

# 2011

## Interim Report

### 中期報告



**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



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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

Codan Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

## Headquarters 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

## CORPORATE INFORMATION (continued)

### Legal Adviser

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 Tianpingjia Branch  
Guangdong Province  
the PRC

Industrial and Commercial Bank of China (Asia) Ltd.  
Hong Kong

China Construction Bank  
Guangzhou Dongshan Subbranch  
Guangdong Province  
the PRC

China Construction Bank  
Guangzhou Zhixinnan Subbranch  
Guangdong Province  
the PRC

### Stock Name

China Kingstone Mining Holdings Limited  
(Chi Kingstone)

### Stock Code

1380

### Website of the Company

[www.kingstonemining.com](http://www.kingstonemining.com)

# FINANCIAL HIGHLIGHTS

The revenue of China Kingstone Mining Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) amounted to approximately RMB104,472,000 for the six months ended 30 June 2011 (the “Review Period”). We commenced commercial production in September 2010, before that we focused on mine planning, construction and infrastructure development. Therefore, the Group did not generate revenue from our operations during the corresponding period last year and we had achieved significant growth this year.

The profit of the Group for the six months ended 30 June 2011 was approximately RMB12,501,000, approximately 11.97% of the total revenue. The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 18 March 2011. In the Review Period, the administrative expenses included the listing related expenses which were approximately RMB24,916,000 and the equity-settled share-based share option expense which was approximately RMB20,406,000. These two items were one-off non-operating expenses. If we excluded these two items from the administrative expenses, the total comprehensive income to owners of the Company from core business for the Review Period could be reflected as RMB55,088,000, approximately 52.73% of the total revenue.

The basic earnings per share attributable to shareholders of the Company amounted to approximately RMB0.64 cents for the six months ended 30 June 2011. No information on loss per share is presented for the comparison period in last year, such information is not considered meaningful since the capital structure as at 30 June 2010 only reflected the pre-IPO structure.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Review

### Rapid Growth of Stone Industry

With the rapid urbanization, acceleration of infrastructure construction in urban areas and commencement of major projects in China, the domestic stone industry embraces new opportunities and shows enormous growth potential. At present, China is one of the largest countries in the world in terms of block production, stone products processing capacity, stone consumption and stone trade. According to the website of China Industrial Information (中國產業資訊網), in 2010, the total marble slabs output in China was approximately 56,400,000 m<sup>2</sup>. With the huge demand for marbles in the Chinese market, China's marble slab production will be consumed rapidly in the future. According to past statistics, China contributed approximately 17% of the global beige marble slab output, just lagging behind Iran and Egypt. Comparing with prices of other major construction, renovation and decoration materials, prices of stone products are generally more stable.

Marble is one of the main decorative materials for high-end buildings. In recent years, over 50% of marbles were used for such purpose. More importantly, with the substantial rise in living standards, customers in China now have more sophisticated demand in architectural taste and such trend has made beige marble become a very popular construction, renovation and decoration material in the high-end market. China is the second largest country in the world in terms of beige marble consumption volume, representing about 20% of the world's beige marble consumption volume. Among regions within China, highly developed cities in coastal and central and southern regions consumed the largest portion of beige marbles, accounting for approximately 50% of the total national consumption volume, the reason is that marble is a high-end decoration material and is only affordable by cities and regions which have attained certain level of economic development.

### Scarcity of Beige Marble Resources

Beige marble is a type of natural mineral stone in China and there has been undersupply in the market with only few large-sized processing enterprises focusing on beige marble slab production. Besides the Group, there is no domestic enterprise focusing on the production of beige marble. Around 85% of beige marble block in China were imported from foreign countries, which included Iran's Royal Batticino, Perlatio Sicilia and Botticino Classico, Cream Marfil and Bianco Botticino from Portugal, etc. Beige marble falls into the mid- to high-end range, and prices of renowned international brand such as Royal Batticino has surpassed RMB2,000/m<sup>2</sup>. China mainly imports beige marble from countries such as Egypt, Turkey, Italy, Portugal, Spain and Iran, with annual import volume reaching 3,000,000 m<sup>3</sup>. With the increasing production of high-end beige marble of the Group, import products would be gradually replaced by domestic choices. The growth of demand and consumption volume of beige marble has remained on the fast track.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review

Zhangjiaba Mine, which is owned by the Group, has the most abundant beige marble reserve in China. The Company has acquired 10 years of mining rights and consideration paid by the Company for such certificate confers the right to our reserve mined in a period of 30 years, which made the Group practically possessing the largest resource for beige marble production in China. Such mine contains high-quality beige marble reserves, while premium beige marble slabs and blocks are currently the major products of the Group.

In the first half of 2011, the Group has continued to upgrade its mining and processing capacities and leverage on its enlarged capacities to actively identify other high-quality mines with a view to reinforcing our strength in resources. With respect to our strategy on customers, we have aggressively pursued cooperation opportunities with end-customers in the industrial chain, targeted high-end marble construction market and approached target customers directly in order to reduce operation costs and increase profits. The Group has also endeavored to increase its brand awareness through participating in landmark construction projects in order to enhance the value of our shareholders' investments.

The area of the mining platform in the eastern orebody of Zhangjiaba Mine has reached 18,000 m<sup>2</sup> as of the end of the first half of 2011 through the Company's efforts in purchasing more machines and equipment, increasing human resources and expanding mine infrastructure. In June 2011, the Group has raised the marble block mining capacity to about 3,500 m<sup>3</sup> per month, meeting the target of annual production capacity for 2011 of 45,000 m<sup>3</sup>. Besides focusing on enlarging mining platform and perking up production capacity of blocks, the Company is actively preparing for the construction of its own processing plant. Since the original site of processing plant in Jianguyou has not delivered the required approvals under the domestic laws and regulations, the Group is not able to embark on such construction plan in the foreseeable future, nevertheless, the Group is in the process of identifying suitable site to construct large-scale marble slab processing plants. We have identified several regional hubs of the stone material industry in China and are assessing the alternatives of setting up our processing plant through greenfield investment or acquisitions. Upon the completion of the comprehensive capacity enhancement plan in 2014, the annual marble block mining capacity of the Group is expected to reach 150,000 m<sup>3</sup> and the annual marble slab processing capacity of the Group's processing facilities is expected to increase to 3,000,000 m<sup>2</sup>. According to the estimation of China Stone Material Association, upon accomplishing the capacity upgrading plan, the Group will clinch the top spot among marble mining companies in China in terms of mining capacity and processing capacity of a single mine type.

The Group has also spared no effort to expand its resource of quality decorative stone mine. At March 2011, the Group entered into a letter of intent with an independent third party for acquiring the Tujisi Mine. In 29 August 2011, the Group entered into the sale and purchase agreement in acquisition of 100% equity interest in Beichuan Lida Mining Co., Ltd. ("Beichuan Lida") which owned the mining right of Tujisi Mine, which is situated in the same mineral vein as our Zhangjiaba Mine and with estimated resources of approximately 6,100,000 m<sup>3</sup> (332+333 under Chinese Standard). We have already entered into the final stage of geographical exploration. Although the exploration report was not formally completed, the actual amount of resources of Tujisi Mine is much higher than expected according to the current site information. Through such acquisition, the Group could further increase its production volume of block and processing volume of slab, especially enriching the mid to high-end beige marble product series which have higher market competitiveness. In the future, the Group will continue to actively identify other acquisition opportunities of mine resources in order to continuously fortify our strength in resource in the marble industry.

The Group targets its products in high-end marble construction, renovation and decoration material market and directly develops close cooperative relations with end customers, such as construction company, property developer and engineering company. Besides, we also hold discussion on suitable acquisition opportunities in order to enhance the competitiveness of the Group in the whole stone industrial chain. Through approaching large-scale and high-end customers directly, we could reduce fees incurred by undergoing transactions through multi-layered sales channels and increase profit of the Group. Moreover, through participating in landmark construction projects, we could rapidly build up the brand awareness of our marbles and create more wealth for our shareholders.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Summary of Production and Sales Performance

The Company is the first marble mining company listed on the Main Board of Stock Exchange. Since its listing on 18 March 2011, the Group has adhered to its listing commitments, focusing on enhancing capacity and improving business performance. During the Review Period, we produced a total of 9,371 m<sup>3</sup> of marble blocks in Zhangjiaba Mine, which is a marble mine owned by the Group in Sichuan, and processed a portion of the blocks into an aggregate of 91,460 m<sup>2</sup> of marble slabs, of which, about 1,338 m<sup>2</sup> was Pure Beige marble slabs and approximately 90,122 m<sup>2</sup> was Mixed Beige and other marble slabs. As at 30 June 2011, the Group has sold about 7,612 m<sup>3</sup> of marble blocks, which amounted to about RMB62,159,000 and about 88,384 m<sup>2</sup> of marble slabs in the amount of approximately RMB42,313,000. Sales of marble blocks and marble slabs represented 60% and 40% of the total revenue respectively from January to June 2011.

During the Review Period, the average selling price of each square meter of Pure Beige marble slab was RMB865 and the average selling price of each square meter of Mixed Beige marble slab was RMB568. The Group was committed to reduce costs and enhance efficiency and ramp up the economies of scale in production in order to efficiently control unit cost, which has reduced from RMB332 per square meter to RMB169 per square meter, while production cost in cash incurred by outsourcing marble processing was RMB159 per square meter.

### Zhangjiaba Mine Marble Resource and Reserve Summary, as of 30 June 2011 (JORC Compliant)

JORC Resource and Reserve Class	(Mm <sup>3</sup> )
Measured Resource	15.74
Indicated Resource	28.41
<b>Total Resource</b>	<b>44.15</b>
Proved Reserve	5.98
Probable Reserve	10.80
<b>Total Reserve</b>	<b>16.78</b>



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Our operation results from January to June 2011 are summarized as follow:

	September– December 2010	January– March 2011	April– June 2011	January– June 2011
<b>Marble Block Mining</b>				
Marble block mined (m <sup>3</sup> )	1,145	850	8,521	9,371
<b>Marble Block for Sales &amp; Processing</b>				
Marble blocks for direct sales (m <sup>3</sup> )	24	1,456	6,156	7,612
Marble blocks for slab processing (m <sup>3</sup> )	344	157	2,320	2,474
Marble blocks stocks (m <sup>3</sup> )	777	14	57	57
<b>Subtotal</b>	1,145	1,625	8,533	10,146
<b>Marble Slab Processing &amp; Sales</b>				
<b>Outsourced Marble Slab Processing</b>				
Marble slabs processed				
Pure Beige (m <sup>2</sup> )	3,087	1,107	231	1,338
Mixed Beige (m <sup>2</sup> )	9,365	2,577	60,226	62,803
Others (m <sup>2</sup> )	—	2,060	25,259	27,319
<b>Subtotal</b>	12,452	5,744	85,716	91,460
<b>Total Marble Slabs Sold</b>				
Pure Beige (m <sup>2</sup> )	3,000	1,107	—	1,107
Mixed Beige (m <sup>2</sup> )	9,000	2,577	59,250	61,827
Other (m <sup>2</sup> )	—	2,060	23,390	25,450
<b>Subtotal</b>	12,000	5,744	82,640	88,384
<b>Average Selling Prices (Note)</b>				
Marble block ASP (RMB/m <sup>3</sup> )	3,414	4,693	10,773	9,610
Marble slab ASP				
Pure Beige (RMB/m <sup>2</sup> )	842	865	865	865
Mixed Beige (RMB/m <sup>2</sup> )	570	568	568	568
Others (RMB/m <sup>2</sup> )	—	538	540	539
<b>Unit Production Cost</b>				
Marble block production cash cost (RMB/m <sup>3</sup> )	7,012	4,624	1,951	2,194
Marble block production total cost (RMB/m <sup>3</sup> )	7,280	5,308	2,276	2,557
Equivalent marble slab production cash cost (RMB/m <sup>2</sup> )	325	232	152	159
Equivalent marble slab production total cost (RMB/m <sup>2</sup> )	332	253	161	169

Note: The average selling price includes the VAT

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Quality Marble Products

The Group mainly engages in the production of quality premium beige marble slabs and blocks. The Zhangjiaba Mine of the Group contains various kinds of beige marbles, including Pure Beige, Mixed Beige, Wood Grain and Gray Net marbles, which account for 51.0%, 32.7%, 6.4% and 9.9% of our marble reserves respectively. The Group mainly produces Pure Beige and Mixed Beige marbles at present and both products are premium marbles, with Pure Beige marble commanding the highest price and Mixed Beige marble ranking behind. The Group continues to target the high-end market and according to an independent review conducted by China Stone Material Association, the physical specifications and appearance of our marble samples are similar to those renowned international brands such as Cream Marfil, Frans Beige and Royal Batticino, and are suitable for use in the decoration of premium commercial and public buildings such as hotel, office, museum and monument. Therefore, the prices of our beige marble slabs are comparable to those set by renowned international premium brands and substantially higher than the marble prices of other domestic brands in China. On one hand, the minimum average selling price of beige marble of the Group is approximately 4.7 times higher than the lowest average selling price of domestic brand, demonstrating that beige marble produced by the Group not only has higher quality, but also enjoys higher margin. On the other hand, the minimum average selling price of beige marble of the Group has approximately a 40% discount to renowned international brands, which shows that there are still plenty of rooms for achieving revenue growth. Leveraging on the existing resources and technical standards and sales channels, the Group is poised to realize further growth through establishing its own brands on a more solid foundation.

### Acquisition of Mines and Strategic Consolidation

The acquisition of marble reserves implies the gaining of dominant position in the market, therefore, the Group continues to keep track and explore on the mine acquisition projects of this year and embarks on resources consolidation on a larger scale with a view to strengthening the competitiveness of the Group in terms of resources. In March 2011, the Group entered into a letter of intent with an independent third party for acquiring the Tujisi Mine. On 29 August 2011, the Group entered into the sale and purchase agreement in acquisition of 100% equity interest in Beichuan Lida, which owned the mining right of Tujisi Mine locating in the same mineral vein as our Zhangjiaba Mine and with estimated resources exceeding 6,100,000 m<sup>3</sup> (332+333 under Chinese Standard). According to our preliminary plan, the mining capacity for blocks will reach 50,000 m<sup>3</sup> per annum, while processing capacity for slabs will amount to 1,000,000 m<sup>2</sup> annually. Such resources enlargement plan will be launched in 2013 and targets to be completed in 2015, when new products would be introduced to the market to meet requirements of various customers. The linear distance between Zhangjiaba Mine and Tujisi Mine is about 3 km. The Group is well-equipped to develop Tujisi Mine with its existing technical know-how, infrastructure and facilities and achieve synergy and realize the benefits of economies of scale.

On the other hand, the Group has successfully entered into an equity transfer agreement with Guangdong Jiapeng Construction Co., Ltd. ("Guangdong Jiapeng Construction"), in July 2011, pursuant to which, 49% equity interest in Guangdong Jiapeng Construction will be acquired at a consideration of RMB15,000,000. Guangdong Jiapeng Construction is a construction company in Guangzhou and Zhujiang delta region, such acquisition could complement the strength in resources of the Group and it not only allows us to sell our products directly to major high-end customers, but also curtails fees arising from the multi-layered intermediate sales channels, which would beef up profits of the Company and create synergy. In addition, we could enhance brand awareness of our marbles swiftly through participating in construction of landmark projects, while Guangdong Jiapeng Construction could secure the source of high quality and premium beige marble. Through entering into such cooperative arrangement, both parties could benefit mutually from jointly exploiting the construction, renovation and decoration markets which have high development potentials. Taking into consideration of the mine resources of the Group, the introduction of our products to the decoration and renovation market can deliver higher profit than merely selling slabs and blocks.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Strategies

It is the Group's goal to become a leading integrated marble business operator in China. In order to achieve this target, the Group plans to implement the following strategies:

- **Perk up mining and processing capacity**

We will continue to ramp up capacity in order to closely follow rising market demand and the annual aggregate mining capacities of marble blocks are expected to increase substantially. On the other hand, we are actively seeking for suitable site to construct ultra large-scale modern processing plant and strive hard to achieve the maximum target of production capacity of mines and realize the production plan of full operation of processing plant in 2014. Before the commencement of production of our own processing plant, we entered into long-term processing agreements with renowned stone enterprises in China, such as Universal Marble & Granite Group Ltd. and Kangli Stone Group, to guarantee the production and quality of slabs.

- **Establish solid customer base and strengthen customer relations**

We will focus on developing business relations with distributors which have outstanding track records, strong customer base and extensive sales and marketing networks.

- **Participate in landmark construction projects**

We will cooperate with famous property developers, renovation and decoration companies and construction design companies to obtain the contracts of marble supply for landmark construction projects.

- **Enhance brand awareness and pricing power**

We will actively participate in industrial activities and form win-win strategic alliance with major and renowned national stone material enterprises with comprehensive distribution networks. In addition, the Group plans to target at landmark construction projects (such as 5-stars hotels and major commercial and public constructions) when promoting its products in the market in order to increase the popularity of the products of the Group.

- **Increase marble reserves through further expansion and selective acquisition**

Since the exploration potential beyond our permitted mining area and in other neighboring marble mines in Sichuan Province is high, the Group could largely increase its marble resource and reserve through acquiring neighboring mines or additional exploration and mining rights of mining companies. The Group will keep an eye on the opportunities to acquire mines with promising exploration potential which are beyond our existing mining area in order to build up the resource and reserve of the Group in Sichuan. The Group will also seek to expand its business through acquiring quality marble mines with reserves which could support mining activities for over 10 years in other areas of China. Preliminary geographical works conducted on the two mines for which letter of intent for acquisition was originally entered into indicate that the amount of resources and quality do not justify the price requested by the mine owner and the acquisition plan was therefore aborted. We are now identifying suitable mine as acquisition target.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## Financial Review

### The Financial Trend since the Group Commenced Commercial Production

	2010	January to June 2011		
	RMB'000	The First Quarter RMB'000 <i>Note 1</i> (unaudited)	The Second Quarter RMB'000 <i>Note 2</i> (unaudited)	For the six months ended 30 June RMB'000 <i>Note 3</i> (unaudited)
Revenue	6,615	8,863	95,609	104,472
Cost of Sales	(2,023)	(2,054)	(12,185)	(14,239)
Gross Profit	4,592	6,809	83,424	90,233
Total comprehensive income attributable to owners of the Company	(23,623)	(31,440)	41,206	9,766

*Note 1: The first quarter's figures were announced in April 2011;*

*Note 2: The second quarter's figures are balancing figures for reference only;*

*Note 3: The figures for the six months ended 30 June 2011 have been reviewed by independent auditors.*

### Revenue

For the six months ended 30 June 2011, the Group recorded revenue of RMB104,472,000. The Group commenced sales of marble slabs and marble blocks from October 2010. Compared to the six months ended 30 June 2010, it was still in the stage of mine planning, construction and infrastructure development. The significant increase of turnover is noted as the Group commenced the sales of marble slabs and blocks in the Review Period.

### Cost of sales

For the six months ended 30 June 2011, the Group incurred cost of sales of RMB14,239,000. Cost of sales mainly comprises of salary of workers in the marble mine, supplementary material, fuel and electricity, depreciation and amortization, environmental and safety expenses. The Group commenced commercial operation in September 2010, hence the cost of sales recorded a noticeable increment in the six months period ended 30 June 2011. Cost of sales bears about 13.63% of the revenue.

### Gross profit

The Group recorded a gross profit amounted to RMB90,233,000 for the six months ended 30 June 2011. The gross profit ratio is approximately 86.37%. The Group commenced commercial operation in September 2010, hence a noticeable increment of gross profit was recorded in the six months period ended 30 June 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Other income

Other income of the Group increased from RMB6,000 for the six months ended 30 June 2010 to RMB4,202,000 for the six months ended 30 June 2011.

For the six months ended 30 June 2011 other income mainly comprises interest income from bank deposits and other interest income of the Group.

For the six months ended 30 June 2010 other income mainly consisted interest income from bank deposits of the Group.

### Administrative expenses

The administrative expenses of the Group increased from RMB3,858,000 for the six months ended 30 June 2010 to RMB57,246,000 for the six months ended 30 June 2011.

The sharp increment of the amount was resulted from the professional expenses of the Group incurred in relation to the listing of the Company which was amounted to RMB24,916,000. Moreover, since the commencement of the commercial operation of the Group, staff costs and consultation costs also increased substantially from RMB1,467,000 for the six months ended 30 June 2010 to RMB9,191,000 for the six months ended 30 June 2011. Equity-settled share-based share option expenses increased due to the grant of share option to certain director and senior management of the Company on 24 January 2011, of which amount recognized for the six months ended 30 June 2011 amounted to RMB20,406,000.

### Selling and distribution costs

The selling and distribution costs of the Group decreased from RMB334,000 for the six months ended 30 June 2010 to RMB103,000 for the six months ended 30 June 2011. The decrease in selling and distribution costs mainly resulted from the decrease in the advertising expenses during the Review Period.

### Finance costs

Finance costs decreased from RMB1,658,000 for the six months ended 30 June 2010 to RMB1,622,000 for the six months ended 30 June 2011.

Reduction of the finance costs was mainly due to the decrease in guarantee fee paid to third party guarantors.

### Other expenses

Other expenses of the Group increased from RMB28,000 for the six months period ended 30 June 2010 to RMB2,095,000 for the six months ended 30 June 2011.

The major change of the other expenses was the exchange loss resulted from the depreciation of US dollar and HK dollar against Renminbi during the Review Period.

### Tax benefit and expense

The tax benefit decreased from RMB954,000 for the six months ended 30 June 2010 to a tax expense of RMB20,868,000 for the six months ended 30 June 2011.

The decrease in the tax credit was due to the commencement of business operation of the Company, which generated taxable profit, and thus incurred tax.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Dividend

No dividends were declared for the six months period ended 30 June 2010 and 2011.

### Cashflow

For the six months ended 30 June 2011, we principally engaged in the exploration, mining, and sale of blocks and slabs in China.

Our planned future capital expenditures mainly comprise the capital requirements for the mining operations, acquisition of exploration and mining rights and cash reserves to carry out future acquisitions. Our capital requirements include construction of infrastructures and processing facilities. We plan to fund the capital expenditures and working capital with cash from operating activities, existing bank and cash balances and net proceeds from the initial public offering of the Company's shares ("IPO") in the way as set out in the prospectus of the Company dated 18 March 2011 ("Prospectus"), we may also finance our working capital, if needed, with a combination of short-term and long-term bank borrowings.

Cash and cash equivalents increased in the amount of approximately RMB 735,978,000 from approximately RMB 80,082,000 as at 31 December 2010 to approximately RMB 816,060,000 as at 30 June 2011.

### Operating Activities

Net cashflow from operating activities changed from an outflow of RMB1,904,000 for the six months ended 30 June 2010 to an inflow of RMB30,227,000 for the six months ended 30 June 2011. The increase in the cash inflow in the Review Period mainly resulted from the commencement of commercial operation of the Group this year.

### Investing Activities

Net cash outflow from investing activities of the Group increased from RMB31,496,000 for the six months ended 30 June 2010 to RMB309,084,000 for the six months ended 30 June 2011. The sharp increment represented the purchase of property, plant and equipment and intangible assets. In addition, a fixed deposit with an amount of RMB200,000,000 held at bank with maturity over three months was placed during the Review Period.

### Financing activities

Net cash inflow from financing of the Group increased from RMB33,691,000 for the six months ended 30 June 2010 to RMB819,634,000 for the six months ended 30 June 2011. The increment mainly represented the net proceeds from IPO in March 2011 with an amount of approximately HK\$1,050,000,000, and repayment of interest bearing borrowing of RMB73,308,000.

### Borrowings

As at 30 June 2011, the Group did not have any short-term or long-term bank loans. Gearing, being total interest-bearing debt divided by total assets, was nil.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Use of net proceeds from the 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, whether existing or new) amounted to approximately HK\$1,050,000,000 (equivalent to approximately RMB883,700,000).

As at 30 June 2011, the net proceeds of IPO had been utilized in the following manner:

	<b>Planned amount per Prospectus</b>	<b>Amount utilized up to 30 June 2011</b>	<b>Balance as at 30 June 2011</b>
	RMB million	RMB million	RMB million
Construction of the main production facilities of the Zhangjiaba Mine and marble slab processing facilities, procure mining and processing equipment, and acquire land use rights	574	50	524
Establishment of distribution channels and networks	164	0	164
Acquisition and development of additional marble reserves	82	2	80

The unutilised balance was placed in bank deposits in accounts at commercial banks in Hong Kong and in China. The Group intends to utilise the net proceeds balance in the same manner and proportion as set out in the Prospectus.

### Employees and emoluments policy

As at 30 June 2011, the number of employees of the Group was 212. For the six months ended 30 June 2011, staff costs (included directors' remuneration in the form of salaries, equity-settled share option expenses and other allowances) were approximately RMB31,619,000.

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 China, 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.

### Future Prospect

Looking forward, the Group will strive to completely change the long-held impression that marble manufactured in China is cheap but with poor quality. Leveraging on our quality stone mine resources, we will establish ourselves as a Chinese brand which could supply quality high-end stone products, secure dominating position in our industry and develop into a large-scale international company which could compete effectively in the international market. It is expected that the Group will be able to meet its maximum production target in 2014 by ramping up the production of its existing mines. Moreover, the synergy effect brought about by newly acquired projects has gradually materialized through which the Group is expected to enjoy more encouraging growth in the future. Besides striving hard to meet our production target, the Group will also develop mining technology and procedures and management methods which could reduce cost and improve quality with a view to consolidating our leading position in the field of mine development and becoming a benchmark company in the stone mining industry.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## Corporate Governance Code

The Company has adopted the code provisions contained in the Corporate Governance 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”). The Company has complied with such code provision throughout the six months ended 30 June 2011 except for the deviation from code provision A.2.1 of the Corporate Governance Code as disclosed below:

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of chairman and chief executive officer. Ms. Chen Tao is the chairlady and chief executive officer of the Group. She is responsible for the business strategy, overall operation, financing and investment activities of the Group. The Board considers that vesting the roles of both chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. Ms. Chen Tao is instrumental to the development of the Group and is 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.

## Model Code

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors’ securities transaction by the Directors. Having made specific enquiries with all Directors of the Company, 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 six months ended 30 June 2011.

## 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 is the current 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 unaudited interim financial statements for the six months ended 30 June 2011.

## Review of Interim Financial Statements

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The Audit Committee of the Company has held meetings to discuss the auditing, internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited interim financial statements of the Group for the six months ended 30 June 2011.

The external auditor has reviewed the interim consolidated financial information for the six months ended 30 June 2011 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.



## CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

### Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2011.

### Disclosure of Interests

#### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2011, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Name of Director	Capacity/Nature of Interest	Number of Shares issuable pursuant to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of interest in the issued share capital of the Company
Ms. Chen Tao <sup>(1)</sup>	Beneficial owner	30,000,000	1.5%

Note:

(1) Ms. Chen Tao, the chairlady and chief executive officer of the Company, held options in respect of a total of 30,000,000 Shares as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding companies, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

## CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at 30 June 2011, the persons or corporations (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Mr. Huang Xian You <sup>(2)</sup>	Interest in controlled corporation	1,226,926,277	61.35%
Wongs Investment Development Holdings Group Limited <sup>(2)</sup>	Beneficial Owner	1,226,926,277	61.35%
MS China 3 Limited <sup>(3)</sup>	Beneficial Owner	106,073,723	5.3%

Notes:

(1) It was based on 2,000,000,000 issued Shares of the Company as at 30 June 2011.

(2) Wongs Investment Development Holdings Group Limited is wholly owned and controlled by Mr. Huang Xian You and Mr. Huang Xian You is therefore deemed to be interested in the Shares held by Wongs Investment Development Holdings Group Limited.

(3) MS China 3 Limited is a wholly-owned subsidiary of Morgan Stanley Emerging Markets Inc., which in turn is wholly owned by Morgan Stanley. Morgan Stanley is therefore deemed to be interested in the Shares held by MS China 3 Limited.

Save as disclosed above, as at 30 June 2011, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Share Option Schemes

### Pre-IPO Share Option Scheme

#### 1. Summary of terms

The Company has adopted the Pre-IPO Share Option Scheme on 24 January 2011 for the purpose of giving its 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 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. Options to subscribe for an aggregate of 40,000,000 Shares were conditionally granted to two participants by the Company on 24 January 2011. The exercise price per Share is HK\$0.6, being a discount of 73.33% to the global offering price. No further options have been granted under the Pre-IPO Share Option Scheme after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling five years from the Listing Date.

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

Accordingly, there is no exercise of such option during the six months ended 30 June 2011.

No.	Name	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
	<i>Director</i>		
1.	Ms. Chen Tao	30,000,000	1.5%
	<i>Other employee</i>		
2.	Ms. Chen Dong Dong	10,000,000	0.5%

## CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

### Share Option Schemes

The Company has also adopted a share option scheme on 24 January 2011 (the “Share Option Scheme”) for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group 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 the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

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 Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (i.e. a maximum of 200,000,000 Shares). 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.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.00 upon acceptance of the grant on or before 28 days after the offer date. The subscription price in respect of any particular option is determined by the Board in its absolute discretion and 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 Hong Kong Stock Exchange’s daily quotations sheet on the offer date; and
- (iii) the average closing price of the Shares as stated in the Hong Kong Stock Exchange’s daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

No option was granted under the Share Option Scheme for the six months ended 30 June 2011.

# REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION



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

## Introduction

We have reviewed the interim condensed financial information of China Kingstone Mining Holdings Limited set out on pages 21 to 36, which comprise the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

The directors are responsible for the preparation and presentation of this interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

### **Ernst & Young**

18/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

30 August 2011

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June	
		2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
<b>Revenue</b>	3	<b>104,472</b>	—
Cost of sales		<b>(14,239)</b>	—
<b>Gross profit</b>		<b>90,233</b>	—
Other income	4	<b>4,202</b>	6
Selling and distribution costs		<b>(103)</b>	(334)
Administrative expenses		<b>(57,246)</b>	(3,858)
Finance costs	5	<b>(1,622)</b>	(1,658)
Other expenses		<b>(2,095)</b>	(28)
<b>Profit/(loss) before tax</b>	5	<b>33,369</b>	(5,872)
Income tax (expense)/benefit	6	<b>(20,868)</b>	954
<b>Profit/(loss) for the period</b>		<b>12,501</b>	(4,918)
<b>Other comprehensive loss for the period:</b>			
Exchange differences on translation of non-RMB functional currency operations		<b>(2,735)</b>	—
<b>Total comprehensive income/(loss) for the period attributable to owners of the Company</b>		<b>9,766</b>	(4,918)
Earnings/(loss) per share attributable to ordinary equity holders of the Company:			
— Basic	7	<b>RMB0.64 cents</b>	N/A
— Diluted	7	<b>RMB0.64 cents</b>	N/A

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	8	134,182	87,863
Intangible assets	8	62,029	23,645
Prepaid land lease payments	8	2,376	2,389
Goodwill		2,966	2,966
Deferred tax assets		—	384
		<b>201,553</b>	117,247
<b>Current assets</b>			
Cash and cash equivalents	9	816,060	80,082
Pledged deposits		—	3,308
Trade receivables	10	37,553	5,675
Prepayments, deposits and other receivables		43,128	10,243
Inventories	11	1,874	1,839
		<b>898,615</b>	101,147
<b>Current liabilities</b>			
Interest-bearing borrowings		—	73,308
Trade payables	12	4,832	998
Other payables and accruals		23,043	16,325
Tax payable		14,828	462
		<b>42,703</b>	91,093
<b>Net current assets</b>		<b>855,912</b>	10,054
<b>Total assets less current liabilities</b>		<b>1,057,465</b>	127,301
<b>Non-current liabilities</b>			
Deferred income		195	207
Deferred tax liabilities		5,031	—
		<b>5,226</b>	207
<b>Net assets</b>		<b>1,052,239</b>	127,094
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	14	168,348	—
Reserves		883,891	127,094
<b>Total equity</b>		<b>1,052,239</b>	127,094

**Chen Tao**  
Director

**Lin Yuhua**  
Director

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Issued capital RMB'000 (Note 14)	Share premium* RMB'000	Capital reserve* RMB'000 (Note 14)	Contributed reserve* RMB'000	Share option reserve* RMB'000	Foreign currency translation reserve* RMB'000	Retained profits/ (accumulated losses)* RMB'000	Total equity RMB'000
At 1 January 2010	—	—	—	14,480	—	—	(7,121)	7,359
Total comprehensive loss for the period	—	—	—	—	—	—	(4,918)	(4,918)
At 30 June 2010 (unaudited)	—	—	—	14,480	—	—	(12,039)	2,441
At 1 January 2011	—	—	<b>143,358</b>	<b>14,480</b>	—	<b>(2,568)</b>	<b>(28,176)</b>	<b>127,094</b>
Total comprehensive income/ (loss) for the period	—	—	—	—	—	<b>(2,735)</b>	<b>12,501</b>	<b>9,766</b>
Issue of ordinary shares	<b>42,087</b>	<b>904,871</b>	—	—	—	—	—	<b>946,958</b>
Capitalization of capital reserve	<b>126,261</b>	<b>17,097</b>	<b>(143,358)</b>	—	—	—	—	—
Share issue expenses	—	<b>(51,985)</b>	—	—	—	—	—	<b>(51,985)</b>
Equity-settled share option arrangement (Note 13)	—	—	—	—	<b>20,406</b>	—	—	<b>20,406</b>
At 30 June 2011 (unaudited)	<b>168,348</b>	<b>869,983</b>	—	<b>14,480</b>	<b>20,406</b>	<b>(5,303)</b>	<b>(15,675)</b>	<b>1,052,239</b>

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



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>30,227</b>	(1,904)
<b>Net cash outflow from investing activities</b>	<b>(309,084)</b>	(31,496)
<b>Net cash inflow from financing activities</b>	<b>819,634</b>	33,691
<b>Net increase in cash and cash equivalents</b>	<b>540,777</b>	291
Cash and cash equivalents at beginning of period	<b>80,082</b>	5,670
Net foreign exchange difference	<b>(4,799)</b>	—
<b>Cash and cash equivalents at end of period</b>	<b>616,060</b>	5,961

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended 30 June 2011

## 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 six months ended 30 June 2011 (the "Reporting Period"), the Company and its subsidiaries (collectively referred to 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 Reporting Period.

The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK") since 18 March 2011 (the "Listing Date").

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

The unaudited interim condensed financial information for the Reporting Period has been prepared in accordance with IAS 34 Interim Financial Reporting.

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

## 2.2 Summary of Significant Accounting Policies

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) mandatory for annual periods beginning 1 January 2011. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's operations and financial position.

## 3. Revenue and Segment Information

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.

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, for the six months ended 30 June 2011 and 2010. Further, all the principal assets employed by the Group are located in Sichuan Province and Guangdong Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 3. Revenue and Segment Information (continued)

#### Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Reporting Period:

	For the six months ended 30 June			
	2011	%	2010	%
	RMB'000		RMB'000	
	(Unaudited)		(Unaudited)	
Sale of marble slabs	42,313	40.5	—	—
Sale of marble blocks	62,159	59.5	—	—
	104,472	100.0	—	—

#### Information about major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue, is set out below:

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	31,410	—
Customer B	28,990	—
Customer C	16,726	—
Customer D	13,598	—

### 4. Other Income

An analysis of other income is as follows:

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	4,180	6
Miscellaneous	22	—
	4,202	6

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 5. Profit/(Loss) before Tax

The Group's profit/(loss) before tax is arrived at after charging:

	Notes	For the six months ended 30 June	
		2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Cost of inventories sold		14,239	—
Staff costs (including directors' remuneration):			
Wages and salaries		9,191	1,467
Pension scheme contributions			
— Defined contribution scheme		657	293
Equity-settled share option expense	13	20,406	—
Other staff benefits		1,365	454
		31,619	2,214
Less: Staff costs capitalized		(2,650)	(1,517)
		28,969	697
Global offering costs		24,916	2,058
Interest on borrowings wholly repayable within five years		1,512	1,514
Guarantee costs		—	120
Bank charges		110	24
Total finance costs		1,622	1,658
Amortization of intangible assets	8	725	—
Amortization of prepaid land lease payments	8	13	—
Depreciation of items of property, plant and equipment	8	2,657	425
Less: Depreciation capitalized		(1,146)	(360)
		1,511	65
Foreign exchange loss		2,064	—
Operating lease rentals for office		453	34
Loss on disposal of items of property, plant and equipment		—	23

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 6. Income Tax Expense

The major components of income tax expense for the six months ended 30 June 2011 and 2010 are as follows:

	For the six months ended 30 June	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Current — Mainland China		
Charge for the period	15,453	—
Deferred	5,415	(954)
<b>Total tax expense/(credit) for the period</b>	<b>20,868</b>	<b>(954)</b>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdiction in which members of the Group are domiciled and operate.

The Company is a tax exempted company registered in Cayman Islands and has registered in Hong Kong as an overseas company. The Company conducts substantially all of its business through its PRC subsidiaries.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Reporting Period.

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 Reporting Period. The Group's subsidiaries located in Mainland China are subject to the PRC CIT rate of 25% from 2008.

Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC effective from 1 January 2008.

Pursuant to the resolution dated 30 June 2011 of the board of directors of the operating subsidiary in the PRC, Kingstone (Guangzhou) Stone Industry Co., Ltd. ("Guangzhou Kingstone"), the net profit of Guangzhou Kingstone for the Reporting Period, after appropriations to the statutory reserve fund, would be used for business development of Guangzhou Kingstone and would not be distributed to its shareholders. As a result, no deferred tax liabilities relating to withholding tax on the distributable profits of Guangzhou Kingstone for the Reporting Period have been recorded.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 7. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the earnings per share amount is based on the profit attributable to owners of the Company for the Reporting Period amounting to RMB9,766,000 and 1,533,967,000 shares, being the weighted average number of ordinary shares in issue during the Reporting Period and the capitalization of capital reserve account at the date of listing on the SEHK.

The weighted average number of shares used to calculate the basic earnings per share for the period ended 30 June 2011 includes 58,000,000 and 442,000,000 shares issued on 17 March 2011 and 18 March 2011, respectively, in connection with the Company's initial public offering on the SEHK.

No loss per share information for the six months ended 30 June 2010 is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the fact that only one share was issued by the Company during the six months ended 30 June 2010.

No adjustment has been made to the basic earnings per share in respect of a dilution as the Company did not have any potential dilutive shares in issue shares during the six months ended 30 June 2010 and the exercise price of the Company's outstanding share options was higher than the average market price for the Company's shares during the Reporting Period.

### 8. Property, Plant and Equipment, Intangible Assets and Prepaid Land Lease Payments

Movements in property, plant and equipment, intangible assets and prepaid land lease payments during the Reporting Period are as follows:

	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Prepaid land lease payments</b>
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Carrying amount at 1 January 2011	87,863	23,645	2,389
Additions	48,976	39,109	—
Depreciation/amortization charged for the period ( <i>Note 5</i> )	(2,657)	(725)	(13)
Carrying amount at 30 June 2011	134,182	62,029	2,376

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 9. Cash and Cash Equivalents

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Cash and bank balances	<b>374,223</b>	80,082
Time deposits with original maturity of less than three months	<b>241,837</b>	—
	<b>616,060</b>	80,082
Time deposits with original maturity of over three months	<b>200,000</b>	—
Cash and cash equivalents	<b>816,060</b>	80,082

### 10. Trade Receivables

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Trade receivables	<b>37,553</b>	5,675

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

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Outstanding balances with ages:		
Within 30 days	<b>37,553</b>	5,675

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 a small number of customers, 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.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 11. Inventories

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
At cost:		
Marble blocks and slabs	405	719
Materials and supplies	1,469	1,120
	<b>1,874</b>	1,839

### 12. Trade Payables

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Trade payables	4,832	998

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

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Outstanding balances with ages:		
Within 180 days	4,679	998
180 days to 365 days	153	—
	<b>4,832</b>	998

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



# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

## 13. Share Option Schemes

### Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 24 January 2011 for the purpose of giving its 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 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. Under the Pre-IPO Option Scheme, 40,000,000 share options were granted to two senior executives of the Company on 24 January 2011. The exercise price per share under the Pre-IPO Share Option Scheme is HK\$0.6, being a discount of 73.33% to the global offering price. Those share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. No further options have been granted under the Pre-IPO Share Option Scheme after the Listing Date.

The exercise price and exercise period of those share options under the Pre-IPO Share Option Scheme outstanding as at 30 June 2011 (31 December 2010: not applicable) are as follows:

<b>Number of options</b> '000	<b>Exercise price</b> <b>per share</b> HK\$	<b>Exercise period</b>
40,000	0.60	From 18 March 2012 to 18 March 2016

Accordingly, there was no exercise of those share options under the Pre-IPO Share Option Scheme during the Reporting Period.

The fair value of those share options under the Pre-IPO Share Option Scheme granted during the Reporting Period was HK\$64,400,000 (equivalent to approximately RMB54,460,504) or HK\$1.61 each (equivalent to approximately RMB1.36 each) (six months ended 30 June 2010: not applicable) of which the Group recognized a share option expense of HK\$24,130,787 (equivalent to approximately RMB20,406,000) during the Reporting Period (six months ended 30 June 2010: not applicable).

The fair value of equity-settled share options granted during the Reporting Period was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	—
Expected volatility (%)	55.94
Risk-free interest rate (%)	1.784

No other feature of the options granted under the Pre-IPO Share Option Scheme was incorporated into the measurement of fair value.

At the end of the Reporting Period, the Company had 40,000,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 40,000,000 additional shares of the Company and additional share capital of HK\$4,000,000 and share premium of HK\$20,000,000 (before issue expenses).

# NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

## 13. Share Option Schemes (continued)

### Pre-IPO Share Option Scheme (continued)

At the date of approval of this interim condensed financial information, the Company had 40,000,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 2% of the Company's shares in issue as at that date.

### Share Option Scheme

The Company has also adopted a share option scheme on 24 January 2011 (the "Share Option Scheme") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group 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 the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

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 Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date (i.e. a maximum of 200,000,000 Shares). 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.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.00 upon acceptance of the grant on or before 28 days after the offer date. The subscription price in respect of any particular option is determined by the board of directors in its absolute discretion and 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 SEHK's daily quotations sheet on the offer date; and
- (iii) the average closing price of the shares as stated in the SEHK's daily quotations sheets for the 5 business days (as defined in the Main Board Listing Rules Governing the Listing of Securities on the SEHK) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

No option was granted under the Share Option Scheme for the Reporting Period.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 14. Issued Capital

#### Shares

	<b>30 June 2011 HK\$'000 (Unaudited)</b>	31 December 2010 HK\$'000
Authorized:		
5,000,000,000 (31 December 2010: 3,800,000) ordinary shares of HK\$0.10 each	<b>500,000</b>	380
Issued and fully paid:		
2,000,000,000 (31 December 2010: 1) ordinary shares of HK\$0.10 each	<b>200,000</b>	—
Equivalent to RMB'000	<b>168,348</b>	—

During the Reporting Period, the movements in issued capital were as follows:

	<b>Number of shares in issue</b>	<b>Issued capital RMB'000</b>
At 1 January 2011	1	—
Capitalization of capital reserve (unaudited)	1,499,999,999	126,261
Issuance of new shares (unaudited)	500,000,000	42,087
At 30 June 2011 (unaudited)	2,000,000,000	168,348

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, 1,499,999,999 shares at par value of HK\$0.10 each were allotted and issued to the holders of shares on the register of members of the Company on 24 January 2011 by way of capitalization of the capital reserve of the Company.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 15. Commitments and Contingency

#### (a) Capital commitments

As at 30 June 2011, the Group had the following capital commitments principally for the construction and purchase of property, plant and equipment.

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Authorized, but not contracted for	—	—
Contracted, but not provided for	<b>4,904</b>	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.

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

	<b>30 June 2011 RMB'000 (unaudited)</b>	31 December 2010 RMB'000
Within one year	<b>548</b>	132
In the second to fifth years, inclusive	<b>346</b>	366
After five years	<b>478</b>	552
	<b>1,372</b>	1,050

### 16. Related Party Transactions

During the six months ended 30 June 2011 and 2010, the Group had the following material transactions with related parties:

- (i) Guangzhou Jiucheng Mining Co., Ltd., 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.

## NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2011

### 16. Related Party Transactions (continued)

- (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 RMB100,000,000 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.

### 17 Events after the Reporting Period

On 15 July 2011, the Group entered into an entrusted loan agreement with Guangdong Jiapeng Construction Co. Ltd. ("Guangdong Jiapeng Construction") and the Industrial and Commercial Bank of China whereby the Group agreed to provide a loan of a principal amount of RMB35,000,000 with a maturity period of one year to Guangdong Jiapeng Construction. The loan is secured by certain accounts receivable of Guangdong Jiapeng Construction with a net carrying amount of approximately RMB194,000,000 and bears interest at a fixed rate of 7.216% per annum.

On 26 July 2011, the Group acquired a 49% equity interest in Guangdong Jiapeng Construction, which is engaged in the design and construction of architecture decoration and curtain wall, at a cash consideration of RMB15,000,000, which was based on arm's-length negotiations by references to Guangdong Jiapeng Construction's owned construction licences and capabilities.

On 29 August 2011, the Group acquired 100% equity interest in Beichuan Lida Mining Co. Ltd. ("Beichuan Lida") for an aggregate consideration of RMB6,000,000, which is determined based on arm's-length negotiations by references to recent transaction price of marble mines in the PRC similar to the marble mine in which Beichuan Lida is entitled to conduct mining.

### 18. Approval of the Interim Condensed Financial Information

The interim condensed financial information was approved and authorized for issue by the board of directors on 30 August 2011.



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