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)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

**FINANCIAL HIGHLIGHTS**

The Group's revenue for the year ended 31 December 2012 amounted to RMB16,062,000, a decrease of 94.45% compared with the financial year of 2011.

Consolidated comprehensive loss attributable to shareholders of the Company for the year ended December 2012 amounted to RMB574,239,000, as contrast to consolidated comprehensive income amounted to RMB48,904,000 for the financial year of 2011.

Gross profit margin was 67.09%.

Basic loss per share for the year ended 31 December 2012 amounted to RMB29.35 cents. The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2012.

No final dividend to be proposed for the year ended 31 December 2012.

The board of directors (the "Board") of China Kingstone Mining Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative figures for the corresponding period in 2011 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | *Notes* | **2012** *RMB'000* | 2011 *RMB'000* |
|---|---|---|---|
| **REVENUE** | *3* | **16,062** | 289,424 |
| Cost of sales | | **(5,286)** | (115,364) |
| **Gross profit** | | **10,776** | 174,060 |
| Other income and gains | *4* | **30,570** | 44,292 |
| Selling and distribution costs | | **(741)** | (1,820) |
| Administrative expenses | | **(67,117)** | (112,789) |
| Impairments of various assets | | **(494,726)** | – |
| Impairment of trade receivables | | **(18,000)** | – |
| Written-off of property, plant and equipment | | **(23,591)** | – |
| Finance costs | | **(5,387)** | (5,428) |
| Share of profit of an associate | | **–** | 1,242 |
| **(LOSS)/PROFIT BEFORE TAX** | *5* | **(568,216)** | 99,557 |
| Income tax expense | *6* | **(8,153)** | (46,310) |
| **(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | **(576,369)** | 53,247 |
| **Other comprehensive income/(loss):** | | | |
| Exchange differences on translation of non-PRC operations | | **2,130** | (4,343) |
| **TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY** | *7* | **(574,239)** | 48,904 |
| **(LOSS)/EARNINGS PER SHARE attributable to the ordinary equity holders of the Company (RMB cents)** | *8* | | |
| – Basic | | **(29.35)** | 2.58 |
| – Diluted | | **N/A** | 2.56 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*As at 31 December 2012*

| | Notes | 2012 RMB'000 | 2011 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **180,145** | 200,990 |
| Intangible assets | | **69,953** | 69,970 |
| Prepaid land lease payments | | **2,395** | 2,363 |
| Payments in advance | *10* | **–** | – |
| Goodwill | | **2,966** | 2,966 |
| Investment in an associate | | **16,242** | 16,242 |
| Trade receivables | *11* | **–** | 80,138 |
| Deferred tax assets | | **–** | 114 |
| | | **271,701** | 372,783 |
| CURRENT ASSETS | | | |
| Inventories | *9* | **9,389** | 9,284 |
| Trade receivables | *11* | **100,841** | 27,520 |
| Entrustment loans | *12* | **–** | 310,000 |
| Structured deposits | *12* | **–** | 170,247 |
| Prepayments, deposits and other receivables | *13* | **67,817** | 57,233 |
| Loans to an associate | | **80,000** | 80,000 |
| Pledged deposits | | **–** | 107,196 |
| Cash and cash equivalents | | **28,159** | 127,285 |
| | | **286,206** | 888,765 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *14* | **1,695** | 1,018 |
| Other payables and accruals | *15* | **27,170** | 28,210 |
| Amount due to an associate | | **3,217** | – |
| Interest-bearing bank loans | *16* | **–** | 97,000 |
| Tax payable | | **–** | 17,522 |
| | | **32,082** | 143,750 |
| **NET CURRENT ASSETS** | | **254,124** | 745,015 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **525,825** | 1,117,798 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred income | | **194** | 194 |
| Deferred tax liabilities | | **613** | – |
| | | **807** | 194 |
| **NET ASSETS** | | **525,018** | 1,117,604 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 31 December 2012*

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **EQUITY** | | |
| **Equity attributable to owners of the Company** | | |
| Issued capital | **164,106** | 168,086 |
| Reserves | **360,912** | 949,518 |
| **Total equity** | **525,018** | 1,117,604 |

## NOTES TO FINANCIAL STATEMENTS

*31 December 2012*

### 1. GENERAL 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 Units 6812 to 6813, The Center, 99 Queen's Road Central, Hong Kong.

During the year ended 31 December 2012, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the production and sale of marble and marble related products. There were no significant changes in the nature of the Group's principal activities during the year.

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 (the "BVI"), and the ultimate controlling shareholder of the Company is Mr. Huang Xianyou.

On 16 October 2012, the High Court of Hong Kong made an order appointing Messrs Lai Kar Yan (Derek) and Darach E. Haughey, both of Deloitte Touche Tohmatsu as the joint and several provisional liquidators of Wongs Investment. The details were disclosed in the Company's various announcements since 11 October 2012.

### 2 BASIS OF PREPARATION

The Group incurred a loss of RMB576,369,000 for the year ended 31 December 2012 and the sales and production of the Group were substantially suspended during the year. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern in the long run. Should this be the case, the Group may be unable to realise its assets and discharge its liabilities, if any, in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful turnaround of the business. The Group has been implementing measures to resume production and formulating plans to resume sales and the fact that the Group has sufficient working capital to support its general daily operation for the forthcoming 12 months. The Directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

As mentioned in the Company's announcement on 28 December 2012, there have been significant changes in the composition of the board of directors and senior management of the Company during the year. The Directors who were appointed after 28 December 2012 is yet to obtain certain financial information which would have significant impacts on the Group's financial statements.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary. On the disposal of foreign operation, the cumulative amount of exchange differences relating to that foreign operation shall be reclassified from equity to profit or loss.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

**Adoption of new and revised International Financial Reporting Standards**

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

## 3. REVENUE AND OPERATING SEGMENT INFORMATION

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

The Group's revenue and contribution to profit were mainly derived from its sale of marble and marble related products, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. In addition, the principal assets employed by the Group are located in Sichuan Province and Guangdong Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

**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 year:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Marble slabs | **397** | **2.5%** | 121,392 | 41.9 |
| Marble blocks | **15,665** | **97.5%** | 61,700 | 21.3 |
| Other marble products | **–** | **–** | 65,079 | 22.5 |
| Granite | **–** | **–** | 41,253 | 14.3 |
| | **16,062** | **100%** | 289,424 | 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:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Customer A | **–** | 62,807 |
| Customer B | **–** | 53,202 |
| Customer C | **–** | 53,132 |
| Customer D | **–** | 44,872 |
| Customer E | **–** | 30,965 |
| Customer F | **8,012** | * |
| Customer G | **7,692** | * |

* *Less than 10% of total revenue of the Group*

## 4. OTHER INCOME AND GAINS

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **30,152** | 43,913 |
| Gain on bargain purchase | **–** | 35 |
| Miscellaneous | **418** | 344 |
| | **30,570** | 44,292 |

## 5. (LOSS)/PROFIT BEFORE TAX

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

| | Notes | **2012** | 2011 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | | **5,286** | 115,364 |
| Staff costs (including directors' remuneration) | | | |
| Wages and salaries | | **17,989** | 20,187 |
| Equity-settled share option expense | | **10,697** | 49,843 |
| Pension scheme contributions | | | |
| – Defined contribution scheme | | **782** | 5,072 |
| Other staff benefits | | **962** | 1,454 |
| | | **30,430** | 76,556 |
| Less: Staff costs capitalised | | **(2,896)** | (12,027) |
| | | **27,534** | 64,529 |
| Interest on bank loans wholly repayable within five years | | **5,387** | 4,406 |
| Bank charges | | **–** | 1,022 |
| Total finance costs | | **5,387** | 5,428 |
| Auditors' remuneration | | **634** | 3,055 |
| Amortisation of intangible assets | | **17** | 1,257 |
| Amortisation of prepaid land lease payments | | **28** | 26 |
| Depreciation of items of property, plant and equipment | | **10,676** | 6,996 |
| Less: depreciation capitalised | | **(3,412)** | (5,638) |
| | | **7,264** | 1,358 |
| Foreign exchange loss | | **507** | 5,037 |
| Global offering costs | | **–** | 24,916 |
| Operating lease rentals for office | | **9,189** | 3,072 |
| Provision for litigation | | **–** | 3,130 |
| Loss of inventories | | **933** | – |
| Loss on disposal of property, plant and equipment | | **74** | – |
| Impairment of trade receivables | *11* | **18,000** | – |
| Written-off of property, plant and equipment | | **23,591** | – |
| Impairment of various assets: | | | – |
| – Payment in advance | *10* | **451,726** | – |
| – Prepayments, deposits and other receivables | *13* | **43,000** | – |

## 6. INCOME TAX EXPENSES

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current – the PRC | | |
| Charge for the year | **3,704** | 47,851 |
| Under-provision in prior years | **3,722** | – |
| Deferred tax | **727** | (1,541) |
| | **8,153** | 46,310 |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC is 25% for both years.

The reconciliation between the income tax for the year and the (loss)/profit before tax multiplied by the tax rate in the PRC is as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| (Loss)/profit before tax | **(568,216)** | 99,557 |
| Tax at the applicable tax rate of companies within the Group | **(142,054)** | 24,889 |
| Profits attributable to an associate | **–** | (311) |
| Expenses not deductible for tax | **148,874** | 21,732 |
| Tax loss not recognised | **1,333** | – |
| Tax Charge at the Group's effective rate | **8,153** | 46,310 |

At 31 December 2012, the Group has unused tax losses of approximately RMB5,333,000 (2011: nil) available indefinitely for offset against future profits. No deferred tax asset (2011: nil) has been recognised in respect of such tax losses, due to the unpredictability of future profit streams.

## 7. TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated total comprehensive loss attributable to owners of the Company for the year ended 31 December 2012 includes a loss of approximately RMB419,240,000 (2011: RMB63,700,000), which has been dealt with in the financial statements of the Company.

## 8. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic loss (2011: earnings) per share attributable to equity holders of the Company is based on the loss for the year attributable to equity holders of the Company of approximately RMB574,239,000 (2011: profit of approximately RMB48,904,000) and the weighted average number of 1,956,296,000 (2011: 1,894,596,000) ordinary shares in issue during the year.

### (b) Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2012.

The calculation of diluted earnings per share for the year ended 31 December 2011 attributable to equity holders of the Company is based on the profit for the year attributable to equity holders of the Company of approximately RMB48,904,000 and the weighted average number of 1,910,879,000 ordinary shares, being the weighted average number of 1,894,596,000 ordinary shares in issue during the year used in the basic earnings per share calculation plus the weighted average number of 16,283,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

## 9. INVENTORIES

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At cost: | | |
| Marble blocks and slabs | **8,007** | 7,719 |
| Materials and supplies | **1,382** | 1,565 |
| | **9,389** | 9,284 |

## 10 PAYMENTS IN ADVANCE

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Payments to strategic partners in Yunfu | **310,000** | – |
| Payments for mining-related property, plant and equipment | **141,726** | – |
| Less: impairments | **(451,726)** | – |
| | **–** | – |

During the reporting 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. The amounts were fully impaired as at 31 December 2012.

During the year, the Group engaged Guangzhou Zhongling Dredging Co., Ltd.* (廣州中淩疏浚有限公司, "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. The amount was fully impaired as at 31 December 2012.

During the year, 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 31 December 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. The amount was fully impaired as at 31 December 2012.

* The English names are for identification only

## 11. TRADE RECEIVABLES

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| – current portion | **118,841** | 27,520 |
| – non-current portion | **–** | 80,138 |
| Less: impairment | **(18,000)** | – |
| | **100,841** | 107,658 |

An aged analysis of trade receivables, as at the end of the reporting periods based on the goods delivery date and net of impairments, is as follows:

| | 2012<br>*RMB'000* | 2011<br>*RMB'000* |
|---|---|---|
| Within 30 days | **–** | 2,650 |
| 31–90 days | **–** | 105,008 |
| Over 1 year | **100,841** | – |
| | **100,841** | 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 to certain customers for a credit 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 minimise credit risk. Trade receivables are non-interest-bearing. The trade receivables of RMB100,841,000 was secured by certain properties.

As at 31 December 2012, trade receivables of RMB100,841,000 were past due but not impaired. The Group is taking legal actions to recover these trade receivables.

## 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

Details of the prepayments, deposits and other receivables are as follows:

| | Group | |
|---|---|---|
| | 2012<br>*RMB'000* | 2011<br>*RMB'000* |
| Prepayments for the purchase of raw materials | **63,744** | 37,054 |
| Deposits | **2,313** | 2,451 |
| Deductable VAT | **–** | 3,908 |
| Interest receivable | **–** | 12,920 |
| Deposits paid for development of sales networks (note) | **43,000** | – |
| Others | **1,760** | 900 |
| Less: impairments (note) | **(43,000)** | – |
| | **67,817** | 57,233 |

*Note:* During the year ended 31 December 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. The amount was fully impaired as at 31 December 2012.

* The English names are for identification only

## 14. TRADE PAYABLES

Trade payables are non-interest-bearing and are normally settled in 180 days. An aged analysis of trade payables, based on the invoice date, is as follows:

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Outstanding balances with ages: | | |
| Within 180 days | **415** | 1,018 |
| Over 180 days | **1,280** | – |
| | **1,695** | 1,018 |

## 15. OTHER PAYABLES AND ACCRUALS

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Advances from customers | | |
| Payable relating to: | **10** | 47 |
| Property, plant and equipment | **–** | 12,618 |
| Construction contracts | **9,799** | – |
| Taxes other than income tax | **3,769** | 1,927 |
| Payroll and welfare | **5,131** | 4,835 |
| Rental | **1,333** | 1,699 |
| Acquisition of an associate | **1,500** | 1,500 |
| Deposits received | **100** | 135 |
| Payable for rehabilitation | **920** | 900 |
| Provision for litigation | **3,130** | 3,130 |
| Others | **1,478** | 1,419 |
| | **27,170** | 28,210 |

## 16. INTEREST-BEARING BANK LOANS

| | 2012 | 2011 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Bank loans | | |
| *Secured* | | |
| – Within one year | **–** | 97,000 |

(a) As at 31 December 2011, the secured bank loan of RMB97,000,000 bears interest at a fixed rate of 6.1% per annum and was secured by the pledge of the Group's time deposit amounting to US$16,800,000 (equivalent to approximately RMB107,196,000). The bank loans have been repaid by the Group in August 2012.

## EXTRACTED FROM THE INDEPENDENT AUDITOR'S REPORT

### Basis for disclaimer of opinion

1. *Opening balances and corresponding figures*

   The consolidated financial statements of the Group for the year ended 31 December 2011 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of opening balances and corresponding figures shown in the current year's consolidated financial statements.

2. *Payment in advance, deposits for development of sales networks and sales*

   As explained in the notes 20 and 27 to the consolidated financial statements, the Group had made payment in advance of RMB451,726,000 and deposits for development of sales networks of RMB43,000,000 during the year and those payments were fully impaired as at 31 December 2012. Also the Group had recorded certain sales of RMB15,385,000 and the related trade receivables were fully impaired as at 31 December 2012. Due to the constraints as explained in note 2 to the consolidated financial statements, up to the date of this report we have not yet obtained sufficient evidence in respect of the accounting treatments of these items in the consolidated financial statements.

3. *Trade receivables, loans to an associate and prepayments, deposits and other receivables*

   Up to the date of this report, we have not yet obtained sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the trade receivables, loans to an associate and prepayments, deposits and other receivables of approximately RMB100,841,000, RMB80,000,000 and RMB63,744,000 respectively as at 31 December 2012. There are no other satisfactory audit procedures that we could adopt to determine whether any allowance for non-recovery of the amounts should be made in the financial statements.

4. *Investment in an associate*

   Up to the date of this report, we have not yet obtained sufficient appropriate audit evidence to satisfy ourselves as to the investment in an associate of approximately RMB16,242,000 as at 31 December 2012. There are no other satisfactory audit procedures that we could adopt to determine whether the investment in an associate is fairly stated in the financial statements.

5. *Impairment test on property, plant and equipment, mining rights and goodwill*

   Up to the date of this report, we have not yet obtained sufficient appropriate audit evidence to satisfy ourselves as to the impairment test of the Sichuan Jinshida cash-generating unit and thus the recoverability of the related property, plant and equipment, mining rights and goodwill of approximately RMB174,039,000, RMB61,480,000 and RMB2,966,000 respectively as at 31 December 2012. There are no other satisfactory audit procedures that we could adopt to determine whether any impairment on the amounts should be made in the financial statements.

6. *Inventories*

We were appointed as auditor of the Company subsequent to the Company's end of the reporting period of 31 December 2012. In consequence, we were unable to attend the Group's physical count of inventories as at that date. The Group has not maintained sufficient stock records for us to verify the carrying amount of inventories of RMB7,201,000 as at that date. We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the existence, quantities and conditions of these inventories as at that date.

Any adjustments to the matters as described from points 1 to 6 above might have a significant consequential effect on the Group's results for the two years ended 31 December 2011 and 2012, the Group's cash flows for the two years ended 31 December 2011 and 2012 and the financial positions of the Group as at 31 December 2011 and 2012, and the related disclosures thereof in the consolidated financial statements.

**Disclaimer of opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Emphasis of Matter – Going Concern Basis**

Without further qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates the Group incurred a loss of RMB576,369,000 for the year ended 31 December 2012 and the sales and production of the Group was substantially suspended. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### i. Business Overview

During the year ended 31 December 2012, (the "Year"), the Group owned two marble mines in Sichuan Province, namely Zhangjiaba Mine and Tujisu Mine. According to the certification issued by China Stone Material Association* (中國石材協會), Zhangjiaba Mine is the largest mine in China in terms of beige marble reserves. According to the reserve report as examined and approved by the National Land Resources Bureau of Sichuan Province, Zhangjiaba Mine contains approximately 44,200,000 $m^3$ of premium beige marble reserves and approximately 16,800,000 $m^3$ of block reserves.

During the Year, mining platform in Zhangjiaba Mine reached 23,000 $m^2$, and the annual mining volume for blocks amounted to approximately 467.25 $m^3$ (2011: 21,849 $m^3$).

Situated on the same mineral vein as Zhangjiaba Mine, Tujisu Mine contains approximately 12,213,200 $m^3$ of resources (331+332+333 under Chinese Mineral Resource/Reserve Classification according to an exploration report issued by Chinese Construction Material, Geology, Engineering and Exploration Research Institute* (中材地質工程勘查研究院)).

During the Year, no mining or exploration activity has been conducted at Tujisu Mine due to constraints on mining conditions. On 4 February 2013, the Group completed the transfer of the entire equity interest of Beichuan Lida Mining Co., Ltd* (北川力達礦業有限公司), an indirect wholly owned subsidiary of the Company which holds the marble mining rights to Tujisu Mine, to Beichuan Bayuan Mining Development Co., Ltd.* (北川巴源礦業發展有限公司), an independent third party to the Company. Accordingly, with effect from 4 February 2013, Beichuan Lida ceased to be an indirect wholly-owned subsidiary of the Company and the Group ceased to own the Tujisu Mine.

During the year ended 31 December 2012, due to the deterioration of the market conditions, the sales of the Group dropped substantially. As part of the Group's inventory management, the Board decided to suspend production at the Zhangjiaba Mine effective from 1 November 2012 until the end of February 2013.

* The English names are for identification only

## ii. Summary of Production and Sales Performance

There was a significant reduction in the Group's actual output in 2012 when compared to 2011. The Zhangjiaba Mine had suspended its production during the period from November 2012 to February 2013. During the Year, the Zhangjiaba mine operated by the Group has produced a total output of 467.25 cubic metres ("$m^3$") of marble stone blocks (2011: 21,849 $m^3$), representing a decrease of 98% when compared with 2011).

As at 31 December 2012, sales volume of self-produced marble stone blocks was about 556 cubic metres (2011: 7,620 $m^3$), with a sales amount of approximately RMB5,885,000 (2011: RMB61,700,000), whereas sales volume of marble slabs amounted to about 3,605 square metres ("$m^2$") (2011: 214,330 $m^2$), with a sales amount of approximately RMB397,000 (2011: RMB121,392,000). Sales amount of marble stone blocks and marble slabs accounted for 37% (2011: 21%) and 2% (2011: 42%) of the total year-round revenue in 2012 respectively.

**Zhangjiaba Mine Marble Resource and Reserve Summary, as of 31 December 2012 (JORC Compliant)**

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

**Information and Reserve Summary on Marble Stones in Tujisi Mine as of 31 December 2012**

| | |
|---|---|
| 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 MSL |
| Mining permit expiration date: | 1 June 2017 |
| Resources (331+332+333 under Chinese Mineral Resource/Reserve Classification: | 12,213,200 $m^3$ |

Save as disclosed in this announcement, the Company believes there is no material change in resource and reserve of Zhangjiaba Mine and Tujisi Mine.

**iii. Marble Products**

The Group's existing product mix mainly includes beige marble stone blocks and marble slabs, among which, both pure beige and mixed beige marble products fall within high-end marble products.

During the Year, the Group's pure beige, mixed beige, wood-patterned and gray-textured marble account for 51.0%, 32.7%, 6.4 and 9.9% of the marble reserves of the Group respectively. Beige marble produced from the Group's Zhangjiaba Mine are suitable for the construction of high-grade buildings and the fitting and decoration markets.

## BUSINESS STRATEGIES

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

- Further expansion into high-quality mining resource reserves

  In order to capture more high-quality stone mining resources and to strengthen its market position in the stone market industry, the Group will actively tap into premium stone mining resources within and outside Mainland China through a variety of ways such as mergers and acquisitions, equity participation and strategic partnership. The Group will seek and negotiate for opportunities to acquire new mines with development potential in future.

- Promoting market awareness of the Group's products with a vision to expand sales.

  The Group plans to develop business relationships with a number of well-known real estate developers, fitting and decoration companies and architectural design houses, in an effort to maximise resources sharing and complementary gains, thus achieving win-win situations. At present, the Group has plans to develop directly-operated outlets in Shuitou, Fujian and Yunfu, Guangdong, the store trade and distribution bases in Mainland China. The Group has gradually selected and appointed partners or agents or distributors in key regions, so as to establish sales channels and network with extensive coverage, and hence build a base from which the Group's products can enter the market at faster pace with wider penetration. This move enables the Group to strategically increase its market visibility and product awareness.

- Optimizing exploitation methods and improving the marble block rate

  Both of the optimization of the exploitation methods and the improvement of the marble block rate are indispensably important to the Group's growth strategy. Through effective digitalized management, the Group will make continued efforts to optimize the exploitation methods and to improve the marble block rate, thereby minimising the required resources and reducing costs. The Group is committed to offering a wide range of marketable stone products.

- Promoting the Group as an integrated stone operator and enhancing value added elements to its products

  The Group is committed to make a change to the inherent image of low price and poor quality of domestically-produced marble products in Mainland China. Pivoting on its stone mining resources, the Group will promote itself as a supplier of medium to high-end stone products in Mainland China, and develop into a large-sized internationalized enterprise with a top-notch leadership in the industry and competitive strengths in the international market. The Group will continue to minimise cost through optimization of exploitation methods and the improvement of the marble block rate, while consolidating the Group's leading edge in mining aspects. All these efforts will enable the Group to grow into a leading company in the stone mining sector.

Going forward, apart from focusing on mine exploitation operations, the Group will also reinforce its brand building efforts. The Group's pioneering spirits of design and creativity will help to enhance value added elements to its products, including promotion of products of creative designs and the sales of products purchased from external providers. To meet the market demand, and also to fuel market demand, the Group has strived to improve in multiple spectrums ranging from resources, exploitation methods to creativity. In addition, the Group is currently teaming up with designers of different backgrounds in relation to the formulation of solutions for our its customers. The Group will directly purchase the required raw materials which it does not produce from various cooperative partners within and outside Mainland China. Also, with the Group's expertise in stone materials, it will be well-positioned to provide its customers with professional advice. In relation to brand promotion, the Group will increase its brand awareness by forming business partnerships with major commercial real estate developers in Mainland China and by playing an active part in government landmark projects in important cities.

## GOING CONCERN BASIS

During the Year, the Group incurred a loss of RMB576,369,000 and the sales and production of the Group were substantially suspended. These conditions indicated the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern in the long run.

The Group has been implementing measures to resume production and formulating plans to resume sales of the Group and has sufficient working capital to support its general daily operation for the forthcoming 12 months. Accordingly, the Directors are of the view that the Group is a going concern, and it is appropriate to prepare the consolidated financial statements on a going concern basis.

## FINANCIAL REVIEW

### Revenue

In 2011, the Group generated revenue amounted to RMB289,424,000, of which RMB121,392,000 were from the sales of self-produced marble slabs, and RMB61,700,000 were from the sales of self-produced marble blocks. While RMB106,332,000 were generated from the sales of other marble products and granite purchased from external providers.

During 2012, the Group recorded revenue of RMB16,062,000, representing a decrease of approximately 94.45% as compared to the year 2011. 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 Year. The cancellation of the long-term sales contracts in 2011 with four customers due to relocation and the non-placement of orders by three other long-term customers, which in aggregate caused a decrease in gross margin for the Year.

### Cost of sales

During the Year, the Group incurred cost of sales amounted to RMB5,286,000 (2011: RMB115,364,000). Of which RMB1,735,000 (2011: RMB3,885,000) were for the cost related to the production of marble block, RMB357,000 (2011: RMB24,077,000) were for the cost related to the production of marble slabs and RMB3,194,000 (2011: RMB87,402,000) were cost of products purchased from external providers. Such changes were mainly due to the decrease of the sales in the Year.

### Gross profit and gross margin

Gross profit of the Group decreased from RMB174,060,000 in 2011 to RMB10,776,000 in 2012, representing a decrease of approximately 93.81%. Despite the significant decrease in sales for the Year, the gross margin increased from 60.14% in 2011 to 67.09% in 2012, which was mainly due to loss of major customers and change in customer mix during the Year.

We further analyzed the gross margin as follows:

| | **2012** | 2011 |
|---|---|---|
| Sales of self-produced marble blocks and slabs | **75.12%** | 84.73% |
| Sales of marble products purchased from external providers | **65.11%** | 17.80% |

**Other income and gains**

Other income and gains decrease from RMB44,292,000 for the year 2011 to RMB30,570,000 for the Year. For the Year, other income mainly comprises interest income from entrustment loans, loans to an associate and structured deposits.

**Selling and distribution cost**

The selling and distribution cost of the Group decreased from RMB1,820,000 from the year 2011 to RMB741,000 for the Year. Selling and distribution cost included staff cost, travelling and accommodation for business negotiation and brand-building expense. The significant decrease in selling and distribution cost was in-line with the significant decrease in sales during the Year.

**Administrative expenses**

Administrative expenses of the Group were RMB67,117,000 for the Year, as compared to RMB112,789,000 for the year 2011. Decrease for the Year was primarily related to expenses for the initial public offering which amounted to RMB24,916,000 incurred during the year ended 31 December 2011, whereas no such expenses were incurred during the Year. Moreover, non-cash equity-settled share option expense of RMB49,843,000 was recorded in the year 2011, while such expense incurred for the Year only amounted to RMB10,697,000.

**Impairments and Write-offs**

Impairments of various assets, impairment of trade receivables, and writing off of property, plant and equipment of the Group was RMB494,726,000, RMB18,000,000, and RMB23,591,000 respectively for the year ended 31 December 2012, there was no such impairments and write-offs for the year ended 31 December 2011 respectively.

The impairment of various assets was associated with (i) payment in advance RMB310,000,000 to strategic partners in Yunfu to jointly develop and expand stone material processing capacity in Yunfu and to develop national distribution network for stone products, (ii) payment in advance of RMB 94,726,000 to an procurement agent to import mining equipment, (iii) payment in advance of RMB43,000,000 for national distribution network and (iv) payment in advance of RMB 47,000,000 for construction of mining infrastructure of platform No.3 to No. 5 at Zhangjiaba Mine. in view of the non-performance of these counter parties, the company has tried various means to recover the amount but fail to establish a direct contact with those parties. For prudence, provisions for impairment were made in full for the total amount outstanding.

The impairment of trade receivables was associated with amount of unrecoverable sales during the Year. For prudence, provision for impairment was made in full for the amount of trade receivables outstanding.

The writing-off of property, plant and equipment was mainly associated with lost of equipment under construction which was acquired in the year 2011. For prudence, provision for impairment was made in full for the amount.

**Finance cost**

Finance cost of the Group was RMB5,387,000 for the Year, as compared to RMB5,428,000 for the year 2011. The finance cost was mainly associated with bank interest expenses from a interest-bearing bank loan amounted RMB97,000,000 which was fully settled during the Year.

**Income tax expense**

Income tax expense of the Group amounted to RMB8,153,000 for the Year, as compared to RMB46,310,000 for the year 2011. The decrease in the tax expenses was as result of a substantial decrease in the sales and the loss of the Group.

**Loss for the year**

As a combined effect of the above, during the Year, the Group incurred a loss of RMB576,369,000, as compared to a profit of RMB53,247,000 for the year ended 31 December 2011. The Group also recorded a total consolidated comprehensive loss which amounted to RMB574,239,000 for the Year as compared to a consolidated comprehensive income which amounted to RMB48,904,000 for the year 2011.

**Dividend**

No dividends were declared for the year ended 31 December 2012 (2011: Nil).

**Consolidated Statement of Cash Flows**

| | **2012** | 2011 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalent at beginning of year | **127,285** | 80,082 |
| Net cash flow used in operating activities | **(139,930)** | (59,606) |
| Net cash flow used in investing activities | **170,621** | (799,805) |
| Net cash flow from financing activities | **(131,431)** | 915,994 |
| Net (decrease)/increase in cash and cash equivalent | **(100,740)** | 56,583 |
| Net foreign exchange difference | **1,614** | (9,380) |
| Cash and cash equivalent at end of year | **28,159** | 127,285 |

**Operating activities**

Net cash outflow from operating activities for the Year amounted to RMB139,930,000 mainly as a result of a loss before tax for the Year amounted to RMB568,216,000 and respective adjustments, including (i) a non-cash equity-settled share-based expense amounted RMB10,697,000. (ii) an interest income amounted to RMB30,152,000; (iii) an impairment of payment in advance, prepayments, deposits and other receivable amounted to RMB494,726,000, (iv) an increase of the trade receivable of RMB11,183,000, (v) an increase in prepayment, deposits and other receivables amounted to RMB65,990,000, and (vi) writing-off of property, plant and equipment amouunted to RMB23,591,000.

**Investing activities**

Net cash inflow for investing activities for the year ended 31 December 2012 amounted to RMB170,621,000. The cash inflow from investing activities during the Year mainly consisted of (i) interest received amounted to RMB43,097,000, (ii) amount received upon termination of pledged deposits amounted to RMB107,196,000, (iii) amount received upon maturity of entrustment loans amounted to RMB310,000,000, (iv) amount received upon maturity of structured deposits amounted to RMB170,247,000, and offset by (v) payments in advance of RMB451,726,000.

**Financing activities**

Net cash outflow from financing activities for the year ended 31 December 2012 amounted to RMB131,431,000. The cash outflow from financing activities during the Year mainly consisted of repayment of bank loan which amounted to RMB97,000,000 and repurchase of the Company's shares.

**Cash and cash equivalent**

Cash and cash equivalent of the Group decreased from RMB127,285,000 as at 31 December 2011 to RMB28,159,000 as at 31 December 2012, with the net foreign exchange gain amounted to RMB1,614,000, as compared to the net foreign exchange loss amounted to RMB9,380,000. Of the cash and cash equivalent of RMB28,159,000, the equivalent of RMB14,787,000 was held in Hong Kong Dollars and US Dollars and the remaining sum was held in RMB.

**Interest-bearing bank loans**

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***RMB'000*** | *RMB'000* |
| Repayable within one year | | |
| Bank Loan | | |
| – Secured | – | 97,000 |

**Operating lease commitment**

As at 31 December 2012, the Group had contracted obligations of operating leases which totalled approximately RMB13,620,000 with approximately RMB7,363,000 due within one year, approximately RMB5,670,000 due between two to five years and approximately RMB587,000 due over five years.

*Financial instruments*

The Group does not have any hedging contracts or financial derivatives outstanding for the year ended 31 December 2012.

*Capital expenditures*

The Group invested approximately RMB13,839,000 in capital expenditures mainly for the construction and purchase of property, plant and equipment for the year ended 31 December 2012. The capital expenditure were fully financed by internal resources.

*Segment information*

The Group's revenue and contribution to loss were mainly derived from its sale of marble and marble related products, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. In addition, the principal assets employed by the Group are located in Sichuan Province and Guangdong Province, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

*Employees and emoluments policy*

As at 31 December 2012, there were a total of 59 (2011: 223) employees in the Group. The staff cost, including directors' remuneration in form of salary, equity settled share option expense and allowance were approximately RMB30,430,000 (2011: RMB76,556,000).

**FUTURE PROSPECT**

The future prospect of the Group depends upon the successful turnaround of the business. Going forward, the Group will expand its sales team and its own renowned design team, which will realize its innovative design concepts in near future, and transform various types of stones into unique and invaluable gems.

Despite a slowdown in the development of the stone industry in 2012, the Group believes that the economy in China would still be on the track of stable growth in the future. With continuous urbanization and the Chinese government's determination to develop international cities, it could be expected that the development of various large projects, high-end real estate projects and the construction market in first-tier cities would be blooming, and the large consumption and demand on stones would create more opportunities for the Group. Meanwhile, the significant enhancement in terms of wealth and taste in China over the past few years also suggests a corresponding increase in the demand for new houses or renovated houses, and thus increasing the popularity of high-end marble products.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2012, the Company repurchased 48,959,000 ordinary shares of the Company on the Stock Exchange at an aggregate consideration of HK$35,425,150 to increase the net asset value per share. Each of the 48,959,000 ordinary shares have been cancelled as at 31 December 2012. The issued share capital of the Company was reduced by the nominal value of these redeemed ordinary shares. The premium paid on the repurchase of ordinary shares was approximately RMB25,064,000 which 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 |
|---|---|---|---|---|
| | | Highest | Lowest | |
| | | *HK$* | *HK$* | *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 year ended 31 December 2012.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of conduct for dealing in securities of the Company by the directors. Having made specific enquiry to all the directors of the Company, all the directors of the Company confirmed that they have complied with the required standard of dealings as set out in the Model Code.

## CODE OF CORPORATE GOVERNANCE PRACTICE

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 31 December 2012.

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

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 served as the chairlady and chief executive officer of the Company. 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 at that time was 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 retirement of Ms. Chen Tao as executive director and chairlady of the Company on 22 May 2012 and up to 7 February 2013, 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. On 8 February 2013, Mr. Wang Dong was appointed as Chairman of the Board.

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. On 30 July 2012, Mr. Lei Zhaochun was appointed as an independent non-executive director of the Company and chairman of the Nomination Committee.

Accordingly, the Company has been in non-compliance with provision A.5.1 of the New CG Code for the periods from 22 May 2012 to 29 July 2012.

**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 and up to 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.

**C.1.2 of the Old CG Code and C.1.3 of the New CG Code**

Under code provision C.1.2 of the Old CG Code and code provision C.1.3 of the New CG Code, the directors are responsible for preparing the accounts, and where the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt on a company's ability to continue as a going concern, this should be disclosed and discussed.

The Board acknowledges that it is responsible for preparing the accounts. In preparing the consolidated financial statements, the Board has carefully considered the going concern of the Group in light of the comprehensive loss of RMB574,239,000 incurred by the Group and the suspension of the sales and production of the Group during the Year.

The Group has been implementing measures to resume production and formulating plans to resume sales of the Group and has sufficient working capital to support its general daily operation for the forthcoming 12 months. Accordingly, the Directors are of the view that the Group is a going concern, and it is appropriate to prepare the consolidated financial statements on a going concern basis.

## INVESTIGATION COMMITTEE

Payments in advance to strategic partners and deposits for development of sales network, in the aggregate sum of RMB451,726,000 and RMB43,000,000 respectively, were fully impaired in the consolidated financial statements for the year ended 31 December 2012 (the "Impairments").

In connection with the Impairments, the Company has established an investigation committee (the "Investigation Committee") on 28 March 2013 to lead an internal investigation to ascertain the circumstances surrounding the Impairments and to propose actions to be taken by the Company in connection with the Impairments. The Investigation Committee is chaired by Mr. Chung Raymond Wai Man and comprises all of the independently non-executive directors of the Company, namely Mr. Mak Patrick Ka Wing, Mr. Chung Raymond Wai Man and Mr. Lam Tin Faat. The Investigation Committee will be assisted by external experts that the Company considers appropriate.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 24 January 2011 with terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the CG code. At date of this announcement, the Audit Committee consists of three members, all of the members are independent non-executive Directors, namely Mr. Lam Tin Faat, Mr. Mak Ka Wing Patrick and Mr. Chun Wai Man Raymond. Mr. Lam Tin Faat currently is the chairman of the Audit Committee.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of external auditor, the review of the financial statements and material advice in respect of financial reporting and the oversight of internal control procedures of the Group. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012 including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors.

## PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2012 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange (http://www.hkex.com.hk) and the Company's website (www.kingstonemining.com), and the 2012 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

**Please note that the trading of shares of the Company has been suspensed since 17 September 2012 and will remain suspended until further notice.**

By Order of the Board
**China Kingstone Mining Holdings Limited**
**Wang Dong**
*Chairman*

Hong Kong, 28 March 2013

*As at the date of this announcement, the non-executive directors of the Company are Mr. Wang Dong, Mr. Chan Chi Yin, Mr. Lee Wa Lun Warren; the independent non-executive directors are Mr. Lam Tin Faat, Mr. Mak Ka Wing Patrick and Mr. Chung Wai Man Raymond.*