



KINGSTONE
金石礦業

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

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

Stock Code 股份代號: 1380



2012

Interim Report 中期報告

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CORPORATE INFORMATION

Board of Directors

Executive Director

Mr. Xiong Wenjun

Independent Non-executive Directors

Ms. Leung Yee Shuen *(Resigned on 31 August 2012)*

Mr. Liu Yuquan

Mr. Lei Zhaochun

Audit Committee

Ms. Leung Yee Shuen *(Chairlady) (Resigned on 31 August 2012)*

Mr. Lei Zhaochun

Mr. Liu Yuquan

Remuneration Committee

Mr. Liu Yuquan *(Chairman)*

Ms. Leung Yee Shuen *(Resigned on 31 August 2012)*

Mr. Lei Zhaochun

Nomination Committee

Mr. Lei Zhaochun *(Chairman)*

Ms. Leung Yee Shuen *(Resigned on 31 August 2012)*

Mr. Liu Yuquan

Authorised Representatives

Mr. Xiong Wenjun

Mr. Law Wai Fai

Company Secretary

Mr. Law Wai Fai

Registered Office

Codan Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

Headquarters of Business in the PRC

Zhangjiaba Mine

Zhenjiang Village

Xiangshui County

Jiangyou City

Sichuan Province

the PRC

Principal Place of Business in the PRC

41/F, R&F Center

No. 10 Huaxia Road, Zhujiang New Town

Guangzhou City

Guangdong Province

the PRC

Principal Place of Business in Hong Kong

Unit 6812-13, 68/F,

The Center

99 Queen's Road Central

Hong Kong

Auditors

Ernst & Young

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

CORPORATE INFORMATION (continued)

Compliance Adviser

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

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

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

Principal Bankers

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

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

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

China Construction Bank
Guangzhou Dongshan Subbranch
Guangdong Province
the PRC

China Construction Bank
Guangzhou Zhixinnan Subbranch
Guangdong Province
the PRC

Stock Name

China Kingstone Mining Holdings Limited
(Chi Kingstone)

Stock Code

1380

Website of the Company

www.kingstonemining.com

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

High Demand and Consumption of Beige Marble

China Kingstone Mining Holdings Limited (the "Company"), together with its subsidiaries (the "Group"), is the sole mining operator in China which focuses on the production of premium beige marble products and the processing of marble slabs. Given the scarcity of resources, the supply of beige marble has always been below demand. According to the statistics of the website of China Stone (中國石材網), around 85% of beige marble blocks in China are imported from foreign countries, which includes Iran's Royal Batticino, Perlatio Sicilia and Batticino Classico, Cream Marfil from Spain and Bianco Batticino from Portugal, etc. China mainly imports beige marble from countries such as Egypt, Turkey, Italy, Portugal, Spain and Iran. China is currently the world's largest consumer of beige marble, reflecting its huge demand for marble.

Impact of National Policies on China's Real Estate and Renovation Markets

The production and consumption volumes of stone are closely tied to the real estate and renovation markets. According to the 12th Five Year Plan promulgated by the PRC Government, the primary goal for economic and social development during the 12th five-year period is to maintain relatively rapid economic development on a stable track. To avoid any bubble forming in the real estate market and to restrain housing prices in certain areas from escalating, the government has implemented certain control measures, leading to a reduction in the real estate transaction volume in the short term. As a direct consequence of the above control measures, there was a decline in the consumption and demand for marble in China.

Business Review

A combination of factors in the six months ended 30 June 2012 (the "Period"), including a global economic slowdown plus a retreat in the expansion of fixed assets investments and manufacturing activities in China, caused a major setback of marble industry as well as the Group's businesses in the Period. During the Period, despite the challenges brought by the external environment and corporate growth, the Group still focused on consolidating its business foundation. In order to maintain its competitiveness, the Group made efforts to enhance its mining and processing capabilities, increase the value added to its marble products, and continue its endeavour to explore more end target markets.

The Group currently owns two marble mines in Sichuan Province, namely the Zhangjiaba Mine and the Tujisi Mine. Their major products are premium beige marble slabs and blocks.

The Zhangjiaba Mine, with an abundance of natural resources, is equipped with strategically located processing facilities. According to the certification issued by the China Stone Material Association (中國石材協會), the Zhangjiaba Mine is the largest mine in China in terms of beige marble reserves. It contains approximately 44,200,000 m³ of premium beige marble reserves and approximately 16,800,000 m³ of block reserves. The Zhangjiaba Mine has been in commercial production since September 2010. The Group holds a mining permit for the Zhangjiaba Mine with a term of 10 years and has paid a consideration for a reserve that can be mined for 30 years, making the Group the owner of the largest reserve of beige marble in China.

The Group has been actively expanding its mining infrastructure and investing in more resources to scale up the mining capacity. Currently, the mining platform in the Zhangjiaba Mine has reached 23,000 m².

Situated on the same mineral vein as the Zhangjiaba Mine, the Tujisi Mine contains a marble reserve of approximately 12,213,200 m³ (Grade 331+332+333 by Chinese Standard), which is far higher than the preliminary estimate of 6,100,000 m³ at the time of acquisition. The mine is anticipated to have an annual mining capacity of 50,000 m³ for blocks and an annual processing capacity of 1,000,000 m² for slabs.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Summary of Production and Sales Performance

As at 30 June 2012, the Group sold approximately 1,440 m³ of self-produced marble blocks for a sales (net of tax) amount of approximately RMB15,353,000. Sales of marble blocks accounted for 100% of the total revenue for the Period.

Meanwhile, prospecting has been completed for the Tujisi Mine. Currently, its mining operations have not yet commenced, but are expected to be kick-started in 2013. The Group will capitalize on its existing technological expertise, infrastructures and facilities to further develop the Tujisi Mine. After it has commenced operations, the mine is expected to further enhance the Group's blocks mining and slabs processing capacities, particularly enriching the product mix of premium beige marble series, thereby enlarging its market share.

Zhangjiaba Mine's Marble Resources and Reserves Summary, as of 30 June 2012 (JORC Compliant)

JORC Resource and Reserve Class	(million m ³)
Measured Resources	15.74
Indicated Resources	28.41
Total Resources	44.15
Proved Reserves	5.98
Probable Reserves	10.80
Total Reserves	16.78

Tujisi Mine's Information and Marble Reserves Summary

Name of the mine:	Tujisi Mine
Location:	Yunlin Village, Xiangquan Country, Beichuan County
Mining permit area:	0.1748 km ²
Mining permit elevation:	980 m to 1,160 m above Mean Sea Level
Mining permit expiration date:	1 June 2017
Resources (331+332+333 by Chinese Standard):	12,213,200 m ³

Premium Marble Products

Currently, the Group mainly produces premium beige marble blocks and slabs. In particular, its Pure Beige and Mixed Beige marble are ranked as high grade marble products, and its Wood Grain and Gray Net marble are positioned as medium to high grade marble products. Besides, marble mined from the Zhangjiaba Mine, which is owned by the Group, features a high degree of purity, consistency, density, and a low degree of porosity, and can be made into premium decorative marble blocks and slabs.

The Group's Pure Beige, Mixed Beige, Wood Grain and Gray Net marble accounted for 51.0%, 32.7%, 6.4% and 9.9% of its marble reserves respectively. With the extremely high quality beige marble from the Zhangjiaba Mine, the Group's marble products are priced from medium to high end and are suitable for the high-end construction and renovation markets.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Digitalized Mining Management System

The Group makes use of highly efficient mining and processing technologies to ensure lower operating costs and maintain safety and environmental protection in its mining and production operations. Currently, the Group has invested a lot of resources to develop a digitalized mining management system for the Zhangjiaba Mine. Such system represents a set of unique digital applied technologies invented on the basis of the production practices of the Zhangjiaba Mine. The system has integrated the geological characteristics of the mine into its three-dimensional ("3D") orientation system, which collects data about the textures and types of marble found to establish a 3D model of the mine. By using 3D orientation numbering to identify every block and determine their dimensions and locations, the management of the extraction, shaping, quality examination, transportation and stocking of marble blocks can be conducted on the same basis. This high precision management method makes available accurate parameters for mining design, production planning and quality control of the mine. As far as we know, such a digitalized mining management system is unprecedented in the global marble mining industry, making the Group the leader in the world.

Identifying the Site for Construction of a Self-Owned Processing Plant

The Group has been actively searching for a suitable site for construction of its self-owned processing plant. The Group previously signed a co-operation agreement with the government of Jiangyou, but the government was unable to provide the original land for the processing plant due to policy changes in relation to the local industry structure. Through active communication with the government, the Group re-signed a co-operation agreement with the government of Jiangyou in November 2011. Under the agreement, the government of Jiangyou would provide another suitable site for the construction of the Group's processing plant. At the same time, the Group has been probing the feasibility of several sites in the important marble industry bases in China for building a new plant or redeveloping an existing one.

According to a projection by the China Stone Material Association, upon completion of the capacity ramp-up plan, the Group is expected to rank first among all marble mining companies in China in terms of mining and processing capacities for a single category of marble.

Business Strategies

It is the Group's goal to become the best integrated marble business operator in China. To achieve this, the Group will continue to uphold its established strategies:

- **Further expansion of reserves of quality mine resources**

To capture more quality marble resources so as to enhance its dominance in the marble market, the Group will actively control the flow of quality raw marble from domestic and foreign sources via various means, including mergers and acquisitions, acquisition of shareholding and strategic co-operation. The Group will also continue to keep track of and engage in negotiations for acquiring mine projects with development potential in the future.

- **Enhancing brand awareness to explore the massive market**

The Group plans to work with renowned property developers, renovation and decoration companies, as well as architect companies to pursue mutual business expansion by fully leveraging the synergy of resources and complementing each other in competitive advantages, in order to achieve win-win situations. Currently, the Group is actively engaged in the preparation and establishment of a marble trading platform in the marble distribution centers in China, with a view to facilitating the penetration of its products in the market more rapidly and extensively. In this way, the Group intends to strategically enhance the reputation of its high quality marble products and promote awareness of its brand in the market.

- **Active exploration of high-end markets**

As a leading enterprise in the marble production industry in China, the Group has always been providing diverse high quality marble products to sizable high-end customers. Relying on its own competitive power, it has established a high level of brand awareness and solid reputation. Going forward, the Group will continue to maintain a high profit margin while enlarging its market share.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

- **Boosting mining and processing capacities**

Effective execution of initiatives to enhance mining and processing capacities is an important growth strategy for the Group. Hence, it will continue to ramp up the mining capacity of the Zhangjiaba Mine by way of efficient digitalized management. After the mining operations commence at the Tujisi Mine, it is expected that the Group's annual mining capacity for marble blocks will increase substantially.

Meanwhile, the Group will continue to identify a suitable site for the construction of its self-owned modern processing plant with a view to assuring the quality of its marble products and further optimizing the entire industry chain.

- **Building the brand as an integrated marble operator and enhancing the added-value of products**

The Group will be dedicated to brushing up the old image of China as a producer of cheap marble products of poor quality. Relying on its quality marble mines and resources, the Group will seek to build its brand as a Chinese supplier of high quality marble products and develop itself into a large scale international corporation with global competitive power and a leading position in the industry. It will also strive to expand the production capacities of its existing mines, and develop more cost saving and quality boosting mining technologies, mining procedures and management practices, in order to reinforce its leading edge in the development of mines and to turn itself into a benchmark for the marble mining industry.

In the future, apart from keeping focused on mining as its core business, the Group will also be committed to brand promotion. It will also seek to enhance the added value of its products via measures including innovative product design and selling products purchased from outside. To keep on generating demand, the Group not only has to satisfy market demands, but also has to achieve good standards for everything from resources to technologies and creativity. Currently, the Group is working with designers from all walks of life to deliver syndicated solutions for its customers. If the necessary raw materials are not available from its mines, the Group will directly purchase them from mine owners in China or overseas. It also offers professional advice on marbles to its customers. In respect of brand promotion, apart from seeking to become business partners of the top ten commercial property developers in China, the Group will also actively participate in landmark government projects in major cities.

Financial Review

Revenue

For the Period, the Group recorded revenue of RMB15,353,000, representing a decrease of approximately 85.3% as compared to the corresponding period of last year. The decrease in revenue is mainly attributable to the slowdown in China's property market and thus adversely affected the overall sales performance of the Group for the Period. In addition, the cancellation of the long-term sales contracts in 2011 with four customers due to relocation and the fact that the remaining three long-term customers had not placed order with the Group during the Period also resulted in the decrease of the revenue in the Period.

Cost of sales

For the Period, cost of sales of the Group amounted to RMB5,712,000, representing a decrease of 59.9% as compared to the corresponding period of last year, and bears about 37.2% of the revenue in the Period. Such change was mainly due to the decrease of the sales in the Period.

Gross Profit

The Group recorded a gross profit amounted to RMB9,641,000 for the Period, representing a decrease of 89.3% as compared to the corresponding period of last year. The gross profit ratio is approximately 62.8% for the Period compared to 86.4% for the six months ended 2011. As the sales dropped significantly for the Period, it caused the low production in Zhangjiaba Mine and the production expenses during the Period of low production were recorded in the cost of sales, instead of being capitalised into the inventories produced, causing the decrease in gross margin for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Other income and gains

Other income and gains of the Group increased from RMB4,202,000 for the six months ended 30 June 2011 to RMB34,151,000 for the Period.

For the Period, other income mainly comprises interest income from entrustment loans, structured deposits, loan to an associate and other interest income of the Group as disclosed in the notes to interim condensed financial information.

Selling and distribution costs

The selling and distribution costs of the Group increased from RMB103,000 for the six months ended 30 June 2011 to RMB1,309,000 for the Period. Selling and distribution cost mainly included staff cost, travelling and accommodation for business negotiation and brand-building expense.

Administrative expenses

The administrative expenses of the Group were RMB35,893,000 for the Period, as compared to RMB57,246,000 for the six months ended 30 June 2011. Decrease in the administrative expenses mainly because global offering expenses amounted to RMB24,916,000 incurred for the six months ended 30 June 2011, whereas there was no such expense during the Period. Moreover, the amortisation of share option expense was reduced from RMB20,406,000 for the six months ended 30 June 2011 to RMB11,602,000 during the Period as the vesting period of most share options was ended in the first quarter of 2012.

Finance costs

Finance costs of the Group was RMB3,268,000 for the Period, as compared to RMB1,622,000 for the six months ended 30 June 2011. The substantial increase in finance cost was mainly due to the increase in bank interest expenses from a interest-bearing bank loan amounted RMB97,000,000 was obtained at August 2011 with a tenure of one year.

Income tax expense

Income tax expense of the Group amounted to RMB8,943,000 for the Period, as compared to RMB20,868,000 for the six months ended 30 June 2011.

The decrease in the tax expenses was resulted by the substantial decrease in the sales and the profit of the Group.

Loss for the Period

As a combined effect of the above, the Group recorded the loss of approximately RMB7,247,000 for the Period, as compared to the profit of RMB12,501,000 for the six months period ended 30 June 2011.

Dividend

The board (the "Board") of Directors (the "Directors") of the Company does not recommend the payment of interim dividend for the Period at a meeting of the Board held on 27 August 2012 (corresponding period of 2011: nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and Capital Resources

The Group's condensed consolidated statement of cash flows for the Period was set out in page 22 of this report.

Net Cash Flows used in Operating Activities

Net cashflow outflow from operating activities were RMB96,566,000 for the Period, as compared to a net cash inflow of RMB30,227,000 for the six months ended 30 June 2011. The decrease in the cash inflow in the Period mainly resulted from (1) the loss before tax for the Period of RMB1,696,000, (2) increase in prepayments of inventories of RMB18 million, (3) payment of refundable deposit for development of sales network amounting to RMB43 million, (4) the payment of Enterprise Income Tax in the amount of RMB16 million.

Net Cash Flows from Investing Activities

Net cash inflow from investing activities of the Group amounted to approximately RMB45,409,000 for the Period, as compared to a net cash outflow from investing activities for the six months ended 30 June 2011 were RMB309,084,000. The net cash inflow from investing activities for the Period mainly represented the receipts of the investments of entrustment loans of RMB310 million, the receipts of structured deposits of RMB170 million and interest received of RMB26 million. These cash receipts were set off by the effect of payments for processing facilities projects in Yunfu amounting to RMB310 million, and payments in advance for property, plant and equipment including the construction of mining infrastructure amounting to RMB142 million.

Net Cash Flows used in Financing Activities

Net cash inflow from financing activities of the Group decreased from RMB819,634,000 for the six months ended 30 June 2011 to a net cash outflow of approximately RMB32,270,000 for the Period. The decline mainly represented the payment for redemption of ordinary shares of the Company of approximately RMB29,044,000 and the interest paid of approximately RMB3,226,000 for the Period while there was net proceeds from IPO in March 2011 with an amount of approximately HK\$1,050,000,000 and repayment of interest bearing borrowing of RMB3,308,000 in 2011.

For the Period, the Group principally engaged in the exploration, mining, and sale of marble blocks and slabs in China.

Our planned future capital expenditures mainly comprise the capital requirements for the mining operations, acquisition of exploration and mining rights and cash reserves to carry out future acquisitions. Our capital requirements include construction of infrastructures and processing facilities. During the Period, the capital expenditure mainly included the amount of RMB310 million paid under the Strategic Cooperation Agreements (as defined below) and amount paid in advance for property, plant and equipment amounting to RMB142 million.

Cash and cash equivalents (excluding pledged deposits) declined from approximately RMB127,285,000 as at 31 December 2011 to approximately RMB44,017,000 as at 30 June 2012. Out of cash and cash equivalents amounting to RMB44,017,000, the carrying amounts of RMB17,794,000 and RMB248,000 are denominated in Hong Kong dollar and US dollar, respectively.

Contractual Obligations

As at 30 June 2012, the Group's capital and operating commitment were disclosed in the note 20 to interim condensed financial information.

Borrowings and the Pledge of Assets

As at 30 June 2012, the Group had a bank loan amounted to RMB97,000,000 with a fixed rate of 6.1% per annum and was secured by the pledged deposits of US\$16,880,000 (equivalent to approximately RMB107,794,000). Gearing, ratio being total interest-bearing debt divided by total assets, was 0.079.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees and emoluments policy

As at 30 June 2012, the number of employees of the Group was 145. For the Period, staff costs (included directors' remuneration in the form of salaries, equity-settled share option expenses and other allowances) were approximately RMB22,438,000.

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

Contingent Liabilities

As at 30 June 2012, the Group had no significant contingent liabilities.

Exposure to foreign exchange risk

Substantially all of our revenue, cost of sales and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. Most of the Group's assets and liabilities are denominated in Renminbi, except for certain assets, mainly the pledged deposits, and certain payables of administrative expenses in Hong Kong office and such amounts are denominated in US dollars and Hong Kong dollars. We do not believe our operations are currently subject to any significant direct foreign exchange risk and have not used any derivative instruments to hedge our exposure to the foreign exchange risk.

Strategic Cooperation

During the Period, the Group entered into a series of strategic cooperation agreements ("Strategic Cooperation Agreements") with four independent stone business entities, namely Yunfu Kailong Stone Material Co., Ltd. (雲浮市凱隆石材有限公司), Yunfu Zhijing Stone Co., Ltd. (雲浮市致景石材有限公司), Yunfu Huihua Stones Co., Ltd. (雲浮市輝華石材有限公司) and Yunfu Chengjiu Stone Co., Ltd. (雲浮市成就石材有限公司) (collectively referred to as the "strategic partners") to jointly develop and expand stone material processing capacity in Yunfu, Guangdong Province and to develop national distribution network for stone products. Pursuant to these Strategic Cooperation Agreements, the Group had made payments in advance aggregating to RMB310,000,000 to the strategic partners through Guangzhou Junqi Investment Management Co., Ltd. (廣州駿啟投資管理有限公司), an independent third party.

In the event that, one year after the signing of the Strategic Cooperation Agreements, the Group decides not to acquire the well-established stone processing base or the well-developed national distribution network from the strategic partners, the Group will be refunded with its initial advanced payment in the amount of RMB310,000,000 under the Strategic Cooperation Agreements, together with interest calculated based on the interest rate of one-year fixed term deposit announced by People's Bank of China.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Future Prospects

The Group believes that realizing thorough coverage of its industry chain is the way to ensure the sustainable development of its marble enterprise. To become the best enterprise in the marble industry, apart from owning quality mine resources for the upstream, we also need to equip ourselves with advanced and modern processing equipment for the production process, and to ensure that our marble products are of premium quality, while maintaining a strong and solid customer base in respect of sales.

Going forward, the Group will expand its quality mine resources via the pursuit of mergers and acquisitions of good investment value, in order to enrich its marble product lines. Currently, the Group has already started to establish its own team of renowned designers and it expects to be able to realize its innovative design concepts in the near future, and transform various types of marble into unique and valuable gems. Meanwhile, the Group will continue to seek strategic co-operation opportunities for growth potential, which is expected to not only help enhance awareness of its brand in the market, but will also be beneficial for the Group to link up domestic and overseas resources and markets to fully capitalize on the synergy effect. We will keep our eyes open for global resources and gain a position in the global market to become a large-scale integrated marble business operator with industrial leadership and international competitiveness.

Despite a slowdown in the growth of the industry in the first half of the year, the Group believes that the Chinese economy will remain on a stable growth trend down the road. As urbanization continues to progress, and with local governments' determination to develop their cities into international metropolises, one can foresee a boom for all sorts of large-scale construction projects, high-end property development projects, and the overall development of the construction industry in the first-tier cities. The resultant huge consumer demand for marble is expected to create more business opportunities for the Group. Meanwhile, in recent years, people of PRC have been leaping forward in terms of wealth and lifestyle standards, leading to an increase in their demand for new houses or renovations, which has in turn driven the popularity of high-end marble products.

So far this year, the Chinese government has already announced two rounds of interest rate cuts. The intention behind them is to stimulate demand in the real economy and to maintain stability in economic growth, which is favourable for the construction industry. With a number of economic indicators bottoming out in the first half of 2012, China is expected to roll out a series of monetary and fiscal measures to drive the economy forward. The Group believes that the Chinese economy will be heading for a turnaround in the second half of the year and the construction and marble industries are anticipated to recover gradually, which will be significantly positive for the Group's business development.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance

The Company had adopted the code provisions contained in the code of corporate governance practices (the “Old CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) effective since its adoption by the Company on 24 January 2011 until 28 March 2012. For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which took effect from 1 April 2012, the Company has adopted the revised code provisions contained in corporate governance code and corporate governance report (the “New CG Code”) on 29 March 2012. Save for deviations disclosed below, the Company had complied with (i) the code provisions contained in the Old CG Code from 1 January 2012 to 28 March 2012; and (ii) the code provisions contained in the New CG Code from 29 March 2012 to 30 June 2012.

A.2.1 of the Old CG Code and the New CG

Under code provision A.2.1 of the Old CG Code and the New CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing.

From 1 January 2012 to 22 May 2012, Ms. Chen Tao was the chairlady and chief executive officer of the Group. She was responsible for the business strategy, overall operation, financing and investment activities of the Group. The Board considered that vesting the roles of both chairman and chief executive officer in the same individual then is beneficial to the business prospects and management of the Group.

Ms. Chen Tao had ceased to be the executive Director and chairlady of the Company at the conclusion of the annual general meeting of the Company on 22 May 2012. She also resigned as the chief executive officer of the Company due to health reasons, with effect from the close of business on 1 June 2012.

Following the resignation of Ms. Chen Tao as executive Director and chairlady of the Company on 22 May 2012 and up to the date of this interim report, no new chairman had been appointed by the Company. During such period, Mr. Xiong Wenjun, an executive Director of the Company had assumed the functions of the chairman of the Company. The Board is in the process of identifying suitable candidate for the position of the chairman of the Company and will keep the shareholders of the Company informed of the progress.

Following the resignation of Ms. Chen Tao as chief executive officer on 1 June 2012 until 26 June 2012, no new chief executive officer had been appointed by the Company. During such period, the functions in relation to such position were mainly performed by the senior management team of the Company. On 27 June 2012, Mr. Cheung Hung was appointed as the chief executive officer of the Company for a term of three years.

A.5.1 of the New CG Code

Under code provision A.5.1 of the New CG Code, issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive Director and comprises a majority of independent non-executive Directors.

Ms. Chen Tao ceased to be the chairman of the nomination committee (“Nomination Committee”) of the Company at the conclusion of the annual general meeting of the Company on 22 May 2012. Following such cessation on 22 May 2012 and up to 29 July 2012, the position of the chairman of the Nomination Committee was left vacated, and accordingly, the Company has been in non-compliance with provision A.5.1 of the New CG Code in the same period. On 30 July 2012, Mr. Lei Zhaochun was appointed as an independent non-executive Director and chairman of the Nomination Committee.

CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

F.1.1 and F.1.4 of the New CG Code

Under code provision F.1.1 of the New CG Code, the company secretary should be an employee of the issuer and have day-to-day knowledge of the issuer's affairs. Further, under code provision F.1.4 of the New CG Code, all directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

Following the resignation of Mr. Lou Sai Tong as company secretary on 31 May 2012 until 5 June 2012, no new company secretary had been appointed by the Company. During such period, the senior management team of the Company had assumed the functions of the company secretary of the Company. On 6 June 2012, Mr. Law Wai Fai was appointed as the company secretary of the Company.

Model Code

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

Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 24 January 2011 and adopted a revised terms of reference on 29 March 2012 in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG code. As at 30 June 2012, the Audit Committee consists of three members, all of the members are independent non-executive Directors, namely Mr. Liu Yuquan and Mr. Lei Zhaochun. Ms. Leung Yee Shuen, the chairlady of the Audit Committee.

Following the resignation of Ms. Leung Yee Shuen on 31 August 2012, there are only two members in the Audit Committee.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, re-appointment and removal of external auditor, the review of the financial statements and material advice in respect of financial reporting and the oversight of internal control procedures of the Group. The Audit Committee has reviewed the Group's unaudited interim financial statements for the Period.

Review of Interim Financial Statements

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

Purchase, Redemption or sale of listed securities of the Company

During the Period, the Company repurchased 48,959,000 ordinary shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$35,425,150 for the enhancement of the net asset value per share. All of these 48,959,000 ordinary shares were cancelled as at 30 June 2012. The issued share capital of the Company was reduced by the nominal value of these redeemed ordinary shares. The premium paid on the redemption of ordinary shares of approximately RMB25,064,000 was debited to the share premium account. Details of the repurchases of ordinary shares are summarized as follows:

Month of the repurchases	Total number of ordinary shares repurchased	Price per share		Aggregate consideration paid HK\$
		Highest	Lowest	
		HK\$	HK\$	
January 2012	27,257,000	1.14	0.99	29,151,780
May 2012	21,702,000	0.33	0.265	6,273,370
	48,959,000			35,425,150

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the Period.

Disclosure of Interests

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

As at 30 June 2012, none of the Directors or the chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2012, the persons or corporations (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Huang Xian You ⁽²⁾	Interest in controlled corporation	1,226,926,277(L)	62.99%
Wongs Investment Development Holdings Group Limited ⁽²⁾	Beneficial Owner	1,226,926,277(L)	62.99%
MS China 3 Limited ⁽³⁾	Beneficial Owner	98,750,723(L)	5.07%
		440,000(S)	0.02%

(L) — Long Position, (S) — Short Position

Notes:

(1) It was based on 1,947,812,000 issued shares of the Company as at 30 June 2012.

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

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

Save as disclosed above, as at 30 June 2012, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Share Option Schemes

Pre-IPO Share Option Scheme

1. Summary of terms

The Company has adopted the Pre-IPO Share Option Scheme ("Pre-IPO Share Option Scheme") on 24 January 2011 for the purpose of giving its employees, advisers, consultants and business partners an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees, advisers, consultants and business partners who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Company. Options ("Pre-IPO Share Options") to subscribe for an aggregate of 40,000,000 shares of the Company were conditionally granted to two participants by the Company on 24 January 2011. The exercise price per Pre-IPO Share Option is HK\$0.6, being a discount of 73.33% to the global offering price of the share of the Company. No further Pre-IPO Share Options have been granted under the Pre-IPO Share Option Scheme after the date of listing of the Company on the Main Board of The Stock Exchange (the "Listing Date"). All Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling five years from the Listing Date.

Exercise period

Maximum percentage of options exercisable

Any time after the first anniversary of the Listing Date 100% of the total number of Pre-IPO Share Options granted

No Pre-IPO Share Options were granted under the Pre-IPO Share Option Scheme and no Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the Period.

No.	Name	Number of shares to be issued upon full exercise of the Pre-IPO Share Option entitlement	Percentage of total issued share capital of the Company
1.	Ms. Chen Tao (<i>note i</i>)	30,000,000	1.5%
2.	Ms. Chen Dongdong (<i>note ii</i>)	10,000,000	0.5%

note i: Ms. Chen Tao ceased to be a Director with effect from 22 May 2012.

note ii: Ms. Chen Dongdong resigned as senior management of the Group with effect from 8 June 2012.

On 24 May 2012, the Board passed a resolution that the above 30,000,000 Pre-IPO Share Option and 10,000,000 Pre-IPO Share Option already granted to Ms. Chen Tao and Ms. Chen Dongdong, respectively, shall continue to be exercisable until the expiry of the relevant option period regardless of whether Ms. Chen Tao or Ms. Chen Dongdong continues to be an executive or an employee of the Company.

Share Option Schemes

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares of the Company in issue as at the Listing Date (i.e. a maximum of 200,000,000 shares). No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12 month period exceeds 1% of the Company's issued share capital from time to time.

An option ("Share Option") may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant to 3 November 2021. There is no minimum period for which a Share Option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.00 upon acceptance of the grant on or before 28 days after the offer date. The subscription price in respect of any particular Share Option is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (i) the nominal value of the shares of the Company;
- (ii) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (iii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION (continued)

Details of the Share Options outstanding and movement during the Period under Share Option Scheme are as follows:

Names of grantees	Date of grant	Exercise price (HK\$)	Number of share options				Balance at 30 June 2012
			Balance at 31 December 2011	Granted	Exercised	Lapsed	
Others							
Ms. Chen Tao (<i>note i</i>)	4 November 2011	1.38	4,500,000	—	—	—	4,500,000
Mr. Lin Yuhua (<i>note ii</i>)	4 November 2011	1.38	3,300,000	—	—	(3,300,000)	—
Mr. Liao Yuanshi (<i>note ii</i>)	4 November 2011	1.38	3,300,000	—	—	(3,300,000)	—
Mr. Lou Sai Tong (<i>note iii</i>)	4 November 2011	1.38	2,300,000	—	—	(2,300,000)	—
Ms. Chen Dongdong (<i>note iv</i>)	4 November 2011	1.38	3,300,000	—	—	—	3,300,000
Ms. Zhan Ping (<i>note v</i>)	4 November 2011	1.38	3,300,000	—	—	(3,300,000)	—

The above granted Share Options have an effective period of 10 years, from 4 November 2011 to 3 November 2021. The Share Options are vested in three tranches in the proportion of 1/2, 1/4 and 1/4 at 4 November 2011, 4 November 2012 and 4 November 2013, respectively.

Note i: Ms. Chen Tao ceased to be a Director with effect from 22 May 2012. On 24 May 2012, the Board passed a resolution that the above 4,500,000 Share Options already granted to Ms. Chen Tao shall continue to vest and be exercisable until the expiry of the relevant option period regardless of whether Ms. Chen Tao continues to be an executive or an employee of the Company.

Note ii: Both Mr. Lin Yuhua and Mr. Liao Yuanshi ceased to be Directors on 22 May 2012 and resigned as senior management of the Group with effect from 5 June 2012 and the above 3,300,000 Share Options already granted to each of Mr. Lin Yuhua and Mr. Liao Yuanshi lapsed pursuant to the terms of Share Option Scheme.

Note iii: Mr. Lou Sai Tong resigned as company secretary and chief financial officer of the Company with effect from 31 May 2012 and the above 2,300,000 Share Options already granted to him lapsed pursuant to the terms of Share Option Scheme.

Note iv: Ms. Chen Dongdong resigned as senior management of the Group with effect from 8 June 2012. On 24 May 2012, the Board passed a resolution that the above 3,300,000 Share Options already granted to Ms. Chen Dongdong shall continue to vest and be exercisable until the expiry of the relevant option period regardless of whether Ms. Chen Dongdong continues to be an executive or an employee of the Company.

Note v: Ms. Zhan Ping resigned as senior management with effect from 20 April 2012 and the above 3,300,000 Share Options already granted to her lapsed pursuant to the terms of Share Option Scheme.

Save as disclosed above, no Share Options granted under the Share Option Scheme were exercised, lapsed or cancelled during the Period.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Revenue	3	15,353	104,472
Cost of sales		(5,712)	(14,239)
Gross profit		9,641	90,233
Other income and gains	4	34,151	4,202
Selling and distribution costs		(1,309)	(103)
Administrative expenses		(35,893)	(57,246)
Other expenses		(2,150)	(2,095)
Finance costs		(3,268)	(1,622)
Share of profit of an associate		524	—
Profit before tax	5	1,696	33,369
Income tax expense	6	(8,943)	(20,868)
(Loss)/profit for the Period		(7,247)	12,501
Other comprehensive income/(loss) for the Period:			
Exchange differences on translation of non-RMB operations		757	(2,735)
Total comprehensive (loss)/income for the Period attributable to owners of the Company		(6,490)	9,766
Earnings/(loss) per share attributable to ordinary equity holders of the Company (RMB cents):			
— Basic	7	(0.33)	0.64
— Diluted	7	(0.33)	0.64

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	8	205,078	200,990
Intangible assets	8	69,916	69,970
Prepaid land lease payments	8	2,346	2,363
Payments in advance	9	451,772	—
Goodwill		2,966	2,966
Investment in an associate		16,767	16,242
Trade receivables		—	80,138
Deferred tax assets		523	114
		749,368	372,783
Current assets			
Inventories	11	12,255	9,284
Trade receivables	10	127,175	27,520
Entrustment loans	12	—	310,000
Structured deposits	12	—	170,247
Prepayments, deposits and other receivables	13	105,085	57,233
Loans to an associate	14	80,000	80,000
Pledged deposits	15	107,794	107,196
Cash and cash equivalents	16	44,017	127,285
		476,326	888,765
Current liabilities			
Trade payables	17	1,548	1,018
Other payables and accruals		27,984	28,210
Amount due to an associate	21	2,217	—
Interest-bearing borrowings		97,000	97,000
Tax payable		3,091	17,522
		131,840	143,750
Net current assets		344,486	745,015
Total assets less current liabilities		1,093,854	1,117,798
Non-current liabilities			
Deferred income		182	194
Net assets		1,093,672	1,117,604
Equity			
Equity attributable to owners of the Company			
Issued capital	18	164,106	168,086
Reserves		929,566	949,518
Total equity		1,093,672	1,117,604

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Issued capital RMB'000 <i>(Note 18)</i>	Share premium* RMB'000 <i>(Note 18)</i>	Capital reserve* RMB'000	Contributed reserve* RMB'000	Share option reserve* RMB'000	Foreign currency translation reserve* RMB'000	Retained profits/ (accumulated losses)* RMB'000	Total equity RMB'000
At 1 January 2011	—	—	143,358	14,480	—	(2,568)	(28,176)	127,094
Total comprehensive income/(loss) for the Period	—	—	—	—	—	(2,735)	12,501	9,766
Issue of ordinary shares	42,087	904,871	—	—	—	—	—	946,958
Capitalization of capital reserve	126,261	17,097	(143,358)	—	—	—	—	—
Share issue expenses	—	(51,985)	—	—	—	—	—	(51,985)
Equity-settled share option arrangement <i>(Note 19)</i>	—	—	—	—	20,406	—	—	20,406
At 30 June 2011 (unaudited)	168,348	869,983	—	14,480	20,406	(5,303)	(15,675)	1,052,239
At 1 January 2012	168,086	867,035	—	14,480	49,843	(6,911)	25,071	1,117,604
Total comprehensive income/(loss) for the Period	—	—	—	—	—	757	(7,247)	(6,490)
Redemption of shares	(3,980)	(25,064)	—	—	—	—	—	(29,044)
Forfeiture of share options	—	—	—	—	(3,367)	—	3,101	(266)
Equity-settled share option arrangement <i>(Note 19)</i>	—	—	—	—	11,868	—	—	11,868
At 30 June 2012 (unaudited)	164,106	841,971	—	14,480	58,344	(6,154)	20,925	1,093,672

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Net cash inflow/(outflow) from (used in) operating activities	(96,566)	30,227
Net cash inflow/(outflow) from (used in) investing activities	45,409	(309,084)
Net cash inflow/(outflow) from (used in) financing activities	(32,270)	819,634
Net increase/(decrease) in cash and cash equivalents	(83,427)	540,777
Cash and cash equivalents at beginning of period	127,285	80,082
Net foreign exchange difference	159	(4,799)
Cash and cash equivalents at end of period	44,017	616,060

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

For the six months ended 30 June 2012

1. Corporate Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 March 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands under the name of China Kingstone Mining Holdings Limited. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at 6812-13, 68/F, The Center, 99 Queen's Road, Central, Hong Kong.

During the Period, the Company and its subsidiaries were principally engaged in the production and sale of marble and marble related products. There were no significant changes in the nature of the Group's principal activities during the Period.

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

2.1 Basis of Preparation

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

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

2.2 Summary of Significant Accounting Policies

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) mandatory for annual periods beginning 1 January 2012. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's operations and financial position.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

3. Revenue and Segment Information

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges, where applicable.

For management purposes, the Group is organized into business units based on their products and services. The Group has one operating segment, which is mining for the six months ended 30 June 2012 and 2011. Further, most principal assets employed by the Group are located in Sichuan Province and Guangdong Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

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

	For the six months ended 30 June			
	2012		2011	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Sale of marble slabs	—	—	42,313	40.5
Sale of marble blocks	15,353	100.0	62,159	59.5
	15,353	100.0	104,472	100.0

Information about major customers

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	7,677	—
Customer B	7,676	—
Customer C	—	31,410
Customer D	—	28,990
Customer E	—	16,726
Customer F	—	13,598

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

4. Other Income and Gains

An analysis of other income is as follows:

	For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Interest income from:		
— loans to an associate	2,662	—
— entrustment loans	20,049	—
— structured deposits	2,968	2,107
— imputed interest income from installment receivables	8,334	—
— bank interest income	54	2,073
Miscellaneous	84	22
	34,151	4,202

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

5. Profit before Tax

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

	Notes	For the six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Cost of inventories sold		5,712	14,239
Staff costs (including directors' remuneration):			
—Wages and salaries		10,001	9,191
—Pension scheme contribution			
Defined contribution scheme		465	657
—Equity-settled share option expense	19	11,602	20,406
—Other staff benefits		370	1,365
		22,438	31,619
Less: Staff costs capitalized		(742)	(2,650)
		21,696	28,969
Global offering costs		—	24,916
Interest on borrowings wholly repayable within five years		3,226	1,512
Bank charges		42	110
Total finance costs		3,268	1,622
Amortization of intangible assets	8	54	725
Amortization of prepaid landlease payments	8	17	13
Depreciation of items of property, plant and equipment	8	4,533	2,657
Less: Depreciation capitalized		(979)	(1,146)
		3,554	1,511
Loss on low production (included in cost of sales)		4,791	—
Foreign exchange loss		286	2,064
Operating lease rentals for buildings		4,523	453

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

6. Income Tax Expense

The major components of income tax expense for the six months ended 30 June 2012 and 2011 are as follows:

	For the six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Current — Mainland China		
—Charge for the Period	9,352	15,453
Deferred	(409)	5,415
Total tax expense for the Period	8,943	20,868

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

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

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

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

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

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

The calculation of the earnings/(loss) per share is based on the loss attributable to owners of the Company for the Period amounting to RMB6,490,000 (six months ended 30 June 2011: profit attributable to owners of the Company: RMB9,766,000) and 1,965,260,000 ordinary shares (six months ended 30 June 2011: 1,533,967,000 ordinary shares), being the weighted average number of ordinary shares in issue during the Period.

No adjustment has been made to the basic earnings/(loss) per share in respect of a dilution as the Company did not have any potential dilutive shares in issued shares during the six months ended 30 June 2012 and 2011, and the exercise price of the Company's outstanding share options was higher than the average market price for the Company's ordinary shares during each of the six months ended 30 June 2012 and 2011.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

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

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

	Property, plant and equipment	Intangible assets	Prepaid land lease payments
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January 2012	200,990	69,970	2,363
Additions	8,621	—	—
Depreciation/amortization charged for the Period (Note 5)	(4,533)	(54)	(17)
Carrying amount at 30 June 2012 (unaudited)	205,078	69,916	2,346

9. Payments in Advance

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Payments to strategic partners in Yunfu	(1)	310,000	—
Payments for mining-related property, plant and equipment	(2)	141,772	—
		451,772	—

(1) During the Period, the Group entered into a series of strategic cooperation agreements with four independent stone business entities, namely Yunfu Kailong Stone Material Co., Ltd. (雲浮市凱隆石材有限公司), Yunfu Zhijing Stone Co., Ltd. (雲浮市致景石材有限公司), Yunfu Huihua Stones Co., Ltd. (雲浮市輝華石材有限公司) and Yunfu Chengjiu Stone Co., Ltd. (雲浮市成就石材有限公司) (collectively referred to as the "strategic partners") to jointly develop and expand stone material processing capacity in Yunfu, Guangdong Province and to develop national distribution network for stone products. Pursuant to these agreements, the Group had made payments in advance aggregating to RMB310,000,000 to the strategic partners through Guangzhou Junqi Investment Management Co., Ltd. (廣州駿啟投資管理有限公司), an independent third party.

(2) During the Period, the Group engaged Guangzhou Zhongling Dredging Co., Ltd. (廣州中凌疏浚有限公司, "Zhongling Dredging") as an agent to import mining equipment and made a payment of RMB94,726,238 to Zhongling Dredging through Shenzhen Yuyoufa Trading Co., Ltd. (深圳市裕友發貿易有限公司), an independent third party.

During the Period, the Group engaged Yunfu Hengji Earthwork Engineering Co., Ltd. 雲浮市恒基土石方工程有限公司 ("Hengji Earthwork") for the construction of mining infrastructure of platform No. 3 to No. 5 at Zhangjiaba Mine. As at 30 June 2012, the revised contract sum of construction contract was approximately RMB47,320,000. The Group made a payment in advance of RMB47,000,000 to Hengji Earthwork during the Period through Helaichun Construction and Design Co., Ltd. (鶴來春建築設計有限公司), an independent third party.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

10. Trade Receivables

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Trade receivables		
— current portion	127,175	27,520
— non-current portion	—	80,138
	127,175	107,658

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Outstanding balances with ages:		
Within 30 days	18,000	2,650
31–90 days	—	105,008
Over 6 months but within 1 year	109,175	—
	127,175	107,658

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, except for certain customers developed by the Group at the beginning of its commercial operation were granted a period of 18 months. In view of the fact that the Group sells most of its products to several major customers, there is a high level of concentration of credit risk. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Trade receivables are non-interest-bearing. As at 30 June 2012, the trade receivables of RMB109,175,000 was secured by certain properties.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Neither past due nor impaired	126,942	107,658
31 to 90 days past due	233	—
	127,175	107,658

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

11. Inventories

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Marble blocks and slabs	10,791	7,719
Materials and supplies	1,464	1,565
	12,255	9,284

12. Entrustment Loans and Structured Deposits

The entrustment loans, structured deposits together with the relevant interest were fully collected in March 2012.

13. Prepayments, Deposits and Other Receivables

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Prepayments consisted of:		
Purchase of		
— Raw materials	54,813	37,054
— Utilities	479	572
Refundable deposit for development of sales networks	43,000	—
Prepaid operating lease rentals to be amortized within one year		
— Office	—	109
Deposits	2,905	2,451
Deductable VAT	2,076	3,908
Interest receivable	—	12,920
Other receivables	1,812	219
	105,085	57,233

(a) During the six months ended 30 June 2012, the refundable deposit was paid to Guangzhou Jianyue Decoration Co., Ltd. (廣州市建粵裝飾有限公司) for the development of sales network for the Group through Helaichun Construction and Design Co., Ltd. (鶴來春建築設計有限公司), an independent third party

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

14. Loans to an Associate

As at 30 June 2012, loans to the associate included in the Group's current assets of RMB80,000,000 are secured by the trade receivables of Guangdong Jiapeng Construction Co., Ltd. (Guangdong Jiapeng), and bear interest at the rate of 7.216% per annum and are repayable within one year.

15. Pledged Deposits

As at 30 June 2012, deposits of US\$16,880,000 (equivalent to approximately RMB107,794,000) (31 December 2011: US\$16,880,000) were pledged as security for short-term bank loans of RMB97,000,000 (31 December 2011: RMB97,000,000).

16. Cash and Cash Equivalents

The cash and cash equivalents represented the cash on hand and bank balances as at 30 June 2012 and 31 December 2011.

17. Trade Payables

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Trade payables	1,548	1,018

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Outstanding balances with ages: Within 180 days	1,548	1,018

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

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

18. Issued Capital

Shares

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000
Authorized: 5,000,000,000 (31 December 2011: 5,000,000,000) ordinary shares of HK\$0.10 each	420,875	420,875
Issued and fully paid: 1,947,812,000 (31 December 2011: 1,996,771,000) ordinary shares of HK\$0.10 each	164,106	168,086

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

	Number of shares in issue	Issued capital	Share premium account	Total
<i>Note</i>		RMB'000	RMB'000	RMB'000
At 1 January 2012	1,996,771,000	168,086	867,035	1,035,121
Redemption of shares	<i>(a)</i> (48,959,000)	(3,980)	(25,064)	(29,044)
At 30 June 2012 (unaudited)	1,947,812,000	164,106	841,971	1,006,077

(a) During the Period, the Company redeemed 48,959,000 of its own ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited. Those redeemed shares were cancelled and accordingly, the issued share capital of the Company was reduced by the nominal value of these redeemed shares. The premium paid on the redemption of shares of RMB25,064,000 (including share redemption costs of RMB254,000) was debited to the share premium account.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

19. Share Option Schemes

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO share option scheme on 24 January 2011 for the purpose of giving its employees, advisers, consultants and business partners an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such employees, advisers, consultants and business partners who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Company. Under the Pre-IPO share option scheme, 40,000,000 share options were granted to two senior executives of the Company on 24 January 2011. The exercise price per share under the Pre-IPO share option scheme is HK\$0.6, being a discount of 73.33% to the global offering price. Those share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The exercise price and exercise period of those share options under the Pre-IPO Share Option Scheme outstanding as at 30 June 2012 are as follows:

Number of options '000	Exercise price per share HK\$	Exercise period
40,000	0.6	From 18 March 2012 to 18 March 2016

The fair value of those share options under the Pre-IPO Share Option Scheme granted dated 24 January 2011 was HK\$64,400,000 (equivalent to approximately RMB54,460,504) or HK\$1.61 each (equivalent to approximately RMB1.36 each) of which the Group recognized a share option expense of HK\$11,989,000 (equivalent to approximately RMB10,138,000) during the Period (30 June 2011: HK\$24,131,000 (equivalent to approximately RMB20,406,000)).

The fair value of equity-settled share options granted on 24 January 2011 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	24 January 2011
Dividend yield (%)	—
Expected volatility (%)	55.94
Risk-free interest rate (%)	1.784

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

Share Option Scheme

The Company has also adopted a share option scheme on 24 January 2011 for the purpose of giving its employees, directors, advisers, consultants and business partners an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

19. Share Option Schemes (continued)

Share Option Scheme (continued)

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue as at the Listing Date (i.e. a maximum of 200,000,000 Shares). No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12 month period exceeds 1% of the Company's issued share capital from time to time.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the Period:

	Note	Exercise price per share HK\$	Number of options '000
As at 1 January 2012		1.38	20,000
Lapsed during the Period	(a)	1.38	(12,200)
As at 30 June 2012		1.38	7,800

(a) On 24 May 2012, the directors of the Company passed a resolution that 4,500,000 and 3,300,000 share options already granted to Ms. Chen Tao and Ms. Chen Dongdong, respectively, shall continue to vest and be exercisable until the expiry of the relevant option period regardless of whether Mr. Chen Tao or Ms. Chen Dongdong continues to be an executive or an employee of the Company. Since the fair value of the replacement award is less than that of the original award, there is no incremental cost recorded. Other than the aggregated 7,800,000 options, there is 12,200,000 option forfeited on termination of employment.

The exercise price and exercise period of those share options under the share option scheme outstanding as at 30 June 2012 are as follows:

Number of options '000	Exercise price per share HK\$	Exercise period
7,800	1.38	From 4 November 2011 to 3 November 2021

The fair value the share options granted on 4 November 2011 under Share Option Scheme was HK\$12,224,000 (equivalent to approximately RMB9,957,000), or HK\$0.6112 each (equivalent to approximately RMB0.50 each). For the forfeiture of 12,200,000 share options, a share option expenses of HK\$327,000 (equivalent to approximately RMB266,000) was reversed for non-vested share options during the Period (six months ended 30 June 2011: not applicable).

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

19. Share Option Schemes (continued)

Share Option Scheme (continued)

The fair value of equity-settled share options granted under Share Option Scheme on 4 November 2011 were estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	4 November 2011
Dividend yield (%)	—
Volatility (%)	49.96
Risk-free interest rate (%)	1.36

No other features of the options granted under the share option scheme were incorporated into the measurement of fair value.

As at 30 June 2012, the Company had 47,800,000 share options (31 December 2011: 60,000,000) outstanding under the share option schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 47,800,000 additional ordinary shares of the Company and additional share capital of HK\$4,780,000 and share premium of HK\$29,984,000 (before issue expense).

At the date of approval of this interim condensed financial information, the Company had 47,800,000 share options outstanding under share option schemes, which represented approximately 2.5% of the Company's shares in issue as at that date.

20. Commitments and Contingency

(a) Capital commitments

As at 30 June 2012, the Group had the following capital commitments principally for the construction of mining infrastructure and purchase of property, plant and equipment.

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Contracted, but not provided for	—	1,204

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2012

20. Commitments and Contingency (continued)

(b) Operating lease arrangements

As lessee

The Group leases certain land premises under operating lease arrangements, with leases negotiated for terms ranging from 3 to 15 years with an option for renewal after that date, at which time all terms will be renegotiated.

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

	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000
Within one year	7,579	7,566
In the second to fifth years, inclusive	9,026	13,020
After five years	387	447
	16,992	21,033

21. Related Party Transactions

During the six months ended 30 June 2012 and 2011, the Group had the following material transactions with related parties:

As mentioned in note 14, as at 30 June 2012, loans to the associate included in the Group's current assets totaling RMB80,000,000 (31 December 2011: RMB80,000,000) are secured by the trade receivables of Guangdong Jiapeng. Such loans to the associate bear interest at the rate of 7.216% per annum and were repayable within one year.

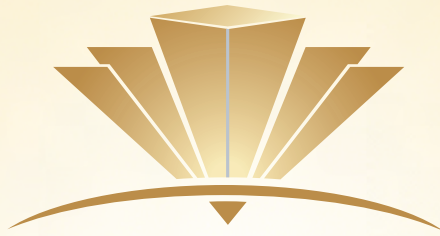
During the six months ended 30 June 2012, Guangdong Jiapeng provided office renovation services of RMB2,217,000 (31 December 2011: not applicable) to the Group and such leasehold improvement were included in the properties, plant and equipment of the Group. As at 30 June 2012, such payables in respect of leasehold improvement were recorded as the amount due to an associate.

22. Events after the Reporting Period

There was a default in respect of a loan to Guangdong Jiapeng in the amount of RMB35,000,000 which matured on 15 July 2012. After negotiation between the Group and Guangdong Jiapeng, Guangdong Jiapeng agreed to repay the loan by 30 November 2012.

23. Approval of the Interim Condensed Financial Information

The interim condensed financial information was approved and authorized for issue by the board of directors on 27 August 2012.



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