

*This section discusses information regarding our mine and operations, including reserves, mining and processing capacities and production volumes. Unless otherwise indicated, all technical data in this section is based on the Competent Person's Report, which is included as Appendix V to this Prospectus. In addition, we commissioned Hatch as an industry consultant to prepare an independent research report, the Hatch Report. Unless otherwise indicated, information and statistics relating to the global and PRC marble industry in this and other sections of this Prospectus have been derived from the Hatch Report.*

*We are a developing mining company with a limited operating history. A number of our business prospects and market position described below, including but not limited to our ramp-up plan and market share information, are based on forward-looking statements rather than historical facts. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ materially from those expressed in any forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" discussed elsewhere in this Prospectus.*

### OVERVIEW

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 CSMA in August 2010. The Zhangjiaba Mine, located in Sichuan Province of China, contains 44.2 million m<sup>3</sup> of measured and indicated marble resources, which represents 16.8 million m<sup>3</sup> of proved and probable marble reserves based on a block rate of 38%, according to the Competent Person's Report. Our 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. We currently hold a mining permit for an initial term of 10 years granted in February 2011, covering an area of 0.44 km<sup>2</sup> with an elevation from 590 m to 938 m above MSL. On the Listing Date, we will be the first marble mining company listed on the Hong Kong Stock Exchange.

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<sup>3</sup> per annum and our marble slab processing capacity at our processing facilities are expected to reach 3.0 million m<sup>2</sup> per annum. 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<sup>3</sup>. CSMA expects our mining capacity and processing capacity upon completion of our ramp-up plan to be the largest among marble mining companies in China.

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, according to the Competent Person's Report. According to the same 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. Due to these characteristics, our premium marble products are suitable for use in the decoration of high-end commercial and public buildings.

According to the Competent Person's Report, marble is geologically defined as metamorphosed limestone or dolomite that is thoroughly recrystallized. Commercially in the stone industry, and as used in this Prospectus, marble also includes limestone or dolomite that is rock of sedimentary origin primarily composed of calcium carbonate or calcium magnesium carbonate and is polishable. Our principal resource at Zhangjiaba Mine is limestone that is commercially classified as marble.

### COMPETITIVE STRENGTHS

On the Listing Date, we will be the first marble mining company listed on the Hong Kong Stock Exchange. We believe the following strengths distinguish us from our competitors:

***Our Zhangjiaba Mine has abundant marble reserves, significant planned mining and processing capacities and immediate expansion potential.***

We own and operate the largest beige marble mine in China in terms of marble reserves, according to a certification issued by CSMA in August 2010. According to the Competent Person's Report, our Zhangjiaba Mine, located in Sichuan Province of China, contains 44.2 million m<sup>3</sup> of measured and indicated marble resources within the designed final pit. The block rate is expected to be 38% on the *in-situ* marble resources, which is equivalent to an estimated 16.8 million m<sup>3</sup> of proved and probable marble reserves. The reserves are expected to be suitable for the production of premium decorative surfacing marble products. Our current ramp-up plan is to attain a marble block mining capacity of 150,000 m<sup>3</sup> per annum from 2014 onwards. Based on our marble reserves and planned mining capacities, the estimated mine life of our Zhangjiaba Mine is approximately 112 years. We also plan to construct large-scale marble slab processing facilities in close proximity to our mine, on which we expect to attain 60% of the planned processing capacity in 2012 and full planned processing capacity in 2013. We expect the marble slab processing facilities to have an aggregate processing capacity of 3.0 million m<sup>2</sup> of marble slabs per annum from 2013 onwards.

According to the Hatch Report, although there is an overall shortage of premium beige marble resources in China, Sichuan Province has relatively plentiful, high-quality beige marble resources and is considered a major beige marble quarry region in China. Due to the favorable location of our Zhangjiaba Mine, we will be able to significantly increase our mineral resources and reserves because of the high exploration potential beyond our permitted mining area and in other neighboring marble mines in Sichuan Province. We intend to continue expanding our production capacity and we believe that, due to our scale and record of government support, we are well positioned to grow our operations through consolidation of selected acquisition targets. Moreover, in a non-binding strategic framework agreement dated 9 August 2010, we obtained the express support of the Jiangyou City government to acquire and

consolidate local marble mines. Pursuant to this strategic framework agreement, the Jiangyou City government has agreed to grant us preferential treatments with respect to land, water, electricity, tax and others as well as to jointly explore opportunities of collaborative arrangements to develop marble resources in Jiangyou City. Detailed preferential treatments and collaborative arrangements are expected to be negotiated with the Jiangyou City government and set out in the definitive acquisition agreement with selected acquisition targets.

***Our Zhangjiaba Mine produces high-quality marble blocks that can be processed into high-end marble slabs commanding premium pricing.***

Marble has long been highly valued for its beauty, multitude of colors, elegant style and smooth texture. As such, aesthetic value is an important factor in determining the quality of marble. There is an overall shortage of premium beige marble resources, and currently China's premium beige marble market significantly depends on imports. 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. Due to these characteristics, our premium marble products are suitable for use in the decoration of high-end commercial and public buildings, such as hotels, office buildings, museums and memorial halls.

Benefiting from the quality of our marble, we have been able to enter 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. These sales contracts provide for an aggregate sales volume of 1,025,000 m<sup>2</sup>, 1,610,000 m<sup>2</sup> and 2,015,000 m<sup>2</sup> of marble slabs in 2011, 2012 and 2013, respectively, representing 63%, 56% and 45%, respectively, of our total planned marble slab production according to the Competent Person's Report, at average ex-factory sales prices of RMB830 per m<sup>2</sup> for Pure Beige marble slabs, RMB540 per m<sup>2</sup> for Mixed Beige marble slabs and RMB520 per m<sup>2</sup> for other marble slabs during the terms of such contracts. Our customers are obliged to purchase a minimum of 90% of the volume set out in these sales contracts. See "— Customers and Contract Terms." The prices for our products under these contracts are significantly higher than the average price of approximately RMB150 per m<sup>2</sup> for other PRC branded marble products, based on data from the Hatch Report. Because of the high quality of our marble products, we believe that sales prices for our products will increase to a similar level of prices for well-recognized, premium international branded marble products currently available in the market, the average price of which is approximately RMB1,000 per m<sup>2</sup>, after we reach our planned mining and processing capacities. Upon reaching our full planned mining and processing capacities, we believe we will be able to continue to strengthen our pricing power and narrow the price gap between imported premium marble products and our products.

***Our efficient mining and processing methods ensure low operating costs.***

Our efficient mining and processing methods contribute to low operating costs and greater cost-efficiency of our operations. Our Zhangjiaba Mine is situated on low knolls and contains large marble stones with thin weathering layers, making it accessible and suitable for open-pit marble mining. Our use of the open-pit mining method, which does not require the specialized machinery, equipment or supporting structures that are necessary for underground mining and is characterized by its low capital expenditure requirements, enables us to mine and process our marble relatively quickly. There are no residents within the permitted mining area and the hydrology and geology of the surrounding region is

simple. Our Zhangjiaba Mine is designed to be operated in a descending multi-bench architecture taking into account the morphological and geologic conditions within the deposit. We integrate a variety of cutting techniques, including diamond wire cutting, chain saw cutting, and disc saw cutting, which we believe is highly advanced in the marble mining industry. In addition, we utilize highly-efficient, semi-automatic machinery and equipment to achieve our estimated low-cost production and to maintain our low cost advantage. Moreover, according to the Competent Person's Report, the average waste to ore strip ratio of our mine is as low as 0.07, which contributes significantly to our low mining costs.

During the period from September to December 2010, our actual unit cash production cost of the third-party processed marble slabs was RMB325 per m<sup>2</sup>, which was higher than the projected unit cash production costs of RMB131 per m<sup>2</sup> for the third-party processed marble slabs upon reaching our full mining and processing capacities. The currently higher-than-projected unit cash cost is mainly the result of a combination of the relatively low production volume and high administrative expenses at the initial stage of production. The actual unit cash production cost of the third-party processed marble slabs decreased to RMB196 per m<sup>2</sup> in December 2010 as a result of increased production volume during this month. According to the Competent Person's Report, when we reach the planned mining capacity of 150,000 m<sup>3</sup> of marble blocks per annum and processing capacity of 3.0 million m<sup>2</sup> of marble slabs per annum in 2014, the unit cash cost for our self-processed marble slabs (calculated as the sum of mining operating cash cost, slab processing cost and administrative and selling expenses) is estimated to be approximately RMB124 per m<sup>2</sup>, based on a slab-block ratio of 33.7, and our unit cash cost for marble slabs processed by third-party contractors (calculated as the sum of mining operating cash cost, contractor charges, transportation cost and administrative and selling expenses) is estimated to be approximately RMB131 per m<sup>2</sup> in 2014. The unit cash cost for our self-processed marble slabs is estimated to be approximately RMB136 per m<sup>2</sup> and RMB122 per m<sup>2</sup> in 2012 and 2013, respectively, after our processing facilities commence commercial operations and before we reach our full marble block mining and marble slab processing capacities.

Based on the average ex-factory sales prices in our long-term sales contracts to date, which are RMB830 per m<sup>2</sup> for Pure Beige Marble slabs, RMB540 per m<sup>2</sup> for Mixed Beige marble slabs and RMB520 per m<sup>2</sup> for other marble slabs, we expect to achieve high profitability if we are able to sustain similar price levels for our products and continue to maintain low operating costs.

***We benefit from the convenient location of our Zhangjiaba Mine and processing facilities.***

The convenient location of our Zhangjiaba Mine provides us with easy access to readily available infrastructure and transportation networks. Our mine is easily accessible by a local highway to Hanzeng Town, which is 5.5 km away and connects to the provincial highway linking to Beichuan County, as well as to the urban area of Jiangyou City, which is 19 km away from our mine. In addition, we have easy access to water and electricity supplies, both of which are key utilities for our mining and processing operations.

Our marble slab processing facilities will be located in an industrial park at the south side of Jiangyou City, approximately 30 km from our Zhangjiaba Mine. Our marble slab products will be further transported to Mianyang City, the local economic center in north-central region of Sichuan Province, and Chengdu, the capital city of Sichuan Province, which are located 40 km and 160 km, respectively, away from our processing facilities. The closest railway depot is approximately 24 km away from our mine and processing facilities. The short distance enables our customers to transport the marble slabs and other marble products in a timely and cost-efficient manner by highway or railway networks. Unlike mineral stone importers whose products are shipped from overseas by means of costly

transportation, our customers are able to access and transport our marble slabs and other marble products at significantly lower costs within a much shorter period of time, thereby further enhancing our competitiveness.

***Our mining and production processes are safe and environmentally friendly.***

We utilize the open-pit mining method, which facilitates access and extraction of marble blocks from our marble mine, reducing the risk of accidents caused by collapsed mine roofs, mine floods and the leakage of harmful gases. Compared to underground mining, our open-pit mining operations generally do not involve the use of explosive materials or hazardous chemicals, thereby significantly reducing safety and environmental pollution concerns.

We engage in environmentally friendly mining operations. According to the Competent Person's Report, our Zhangjiaba Mine is categorized as a highly utilizable mine, leaving a limited amount of tailings. In addition, we believe our mining operations are environmentally friendly because our mining process does not involve the use of chemicals, consumes a limited amount of water and does not generate harmful substances. We utilize water during the drilling, cutting and sawing process, water sprays at material transfer points, and water trucks to spray the roads during dry periods to reduce the amount of dust produced during our mining operations. The mine site has also been designed to recycle used water for our production activities and for dust suppression.

We are confident in our ability to further enhance our safety and environmental protection capabilities, meet the increasingly strict safety and environmental protection standards imposed by the PRC Government and reduce any exposure to potential incremental costs or contingent liabilities relating to safety and environmental protection.

***We have a strong and experienced management team with extensive industry and management experience.***

Experienced mining technicians and personnel with established industry expertise are critical to the success of marble mining activities and operations. We have a team of carefully selected professionals who are equipped with abundant knowledge of and rich experience in various aspects of our business, including exploration, mine design and construction, mining, processing, and sales and marketing of marble and decorative surfacing stone industry. Certain members of our senior management team possess key management experience and have participated in mine development projects and drafting of technical specifications and national research reports. Our Directors and senior management also possess extensive experience derived from their direct involvement in both our operations and other mineral, natural resource or infrastructure projects. Our management team is led by four executive Directors and two senior management members, who together have an average of 20 years of experience and management expertise, and has been instrumental to the development of our Company. Our management team has served in various capacities at our Company since our inception, including the identification of the Zhangjiaba Mine, the acquisition of our mining assets, the exploration, the mine design and construction, and the execution of our ramp-up plan, demonstrating its strong commitment to our continued growth and success.

The majority of our Directors are qualified geologists and engineers with extensive industry expertise. Our Directors include affiliated members of the *Mining Resources Committee of China Stone Material Association* (中國石材協會礦山資源專業委員會), the *Stone Material Standard Committee* (石材標委會委員), as well as university lecturers and authors of academic magazines, journals and books.

Our chief engineer, Mr. Lin Yuhua, has passed the examination and recognition by the GAC and the NDRC and 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 was approved and issued by the NDRC and came into effect on 1 December 2008. Our head of marketing and sales, Mr. Xiong Wenjun, held various positions in a number of stone companies, is a member of the Product and Auxiliary Material Committee of National Stone Standardization Technical Committee (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. For more information on our team of experienced professionals, see “Directors and Senior Management” in this Prospectus.

We believe that our Directors and senior management possess the skills, foresight and extensive industry knowledge necessary to capture market opportunities, formulate sound business strategies, assess and manage risks and increase and implement management and production schemes. We also believe that our management team possesses the leadership capabilities and qualifications required to sustain our business and ensure our continued success.

### BUSINESS STRATEGIES

Our vision is to become a leading integrated marble business operator in China. We plan to accomplish this goal by pursuing the following strategies:

#### ***Ramp up our mining and processing capacities.***

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 in the end of 2010. Commercial production at these two knolls commenced in September 2010. We are currently constructing the other two knolls. During the period from September to December 2010, we mined a total of 1,145 m<sup>3</sup> of marble blocks. During the same period, we sold a total of 3,000 m<sup>2</sup> of Pure Beige marble slabs, 9,000 m<sup>2</sup> of Mixed Beige marble slabs and 24 m<sup>3</sup> of marble blocks.

As part of our planned increase in mining and processing capacities, we expect to significantly increase our marble block mining capacities to a total of 45,000 m<sup>3</sup> per annum in 2011, 90,000 m<sup>3</sup> per annum in 2012, 135,000 m<sup>3</sup> per annum in 2013 and 150,000 m<sup>3</sup> per annum from 2014 onwards. See “— Our Production Operations and Facilities — Mining Process.” Total capital expenditures for the ramp-up of our marble block mining capacities are expected to be RMB366.7 million. We expect the processing facilities to have an aggregate processing capacity of 3.0 million m<sup>2</sup> of marble slabs per annum from 2013 onwards and the total capital expenditures for construction and equipment procurement for our processing facilities to be RMB421.7 million.

#### ***Establish a strong customer base and strengthen customer relationships.***

Our long-term goal is to sell our marble products through a number of select distributors to well-recognized property developers and construction companies, which are our target end customers. We plan to focus on developing relationships with distributors that have a strong track record, established customer base and broad sales and marketing network. As we ramp up our mining and processing capacities, we intend to secure sales contracts with a larger but defined group of customers, such as property developers and construction companies of landmark projects, to strategically increase market awareness on our premium marble products and enhance our product recognition. As our mining and



processing capacities increase and our products gain increased recognition in the market, we expect to have stronger pricing power, which will enable us to sell our products to select end customers that we believe will further promote our products.

***Develop high product recognition and strengthen pricing power.***

We believe that recognition of our marble products among industry professionals is critical to our development and success. As such, we intend to establish cooperative relationships with *China Architect and Interior Designer Association* and CSMA and plan to work with these and other major associations on landmark projects to further promote and increase sales of our high-quality marble products. We also expect to increase exposure of our products in select trade and other high-end decorative surfacing stone magazines, as well as attend industry forums, trade fairs and exhibitions to establish communications with industry professionals, major property developers, contractors and others who have significant influence over customer preferences and purchasing decisions. Moreover, to achieve further recognition of our products, we plan to market our products for use in landmark construction projects, such as five-star hotels and major commercial and public buildings, where our marble products can be prominently displayed and showcased. In doing so, we believe that we will be able to set quality standards and keep abreast of industry trends, which will enable us to command strong bargaining and pricing power over the relevant products in the market. We expect these measures to enable us to strengthen our corporate profile, enhance our business and achieve high product recognition among both industry professionals and end customers.

***Expand our marble resources through further expansion and selective acquisitions.***

As part of our future plans for acquisitive growth, we plan to continue to carefully evaluate and identify selective expansion and acquisition opportunities. We believe that, due to the high exploration potential beyond our permitted mining area and in other neighboring marble mines in Sichuan Province, we will be able to significantly increase our mineral resources and reserves further through the acquisition of additional exploration and mining rights in the surrounding area or of mining companies with existing mining rights. Moreover, in a non-binding strategic framework agreement dated 9 August 2010, we obtained the express support of the Jiangyou City government to acquire and consolidate local marble mines. As part of the framework agreement, the parties have agreed to further explore the opportunities for potential collaborative arrangements. We intend to actively negotiate the details of preferential treatments and collaborative arrangements with the Jiangyou City government upon finalizing definitive acquisition agreements with acquisition targets. We are currently in the process of identifying and selecting acquisition targets and, as at the Latest Practicable Date, the parties did not commence the negotiation in this regard.

We continue to evaluate acquisition opportunities with exploration potential outside our current mining area to grow our resources and reserves in Sichuan Province. We also seek to expand through acquisitions of high-quality marble mines in other regions of China, with reserves that can be extracted for more than ten years. Our plans for expansion and acquisition will be subject to the following criteria: (i) scale of the resources, reserves or mining operations of the mine; (ii) the amount, mineability and sustainability of the target resources or reserves; (iii) return on acquisition; (iv) the potential synergies that can be achieved through the acquisition; and (v) the enhancement of the overall sustainability of our existing and future businesses. We regularly seek out and evaluate potential acquisition opportunities. As at the Latest Practicable Date, we did not enter into any definitive agreements with respect to any acquisition. On 30 July 2010, we entered into a legally binding letter of intent with a mining company,

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an Independent Third Party, under which we have the right to negotiate and consider the acquisition of certain mining rights for a neighboring marble mine containing approximately 3.7 million m<sup>3</sup> of estimated marble resources. This letter of intent will expire at the end of June 2011 and is extendable based on mutual agreement in writing. On 18 January 2011, we entered into another legally binding letter of intent with a stone material company, an Independent Third Party. Pursuant to this letter of intent, we have the right to negotiate and consider the acquisition of certain mining rights for a neighboring marble mine. According to the letter of intent, such mine contains no less than 5.0 million m<sup>3</sup> of estimated marble resources. This letter of intent will expire in one year from the signing date and is extendable based on mutual agreement in writing. The parties expect to enter into transfer agreements for the relevant mining rights and assets upon completion of satisfactory due diligence and agreement on the substantive terms and conditions of the transfers. The transfer consideration for the mining rights and assets is expected to be determined through negotiation on the basis of asset valuation to be conducted by a qualified valuation firm recognized by the parties. We expect to identify more acquisition targets that contain marble reserves of a quality similar to that of the marble reserves in our Zhangjiaba Mine and achieve even higher mining capacities as well as significant returns on our investment.

### FUTURE PLANS FOR RAMPING-UP MINING AND PROCESSING CAPACITIES

We commenced limited preliminary mine construction of 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 in the end of 2010. We are currently constructing the other two knolls. Following the completion of all four knolls at our Zhangjiaba Mine, we plan to increase our mining capacity for marble blocks to 150,000 m<sup>3</sup> per annum from 2014 onwards. We also plan to construct large-scale marble slab processing facilities in close proximity to our mine, on which we expect to attain 60% of the planned processing capacity in 2012 and full planned processing capacity in 2013. We expect the marble slab processing facilities to have an aggregate processing capacity of 3.0 million m<sup>2</sup> of marble slabs per annum from 2013 onwards. After reaching our full mining and processing capacities, we expect to continue to outsource approximately 27% 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.

The timeline below highlights our key development milestones for our ramp-up plan:

<u>Year</u>	<u>Total marble block mining capacity<sup>(1)</sup></u>	<u>Total marble slab processing capacity<sup>(1)</sup></u>	<u>Capital expenditure for the Zhangjiaba Mine<sup>(2)</sup></u>	<u>Capital expenditure for the processing facilities<sup>(2)</sup></u>
	(m <sup>3</sup> per annum)	(million m <sup>2</sup> per annum)	(RMB in millions)	(RMB in millions)
2008–2009 . . . . .	—	—	21.5	—
2010 . . . . .	1,145	—	66.2	1.0
2011 . . . . .	45,000	—	114.5	181.3
2012 . . . . .	90,000	1.8	80.4	188.0
2013 . . . . .	135,000	3.0	56.7	51.4
2014 . . . . .	150,000	3.0	27.4	—



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### Notes:

- (1) The marble block mining capacity and marble slab processing capacity represent our planned capacities which we intend to fully utilize, and are calculated based on 300 production days per annum, taking into account holidays, weather downtime and equipment maintenance.
- (2) The actual capital expenditures for the Zhangjiaba Mine and the marble slab processing facilities for the eleven months ended 30 November 2010 were RMB61.5 million and RMB1.0 million, respectively. As at 30 November 2010, our unutilized planned capital expenditures for the Zhangjiaba Mine and the marble slab processing facilities were approximately RMB283.7 million and RMB420.7 million, respectively, and we expect such capital expenditures to be principally funded by proceeds from the Global Offering. As at 30 November 2010, we had capital commitment of RMB363,000 for our unutilized planned capital expenditure of the Zhangjiaba Mine and nil for the marble slab processing facilities.

The table below illustrates our actual marble block production in 2010 and planned marble block production by volume of various uses at our Zhangjiaba Mine from 2011 to 2015, according to the Competent Person's Report:

Item	2010	2011	2012	2013	2014	2015
Blocks used for self slab production (m <sup>3</sup> ) . . . . .	—	—	53,374	88,957	88,957	88,957
Blocks used for contract slab production (m <sup>3</sup> ) . . . . .	1,121	45,000	30,000	40,000	40,000	40,000
Blocks used for shaped stone products (m <sup>3</sup> ) . . . . .	—	—	1,800	3,000	3,000	3,000
Blocks to be sold directly to customer (m <sup>3</sup> ) . . . . .	24	—	4,826	3,043	18,043	18,043
<b>Total marble block mining capacity (m<sup>3</sup>) . . . . .</b>	<b>1,145</b>	<b>45,000</b>	<b>90,000</b>	<b>135,000</b>	<b>150,000</b>	<b>150,000</b>

The construction of our Zhangjiaba Mine commenced in July 2008 and will be completed at the end of 2013. The majority of our capital expenditure are expected to take place from 2010 to 2012 as facilities are constructed and equipment is delivered and installed. The development schedule of our ramp-up plan is as follows:

- *July 2008 – December 2009:* Conducted limited preliminary mine construction activities.
- *January 2010 – December 2013:* Complete the construction of the main production facilities of the Zhangjiaba Mine. The ramp-up of our mining capacities will commence during this period with full mining capacity by 2014.
- *January 2011 – December 2011:* The construction of large-scale marble slab processing facilities commences. Equipment is procured, delivered and installed with plant construction being partially completed to attain 60% of the planned processing capacity in 2012.
- *January 2012 – December 2012:* The ramp-up of our marble slab processing capacities will commence. The construction of large-scale marble slab processing facilities is fully completed and production of various products expands and attains full planned processing capacity in 2013.

We plan to increase our marble block mining capacities at our Zhangjiaba Mine and expect to spend a total of RMB366.7 million, including RMB152.7 million on mine construction, RMB127.6 million on mining equipment, RMB41.3 million on mining rights, RMB40.0 million on land use rights and RMB5.2 million on other expenses to develop our marble resources. During the Track Record Period, our capital expenditure in connection with our ramp-up plan of the marble block mining capacities at the Zhangjiaba Mine totaled RMB83.0 million, including RMB2.3 million in relation to mining rights and RMB1.4 million in relation to prepaid land lease payments. Such capital expenditure

was financed by our Controlling Shareholder and through short-term and long-term bank borrowings. In February 2011, we spent RMB39.1 million in relation to the mining rights to obtain the current mining permit that cover 590 m to 938 m above MSL within the 0.44 km<sup>2</sup> mining area of the Zhangjiaba Mine.

In order to enhance our profitability and better control the quality of our products, we intend to construct marble slab processing facilities that are capable of processing marble slabs and other products as part of our ramp-up plan. We expect to spend a total of RMB421.7 million, including RMB130.7 million on the construction of processing facilities, RMB242.0 million for processing equipment, RMB20.0 million on land use rights and RMB29.0 million on other expenses. We plan to fund the capital expenditure on the marble slab processing facilities through the proceeds from the Global Offering. We are currently in the process of acquiring the land for, and preparing the design of, the processing facilities. The construction of the processing facilities is expected to attain 60% of the planned processing capacity in 2012 and full planned processing capacity in 2013. During the Track Record Period, we incurred capital expenditure of RMB1.0 million in relation to our marble slab processing facilities. To complete the construction of our mine and processing facilities, we are required to obtain the approvals from the authorities in charge of the environmental protection, work safety, land and resources and other relevant aspects. As advised by our PRC legal adviser, Commerce & Finance, if Sichuan Jinshida meets all statutory conditions and requirements, after completion of all statutory procedures required by relevant PRC laws, regulations and all the competent authorities, there is no material legal impediment for Sichuan Jinshida to obtain such approvals. The foresaid statutory conditions and requirements include (without limitation) the following: (i) receipt of the approval on environmental impact assessment report in respect of the mine and processing facilities; (ii) the installation of environmental production equipment of the mine and processing facilities according to the approved environmental impact assessment report; (iii) the passing of the acceptance and inspection of the competent branch of the MEP; (iv) safety assessment with regard to the mine; (v) the design of safe production equipment has been approved by the competent authority and the safe production equipment have been installed according to such design; (vi) the acceptance and inspection of the competent branch of the SAWS; (vii) the use of relevant land for constructing the mine and processing facilities shall be in consistent with the land use planning; (viii) the receipt of land use right, the Construction Work Planning Permit and other required permits for construction of relevant processing facilities. As at the Latest Practicable Date, Sichuan Jinshida satisfied statutory conditions and requirements and obtained (i) the approvals on the construction and operation of the mine from the *Work Safety Administration of Sichuan Province*; (ii) the approvals on mining and processing 50,000 m<sup>3</sup> per annum of limestone blocks from the *Environmental Protection Bureau of Jiangyou City*; and (iii) the approval on environmental impact assessment report with respect to the project of mining 150,000 m<sup>3</sup> per annum of limestone blocks from the *Environment Protection Department of Sichuan Province*.

With the necessary rights, permits, licenses and approvals, we commenced commercial production of marble blocks in September 2010 and intend to commence commercial operations for marble slabs at the beginning of 2012. For information regarding the rights, licenses, permits and approvals we expect to obtain for the commercial production of our marble resources, see “— Regulatory Compliance Issues.” Our plans to develop and produce marble blocks and slabs will require water and electricity supplies. We believe our current and future plans for water and electricity supplies will be sufficient for our marble block and marble slab production. For information regarding our water and electricity sources, see “— Utilities, Raw Materials, Machinery and Suppliers — Electricity and Water.”

## OUR MINERAL RESOURCES AND MINING RIGHTS

### *Overview*

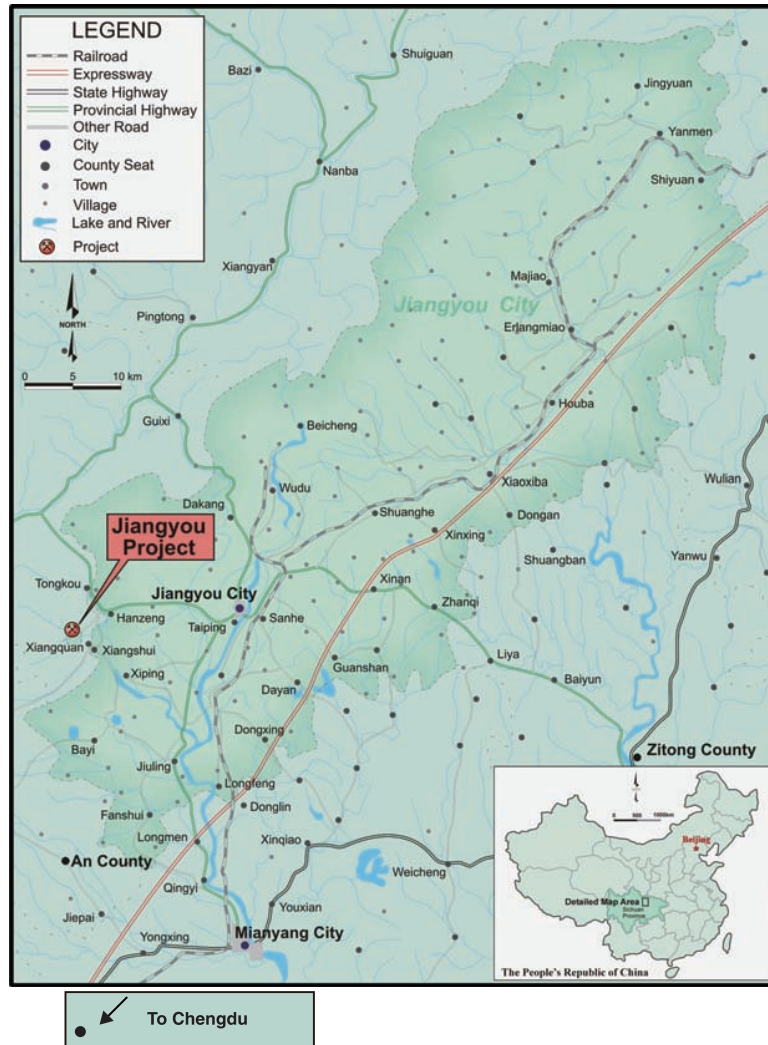
As at the Latest Practicable Date, we held the mining rights to one large-scale open-pit marble mine, namely, the Zhangjiaba Mine, which is located in Zhenjiang Village, Xiangshui County, Jiangyou City of Sichuan Province, China. The following table sets forth detailed information on our Zhangjiaba Mine:

	<u>Zhangjiaba Mine</u>
<b>Background data:</b>	
Commercial production commenced . . . . .	September 2010
Mining method . . . . .	Open-pit mining
Permitted mining right area. . . . .	0.44 km <sup>2</sup>
Permitted production capacity . . . . .	400,000 tonnes per year
Mining permit number . . . . .	C5107002009017120004753
Valid period of the mining permit . . . . .	From 21 February 2011 to 21 February 2021
<b>Resource and reserve data:</b>	
Measured and indicated marble resources within the designed final pit (m <sup>3</sup> as at 31 December 2010). . . . .	44.2 million
Proved and probable marble reserves (m <sup>3</sup> as at 31 December 2010) . . .	16.8 million

### *Our Marble Reserves*

According to the Competent Person's Report, our Zhangjiaba Mine has 16.8 million m<sup>3</sup> of proved and probable marble reserves, based on 44.2 million m<sup>3</sup> of measured and indicated marble resources and an estimated block rate of 38%. With the planned annual mining capacity of 150,000 m<sup>3</sup> of marble blocks upon completion of our ramp-up plan in 2014, we expect that the reserves in our Zhangjiaba Mine will be sufficient for us to operate for over 100 years. Although the variation in the estimated block rate could occur during the actual mining process, resulting in variation in our marble reserves estimates, the Independent Technical Consultant expects that such variation should not have a significant impact on our mine production for the first 20 to 30 years of the mine life in light of the abundant marble resources at the Zhangjiaba Mine.

The following map sets forth the approximate geographical location of our marble mine and major transportation infrastructures:



Our mine is located approximately 40 km away from Mianyang City, the local economic center in the north-central region of Sichuan Province, and approximately 160 km away from Chengdu, the capital city of Sichuan Province. Our mine is easily accessible by a local highway to Hanzeng Town, which is 5.5 km away and connects to the provincial highway linking to Beichuan County, as well as to the urban area of Jiangyou City. Our mine is also close to the major national railway network, the Baoji-Chengdu Railway. For details of the location of our Zhangjiaba Mine and the surrounding transportation infrastructure, please see the map under “— Our Marble Reserves” above. As a result, unlike mineral stone importers whose products are shipped from overseas by means of costly transportation and delivery, our customers are able to purchase our marble blocks and marble slabs at significantly lower transportation costs. Our marble slab processing facilities will also be located in close proximity to developed transportation networks, enabling us to deliver our products in a timely and cost-efficient manner by a combination of roadways and railways.

### *Mining Permit, Exploration Permit and Production Safety Permits*

Under PRC laws and regulations, mining companies must obtain, at the minimum, a mining permit and the relevant production safety permits for a mining site prior to the commencement of commercial production. For more details, please see “Regulatory Overview.”

We acquired Sichuan Jinshida in March 2008, when it held a mining permit to extract cement limestone (水泥用石灰岩) from the Zhangjiaba Mine covering 700 m to 880 m above MSL with a permitted mining area of 0.289 km<sup>2</sup>. In January 2009, we further expanded the permitted mining area covered by the permit from 0.289 km<sup>2</sup> to 0.495 km<sup>2</sup> covering 630 m to 880 m above MSL. In August 2009, we expanded the nature of our mining right to cover both decorative surfacing limestone (飾面用灰岩) and cement limestone (水泥用石灰岩) and the mining permit covered 750 m to 930 m above MSL. In February 2011, we obtained a new mining permit to cover 590 m to 938 m above MSL within substantially the same mining area as our permit obtained in 2009. According to such new mining permit, we may conduct mining activities with respect to decorative surfacing limestone (飾面用灰岩). Such mining permit will expire in 2021. The premium we paid in connection with such permit covers reserves extractable for 30 years based on the current approved capacity of 400,000 tonnes per year. We have been advised by our PRC legal adviser, Commerce & Finance, that although the government is not required to grant the renewal of our mining permit, there will not be any material legal impediment for us to receive continuing renewals of our mining permit so long as we meet the applicable requirements and conditions.

We obtained the mining rights with permitted mining area of 0.289 km<sup>2</sup> as a result of our acquisition of Sichuan Jinshida for a total consideration of RMB24.48 million. In January 2009, we paid mining rights premium (採礦權價款) with the amount of RMB1.0 million for the additional 4.0 million tonnes of mine reserves resulting from the expansion of the total permitted mining area from 0.289 km<sup>2</sup> to 0.495 km<sup>2</sup>. In September 2009, we paid mining rights premium with the amount of RMB1.3 million for the additional 5.2 million tonnes of mine reserves we further explored. For each mining rights premium which was determined based on the unit price as stipulated in relevant Standard for *Calculation of Mining Rights Premium in Mianyang City* (綿陽市採礦權價款計算標準) multiply by the additional mine reserves through expansion, it has been paid up by us on one-off basis to the *Land and Resource Bureau of Mianyang City*. We paid a premium with the amount of RMB39.1 million in connection with the mining rights we obtained in February 2011. The premium we paid covers reserves extractable for 30 years based on the current approved capacity of 400,000 tonnes per year, and was determined according to the valuation result provided by the mining rights premium appraisal institutions selected by the *Land and Resource Bureau of Sichuan Province*. Such premium has been paid up by us on one-off basis. Although PRC rules and regulations do not specify the treatment for overpayments, we expect any overpayment to be applied towards future renewals, and if our permit is not renewed, we do not expect any overpaid premium to be refunded to us. As at the Latest Practicable Date, there was no outstanding mining rights premium payable by us.

Under PRC laws and regulations, mining companies are required to obtain the necessary production safety permits prior to their commencement of commercial production. We obtained a new production safety permit on 7 September 2010 with the permitted scope of production of decorative surfacing marble limestone and cement limestone. Such new production safety permit will expire on 16 June 2012 and is renewable for three years, subject to completion of certain administrative examination and approval procedures. We have also obtained a formal approval in respect of the inspection and acceptance from the *Work Safety Administration of Sichuan Province* (四川省安全生產監督管理局) on 19 September 2010.



## **OUR PRODUCTS**

We specialize in the mining and production of marble blocks and marble slabs. 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. Among other awardees, we were also awarded a certificate dated 9 September 2010, issued jointly by CSMA and National Stone Material Quality Inspection Center, to certify our beige marble mined from our Zhangjiaba Mine as a “famous, excellent and premium” stone material. The premium quality of our marble products is also supported by the prices that our customers have paid or agreed to pay pursuant to the sales contracts that our customers have entered into with us.

Marble is geologically defined as metamorphosed limestone or dolomite that is thoroughly recrystallized and much or all of the sedimentary and biologic textures are obliterated. Commercially in the stone industry, and as used in this Prospectus, marble also includes limestone or dolomite that is rock of sedimentary origin primarily composed of calcium carbonate or calcium magnesium carbonate and is polishable. Our marble resources fall into this latter category.

The geological composition of our marble includes limestone and dolomite. The high degree of purity, hardness and bulk density as well as the low level of porosity of the marble in our Zhangjiaba Mine can be used as premium marble blocks and slabs for decorative surfacing purposes. Although we expect processed marble slabs to be our main product, we also intend to sell a limited volume of marble blocks as well as other by-products.

The primary color of our marble resources in the Zhangjiaba Mine is beige. Some of the resources are pure beige while others are mixed with milk-white or grayish white colors. Based on the color variation, our marble is classified as either Pure Beige or Mixed Beige. Some of the marble resources have well-developed depositional lamination consisting of alternating color bands similar to wood grain, which is referred to as Wood Grain marble. There are some calcite veins and veinlets filling the fractures in the marble, forming a netted texture, which is referred to as the Gray Net marble. Therefore, there are four types of color and texture combinations based on commercial products that will be produced from our Zhangjiaba Mine, namely the Pure Beige, the Mixed Beige, the Wood Grain, and the Gray Net, each of which accounts for 51.0%, 32.7%, 6.4% and 9.9% of the total marble reserves, respectively. We expect that our Pure Beige will achieve the highest sales price, followed by Mixed Beige and then others.

### ***Properties of Our Products***

Based on measurements on 19 core rock samples, the bulk density of the marble resources in the Zhangjiaba Mine ranges from 2.51 to 2.73 t/m<sup>3</sup> with an average of 2.61 t/m<sup>3</sup>. The hardness of the marble is 3. The natural water absorption of the marble is generally from 0.2% to 0.8%, averaging 0.54%. Based on the measurements on selective samples, the compressive strength of different types of marble ranges from 27.5 to 63.7 million pascals (“MPa”), averaging 41.9 MPa. The bending strength ranges from 16.3 to 39.7 MPa, averaging 23.3 MPa. The abrasion resistance is 57 per cm<sup>2</sup> for the Pure Beige, 56 per cm<sup>2</sup> for the Mixed Beige, 28 per cm<sup>2</sup> for the Wood Grain, and 64 per cm<sup>2</sup> for the Gray Net. The abrasion resistance of all four types of marble satisfies the minimum requirement of 10 per cm<sup>2</sup> for natural marble construction material in China (GB/T 19766-2005).



***Marble Slabs***

Prior to the commencement of the commercial operations of our processing facilities, we engaged third-party processing plants to process our marble blocks into marble slabs. Upon completion of our marble slab processing facilities, we expect our processing to begin with separating and processing untrimmed quarry stones from marble mines into marble blocks, which we will further process into marble slabs and other decorative surfacing marble products by cutting, burnishing and polishing.

We cut marble blocks into three types of marble slabs, namely, standard 2-cm thick one-side-polished marble slabs (“one-side-polished marble slabs”), 2-cm thick cut-to-size marble tiles (“cut-to-size marble tiles”) and 1-cm thick one-side-polished marble slabs (“thin marble slabs”). From 2013 onwards, we expect our processing facilities to have an aggregate processing capacity of 3.0 million m<sup>2</sup> of marble slabs per annum, of which 55% will be one-side-polished marble slabs, 35% will be cut-to-size marble tiles and 10% will be thin marble slabs. The sales price for cut-to-size marble tiles is higher than that of one-side-polished marble slabs and thin marble slabs. As at the Latest Practicable Date, we entered into contracts to sell one-side-polished marble slabs to our customers.

Marble slabs are usually used as indoor decorative materials, such as floors and walls. According to an independent panel review organized by CSMA, the color and texture of our marble products are similar to those of the 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 marble products are suitable for use in the decoration of high-end commercial and public buildings, such as hotels, office buildings, museums and memorial halls.

***Marble Blocks***

We also intend to sell a limited volume of marble blocks, primarily to the overseas market. The sales price of marble blocks varies according to quality, texture, size, supply volume and delivery cycle.

***Sales of Our Products***

During the period from September to December 2010, we mined a total of 1,145 m<sup>3</sup> of marble blocks. During the same period, we sold a total of 3,000 m<sup>2</sup> of Pure Beige marble slabs, 9,000 m<sup>2</sup> of Mixed Beige marble slabs and 24 m<sup>3</sup> of marble blocks. The following table sets forth the sales volume, the revenue and the average selling price by product from 1 September 2010 to 3 January 2011,

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pursuant to a short-term sales contract of marble slabs we entered into with a construction material trading company in September 2010 and two individual transactions of marble blocks we entered into with two independent third parties who are engaged in stone processing:

	Marble Slabs			Marble Blocks
	Pure Beige	Mixed Beige	Total	
<i>1 September 2010 to 30 November 2010</i>				
Sales volume (m <sup>3</sup> (blocks)/m <sup>2</sup> (slabs)) . . . . .	1,000	2,000	3,000	24
Revenue (RMB in millions) . . . . .	0.72	0.97	1.69	0.08
Average selling price (RMB/m <sup>3</sup> (blocks)/ RMB/m <sup>2</sup> (slabs)) <sup>Note</sup> . . . . .	720	487	563	3,414
<i>1 December 2010 to 3 January 2011</i>				
Sales volume (m <sup>3</sup> (blocks)/m <sup>2</sup> (slabs)) . . . . .	2,000	7,000	9,000	—
Revenue (RMB in millions) . . . . .	1.44	3.41	4.85	—
Average selling price (RMB/m <sup>3</sup> (blocks)/ RMB/m <sup>2</sup> (slabs)) <sup>Note</sup> . . . . .	720	487	538	—
<i>1 September 2010 to 3 January 2011</i>				
Sales volume (m <sup>3</sup> (blocks)/m <sup>2</sup> (slabs)) . . . . .	3,000	9,000	12,000	24
Revenue (RMB in millions) . . . . .	2.16	4.38	6.54	0.08
Average selling price (RMB/m <sup>3</sup> (blocks)/ RMB/m <sup>2</sup> (slabs)) <sup>Note</sup> . . . . .	720	487	545	3,414

*Note:* The average selling price is calculated by dividing the revenue by the corresponding sales volume. Our revenue is net of VAT.

Revenue from 1 December 2010 to 3 January 2011 and revenue from 1 September 2010 to 3 January 2011 presented in the table above are estimates based on unaudited management accounts for the relevant periods. Accordingly, you should not place undue reliance on these estimates. For additional information regarding the various risks and uncertainties inherent in estimates of this type, see “Forward-Looking Statements.” Our estimated revenue for these periods is not indicative of our gross profit or net profit or net loss for such periods, nor is it indicative of our revenue, gross profit or net profit or net loss or other financial results for the year ended 31 December 2010 or any other periods. Our estimated net profit and gross profit for the month ended 31 December 2010 were in line with our expectations and consistent with our loss estimate for the year ended 31 December 2010 included in “— Loss Estimate for the Year Ended 31 December 2010” and “Appendix III — Loss Estimate.” Please refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Prospectus for information regarding trends and other factors that may influence our results of operations.

### *Other Products and By-products*

Our other products include a small amount of shaped stone products, such as curved plates, moldings, fireplace components, tables, and special order products. The spalls and crushed stones generated from our mining and processing process can be used for industrial purposes.

As part of our efforts to be socially responsible, in addition to our main marble slab processing facilities, we also plan to construct a small processing plant in close proximity to our Zhangjiaba Mine, as a co-operative effort with local farmers, which will employ some of the local labor to produce small 2-cm thick cut-to-size marble tiles using remaining marble of various shapes and sizes. This processing plant is established to help local economic development and provide training to local citizens. We did not and do not expect to generate any material revenue or incur any material costs or expenses in relation to the operation of such processing plant. The waste materials from marble slab, tile and shaped stone production at our mine and processing plants will be sold at relatively low prices to the local factories as raw materials for their cement and calcium powder production. We expect the plant to commence production in 2012. The projected full production for the small 2-cm thick cut-to-size marble tiles and the raw materials for cement and calcium carbonate powder from 2014 onwards will be 100,000 m<sup>2</sup> and 626,000 tonnes, respectively. The intent of such co-operative effort is to utilize the entire production volume of the marble blocks mined at our Zhangjiaba Mine and to minimize the final waste rocks from our mining activities.

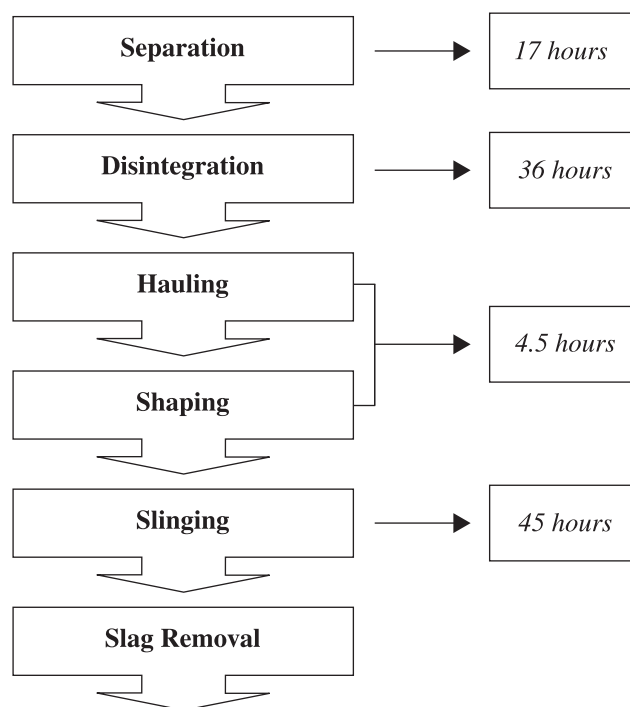
## OUR PRODUCTION OPERATIONS AND FACILITIES

### *Overview*

Our principal products are marble slabs processed and blocks mined from our marble reserves. 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 in the end of 2010. Commercial production at these two knolls commenced in September 2010. During the Track Record Period, we focused our business activities on mine planning and construction and infrastructure development. We are currently constructing the other two knolls.

### ***Mining Process***

We integrate a variety of cutting techniques in open pits, including diamond wire cutting, chain saw cutting, and disc saw cutting to produce marble blocks. The following diagram sets forth our mining process at our marble mine and the time required for each process based on our calculation for the mining of a standard 90 m<sup>3</sup> marble block:



- *Separation:* To separate massive stones from the original protolith by sawcutting or cleaving according to the cracks in the mineral body joint.
- *Disintegration:* To disintegrate separated massive stones into a number of smaller blocks as raw materials of marble blocks. The location of disintegrative sawcutting face is subject to the required size of marble blocks.
- *Hauling:* To move the disintegrated marble blocks or raw materials of marble blocks from the mineral bodies in order to create working space for next round of separation.
- *Shaping:* To saw cut or shape marble blocks, that do not conform to the commercial standard into the required of sizes and specifications.
- *Slinging:* To sling the marble blocks from the working platform to transportation vehicles for direct sales or centralized storage at the storage site.
- *Slag removal:* To collect gravel, crushed stones and slag that cannot form marble blocks and remove them from the working platform for transportation or sales.

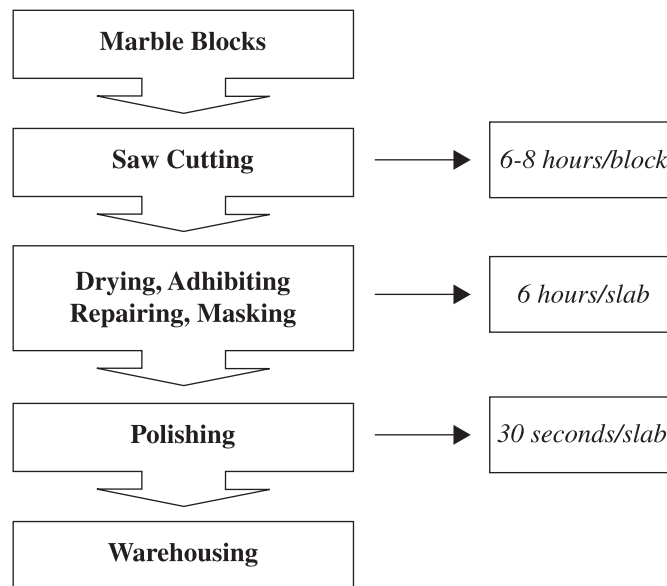
As part of our planned increase in mining and processing capacities, we expect to significantly increase our marble block mining capacities to a total of 45,000 m<sup>3</sup> per annum in 2011, 90,000 m<sup>3</sup> per annum in 2012, 135,000 m<sup>3</sup> per annum in 2013 and 150,000 m<sup>3</sup> per annum from 2014 onwards. These planned mining capacity amounts are calculated based on our mining operations scheduled for 300 days per year, taking into account holidays, weather downtime and equipment maintenance, with sawing for

three eight-hour shifts per day and other activities in two eight-hour shifts per day. Maintenance of the various cutting tools and mobile equipment as well as adequate supplies of spare parts and consumables are critical for maintaining the planned monthly mining production. As a result, repair and support facilities will be constructed to support the planned mining operations.

### ***Marble Slab Processing Process***

Marble blocks are saw cut into slabs. Small marble blocks will be processed by simple disc saws to produce marble slabs. Medium and large marble blocks will be processed by gang saws and will be typically used to produce standard 2-cm thick one-side-polished marble slabs. Marble from the upper benches of the open-pit production contain small defects, such as holes, cracks and fossils. Therefore, marble blocks produced during the early stage will often need to be treated with resin to ensure final product quality. This will double the polishing time needed as the slabs will need to be polished twice. As marble quality improves with mining depth, this added polishing step will be reduced to a limited level.

Our marble slab production processes include saw cutting, drying or adhibiting repairing or masking, curing, polishing and warehousing. The following diagram sets forth our marble slab processing process and the time required for each process:



- *Saw cutting:* Marble blocks are cut into slabs with circular saws, sand saws or general saws.
- *Drying, adhibiting repairing or masking:* For cracked stones, stones with holes or easily breakable stones, we use resin gluing or masking to increase their abrasion resistance.
- *Polishing:* Polishing is a process by which material is precisely removed from a workpiece (or specimen) to produce a desired dimension, surface finish or shape.

### *Processing Facilities*

We plan to construct large-scale marble slab processing facilities in close proximity to our mine, on which we expect to attain 60% of the planned processing capacity in 2012 and full planned processing capacity in 2013. Prior to the completion of our marble slab processing facilities, we engage third-party processing plants to process marble slabs from our marble blocks. We expect to commence our own processing of marble slabs at the beginning of 2012 and reach full processing capacity of 3.0 million m<sup>3</sup> in 2013. After reaching our full mining and processing capacities, we expect to continue to outsource approximately 27% 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 processing facilities will be located in an industrial park at the south side of the Jiangyou City, approximately 30 km from our Zhangjiaba Mine, and occupy a total of ten hectares of lands and include our marble slab processing plants and other facilities. The main machinery and equipment used for our processing operations include marble frame saws, gang saws, jib cranes, electric single-girder cranes, slab polishing machines and hydraulic flap machines.

### **SALES AND MARKETING**

We commenced commercial production at our Zhangjiaba Mine in September 2010. As at the Latest Practicable Date, we had 10 employees performing sales and marketing functions and covering both domestic and overseas markets and have sold marble products to certain construction material suppliers which resell the products to end users. We may also directly sell our products to the end users in the future if we identify any of such sales opportunities. We currently have not engaged any third-party distributors to sell our marble products and plan to sell our marble products to well-recognized property developers and construction companies through a number of select distributors that have a strong track record, established customer base and broad sales and marketing network. We are not aware of any spot markets developed for our products, and do not intend to sell in such markets.

We expect to increase exposure of our products in select trade and other high-end decorative surfacing stone magazines, as well as attend industry forums, trade fairs and exhibitions where we can establish communications with industry professionals, major property developers, contractors and others who have significant influence over customer preferences and purchasing decisions. In addition, to achieve further recognition of our products, we plan to market our products for use in landmark construction projects, such as five-star hotels and major commercial and public buildings, where our marble products can be prominently displayed and showcased.

### **CUSTOMERS AND CONTRACT TERMS**

#### *Customers*

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, governmental projects, and/or decoration companies and undertake decoration work, and one is primarily engaged in trading. Prior to the commencement of the commercial operations of our processing facilities, we engaged third-party processing plants to process our marble blocks into marble slabs. We also sold a limited volume of marble blocks during the Track Record Period. 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.



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### *Contracts and Pricing*

Sales of our products to customers are made pursuant to long-term sales contracts that specify the quantity, price, payment term and manner of delivery. These contracts stipulate a quantity that our customers are obligated to purchase, product specifications and sales price, subject to adjustment terms.

We signed a short-term sales contract with a construction material trading company in September 2010, when we commenced commercial production, to sell an aggregate of 12,000 m<sup>2</sup> of marble slabs, at average ex-factory sales prices of RMB842.5 per m<sup>2</sup> for Pure Beige marble slabs and RMB570 per m<sup>2</sup> for Mixed Beige marble slabs and made deliveries during the period from October to December 2010. The sales contract expired at the end of 2010.

Although we only commenced commercial production in September 2010, we already entered into long-term legally binding sales contracts with seven customers in China in 2010. These sales contracts provide for an aggregate sales volume of 1,025,000 m<sup>2</sup>, 1,610,000 m<sup>2</sup> and 2,015,000 m<sup>2</sup> of marble slabs in 2011, 2012 and 2013, respectively, representing 63%, 56% and 45%, respectively, of our total planned marble slab production according to the Competent Person's Report. Our customers are obliged to purchase a minimum of 90% of the volume set out in these sales contracts. The long-term sales contracts we have entered into are for a period of five years. We expect to make the first delivery under these long-term contracts in March 2011. We plan to enter into more long-term sales contracts to sell the remaining portions of our planned marble slab production. According to Hatch, China's marble demand is expected to maintain steady growth. Therefore, our Directors believe that there will be sufficient demand for our planned marble slab production.

The following table sets forth the sales prices and volumes of our marble slabs in our seven long-term sales contracts:

	Price Range <sup>(1)</sup> (RMB/m <sup>2</sup> )	Contracted Sales Volume <sup>(2)</sup> (m <sup>2</sup> )				
		2011	2012	2013	2014	2015
Pure Beige marble slabs . .	800–865	355,000	670,000	960,000		
Mixed Beige marble slabs.	510–568	540,000	770,000	850,000		
Other marble slabs (Wood Grain and Gray Net) . .	500–538	130,000	170,000	205,000	Not less than	Not less than
Total . . . . .	633–692 <sup>(3)</sup>	1,025,000	1,610,000	2,015,000	1,975,000	1,975,000

*Notes:*

- (1) The sales prices in these contracts are VAT inclusive.
- (2) Our customers are obliged to purchase a minimum of 90% of the volume set out in the above table.
- (3) This volume weighted average price range is calculated based on price range of the three categories of the products and volume contracted during the period from 2011 to 2013.

According to Hatch, the current market prices of our primary competing beige marble products, Royal Batticino from Iran, Cream Marfil from Spain and Frans Beige from France, are RMB1,300 per m<sup>2</sup>, RMB950 per m<sup>2</sup> and RMB1,200 per m<sup>2</sup>, respectively. These products are sold at higher prices mainly due to their established brand names and high recognition among consumers. The average price of other PRC branded marble products is approximately RMB150 per m<sup>2</sup>. There is no official statistics of standalone prices available for marble blocks, according to Hatch.

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Under these long-term sales contracts, we have the right to adjust prices for marble slabs sold beyond the annual supply volume stipulated in the contract. In addition, subject to our customers' consent, we are entitled to adjust prices of the annual contracted volume according to changes in market conditions each year with one-month's advance written notice. Pursuant to these sales contracts, our customers are obligated to purchase a minimum of 90% of the annual volume set out in the contracts and are required to pay a penalty of 20% or 30% of the shortfall sales value, which equals the difference between the actual purchased volume and the minimum required volume multiplied by the average selling price set out in the contracts, if they purchase less than 90% of the contracted volume. We are obligated to supply the annual volume set out in the contracts and are required to pay a penalty of 20% of the sales value of the contracted volume we cannot supply. These sales contracts do not provide for the customers' right to return products. We believe that these contracts will ensure a steady demand for our products upon the commencement of commercial production of our Zhangjiaba Mine as well as after we reach our full mining and processing capacities of marble blocks and marble slabs in 2014.

### *Payment Terms*

Pursuant to the seven long-term sales contracts we have signed as at the Latest Practicable Date, we require our customers to make prepayment of 30% of the sales value upon order of marble slabs. An additional 50% of the sales value is required to be paid upon delivery of the processed marble slabs ex-factory. The remaining 20% will be paid within 10 days after such delivery.

The payment terms for our sales contracts to be entered into with our future customers will be agreed between the parties following arm's length negotiations.

During the Track Record Period, our five largest customers were mainly suppliers for construction materials. For the period from 14 March 2008 to 31 December 2008, the year ended 31 December 2009 and the eleven months ended 30 November 2010, sales to our five largest customers collectively accounted for nil, nil and 100% of our total product sales value, respectively. For the eleven months ended 30 November 2010, sales to the largest customer accounted for 95.4% of our total product sales value. To the best knowledge of our Directors, none of our Directors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest customers.

## LOGISTICS AND OUTSOURCING

### *Delivery of Products*

Our mine is located approximately 40 km away from Mianyang City, the local economic center in the north-central region of Sichuan Province, and approximately 160 km away from Chengdu, the capital city of Sichuan Province. Our mine is easily accessible by a local highway to Hanzeng Town, which is 5.5 km away and connects to the provincial highway linking to Beichuan County, as well as to the urban area of Jiangyou City. The closest railway depot is approximately 24 km away from our mine. While we are not facing any transportation bottlenecking or other constraints, our business depends on the availability of reliable and adequate transportation capacity for our products. See "Risk Factors — Risks Relating to Our Business — Our business depends on the availability of reliable and adequate transportation capacity for our products."

We sell our products on an ex-mine and ex-factory basis. Our customers are therefore responsible for the transportation costs of marble blocks and marble slabs from our mining site, storage site or marble processing plants to their final destinations.

### *Third-Party Contractors*

We engage third-party processing plants for marble slab processing. Our marble slab processing contractors are independent third parties. Three processing agreements were entered into between our Company and the third-party processing plants in August 2010 and will expire between August and December 2011. Pursuant to these processing agreements, we are required to transport the marble blocks at our own costs to the third-party contractor's designated plant for storage and pay the processing fees of marble blocks on a monthly basis. The processing fees are determined by the unit processing fee stipulated in each agreement, which range from RMB50 per m<sup>2</sup> to RMB62 per m<sup>2</sup> for one-side-polished marble slabs and the total area of the processed marble slabs measured in square meters. The third-party processing plants are required to process the marble blocks by the quality and specifications stipulated in the agreements. The processed marble slabs may be stored at the plants for three months free of charge, and we may collect the processed marble slabs any time during the three-month period. Pursuant to these processing agreements, if we do not make payment of processing fees 15 days after the agreed payment date, we will be liable for 20% of any late payment. The processing plants are liable for 20% of the processing fees for any unprocessed marble blocks 15 days after the agreed date of completion.

In addition, we have engaged a third-party explosive handling company to carry out explosive assignments for the construction of the remaining two knolls at our Zhangjiaba Mine. The service agreement was entered into between our Company and the third-party explosive handling company on 30 July 2010 and expired upon the completion of the assignments by 31 December 2010. Pursuant to the service agreement, the explosive handling fees are determined by the number of explosive holes with prices ranging from RMB30 to RMB70 per hole depending on the depth of the hole, plus labor cost and transportation cost. We are required to make a prepayment of RMB50,000, and the handling fees are settled on a monthly basis. If either party is in breach of the agreement, the breaching party will have to pay a penalty of 10% of the contract value.

In selecting third-party contractors, we require the third-party contractors to have the relevant licenses or permits issued by the competent authorities. As advised by our PRC legal adviser, Commerce & Finance, each of our marble slab processing contractors is required to have a business license that has marble slab processing as part of the scope of business to carry out marble slab processing contracting work pursuant to its processing contract with us, and no separate license to carry out marble slab processing is required. As at the Latest Practicable Date, we engaged three marble slab processing contractors and each of them had provided a business license with marble slab processing as part of its scope of business. We also engaged independent third parties for explosive handling pursuant to service contracts. As advised by our PRC legal adviser, Commerce & Finance, in addition to a valid business license, the third-party contractor which handles explosives is also required to have a blasting operations entity permit, the production safety permit and the construction-enterprise qualification certificate and its employees who handle explosives must have the required qualification. We have received copies of the current business license, the blasting operations entity permit and other qualification/permit held by the third-party contractor and the qualification certificates of three of its employees who handled the explosives for our Zhangjiaba Mine.

**UTILITIES, RAW MATERIALS, MACHINERY AND SUPPLIERS*****Electricity and Water***

We rely on electricity and water for our operations. We have entered into an electricity supply contract with Beichuan Power Grid in July 2009. Pursuant to this contract, we consume industrialized electricity at market rate and make payment on a monthly basis. We also plan to source additional electricity supply from Jiangyou Power Grid in the future.

Water is a key component of our marble block mining and marble slab processing activities. We source our water supply from surface drainages and underground water in our Zhangjiaba Mine. During the wet season (June to September), water flowing from the surface drainages are sufficient to provide the fresh water needed for our existing and planned mining activities and processing facilities. We also have water supply from a water well within our mining area and we have obtained necessary water harvesting permits for taking surface and underground water from the well in July 2010. Our Zhangjiaba Mine is also equipped with water recycling system for our production activities.

Our mining process consumes a limited amount of water and electricity. We believe our current and future supplies for water and electricity will be sufficient.

***Materials***

We use marble extracted from our Zhangjiaba Mine for our production process and do not plan to purchase marble from third parties. The auxiliary materials used in our production process include diamond saws, pipes, pumps, detonators, diesel fuel and other equipment parts. Because we have recently commenced commercial production at our Zhangjiaba Mine in September 2010, we have only purchased a limited amount of processing materials, such as chromium alloy, kerosene, gasoline, lubricants, metal tools and other consumables, from our suppliers during the Track Record Period.

***Machinery and Equipment***

Our mining production activities require various types of machinery and equipment, including chain saw cutting machines, diamond wire cutting machines, disc saw cutting machines, drilling machines, bench overturning equipment and pneumatic block cutters. All of our machineries and equipment for mining are sourced from third-party suppliers in China and overseas. For the period from 14 March 2008 to 31 December 2008, the year ended 31 December 2009 and the eleven months ended 30 November 2010, our total purchases of machinery and equipment amounted to RMB6.3 million, RMB0.5 million and RMB22.3 million, respectively.

***Suppliers***

All of our suppliers for materials are domestic Independent Third Parties. We maintain a good relationship with our suppliers and did not have any material disputes with any of them during the Track Record Period.

During the Track Record Period, our five largest suppliers were suppliers for equipment and processing materials. For the period from 14 March 2008 to 31 December 2008, the year ended 31 December 2009 and the eleven months ended 30 November 2010, purchases from our five largest suppliers collectively accounted for 67.5%, 95.7% and 75.5% of our total supply purchases, respectively. For the eleven months ended 30 November 2010, purchases from the largest supplier

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accounted for 23.4% of our total supply purchases. To the best knowledge of our Directors, none of our Directors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest suppliers.

We have not experienced any bankruptcy or default on the part of any suppliers during the Track Record Period.

### COMPETITION

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. We were also awarded a certificate dated 9 September 2010, issued jointly by CSMA and National Stone Material Quality Inspection Center, to certify our beige marble mined from our Zhangjiaba Mine as a “famous, excellent and premium” stone material. 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, according to the Hatch Report. 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.

### QUALITY CONTROL

Most of our products are required to meet strict product specifications and environmental protection standards. We have established and designed a quality control department to ensure that all of our products meet the relevant quality control standards. Our quality control department consists of two dedicated quality control staff, both of whom have more than five years of experience, respectively, in managing and overseeing quality control of stone products. We plan to recruit more quality control personnel in line with our business expansion. We have implemented a quality management system, compiled a quality control manual and implemented a comprehensive quality control system in an effort to maintain quality controls. In accordance with national standards as well as the design plan of our Zhangjiaba Mine, we established mining and extraction policies and specific working guidelines for each working face.

We monitor our products through on-site inspections as well as regular product sample checking. In order to reduce color difference and cracks and ensure consistent specifications, we determine the mining and cutting level and direction, and separate the stones according to the quality, color and formation of the mine. We use infrared color separator to carry out the initial separation of stones at the mining site. We also select prestigious equipment suppliers to ensure the quality of our marble products. As at the Latest Practicable Date, we did not experience any material product liability or other legal claims involving problems relating to the quality of our products.

**ENVIRONMENTAL PROTECTION AND LAND REHABILITATION*****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, which could have a material adverse effect on our financial condition and results of operations. See “Risk Factors — Risks Relating to Our Industry — Changes in legal requirements and governmental policies concerning environmental protection and other areas of laws could impact our business.” in this Prospectus.

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. We have been advised by our PRC legal adviser, Commerce & Finance, that the *Environmental Protection Bureau of Jiangyou City* is the competent authority to issue such confirmation letters 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. As at the Latest Practicable Date, 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. During the Track Record Period, we spent approximately RMB60,000, RMB700,000 and nil in respect of regulatory compliance with applicable environment protection requirements in the PRC for the period from 14 March 2008 to 31 December 2008, the year ended 31 December 2009 and the eleven months ended 30 November 2010. Such cost is expected to be approximately RMB450,000 in 2011 in respect of regulatory compliance with applicable environment protection requirements in the PRC. We intend to allocate operating and financial resources to such compliance as required by PRC laws and regulations.

Prior to the launching of our mining project, we engaged the PLA Logistics Academy (中國人民解放軍後勤工程學院環境保護科學研究所) which holds the qualification issued by the MEP to conduct environmental impact assessment, is qualified in providing environmental impact assessment services to us. The environmental impact of our new production ramp-up or other projects will be assessed with a



view to minimizing the negative impact on the environment. We also will submit any such expert reports or studies to the relevant local environmental protection bureau for its approval according to relevant PRC laws and regulations. The relevant local environmental protection bureau may conduct regular inspection of our production sites.

### ***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. We have received confirmations from the *Land and Resource Bureau of Jiangyou* (江油市國土資源局) and the *Forestry Bureau of Jiangyou* (江油市林業局) to confirm that we do not violate the relevant land rehabilitation and reforestation laws and regulations with respect to our Zhangjiaba Mine as at 5 August 2010 and 30 July 2010, respectively.

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. Upon the commencement of commercial production at our Zhangjiaba Mine in September 2010, we set aside provisions for land and woodland rehabilitation costs in the amount of RMB1.3 million.

### **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.

As at the Latest Practicable Date, the Directors were not aware of any material accidents involving any personal injury or property damage during the Track Record Period and that we have not been subject to any claims arising from any material accidents involving personal injury or property damage during the Track Record Period that have a material adverse effect on our business, financial condition or results of operation. We believe that we have complied with all relevant material PRC laws and regulations regarding occupational health and safety during the Track Record Period. According to a confirmation issued by the relevant government authority, our PRC legal adviser, Commerce & Finance, is of the opinion that we have complied with the relevant laws and regulations pertaining to occupational health and safety in material respects.

On 25 December 2010, an accident resulting from a failed diamond wire saw deployed for marble cutting operations occurred at the Zhangjiaba Mine. The accident resulted in the death of an employee at the mining site. We promptly reported the accident to *Production Safety Supervision Bureau of Jiangyou City* (江油市安全生產監督管理局) (“Jiangyou PSSB”), which is the authority to which such accidents are reported, and co-operated with Jiangyou PSSB in its investigation. On 22 January 2011, Jiangyou PSSB issued a letter with the results of its investigation. In its letter, Jiangyou PSSB concluded that the incident was a rare accident and, at the time of occurrence of the accident, among other things, (i) we and our mining staff were not in violation of the safety production procedures; (ii) the diamond wire saw deployed had a certificate of approval for product specification; and (iii) our management of production safety was in compliance with the relevant PRC laws, regulations and standards.

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Since the accident, we have voluntarily enhanced safety measures at the mine to avoid the recurrence of such accident. In particular, we have (i) enlarged the prohibited zone around the location of the diamond wire saw machine and the cutting wire; (ii) installed shields that move along the diamond wire saw machine at the mine to prevent any loose parts of the wire saw from being thrown into the air at high speed and injuring the machine operator; (iii) increased the frequency of trainings for mining staff on production safety; (iv) increased the number of staff involved in production safety monitoring; and (v) generally raised staff awareness on production safety at the mine.

We have made contributions to occupational injury insurance plan for our mining staff as required by the PRC laws and regulations. We have also purchased personal injury insurance for our mining staff. In addition, we have agreed to make any necessary payment to the deceased employee's spouse to ensure that the total compensation available to the lineal family in connection with the accident will be no less than RMB600,000. The employee's spouse has agreed in writing with us that we will not be held liable for any other payment other than RMB600,000 or otherwise have further obligations to the deceased employee's family in connection with the accident. According to our PRC legal adviser, Commerce & Finance, such agreement is valid and legally binding under the PRC laws. Commerce & Finance has also advised us that, based on the letter issued by Jiangyou PSSB, on 22 January 2011: (i) the incident has been identified as a rare accident and we were not required to assume responsibility for such incident; and (ii) no penalty shall be imposed on us by Jiangyou PSSB in connection with such accident. As at the Latest Practicable Date, no civil liability, regulatory sanction or penalty was imposed on us in connection with the accident. We believe that the accident is not expected to have any material adverse impact on our marble mining and processing business.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we are the registered owner of the trademark “ ” and “KINGSTONE” in Hong Kong. We also filed four trademark applications in the PRC in August 2010 and expect to complete the registration of the trademarks by 2012. See “Statutory and General Information — B. Further Information About the Business” in Appendix VII to this Prospectus. We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

As a matter of trademark laws in the PRC, registration is not the prerequisite for use of a trademark. We have the legal right to use the trademarks under the applicable laws of the PRC unless such trademarks or similar trademarks have been legally registered on the same or similar products/service by a third party and/or such use has been successfully challenged by a third party or denied pursuant to any administrative or judicial findings. As at the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims either pending or threatened.

### PROPERTIES

As at the Latest Practicable Date, our Company held and occupied a property which comprises two parcels of land with a total site area of approximately 9,275.9 m<sup>2</sup> and an office building with the gross floor area of approximately 826 m<sup>2</sup>. We obtained the state-owned land use right for two parcels of land on 20 October 2010. In addition, we have also obtained the Construction Land Planning Permit (Di Zi Di No. 10002) and the Construction Work Planning Permit (Jian Zi Di No. 10083) on 6 April 2010, and the Construction Work Commencement Permit of Mianyang (Jian Shi Di [2010] No. 274) issued by *Jiangyou City Planning and Construction Bureau* (江油市規劃和建設局) on 11 August 2010,

respectively, which granted us the permission to construct such office building on such parcel of land. We are in the process of applying for the building ownership certificate with the relevant PRC regulatory authority.

Our Company has also leased 35 parcels (including a parcel of forestland) of land located at Zhenjiang Village, Jiangyou City, Sichuan Province, with a total site area of approximately 153.921 mu (102,614.51 m<sup>2</sup>) for mining and ancillary purpose. Relevant lease agreements have been entered into between Sichuan Jinshida and relevant land owners and villagers. Pursuant to the land lease agreements entered into between Sichuan Jinshida and relevant land owners and villagers, 34 parcels of land with a total site area of approximately 25.815 mu (畝) (17,210.09 m<sup>2</sup>) are leased to Sichuan Jinshida for various terms with the expiry dates between 30 May 2021 and 25 December 2028 in consideration of annual rent as 400–500 kgs yellow millet (黃穀)/mu or RMB1,100 yuan/mu. According to a land lease agreement entered into between Sichuan Jinshida and the land owner, a parcel of forestland with a site area of approximately 128.106 mu (畝) (85,404.43 m<sup>2</sup>) is leased to Sichuan Jinshida for a term of 8 years expiring on 10 May 2016 at an annual rent of RMB82.5 yuan/mu, subject to a 3% increase biennially. During the Track Record Period, we have paid rental of RMB3.8 million to relevant villagers. Pursuant to six Short-term Land Use Rights Approvals (Jiang Guo Tu Zi Han [2010] Nos. 101 to 106) issued by the *Land and Resource Bureau of Jiangyou* from 2 March 2010 to 16 April 2010 as well as a Consent Letter dated 30 July 2010 issued by the *Forestry Bureau of Jiangyou*, our Company has obtained a short-term land use right of such parcels of land. The valid term of such temporary land use right will expire within 2 years since the issue date of relevant Land Use Rights Approvals. As advised by our PRC legal adviser, Commerce & Finance, (i) the *Land and Resource Bureau of Jiangyou* and the *Forestry Bureau of Jiangyou* are the competent authorities to issue such Short-term Land Use Right Approvals and the Consent Letter respectively; (ii) we are entitled to use the 35 parcels of land in accordance with valid term, regulation and usage stipulated by the Short-term Land Use Rights Approvals, the Consent Letter and relevant lease agreements; (iii) relevant lease agreements are valid and legally binding; and (iv) there is no explicit regulation requiring such lease agreements to be registered with any government authorities and we shall not be subject to any fines. As the land within our permitted mining area is collectively-owned land, according to relevant PRC laws and regulations, we are only able to obtain the short-term land use rights through statutory approach rather than long-term land use right of such land unless the nature of such collectively-owned land has been converted to state-owned land. Under the PRC law, collectively-owned land may be converted to state-owned land of which long-term land use rights may be granted to the land user by the authorities. We have begun the process in converting collectively-owned land with a total site area of 153.921 mu (畝) (102,614.5 m<sup>2</sup>) into state-owned land in August 2010 by filing an application to the *Land and Resource Bureau of Jiangyou* for the conversion of the collectively-owned land. We are expected to pay the relevant land premium (土地出讓金) related to the land use rights after such land is converted into state-owned land. A portion of such land premium may be utilized by the local authority to pay to the villagers as compensation. According to relevant PRC laws and regulations, we are not required to make any direct payment to villagers as compensation. Based on our verbal consultation with the *Land and Resources Bureau of Jiangyou*, the current land premium is at a rate of approximately RMB0.1 million per mu (畝). As at the Latest Practicable Date, we did not pay any land premium as we were not required to pay such land premium until we enter into a state-owned land use right grant contract with local authority.

As part of our industry practice, we do not carry out mining operations at our mines over the entire area covered by the applicable mining permit, but rather design our long-term mining plans to include multiple mining operations on smaller parcels of the land. Among all the land covered by the applicable mining permit of our Zhangjiaba Mine, there are several parcels of land, with a total site area of

approximately 7,810 m<sup>2</sup>, which will not be used by us according to our mining plans. Furthermore, we will apply for short-term land use rights for the remaining 377,144.55 m<sup>2</sup> land within the mining area covered by the applicable mining permit of our Zhangjiaba Mine or renew the existing short-term land use rights owned by Sichuan Jinshida from time to time according to our long-term mining plans. According to our planned use of land area from 2010 to 2020, we expect to mainly utilize the land for which we have obtained short-term land use rights, with a total area of 102,614.51 m<sup>2</sup>, to satisfy our land use needs prior to 2017. We do not expect to start using the remaining 377,144.55 m<sup>2</sup> of land until 2017.

Pursuant to *Implementation Rules on the Mineral Resources Law of the PRC* (中華人民共和國礦產資源法實施細則) promulgated and effective on 26 March 1994, we, as the holder of the valid mining permits, have the legal right to obtain, in accordance with the relevant laws and regulations, the land use rights with respect to the parcel(s) of land required to meet our production and construction needs. Furthermore, according to the relevant PRC laws and regulations, we may use collectively-owned land on a short-term basis of not more than two years if we: (i) have been granted short-term land use rights by the competent government authority; and (ii) have entered into land use agreements with the relevant land owner, rural collective economic entity or village committee.

We have obtained undertakings from the *Land and Resource Bureau of Jiangyou* dated 5 August 2010 and the *Forestry Bureau of Jiangyou* (江油市林業局) dated 30 July 2010 respectively, confirming that during the effective term of the mining permits for our Zhangjiaba Mine, they will grant new short-term land use rights or renew the existing short-term land use rights for us in relation to the land within the entire area covered by the applicable mining permit of Zhangjiaba Mine according to the request made by us from time to time. Our PRC legal adviser, Commerce & Finance, have advised us that, (i) the *Land and Resource Bureau of Jiangyou* and the *Forestry Bureau of Jiangyou* are the competent authorities to issue the foresaid undertakings and they should satisfy their obligations under such undertakings and grant/renew relevant short-term land use rights accordingly; (ii) there will be no material legal impediment for Sichuan Jinshida to obtain or renew relevant short-term land use rights from the *Land and Resource Bureau of Jiangyou* and the *Forestry Bureau of Jiangyou*; and (iii) if Sichuan Jinshida holds the relevant short-term land use rights, there will be no material legal impediment for it to renew relevant lease agreements. As at the Latest Practicable date, Sichuan Jinshida held the short-term land use rights to hold and occupy 35 parcels of land with an aggregate area of approximately 102,614.51 m<sup>2</sup>. During the Track Record Period, we did not encounter difficulties in obtaining or renewing the short-term land use rights for our mining operations. Thus we do not foresee that there will be any material obstacles in the obtaining or the renewal of relevant short-term land use rights from the *Land and Resource Bureau of Jiangyou* and the *Forestry Bureau of Jiangyou*. The terms of the tenancies of all the land use agreements entered into between Sichuan Jinshida and the relevant villagers are relatively long, the shortest being 8 years. Pursuant to the land use agreements entered into between Sichuan Jinshida and the relevant land owners and the undertaking signed by the relevant village committee and villagers on behalf of the relevant land owners on 8 January 2011, (i) if Sichuan Jinshida needs to continuously use the relevant lands after the expiration of corresponding agreed tenancies, Sichuan Jinshida is entitled to extend such tenancies, so long as Sichuan Jinshida notifies the land owners of such requirement one month prior to the expiration of such agreed tenancies, the relevant land owners shall satisfy Sichuan Jinshida's requirement and execute new land use agreements with Sichuan Jinshida accordingly; (ii) during the effective term of the mining permits of our Zhangjiaba Mine, the land owners will enter into relevant lease agreements with Sichuan Jinshida in relation to the land within the entire area covered by the applicable mining permit of the Zhangjiaba Mine according to the request made by Sichuan Jinshida from time to time; and (iii) the land owners shall assist Sichuan



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Jinshida to coordinate its relationship with the relevant villagers and ensure that such villagers will execute the relevant land use agreements with Sichuan Jinshida so that Sichuan Jinshida may continuously use the relevant lands. Based on the aforesaid circumstances, the Company is of the view that there is no difficulty in renewing the land use agreements going forward.

In addition, for the purpose of using relevant lands within the mining area covered by the applicable mining permit of our Zhangjiaba Mine, including the land with a site area of 102,614.51 m<sup>2</sup> of which the corresponding short-term land use rights are held by us and the remaining approximately 377,144.55 m<sup>2</sup> land within our mining area which should be used by us in the future, we have entered into the relevant land use agreements with the relevant land owners, village committee and villagers. According to such land use agreements, the relevant land owners, village committee and villagers have authorized us to use and occupy the land used or to be used by us and covered by the relevant mining permit. The expiry dates of such land lease agreements are between 16 March 2014 and 11 December 2029, and relevant land is leased to Sichuan Jinshida in consideration of (i) annual rent of 400–500 kgs yellow millet (黃穀)/mu; (ii) annual rent of fixed amount RMB75–400 yuan/mu; or (iii) annual rent of RMB73.33–86.43 yuan/mu subject to a 3% increase biennially.

We believe we will be able to successfully obtain or renew relevant short-term land use rights which are necessary for our mining operation. However, as all of our revenue and profits from our mining operations will be derived from open-pit mines operated on relevant land in the future, in the event we are unable to obtain or renew relevant short-term land use rights or land use agreements with the local villagers, we may not be able to utilize the full mineral resources in that land parcel and our operations may be substantially affected.

Our Company has also leased two properties for office purpose respectively located in Jiangyou City, Sichuan Province and Guangzhou City, Guangdong Province with an aggregate lettable area of approximately 243.82 m<sup>2</sup>. As advised by our PRC legal adviser, Commerce & Finance, under PRC law, the lease agreements entered into with our respective lessors are valid and binding and the lessors of such leases have the legal rights to lease such properties to us.

The property in Guangzhou City with a lettable area of approximately 25 m<sup>2</sup> is leased to Guangzhou Kingstone for a term of one year expiring on 10 May 2011 at nil rent. The lessor of such property is a company that engages in introducing potential investors to and attracting investments in Guangzhou Economic and Technological Development Zone. It frequently offers various incentive and assistance to attract investors with great potential to make investments in Guangzhou Economic and Technological Development Zone. Considering the significance of the Company's investment in Guangzhou Economic and Technological Development Zone by incorporating Guangzhou Kingstone with a registered capital of US\$30.0 million, the lessor leased the property to Guangzhou Kingstone at nil rent for Guangzhou Kingstone's administrative use. As advised by our PRC legal adviser, Commerce & Finance, the lease agreement is valid and binding. However, such lease agreement has not been registered with competent authority and the relevant parties of the lease may be ordered to rectify this non-compliance within a prescribed period by the competent authority. The relevant parties of the lease may be subject to a fine of RMB1,000 to RMB10,000 if such non-compliance cannot be rectified.

If our Company is evicted from the above properties for any reasons, the Controlling Shareholders have undertaken to indemnify our Company against any damages, losses or liabilities which are or become payable by any members of our Company as a direct or indirect result of any title defects of the land or property of our Company after the Listing, particulars of which are set out in the paragraph headed "Estate Duty, Tax and Other Indemnity" in Appendix VII to this Prospectus.



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Details of the property valuation together with the summary of valuation and valuation certificates from our property valuer are set out in Appendix IV to this Prospectus.

### REGULATORY COMPLIANCE ISSUES

Based on the advice of our PRC legal adviser, Commerce & Finance, we have obtained all necessary material rights, licenses, permits and approvals to conduct our current exploration, mining and processing activities at our Zhangjiaba Mine under relevant PRC laws and regulations. We have not experienced any difficulties in or rejections of our applications for exploration and mining permits or other rights, licenses or approvals that we have applied for in the past.

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 134 full-time employees. Substantially all of our employees are based in China. We have employment contracts with all of our employees with an average term of three years. The standard employment contracts do not include non-competition restrictions. The following table shows a breakdown of our employees by functions:

<b>Functions</b>	<b>Number of employees</b>
Management . . . . .	15
Mining and production . . . . .	91
Sales and marketing . . . . .	10
Financial . . . . .	8
Administration . . . . .	10
Total . . . . .	<u>134</u>

Since the Zhangjiaba Mine was in the early stages of development and we only commenced commercial production at the Zhangjiaba Mine in September 2010, and utilization of highly-efficient, semi-automatic machinery and equipment enables the production with relatively less manpower, we believe that the current staffing in mining and production functions is sufficient to meet our production requirements. We are currently in the process of training 11 mining and production staff who are under probation, and expects to retain staffs who are qualified to pass the probation period. As our business continues to develop, we intend to hire additional mining and production staff.

We recognize the importance of maintaining good relations with our employees. The remuneration package for our employees generally includes salary and bonuses. We determine employee remuneration based on factors such as qualifications and years of experience. Employees also receive welfare benefits, including medical care, housing subsidies, retirement benefits, occupational injury insurance and other miscellaneous items.

In accordance with the relevant PRC laws and regulations, Sichuan Jinshida is required to, within 30 days from its establishment, complete the corresponding housing fund payment and deposit registration procedures and then contribute the housing fund for its employees according to such PRC laws and regulations. However, Sichuan Jinshida had not registered and contributed housing fund (住房公積金) for its employees until 2 August 2010. Sichuan Jinshida may be ordered to pay the outstanding housing fund within a prescriptive time limit due to such non-compliance. We estimate the maximum liabilities as result of the above-mentioned non-compliance would be approximately RMB285,000. *The Mianyang City Housing Fund Management Centre Jiangyou Branch* (綿陽市住房公積金管理中心江油

分中心) issued confirmations on 6 August 2010 and 14 February 2011, respectively, to confirm that Sichuan Jinshida will not be subject to any penalties for the aforementioned non-compliance and it will not require Sichuan Jinshida to pay the relevant outstanding housing fund. However, we cannot rule out the possibility that Sichuan Jinshida shall be ordered to pay the outstanding housing fund in the future. Hence, the corresponding provision has been made in the Accountants' Report.

In addition, according to the relevant PRC laws and regulations, Sichuan Jinshida is required to, within 30 days from its establishment, complete the social insurance registration procedure and then contribute relevant social insurance for its employees according to such PRC laws and regulations. However, Sichuan Jinshida had not made such social insurance registration until January 2008 and had not fully contributed social insurance for its employees until August 2010. Sichuan Jinshida may be ordered to pay up the outstanding social insurance within a prescribed time limit due to such non-compliance. Furthermore, any delayed payment of social insurance may be subject to a 0.2% overdue penalty daily from the day past due date, in addition to the payment of the outstanding social insurance payment. We estimate the maximum liabilities as result of the above-mentioned non-compliance would be approximately RMB1,385,000. *Jiangyou City Human Resources and Social Security Bureau* (江油市人力資源和社會保障局) issued confirmations on 11 August 2010 and 14 February 2011, respectively, to confirm that Sichuan Jinshida will not be subject to any penalties for the aforementioned non-compliance and it will not require Sichuan Jinshida to pay relevant outstanding social insurance. However, we cannot assure you that Sichuan Jinshida will not be ordered to pay up the outstanding social insurance and relevant overdue penalty in the future. Hence, the corresponding provision has been made in the Accountants' Report.

As advised by our PRC legal adviser, Commerce & Finance, except as otherwise described above, the PRC subsidiaries of the Company have complied with the relevant labor and social welfare laws and regulations in all material aspects.

We have not experienced any significant difficulties with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe we have a good working relationship with our employees.

## **INSURANCE**

As at the Latest Practicable Date, except as disclosed in “— Employees”, we were in compliance with applicable PRC laws and regulations with respect to required insurances for our employees. As at the Latest Practicable Date, except as disclosed in “— Employees”, we also maintained the required PRC employee social benefits insurance in accordance with various PRC laws and regulations as well as local policies. We have duly registered for personal injury insurance and paid required insurance premium for our mining workers. In addition to the insurances for our employees, we obtained property insurance for our hauling vehicles for losses due to fire, earthquakes, floods and a wide range of other disasters. During the Track Record Period, we did not make any claims under our insurance policies that had a material adverse effect on our business, financial condition or results of operations.

Consistent with what we believe to be customary practice in China, we do not maintain any fire, earthquake, liability or other property insurance with respect to our properties, equipment and inventories, with the exception of insurance coverage for our vehicles. We also do not maintain any

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## BUSINESS

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business interruption insurance or third-party liability insurance against claims for property damage, personal injury and environmental protection liabilities other than third-party liability insurance for our vehicles.

We face comparatively lower levels of operational risk. Our open-pit mining method has a relatively lower level of risk than underground mining. We engage a number of third-party processing contractors to process the marble blocks extracted at our Zhangjiaba Mine. During the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial condition or results of operations. Taking into account the general practice in the PRC mining industry and in light of the fact that our Company has recently commenced commercial production in September 2010, our Directors are of the view that we have sufficient insurance coverage for our current operations. Our Directors and senior management will closely review the risks relating to our operations and adjust our insurance coverage as we continue our business expansion.

Save as disclosed in the section headed “Risk Factors — Risks Relating to Our Business — Our current insurance cannot adequately cover all losses and liabilities arising from our operations” in this Prospectus, we considered the insurance coverage on our assets to be adequate as at the Latest Practicable Date. We will continue to review and assess our risks and make necessary adjustments to our insurance practice to meet our needs and comply with industry practices in China.

### LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, we were not a party to any legal or administrative proceedings. In addition, our Directors are not aware of any claims or proceedings in relation to exploration or mining rights contemplated by government authorities or third parties which would materially and adversely affect our business.

We will ensure that we comply with all applicable PRC laws and regulations in the future by (i) placing in charge the legal department, with assistance from management and administrative staff, to oversee and maintain our compliance with applicable PRC laws and regulations through, among other things, establishing policies to monitor the compliance and strict implementation of the monthly reporting procedures on legal matters to the chief executive officer and the Board; (ii) providing regular trainings or updates in respect of PRC laws and regulations to our Directors on a bi-annual basis, and to senior management and the relevant staff on a monthly basis; and (iii) seeking external legal advice where appropriate and necessary. Our Directors considered that the internal control measures relating to compliance are adequate and effective.