contributions | | | |
| — Defined contribution scheme | | **606** | 368 |
| Other staff benefits | | **809** | 434 |
| | | **6,741** | 2,640 |
| Less: Staff costs capitalized | | **(3,209)** | (1,965) |
| | | **3,532** | 675 |
| Global offering costs | | **16,117** | — |
| Interest on borrowings wholly repayable within five years | | **2,136** | 1,946 |
| Guarantee costs | | **120** | 80 |
| Bank charges | | **64** | 16 |
| Total finance costs | | **2,320** | 2,042 |
| Auditors' remuneration | | **1** | 1 |
| Amortization of intangible assets | *12* | **32** | — |
| Amortization of prepaid land lease payments | *13* | **9** | — |
| Depreciation of items of property, plant and equipment | *11* | **1,593** | 873 |
| Less: Depreciation capitalized | | **(1,257)** | (793) |
| | | **336** | 80 |
| Foreign exchange loss | | **520** | — |
| Operating lease rentals for office | | **324** | 31 |
| Loss on disposal of items of property, plant and equipment | | **265** | 666 |

## 7. Directors' Remuneration and Five Highest Paid Employees

Details of the remuneration of directors, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Fees | **—** | — |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **941** | — |
| Pension scheme contributions | **—** | — |
| | **941** | — |

### (a) Independent non-executive directors

The independent non-executive directors are Mr. Deng Huiqing, Mr. Chu Ho Hwa, Howard and Mr. Liu Yuquan.

There were no emoluments payable to the independent non-executive directors for the years ended 31 December 2010 and 2009.

### (b) Executive directors and non-executive directors

| | **Fees RMB'000** | **Salaries, allowances and benefits in kind RMB'000** | **Pension scheme contributions RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **Year ended 31 December 2010:** | | | | |
| Executive directors: | | | | |
| Chen Tao | — | 818 | — | 818 |
| Lin Yuhua | — | 46 | — | 46 |
| Liao Yuanshi | — | 25 | — | 25 |
| Xiong Wenjun | — | 52 | — | 52 |
| | — | 941 | — | 941 |

## 7. Directors' Remuneration and Five Highest Paid Employees (continued)

### (c) Five highest paid employees

The five highest paid employees for the years ended 31 December 2010 and 2009 fall into the following categories:

| | **2010** | 2009 |
|---|---|---|
| Directors | **1** | — |
| Non-directors | **4** | 5 |
| | **5** | 5 |

Details of directors' remuneration are set out above.

Details of the remuneration of the remaining non-director, highest paid employees for the years ended 31 December 2010 and 2009 are as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **903** | 369 |
| Pension scheme contributions | **—** | 64 |
| | **903** | 433 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | **Number of employees** | |
|---|---|---|
| | **2010** | 2009 |
| Nil to HK$1,000,000 | **4** | 5 |

For the years ended 31 December 2010 and 2009, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 8. Income Tax Benefit

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

## 8. Income Tax Benefit (continued)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the year ended 31 December 2010 and 2009.

The provision for the PRC corporate income tax ("CIT") is based on the respective CIT rates applicable to the subsidiaries located in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC for the years ended 31 December 2010 and 2009. The Group's subsidiaries located in Mainland China are subject to the PRC CIT rate of 25% from 2008.

The major components of income tax benefit for the years ended 31 December 2010 and 2009 are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current — Mainland China Charge for the year | **462** | — |
| Deferred tax movement *(note 16)* | **(4,667)** | (241) |
| Total tax credit for the year | **(4,205)** | (241) |

A reconciliation of income tax benefit applicable to loss before tax at the applicable income tax rate in the PRC to income tax benefit of the Group for each of the years ended 31 December 2010 and 2009 is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Loss before tax | **(25,260)** | (5,610) |
| Tax at the applicable tax rate of companies within the Group | **(6,315)** | (1,403) |
| Expenses not deductible for tax | **2,110** | 1,162 |
| Income tax credit at the Group's effective rate | **(4,205)** | (241) |

## 9. Comprehensive Loss Attributable to Owners of the Company

The consolidated total comprehensive losses attributable to owners of the Company for the year ended 31 December 2010 includes a loss of approximately RMB17,619,000 (2009: Nil), which has been dealt with in the financial statements of the Company (note 28).

## 10. Loss per Share

No loss per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the reorganization and the basis of presentation of the results for the years ended 31 December 2010 and 2009 as disclosed in note 2.1 to the financial statements.

## 11. Property, Plant and Equipment

### Group

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Mining infrastructure RMB'000 | CIP RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | | |
| **Cost:** | | | | | | | |
| At 1 January 2010 | 389 | 6,127 | 174 | 594 | — | 17,440 | 24,724 |
| Additions | 35 | 22,736 | 238 | 6,272 | — | 36,792 | 66,073 |
| Transfers | 3,482 | — | — | — | 27,302 | (30,784) | — |
| Disposals | (27) | — | (34) | (500) | — | — | (561) |
| At 31 December 2010 | 3,879 | 28,863 | 378 | 6,366 | 27,302 | 23,448 | 90,236 |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2010 | 75 | 696 | 67 | 74 | — | — | 912 |
| Provided for the year | 62 | 1,150 | 52 | 283 | 46 | — | 1,593 |
| Disposals | (5) | — | (21) | (106) | — | — | (132) |
| At 31 December 2010 | 132 | 1,846 | 98 | 251 | 46 | — | 2,373 |
| **Net carrying amount:** | | | | | | | |
| At 1 January 2010 | 314 | 5,431 | 107 | 520 | — | 17,440 | 23,812 |
| At 31 December 2010 | 3,747 | 27,017 | 280 | 6,115 | 27,256 | 23,448 | 87,863 |
| **31 December 2009** | | | | | | | |
| **Cost:** | | | | | | | |
| At 1 January 2009 | 389 | 7,967 | 162 | 403 | — | 7,821 | 16,742 |
| Additions | — | 464 | 17 | 292 | — | 9,632 | 10,405 |
| Disposals | — | (2,304) | (5) | (101) | — | (13) | (2,423) |
| At 31 December 2009 | 389 | 6,127 | 174 | 594 | — | 17,440 | 24,724 |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2009 | 35 | 517 | 38 | 89 | — | — | 679 |
| Provided for the year | 40 | 754 | 31 | 48 | — | — | 873 |
| Disposals | — | (575) | (2) | (63) | — | — | (640) |
| At 31 December 2009 | 75 | 696 | 67 | 74 | — | — | 912 |
| **Net carrying amount:** | | | | | | | |
| At 1 January 2009 | 354 | 7,450 | 124 | 314 | — | 7,821 | 16,063 |
| At 31 December 2009 | 314 | 5,431 | 107 | 520 | — | 17,440 | 23,812 |

As at 31 December 2009, certain items of property, plant and equipment of the Group with a net carrying amount of approximately RMB4,963,000 were pledged to non-related party guarantors who provided guarantees for the Group's interest-bearing bank loans (note 22).

## 12. Intangible Assets

### Group

| | Mining rights<br>RMB'000 |
|---|---|
| **31 December 2010** | |
| **Cost:** | |
| At 1 January 2010 and 31 December 2010 | 23,677 |
| **Accumulated amortization:** | |
| At 1 January 2010 | — |
| Provided during the year | (32) |
| At 31 December 2010 | (32) |
| **Net carrying amount:** | |
| At 1 January 2010 | 23,677 |
| At 31 December 2010 | 23,645 |
| **31 December 2009** | |
| **Cost:** | |
| At 1 January 2009 | 21,360 |
| Additions | 2,317 |
| At 31 December 2009 | 23,677 |
| **Accumulated amortization:** | |
| At 1 January 2009 and 31 December 2009 | — |
| **Net carrying amount:** | |
| At 1 January 2009 | 21,360 |
| At 31 December 2009 | 23,677 |

The mining rights represent rights for the mining of marble reserves in the Zhangjiaba Mine which is located in Jiangyou County, Sichuan Province, the PRC. The Mine is operated by the Company's subsidiary, Sichuan Jiangyou Jinshida Stone Co., Ltd. ("Sichuan Jinshida"). The local government granted the mining permit to Sichuan Jinshida for a term of 10 years to 1 June 2017.

## 13. Prepaid Land Lease Payments

### Group

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | — | — |
| Additions | 2,398 | — |
| Amortization for the year | (9) | — |
| Carrying amount at 31 December | 2,389 | — |

Prepaid land lease payments represent the acquisition cost of state-owned land use rights in Mainland China, which is held under a medium term lease.

## 14. Investments in Subsidiaries

| | 2010<br>RMB'000 |
|---|---|
| At cost: | |
| Kingstone Industrial Investment Limited ("Kingston Industrial")* | — |

* *The cost of the investment in Kingstone Industrial is US$1.*

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The directors of the Company are of the opinion that the amount due from subsidiaries will not be collected within the next twelve months.

## 14. Investments In Subsidiaries (continued)

Particulars of the Company's subsidiaries are set out below:

| Company name | Place and date of incorporation/ registration | Nominal value of issued and paid-up share/ registered paid-up capital | Percentage of equity interests attributable to the Company % | Principal activities |
|---|---|---|---|---|
| *Directly held:* | | | | |
| Kingstone Industrial | British Virgin Islands 7 April 2010 | US$1 | 100 | Investment holding |
| *Indirectly held:* | | | | |
| Kingstone (HK) Group Limited | Hong Kong 14 April 2010 | HK$10,000 | 100 | Investment holding |
| Kingstone (Guangzhou) Stone Industry Co., Ltd. ("Guangzhou Kingstone") | People's Republic of China ("PRC") 26 May 2010 | US$30,000,000 | 100 | Investment holding |
| Sichuan Jiangyou Golden Time Stone Co., Ltd. ("Sichuan Jinshida") | PRC 20 September 2005 | RMB10,000,000 | 100 | Mining development |

## 15. Goodwill

### Group

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| At cost: | | |
| At beginning and end of year | **2,966** | 2,966 |

Goodwill arose on the acquisition of Sichuan Jinshida which represented the excess of the cost of the business combination over the Group's interest in the net fair value of Sichuan Jinshida's identifiable assets and liabilities as at the date of the acquisition. Goodwill has been allocated to the Sichuan Jinshida cash-generating unit.

### Impairment testing of goodwill

Goodwill acquired through a business combination has been allocated to the Sichuan Jinshida cash-generating unit for impairment testing.

## 15. Goodwill (continued)

### Impairment testing of goodwill (continued)

The recoverable amount of the Sichuan Jinshida cash-generating unit has been determined based on value-in-use calculation using cash flow projections based on financial budgets covering a period to the expiry of the existing mining rights, i.e., 1 June 2017, approved by senior management. The discount rate applied to the cash flow projections is 13.36%.

Key assumptions were used in the value-in-use calculation of the Sichuan Jinshida cash-generating unit for 31 December 2010 and 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Estimated prices—the basis used to determine the value assigned to the estimated prices is based on market research and sales contracts signed with potential customers subsequent to 31 December 2010.

Estimated production volume and cost—the basis used to determine the value assigned to the estimated production volume and cost are based on the current mining and processing development plan.

Estimated gross margins — the basis used to determine the value assigned to the estimated gross margins is based on estimated prices less production costs determined as explained above.

Discount rates — the discount rate used is post-tax and reflects specific risks relating to the relevant unit.

## 16. Deferred Tax

The movements in deferred tax assets are as follows:

### Group

| | **Excess tax depreciation over book value of property, plant and equipment** | **Losses available for off setting against future taxable profits** | **Unrealized profit from inter-company transactions** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2009 | 63 | 566 | — | 629 |
| Deferred tax credited/(charged) to the consolidated statement of comprehensive income during the year *(note 8)* | (40) | 263 | — | 223 |
| At 31 December 2009 and 1 January 2010 | 23 | 829 | — | 852 |
| Deferred tax credited to the consolidated statement of comprehensive income during the year *(note 8)* | (23) | 4,432 | 264 | 4,673 |
| At 31 December 2010 | — | 5,261 | 264 | 5,525 |

## 16. Deferred Tax (continued)

The movements in deferred tax liabilities are as follows:

### Group

| | **Fair value adjustments arising from acquisition of a subsidiary** RMB'000 |
|---|---|
| At 1 January 2009 | (5,153) |
| Deferred tax credited to the consolidated statement of comprehensive income during the year *(note 8)* | 18 |
| At 31 December 2009 and 1 January 2010 | (5,135) |
| Deferred tax credited to the consolidated statement of comprehensive income during the year *(note 8)* | (6) |
| At 31 December 2010 | (5,141) |

As mentioned in note 8 to the financial statements, deferred tax assets and liabilities related to the PRC subsidiaries have been provided at an enacted corporate income tax rate of 25%.

For presentation purposes, deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Deferred tax assets recognized in the consolidated statement of financial position | **5,525** | 852 |
| Deferred tax liabilities recognized in the consolidated statement of financial position | **(5,141)** | (5,135) |
| | **384** | (4,283) |

## 17. Cash and Cash Equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **80,082** | 5,670 | **391** | — |

The Group's cash and bank balances are all denominated in RMB at each end of reporting period, except for the following:

| | RMB equivalent | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances: | | |
| HK$ | **2,877** | — |
| US$ | **62,838** | — |

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 18. Pledged Deposits

As at 31 December 2010, deposits of US$500,000 were pledged as security for short-term bank borrowings (note 22).

## 19. Trade Receivables

### Group

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | **5,675** | — |

An aged analysis of trade receivables, based on the goods delivery date, is as follows:

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Outstanding balances with ages: | | |
| Within 30 days | **5,675** | — |

## 19. Trade Receivables (continued)

The Group's trading terms with its customers are mainly on credit. In view of the fact that the Group sells most of its products to one customer, there is a high level of concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Trade receivables are non-interest-bearing and fully collected subsequent to 31 December 2010.

## 20. Prepayments, Deposits and Other Receivables

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments consisted of: | | | | |
| Purchase of | | | | |
| —Raw materials | **19** | 87 | **—** | — |
| —Utilities | **199** | 68 | **—** | — |
| Deferred global offering costs | **5,464** | — | **5,464** | — |
| Prepaid operating lease rentals to be amortized within one year | | | | |
| —Office | **31** | 30 | **—** | — |
| Deposits | **44** | 102 | **—** | — |
| Deductible VAT | **3,143** | — | **—** | — |
| Other receivables | **1,343** | 135 | **—** | — |
| | **10,243** | 422 | **5,464** | — |

None of the above assets is either past due or impaired. The financial assets included in the above relate to receivables for which there was no recent history of default.

## 21. Inventories

### Group

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At cost: | | |
| Marble blocks and slabs | **719** | — |
| Materials and supplies | **1,120** | — |
| | **1,839** | — |

## 22. Interest-Bearing Borrowings

### Group

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| Repayable within one year: | | | |
| Bank loans | | | |
| —unsecured | (a) | **70,000** | — |
| —secured | (b) | **3,308** | — |
| —secured and guaranteed | (c) | **—** | 4,000 |
| Other borrowings — unsecured | (d) | **—** | 7,860 |
| | | **73,308** | 11,860 |

Except for a secured bank loan which is denominated in United States dollars, all borrowings are in RMB.

(a) These unsecured bank loans are borrowed from Guangdong Development Bank and China Construction Bank, with amounts of RMB60,000,000 and RMB10,000,000, respectively, and bear interest at respective fixed rates in the range from 4% to 5% per annum.

(b) The secured bank loan is borrowed from Industrial and Commercial Bank of China with amount of US$500,000 (equivalent to approximately RMB3,308,000), and bears interest at 2% per annum above the LIBOR. It is secured by the pledge of the Group's time deposit amounting to US$500,000.

(c) As at 31 December 2009, the secured and guaranteed bank loan bore interest at a fixed interest rate of 6.903% per annum and was guaranteed by Jiangyou Yintong Credit Guarantee Co., Ltd. (江油銀通信用擔保有限公司), which is a non-related party engaged in the guarantee business. In accordance with the guarantee agreement entered into among Sichuan Jinshida, Jiangyou Yintong Credit Guarantee Co., Ltd. and Guangzhou Jiucheng Mining Co., Ltd. ("Jiucheng Mining"), a related party of the Company, Sichuan Jinshida agreed to pay guarantee costs at a rate of 2% of the guaranteed loan principal, and to secure certain of its property, plant and equipment with a net carrying amount of approximately RMB4,963,000 (note 11) to Jiangyou Yintong Credit Guarantee Co., Ltd.; and Jiucheng Mining agreed to provide a counter-guarantee to Jiangyou Yintong Credit Guarantee Co., Ltd. free of charge. The guarantee was fully released in August 2010 when the Group fully repaid this bank loan.

(d) The other borrowings were borrowed from several independent third party individuals and bore interest at a fixed interest rate of 36% per annum. The other borrowings were fully repaid in June 2010.

## 23. Trade Payables

### Group

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Trade payables | **998** | — |

Trade payables are non-interest-bearing and are normally settled in 180 days.

An aged analysis of trade payables, based on the invoice date, is as follows:

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Outstanding balances with ages: | | |
| Within 180 days | **998** | — |

## 24. Other Payables and Accruals

### Group

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Advances from customers | **106** | 97 |
| Accruals related to: | | |
| Property, plant and equipment | **6,923** | 1,758 |
| Taxes other than income tax | **636** | 423 |
| Payroll and welfare | **2,587** | 1,368 |
| Interest of borrowings | **519** | 155 |
| Global offering costs | **3,398** | — |
| Deposits received | **82** | 100 |
| Payable for rehabilitation | **900** | 1,400 |
| Other payables | **1,174** | 95 |
| | **16,325** | 5,396 |

### Company

| | 2010 RMB'000 |
|---|---|
| Accruals related to: | |
| Global offering costs | **3,129** |
| | **3,129** |

Other payables and accruals are non-interest-bearing and have average terms of one to three months.

## 25. Balances with Related Parties

### Group and Company

Balances with related parties are interest-free, unsecured and have no fixed terms of repayment.

The balances with the holding company as at 31 December 2010 were fully settled subsequently.

## 26. Deferred Income

Deferred income balance represents government grants in relation to certain machinery with a useful life of 10 years.

## 27. Share Capital

The Company was incorporated in the Cayman Islands on 29 March 2010, with authorized share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. Save for the reorganization, the Company has not conducted any business since the date of its incorporation. As at 31 December 2010, one ordinary share was issued and fully paid by the holding company, with a par value of HK$0.10.

## 28. Reserves

### (a) Capital reserve

For the year ended 31 December 2010, the holding company has made additional capital injections aggregating to US$21 million. However, the Company has not issued new ordinary shares to the holding company and temporarily recorded the capital injection in the capital reserve. Pursuant to a written resolution of the sole shareholder on 24 January 2011, the directors of the Company are authorized to allot and issue a total of 1,499,999,999 shares credited as fully paid at par to the holders of shares on the register of members of the Company at the close of business on 24 January 2011 (or as they may direct) in proportion to their respective shareholdings (save that no shareholder shall be entitled to be allotted or issued any fraction of a share) by way of capitalization of the sum of HK$149,999,999.90 standing to the credit of the share premium account of the Company and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

### (b) Contributed reserve

The contributed reserve of the Group resulted from the preparation of the Financial Information on the basis of preparation set out in note 2.1 to the financial statements. It represents the aggregate amount of the consideration of RMB24,480,000 paid to the former owners of Sichuan Jinshida by the ultimate controlling shareholder to obtain the control over Sichuan Jinshida by 14 March 2008 after netting off the investment cost of RMB10 million paid by the Group on the acquisition of the entire equity interest in Sichuan Jinshida from the ultimate controlling shareholder pursuant to the reorganization, as if the acquisition had been completed from the beginning of the years ended 31 December 2010 and 2009. The corresponding liability of the investment cost of RMB10 million payable to the ultimate controlling shareholder arising from the acquisition pursuant to the reorganization was classified as a current liability as at 31 December 2009 and the balance was settled in November 2010.

## 28. Reserves (continued)

### Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2010 are as follows:

| | Capital reserve | Foreign currency translation reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2010 | — | — | — | — |
| Capital injection | 143,358 | — | — | 143,358 |
| Total comprehensive loss for the year | — | (4,233) | (17,619) | (21,852) |
| At 31 December 2010 | 143,358 | (4,233) | (17,619) | 121,506 |

## 29. Commitments and Contingency

### (a) Capital commitments

The Group did not have capital commitments at 31 December 2009. As at 31 December 2010, the Group had the following capital commitments principally for the construction and purchase of property, plant and equipment.

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Authorized, but not contracted for | **—** | — |
| Contracted, but not provided for | **404** | — |

### (b) Operating lease arrangements

#### As lessee

The Group leases certain land premises under operating lease arrangements, with leases negotiated for terms ranging from 8 to 15 years with an option for renewal after that date, at which time all terms will be renegotiated.

## 29. Commitments and Contingency (continued)

### (b) Operating lease arrangements (continued)

At each end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Within one year | **132** | 27 |
| In the second to fifth years, inclusive | **366** | 173 |
| After five years | **552** | 259 |
| | **1,050** | 459 |

### (c) Contingency

On 13 August 2010, MS China 3, a third party, entered into the Note Purchase Agreement with the Company, its holding company, Wongs Investment, and the ultimate controlling shareholder of the Company, pursuant to which MS China 3 agreed to purchase the Exchangeable Note in the aggregate principal amount of US$15 million issued by Wongs Investment, exchangeable into the shares of the Company owned and held by Wongs Investment.

Pursuant to the Note Purchase Agreement, the Company has indemnified each of MS China 3's stakeholder and their directors, officers and agents (collectively, the "Indemnified Persons") against any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever, including any investigative, legal and other expenses incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding (collectively, "Losses") that any Indemnified Person may at any time become subject to or liable for in connection with claims by third parties by reason of the status of such stakeholder as stakeholder of the Company or of such director as a director of the Company, as the case may be, other than Losses arising from the gross negligence, willful misconduct, fraud or dishonesty of such Indemnified Person.

Moreover, the Company, Wongs Investment and the ultimate controlling shareholder have undertaken to jointly and severally indemnify, defend and hold harmless MS China 3 from and against any Losses resulting from or arising out of any claims against the Company or the Group relating to any tax liabilities that arose before the date of the Note Purchase Agreement (whether or not (i) such claims have been disclosed to MS China 3, (ii) such claims arise before or after the date hereof or (iii) MS China 3 has actual or constructive knowledge of such claims) for which full provision or reserve has not been made in the accounts and the management accounts of the Group as provided to MS China 3 prior to the date of the Note Purchase Agreement.

## 30. Related Party Transactions

(a) During the years ended 31 December 2010 and 2009, the Group had the following material transactions with related parties:

(i) As mentioned in note 22 to the financial statements, Jiucheng Mining, a related party controlled by the ultimate controlling shareholder of the Company, provided a counter-guarantee free of charge, to a third party guarantee company, which provided guarantee for the Group's bank loans with a carrying amount of RMB4,000,000 as at 31 December 2009. The directors consider that the counter-guarantee provided by a related party was conducted based on terms more favorable than terms available from an independent third party. These guarantees were fully released in August 2010.

(ii) Mr. Huang Xianyou is the ultimate controlling shareholder of the Company. Pursuant to a financial support agreement entered into between Mr. Huang and Sichuan Jinshida on 14 March 2008, Mr. Huang agreed to provide interest-free funding with a cap amount of RMB100 million to Sichuan Jinshida for its mining development for five years from 14 March 2008. The directors consider that the interest-free financial support provided by the ultimate controlling shareholder was conducted based on terms more favorable than terms available from an independent third party.

The above financial support agreement was terminated on 3 March 2011.

(b) Outstanding balances with related parties:

Details of the Group's balances with related parties at each year end are disclosed in note 25 to financial statements.

## 31. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and bank balances, deposits and other receivables, which arise directly from its operations. Financial liabilities of the Group mainly include advances from customers, other payables, amounts due to the ultimate controlling shareholder, and interest-bearing borrowings.

Risk management is carried out by the finance department which is led by the Group's executive directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The Board regularly reviews these risks and they are summarized below.

## 31. Financial Risk Management Objectives and Policies (continued)

### Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings and advances from the ultimate controlling shareholder.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, is as follows:

**31 December 2010**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Over 1 year RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Interest-bearing bank and other borrowings | — | 3,900 | 72,725 | — | 76,625 |
| Trade payables | — | 998 | — | — | 998 |
| Financial liabilities under other payables and accruals | — | 12,322 | — | — | 12,322 |
| | — | 17,220 | 72,725 | — | 89,945 |

**31 December 2009**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Over 1 year RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Interest-bearing bank and other borrowing | — | 4,644 | 8,864 | — | 13,508 |
| Financial liabilities under other payables and accruals | — | 3,413 | — | — | 3,413 |
| Due to the ultimate controlling shareholder | 27,419 | — | — | — | 27,419 |
| | 27,419 | 8,057 | 8,864 | — | 44,340 |

## 31. Financial Risk Management Objectives and Policies (continued)

### Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits and interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing borrowings are disclosed in note 22 to the financial statements. The Group manages its interest rate exposure from all of its interest-bearing borrowings through the use of fixed rates.

In addition, the Group does not consider that it has any significant exposure to the risk of changes in market interest rates from its bank deposits as a reasonably possible change of 25 basis points in the interest rates would have no material impact on the Group's consolidated statements of comprehensive income for the years ended 31 December 2010 and 2009.

### Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

### Credit risk (continued)

The Group's cash and cash equivalents are mainly deposits with state-owned banks in Mainland China. The credit risk of the Group's other financial assets, which comprise trade and other receivables, have a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

The Group sells most of its products to a small number of customers, therefore there is a high level of concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. During the year, the Group generated its revenue from the sale of marble products to distributors that purchase the Group's products and resell them to construction contractors, thereby exposing the Group to the concentration of credit risk in the construction industry.

### Foreign currency risk

The Group's exposure to foreign currency risk relates to the Group's bank deposits dominated in US$.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. Management monitors the Group's foreign currency exposure and will consider hedging significant foreign currency exposure when the needs arise.

## 31. Financial Risk Management Objectives and Policies (continued)

### Foreign currency risk (continued)

The following table demonstrates the sensitivity to a 5% change in RMB against US$. The 5% is the rate used when reporting currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the foreign currency rate. The sensitivity analyses of the Group's exposure to foreign currency risk at the end of each reporting period have been determined based on the adjustment of translation of the monetary assets at the end of each reporting period for a 5% of change in RMB against US$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash and cash equivalents denominated in US$).

| | **2010** | 2009 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Increase/(decrease) in profit before tax:* | | |
| If RMB weakens against US$ | **3,142** | — |
| If RMB strengthens against US$ | **(3,142)** | — |

### Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's financial instruments approximated to their fair values due to the short-term maturity at each year end.

### Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the directors review the capital structure on a regular basis. During the start-up stage of the Group, the equity holders of the Company contributed capital based on the needs of the Group. The dividend policy will be established when the Group starts to generate significant revenues from its activities. Management will regularly review the capital structure.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital for the years ended 31 December 2010 and 2009.

## 32. Events After the Reporting Period

On 31 January 2011, the Group entered into a bank loan agreement amounting to RMB26 million for a period of six months with a bank located in Mainland China. The bank loan is unsecured and bears interest at a fixed rate of 6% per annum.

In February 2011, the Group obtained a new mining permit that covers substantially the same mining area as the permit obtained in 2009. This mining permit covers a mining area of 0.44 $km^2$ with an elevation from 590 m to 938 m above mean sea level.

On 18 March 2011, pursuant to the written resolution of the Company's shareholders, an aggregate of 1,499,999,999 shares of HK$0.10 each of the Company were allotted and issued, credited as fully paid at par to the Company's shareholder at the date.

In connection with the global offering 500,000,000 shares of HK$0.10 each were issued at a price of HK$2.25 per share for a total cash consideration, before offering costs, of HK$1,125,000,000.

The Company's shares have been listed on the Main Board of Stock Exchange since 18 March 2011.

## 33. Approval of the Financial Statements

The financial statements were approved and authorized for issue by the Board on 31 March 2011.

# FINANCIAL SUMMARY

## Consolidated Statement of Comprehensive Income

| | Period from 14 March 2008 to 31 December 2008 (RMB'000) | Year ended 31 December 2009 (RMB'000) | **Year ended 31 December 2010 (RMB'000)** |
|---|---|---|---|
| **Revenue** | — | — | **6,615** |
| Loss before tax | (2,005) | (5,610) | **(25,260)** |
| Income tax benefit | 253 | 241 | **4,205** |
| Loss for the period/year | (1,752) | (5,369) | **(21,055)** |
| Other comprehensive loss: | | | |
| Exchange differences on translation of foreign operations | — | — | **(2,568)** |
| **Total comprehensive loss for the year attributable to owners of the Company** | (1,752) | (5,369) | **(23,623)** |
| Loss per share attributable to ordinary equity holders of the Company | | | |
| —Basic | N/A | N/A | **N/A** |

## Consolidated Statement of Financial Position

At 31 December

| | 2008<br>RMB'000 | 2009<br>RMB'000 | **2010**<br>**RMB'000** |
|---|---|---|---|
| Non-current assets | 40,389 | 50,455 | **117,247** |
| Current assets | 1,071 | 6,092 | **101,147** |
| Current liabilities | 24,208 | 44,675 | **91,093** |
| Net current assets/(liabilities) | (23,137) | (38,583) | **10,054** |
| Total assets less current liabilities | 17,252 | 11,872 | **127,301** |
| Non-current liabilities | 4,524 | 4,513 | **207** |
| Net assets | 12,728 | 7,359 | **127,094** |
| Total equity | 12,728 | 7,359 | **127,094** |

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