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**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)*

**(Stock Code: 1380)**

## **PROPOSAL OF CHANGE OF AUDITORS**

The Board proposes that, subject to the passing of necessary resolutions at the EGM, Ernst & Young shall be removed as the auditors of the Group and BDO Limited shall be appointed as the new auditors of the Group.

A circular containing information on the removal of Ernst & Young and the appointment of BDO Limited as the new auditors of the Group together with a notice convening the EGM will be despatched to the shareholders of the Company (the “**Shareholders**”) as soon as possible.

The board (“**Board**”) of directors (the “**Directors**”) of China Kingstone Mining Holdings Limited (the “**Company**”) announces that, subject to the passing of necessary resolutions at the extraordinary general meeting of the Company (the “**EGM**”), Ernst & Young shall be removed as the auditors of the Company and its subsidiaries (collectively, the “**Group**”) and BDO Limited shall be appointed as the new auditors of the Group and to hold office until the conclusion of the next annual general meeting of the Company.

The reason for the proposed change of auditors of the Group is due to a disagreement between the Board and Ernst & Young on the increase in the audit fees for the financial year ended 31 December 2012.

### **Matters to be brought to the attention of the Shareholders**

On 17 January 2013, the Company received a letter from Ernst & Young dated 16 January 2013 (the “**Letter**”) which sets out various matters which Ernst & Young considered should be brought to the attention of the Shareholders in relation to the change of auditors of the Company.

Set out below is an extract of the relevant paragraphs of the Letter:

*“We were engaged to perform certain agreed-upon procedures on the Company’s interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard Related Services 4400 Engagements To Perform Agreed-Upon Procedures Regarding Financial Information. Based on the agreed-upon procedures that we performed, we noted that a subsidiary of the Company, Kingstone (Guangzhou) Stone Industry Co., Ltd., (“**Kingstone Guangzhou**”), made significant prepayments totalling RMB559 million for the establishment of processing facilities, purchase of fixed assets, trading of marble products, development of sales network and mining infrastructure during the six months ended 30 June 2012. We have requested and are still waiting for the management of Kingstone Guangzhou and the Company to provide the supporting documents for these significant prepayments. We communicated the request for the supporting documents for these significant prepayments to the Audit Committee during the audit committee meeting on 27 August 2012, but so far, we have not been provided with adequate proper supporting documents.*”

*On 27 October 2012, the National Business Daily (每日经济新闻), a newspaper in mainland China, published an article indicating that (1) the controlling shareholder of the Company misappropriated the Company’s cash by way of various prepayments made to independent third parties; (2) the Company’s major mine, the Zhangjiaba Mine, has suspended its production since April 2012; and (3) the loss of contact with the controlling shareholder of the Company. After discussions with the Company’s management, we have written to the Audit Committee and Board of Directors, and recommended the Audit Committee to conduct an independent investigation on these allegations. The Board of Directors represented that the Audit Committee has initiated an independent investigation but we have not been provided with any details of the independent investigation.*”

*In view of the matters mentioned above, we will need to perform additional procedures in auditing the Company’s consolidated financial statements for the year ending 31 December 2012 (“**the 2012 Financial Statements**”), which will involve more time and resources. We have communicated the potential increase in our audit fees with the Board of Directors, but the Company’s management did not agree with our additional audit fee quotation.”*

In respect of the matters raised in the Letter, the Board wishes to clarify as follows:

- (i) In respect of the supporting documents for the prepayments, the Board confirms that it had provided Ernst & Young with all available supporting documents, which included all relevant agreements and feasibility studies report.
- (ii) On 26 November 2012, Ernst & Young requested the Company to conduct an independent investigation on certain matters which have recently received negative coverage in the media both in Hong Kong and PRC and to provide the independent investigation report to Ernst & Young as a pre-condition to issuance of the auditors' report for the year ended 31 December 2012 (the "**2012 Financial Statements**"). As the independent investigation process and the issuance of the investigation report are likely to take a reasonable period of time, the Board is of the view that the independent investigation report should not be set as pre-conditions to the issuance of the auditors' report.

The Board had previously represented to Ernst & Young that it has initiated an internal discussion with regard to conducting an independent investigation. As the Company was in the process of setting the scope and procedures of the independent investigation, the Company was unable to provide any detail of the independent investigation to Ernst & Young as of the date of the Letter. Once the scope and procedures are finalized and agreed, the Board will commence the investigation process.

To the best of the Directors' knowledge, save as disclosed above, there are no circumstances in respect of the change of auditors which should be brought to the attention of the Shareholders.

A circular containing information on the removal of Ernst & Young and the appointment of BDO Limited as the new auditors of the Group, together with a notice convening the EGM will be despatched to the Shareholders as soon as possible.

By Order of the Board  
**China Kingstone Mining Holdings Limited**  
**Xiong Wenjun**  
*Executive Director*

Hong Kong, 21 January 2013

*As at the date of this announcement, the executive director of the Company is Mr. Xiong Wenjun, the independent non-executive directors of the Company are Mr. Liu Yuquan, Mr. Lei Zhaochun and Ms. Deng Guiping.*