THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Kingstone Mining Holdings Limited, you should at once hand this circular, the accompanying notice of special general meeting and the form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This Circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares or other securities in the Company.

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 and continued in Bermuda with limited liability)

(Stock Code: 1380)

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE AND CHANGE OF BOARD LOT SIZE

Financial adviser to the Company

SORRENTO CAPITAL LIMITED
擎天資本有限公司

Underwriter to the Rights Issue

SORRENTO SECURITIES LIMITED
擎天證券有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

It should be noted that the Shares will be dealt with on an ex-rights basis from Monday, 29 May 2017. Dealings in the Rights Shares in their nil-paid form will take place from Tuesday, 13 June 2017 to Tuesday, 20 June 2017 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or waived (as applicable) at or before 4:00 p.m. (Hong Kong time) on Tuesday, 27 June 2017 (or such later time as the Company and the Underwriter may agree), the Rights Issue will not proceed. Any persons contemplating dealings in the Shares prior to the date on which the conditions of the Rights Issue are fulfilled or waived (as applicable), and/or dealings in the nil-paid Rights Shares, are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed.

A letter from the Board is set out on pages 11 to 40 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 41 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Rights Issue is set out on pages 42 to 68 of this circular.

A notice convening the SGM to be held at 11:30 a.m. on Thursday, 25 May 2017 at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong together with the form of proxy are enclosed with this circular. Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time scheduled for holding the SGM (i.e. 11:30 a.m. on 23 May 2017) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company at any time prior to 4:00 p.m. on the Latest Time for Termination to terminate its obligations under the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section headed "Rescission and Termination of the Underwriting Agreement" on pages 9 to 10 of this circular.

Upon the delivery of the notice of termination, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

26 April 2017

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EXPECTED TIMETABLE

Set out below is the expected timetable for the Rights Issue which is indicative only and has been prepared on the assumption that all the conditions of the Rights Issue will be fulfilled:

All times and dates in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above or in other parts of this circular are indicative only and may be extended or varied. Any changes to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as and when appropriate in accordance with the Listing Rules.

Event	**Expected Time and Date** **2017**
Latest time for lodging transfers of Shares in order to qualify for attendance and voting at the SGM	4:30 p.m. on Wednesday, 17 May
Register of members closed for the SGM (both dates inclusive)	Thursday, 18 May to Thursday, 25 May
Latest time for lodging proxy forms for the SGM	11:30 a.m. on Tuesday, 23 May
Expected date and time of the SGM	11:30 a.m. on Thursday, 25 May
Announcement of the poll results of the SGM	Thursday, 25 May
Last day of dealings in the Shares on cum-rights basis	Friday, 26 May
First day of dealings in the Shares on ex-rights basis	Monday, 29 May
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:30 p.m. on Wednesday, 31 May
Closure of register of members to determine the eligibility of the Rights Issue (both dates inclusive)	Thursday, 1 June to Wednesday, 7 June
Record Date for the Rights Issue	Wednesday, 7 June
Register of members re-opens	Thursday, 8 June
Despatch of Prospectus Documents	Friday, 9 June

Event	Expected Time and Date 2017
First day of dealings in nil-paid Rights Shares	9:00 a.m. on Tuesday, 13 June
Latest time for splitting of nil-paid Rights Shares	4:30 p.m. on Thursday, 15 June
Last day and time of dealings in nil-paid Rights Shares	4:00 p.m. on Tuesday, 20 June
Latest time for acceptance of and payment for, the Rights Shares	4:00 p.m. on Friday, 23 June
Latest time for termination of the Underwriting Agreement	4:00 p.m. on Tuesday, 27 June
Announcement of allotment results of the Rights Issue	Monday, 3 July
Despatch of share certificates for fully-paid Rights Shares and refund cheques if the Rights Issue is terminated	Tuesday, 4 July
Effective date of change of board lot size from 10,000 Shares to 20,000 Shares	Wednesday, 5 July
Expected first day of dealings in fully-paid Rights Shares	9:00 a.m. on Wednesday, 5 July
Designated broker starts to stand in the market to provide matching services for sale and purchase of odd lots of Shares	9:00 a.m. on Wednesday, 5 July
Last day for designated broker to provide matching services for sale and purchase of odd lots of Shares	4:00 p.m. on Wednesday, 26 July

Effect of bad weather on the latest time for acceptance of and payment for the Rights Shares

The latest time for acceptance of and payment for the Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a 'black' rainstorm warning:

i. in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Friday, 23 June 2017. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same day; or

ii. in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Friday, 23 June 2017. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on Friday, 23 June 2017, the expected timetable above may be affected. The Company will notify Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Announcement"	the announcement of the Company dated 3 March 2017 in relation to, among other things, the Rights Issue and the change of board lot size
"Behre Dolbear"	Behre Dolbear Asia Inc., a wholly owned subsidiary of Behre Dolbear & Company, Inc., an Independent Third Party that specialises in performing studies and providing consulting services worldwide regarding the minerals industry
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday and Sunday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Company"	China Kingstone Mining Holdings Limited, a company incorporated in Cayman Islands and continued in Bermuda with limited liability
"Competent Person's Report"	the competent person's report contained in the Company's listing document dated 7 March 2011, prepared by Behre Dolbear
"Directors"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors established for the purpose of giving recommendations to the Independent Shareholders in respect of the Rights Issue
"Independent Financial Adviser" or "Donvex Capital"	Donvex Capital Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
"Independent Shareholder(s)"	any Shareholder(s) other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates
"Independent Third Party(ies)"	third parties independent of and not connected with the Company and connected person(s) (as defined under the Listing Rules) of the Company
"Last Trading Day"	3 March 2017, being the last trading day of the Shares on Stock Exchange before the release of the Announcement
"Latest Practicable Date"	24 April 2017, being the latest practicable date before the printing of this circular for the purpose of ascertaining certain information contained herein
"Latest Time for Acceptance"	4:00 p.m. on Friday, 23 June 2017 or such other time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of and payment for the Rights Shares
"Latest Time for Termination"	4:00 p.m. on Tuesday, 27 June 2017, being the second Business Day after (but excluding) the Latest Time for Acceptance, or such other time as may be agreed between the Company and the Underwriter
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Non-Qualifying Shareholders"	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Option Shares"	up to 14,316,917 Shares which may be allotted and issued by the Company upon exercise of the 14,316,917 outstanding Share Options
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose address(es) as shown on such register is (are) outside Hong Kong
"PAL(s)"	Provisional allotment letter for the Rights Issue
"Posting Date"	Friday, 9 June 2017 or such other date as the Underwriter may agree in writing with the Company, being the date of dispatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Overseas Shareholders for information only (as the case may be)
"PRC"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, Macau Special Administrative Region of PRC and Taiwan
"Prospectus"	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
"Prospectus Documents"	the Prospectus and PAL
"Qualifying Shareholders"	Shareholders, other than the Non-Qualifying Shareholders
"Record Date"	Wednesday, 7 June 2017 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Rights Issue
"Registrar"	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the Hong Kong branch share registrar of the Company

"Rights Issue"	the proposed issue by way of rights on the basis of five (5) Rights Shares for every one (1) Share in issue and held on the Record Date at the Subscription Price per Rights Share on the terms and subject to the conditions set out in the Underwriting Agreement and to be set out in the Prospectus
"Rights Share(s)"	not less than 2,360,068,975 Shares and not more than 2,431,653,560 Shares to be issued and allotted under the Rights Issue
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
"SGM"	a special general meeting to be held by the Company to consider and, if thought fit, approve, among other things, the Rights Issue and the Underwriting Agreement
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company
"Shareholders"	holders of the Shares
"Share Options"	the options to subscribe for new Shares granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme adopted by the Company on 24 January 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the price of HK$0.12 per Rights Share
"Takeovers Code"	the code of Takeovers and Mergers and Share Buy-backs
"USD"	United States dollar(s), the lawful currency of the United States of America
"Underwriter"	Sorrento Securities Limited, a licensed corporation to conduct Type 1 (dealing in security) regulated activities under the SFO

"Underwriting Agreement"	the underwriting agreement dated 3 March 2017 (as supplemented on 24 April 2017) entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue
"Underwritten Shares"	all the Rights Shares, being not less than 2,360,068,975 Rights Shares and not more than 2,431,653,560 Rights Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
"Untaken Shares"	the Underwritten Shares which have not been taken up by the Qualifying Shareholders
"%"	Per cent

Notes:

(1) For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of RMB1.00 to HK$1.128. This exchange rate is adopted for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate at all.

(2) Certain amounts and percentages figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

RESCISSION AND TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time on or before Latest Time for Termination:

(a) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that any of the representations, warranties and undertakings in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or

(b) there shall be:

  (i) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;

  (ii) any change in local, national or international financial, political, industrial or economic conditions;

  (iii) any change of an exceptional nature in local, national or international equity securities or currency markets;

  (iv) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;

  (v) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;

  (vi) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of 10 trading days (as defined in the Listing Rules); or

  (vii) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere;

which is or are, in the reasonable opinion of the Underwriter:

(i) likely to have a material adverse effect on the business, financial position or prospects of the Group taken as a whole; or

(ii) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares to be taken up; or

(iii) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,

then the Underwriter may, by notice in writing given to the Company on or before Latest Time for Termination, rescind the Underwriting Agreement and thereupon all obligations of the Underwriter hereunder shall cease and determine and no party shall have any claim against any other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save for any antecedent breaches hereof) and the Rights Issue shall not proceed.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND THE NIL-PAID RIGHTS SHARE

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Rescission and Termination of the Underwriting Agreement"). Accordingly, the Rights Issue may or may not proceed.

Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

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 and continued in Bermuda with limited liability)

(Stock Code: 1380)

Executive Directors:
Mr. Wang Minliang *(Chairman)*
Mr. Zhang Jianzhong
Mr. Zhang Weijun
Ms. Zhang Cuiwei

Independent non-executive Directors:
Mr. Ma Ho Yin
Ms. Wang Yihua
Mr. Sheng Guoliang

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:
Unit 6812-13, 68/F
The Center
99 Queen's Road Central
Hong Kong

26 April 2017

To the Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE AND CHANGE OF BOARD LOT SIZE

INTRODUCTION

Reference is made to the Announcement dated 3 March 2017. The Board proposed to raise gross proceeds of not less than approximately HK$283.21 million before expenses (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than approximately HK$291.80 million before expenses (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date), by way of allotment and issue of not less than 2,360,068,975 Rights Shares and not more than 2,431,653,560 Rights Shares on the basis of five (5) Rights Shares for every one (1) Share held on the Record Date at the Subscription Price of HK$0.12 per Rights Share.

The Board further proposed that the board lot size of the Shares for trading on the Stock Exchange would be changed from 10,000 Shares to 20,000 Shares with effect from Wednesday, 5 July 2017. In order to facilitate the trading of odd lots (if any), the Company will arrange odd lot matching services.

The purpose of this circular is to provide you with, among other things, (i) further details of the proposed Rights Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Rights Issue; and (iv) a notice convening the SGM.

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue	:	five (5) Rights Shares for every one (1) Share held on the Record Date
Subscription Price	:	HK$0.12 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	472,013,795 Shares
Number of Rights Shares	:	not less than 2,360,068,975 Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date)
Number of issued Shares upon completion of the Rights Issue	:	not less than 2,832,082,770 Shares and not more than 2,917,984,272 Shares
Amount to be raised before expenses	:	not less than HK$283.21 million and not more than HK$291.80 million

As at the date Latest Practicable Date, the Company has 14,316,917 outstanding Share Options, which entitle the Share Options holders to convert into 14,316,917 Option Shares. Save for the aforesaid Share Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased on or before the Record Date, the aggregate number of Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 500.00% of the total number of Shares in issue as at the Latest Practicable Date and will represent approximately 83.33% of the Shares in issue as enlarged by the Rights Issue.

Assuming all the outstanding Share Options being exercised in full and Option Shares have been issued pursuant thereto on or before the Record Date, and no Shares are issued or repurchased on or before the Record Date, the aggregate number of Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 515.17% of the total number of Shares in issue as at the Latest Practicable Date and will represent approximately 83.33% of the Shares in issue as enlarged by the Rights Issue.

Subscription Price

The Subscription Price for the Rights Shares is HK$0.12 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and/or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(a) a discount of approximately 44.70% to the closing price of HK$0.2170 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 11.89% to the theoretical ex-rights price of approximately HK$0.1362 per Share based on the closing price of HK$0.2170 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(c) a discount of approximately 46.57% to the average closing price of approximately HK$0.2246 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day.

The subscription rate and Subscription Price were determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. Taking into account of the reasons for the Rights Issue and the use of proceeds as detailed in the section headed "Reasons for the Rights Issue and Use of Proceeds" in this circular, the Board considers the terms of the Rights Issue, including the Subscription Price which has been set at a discount to the recent closing prices of the Shares with an objective of encouraging existing Qualifying Shareholders to take up their entitlements to be fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

The net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue) upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK$0.1172.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must:

(i) be registered as a member of the Company at the close of business on the Record Date; and

(ii) be a Qualifying Shareholder.

In order to be registered as members of the Company on the Record Date, any relevant transfer documents (together with the relevant share certificates) must be lodged with the share registrar and transfer office of the Company at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. Wednesday, 31 May 2017.

Closure of register of members

The register of members of the Company will be closed from Thursday, 1 June 2017 to Wednesday, 7 June 2017 (both days inclusive) for determining entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Basis of provisional allotment

The basis of the provisional allotment shall be five (5) Rights Shares (in nil-paid form) for every one (1) Share held by the Qualifying Shareholders as on the Record Date.

Acceptance of all or any part of a Qualifying Shareholder's provisional allotment should be made by completing a PAL and a cheque or a banker's cashier order for the sum payable for the Rights Shares being applied for with the Registrar on or before the Latest Time for Acceptance.

Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to Overseas Shareholders, if any. If, based on legal opinions provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in that place(s), the Rights Issue will not be extended to such Overseas Shareholders. According to the register of members of the Company as at the Latest Practicable Date, there was no Overseas Shareholders.

The Company will send the Prospectus to the Non-Qualifying Shareholders for their information only, but will not send any PAL to them.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted in nil-paid form to the Non-Qualifying Shareholders to a nominee of the Company which shall arrange for the sale of such nil-paid rights as soon as practicable after the commencement of dealings on the Stock Exchange in Rights Shares in nil-paid form if a premium can be obtained therefore, and, if any to the extent that such rights can be so sold, the nominee shall thereafter account to the Company for the net proceeds of sale (after deducting the expenses of sale if any), which shall be distributed by the Company in Hong Kong dollars to the Non-Qualifying Shareholders pro rata provided that rounded down amounts of less than HK$100 shall not be so distributed but shall be retained for the benefit of the Company.

Status of Rights Shares

The Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid, the record date of which is after the date of allotment of the Rights Shares in their fully-paid form.

Share certificates and refund cheques for the Rights Issue

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully paid Rights Shares are expected to be posted on Tuesday, 4 July 2017 by ordinary post to the allottees, at their own risk, to their registered addresses. Refund cheques (if the Rights Issue is terminated) are expected to be posted on Tuesday, 4 July 2017 by ordinary post to the applicants, at their own risk, to their registered addresses.

No application for excess Rights Shares

Considering that the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company and is negotiated on an arm's length basis with the Underwriter, if application for excess Rights Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, it is expected that additional printing and share registrar costs would be incurred if application for excess Rights Shares is arranged. The Board considers that it is important for the Group to minimise all costs which may be incurred during the fund raising.

Besides, there will be a period for trading of nil-paid Rights Shares on the Stock Exchange. Shareholders who are interested in obtaining the Rights Shares, in addition to the Rights Shares to be provisionally allotted to them, could purchase nil-paid Rights Shares from other Shareholders who do not, and will not, apply for their Rights Shares which they are provisionally allotted. Notwithstanding excess application arrangement will not be made available to the Qualifying Shareholders, the Board considers that a discount to the Subscription Price offered to the Qualifying Shareholders would encourage them to participate in the Rights Issue and to the potential growth of the Company.

In light of the above, the Board considers that the Rights Issue in the absence of excess application arrangement is in the interests of the Shareholders. Accordingly, no excess Rights Shares will be offered to the Qualifying Shareholders and any Rights Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement.

Fractions of Rights Shares

On the basis of five (5) Rights Shares for every one (1) Share held on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots of Rights Shares arising from the Rights Issue (if any), the Company will arrange odd lot matching services for the sale and purchase of odd lots of Rights Shares at the relevant market price per Rights Share, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Rights Shares to make up a full board lot, or to dispose of their holding of odd lots of the Rights Shares. Further details in respect of the odd lots arrangement will be set out in the Prospectus.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms to be issued and allotted pursuant to the Rights Issue.

Subject to the granting of the approval for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from their respective commencement dates of dealings on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms, which are registered in the register of members of the Company, will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, investor compensation levy or any other applicable fees and charges in Hong Kong.

Those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

THE UNDERWRITING AGREEMENT

On 3 March 2017 (after trading hours), the Underwriter and the Company entered into the Underwriting Agreement (which was supplemented on 24 April 2017 pursuant to which amongst others, the Underwriter has conditionally agreed to fully underwrite not less than 2,360,068,975 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Rights Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Rights Issue Record Date).

Date	:	3 March 2017 (as supplemented on 24 April 2017)
Issuer	:	The Company
Underwriter	:	The Underwriter
Number of Underwritten Shares	:	not less than 2,360,068,975 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Rights Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Rights Issue Record Date)
Underwriting commission	:	2% of the total Subscription Price on the maximum number of Underwritten Shares.

As at the Latest Practicable Date, the Underwriter does not hold any Shares. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owners are Independent Third Parties and not connected with the Company and its connected persons as defined under the Listing Rules.

The terms of the Underwriting Agreement (including the underwriting commission) were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition.

The Underwriter may enter into sub-underwriting arrangement with sub-underwriter(s) or appoint any person to be sub-agent(s) on its behalf for the purpose of arranging for the subscription of the Underwritten Shares with selected subscribers with such authority and rights as the Underwriter have pursuant to its appointment under the Underwriting Agreement.

The Underwriter has undertaken to Company that, among other things, other than the transactions contemplated under the Underwriting Agreement and as disclosed (or will be disclosed) in this circular and/or the Prospectus Documents, save with the prior consent of the Company, the Underwriter or any of its associates will not deal in the Shares or other securities of the Company from the date of the Underwriting Agreement to the completion of the Rights Issue, provided that the Underwriter may, before completion of the Rights Issue, enter into agreement with any other person(s) in respect of (a) the sub-underwriting of the Rights Shares; and/or (b) the subscription of the Underwritten Shares not taken up, so long as such transactions are in compliance with applicable laws and regulations.

The Directors consider the entering into of the Underwriting Agreement with the Underwriter and the terms of the Underwriting Agreement (including the underwriting commission) to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Rescission and termination of the Underwriting Agreement

Information on the rescission and termination of the Underwriting Agreement has been set out in the section headed "Rescission and Termination of the Underwriting Agreement" in this circular.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

(i) the passing by the Shareholders (or where appropriate, Independent Shareholders) at the SGM of the necessary resolution(s) approving, among others, the Rights Issue, the Underwriting Agreement and the transactions contemplated hereunder, including but not limited to the allotment and issue of the Right Shares;

(ii) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one duly certified copy of each of the Prospectus Documents (and all other documents required to be attached thereto) not later than the Posting Date and in compliance with the Listing Rules and the Companies Ordinance;

(iii) the posting of the Prospectus Documents to the Qualifying Shareholders;

(iv) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked, listing of, and permission to deal in the Rights Shares, in nil-paid and fully-paid forms; and

(v) there being no breach of the undertakings and obligations of the Company under the Underwriting Agreement;

and that in the event of the above conditions not being fulfilled (or waived by the Underwriter in respect of condition (5) only) on or before the Latest Time for Termination (or such later date or dates as may be agreed between the Company and the Underwriter) or if the Underwriting Agreement shall be terminated by the Underwriter pursuant to the terms thereof, all obligations and liabilities of the parties hereunder shall forthwith cease and determine and no party shall have any claim against the other (save for any antecedent breaches hereof).

Undertaking given by the Company

The Company has undertaken in the Underwriting Agreement that the Company shall not issue any Shares (other than pursuant to exercise of the outstanding Share Options) from the date of the Underwriting Agreement up to and including the Record Date.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following tables set out the possible changes in the shareholding structure of the Company arising from the Rights Issue which is for illustrative purpose only and will never occur:

Scenario 1

As at the Latest Practicable Date, the Company has 472,013,795 shares in issue. Assuming no new Share is issued or repurchased on or before the Record date, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Rights Issue, assuming no further issue of new Shares or repurchase of Shares up to completion of the Rights Issue:

			Immediately after completion of the Rights Issue			
			Assuming all Shareholders		Assuming no Shareholders	
	As at the Latest		have taken up		has taken up	
Shareholders	**Practicable Date**		**all the Rights Shares**		**the Rights Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Substantial Shareholder						
Ninotre Investment Limited *(Note 1)*	54,966,083	11.65%	329,796,498	11.65%	54,966,083	1.94%
Public						
The Underwriter	–	–	–	–	2,110,068,975	74.50%
Sub-underwriter 1	–	–	–	–	130,000,000	4.59%
Sub-underwriter 2	–	–	–	–	120,000,000	4.24%
Other public shareholders	417,047,712	88.35%	2,502,286,272	88.35%	417,047,712	14.73%
	472,013,795	100%	2,832,082,770	100%	2,832,082,770	100%

Scenario 2

Assuming all outstanding Share Options are exercised and all Option Shares are allotted and issued on or before the Record Date, and no further issue of new Shares or repurchase of Shares up to completion of the Rights Issue save for the Rights Shares and Option Shares:

			Immediately after completion of the Rights Issue			
			Assuming all Shareholders		Assuming no Shareholders	
	As at the Latest		have taken up		has taken up	
Shareholders	**Practicable Date**		**all the Rights Shares**		**the Rights Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Substantial Shareholder						
Ninotre Investment Limited *(Note 1)*	54,966,083	11.30%	329,796,498	11.30%	54,966,083	1.88%
Public						
The Underwriter	–	–	–	–	2,181,653,560	74.77%
Sub-underwriter 1	–	–	–	–	130,000,000	4.46%
Sub-underwriter 2	–	–	–	–	120,000,000	4.11%
Other public shareholders and holders of the outstanding Option Shares	431,364,629	88.70%	2,588,187,774	88.70%	431,364,629	14.78%
	486,330,712	100%	2,917,984,272	100%	2,917,984,272	100%

Notes:

(1) 54,966,083 Shares of the Company is held by Ninotre Investment Limited, in which Gufalore Investments Limited is the controlling shareholder of Ninotre Investment Limited and Unity Investments Holdings Limited is the controlling shareholder of Gufalore Investments Limited.

(2) The Underwritten Shares will be subscribed by subscribers who will be independent individual, corporate and/or institutional investors, and who and whose ultimate beneficial owners are Independent Third Parties. It is a term of the Underwriting Agreement that the Underwriter irrevocably undertakes to the Company that if the Underwriter or any of the sub-underwriter is required to take up the Rights Shares pursuant to their underwriting/sub-underwriting obligations as follows:

(i) the Underwriter will not trigger a mandatory offer obligation under Rule 26 of Takeovers Code on the part of the Underwriter in respect of performing its obligations under the Underwriting Agreement;

(ii) the Underwriter shall and shall cause the sub-underwriter to procure subscribers independent of the Company and its connected persons to take up such number of Rights Shares as may be necessary to ensure that the public float requirements under the Listing Rules are complied with;

(iii) none of the persons to be procured by the Underwriter to subscribe for the Untaken Shares will be holding 10% or more of the total issued shares of the Company immediately after completion of the Rights Issue; and

(iv) the Underwriter shall use its reasonable endeavours to ensure that the sub-underwriters and the subscribers for the Untaken Shares are third parties independent of and not connected with the Company and its connected persons.

(3) As at the Latest Practicable Date, the Underwriter has entered into sub-underwriting agreements with two sub-underwriters (the ''Sub-underwriters''), both being securities brokerage firms and Independent Third Parties, for not less than 130,000,000 Rights Shares and 120,000,000 Rights Shares respectively. Since the Sub-underwriters respectively will hold less than 5% equity interest of the Company upon completion of the Right Issue, they will be considered as public Shareholders. Taking into account of the Sub-underwriters, the public float will be at least 25% upon completion of Rights Issue, assuming none of the Rights Shares are subscribed for the Qualifying Shareholders. The Underwriter has confirmed to the Company that the parties to the respective sub-underwriting agreements have undertaken to put in place relevant arrangements as described in note 2 above in accordance with the terms and conditions of the Underwriting Agreements.

As at the Latest Practicable Date, the existing public Shareholders hold approximately 88.35% of the entire issued share capital of the Company. Upon completion of the Rights Issue, if (i) assuming no new Share is issued or repurchased on or before the Record Date and none of the Rights Shares are subscribed for the Qualifying Shareholders, the existing public Shareholders will hold approximately 14.73% of the entire enlarged issued share capital of the Company; and (ii) assuming all outstanding Share Options are exercised and all Option Shares are allotted and issued on or before the Record Date, no further issue of new Shares or repurchase of Shares up to completion of the Rights Issue, and none of the Rights Shares are subscribed for the Qualifying Shareholders, the existing public Shareholders will hold approximately 14.78% of the entire enlarged issued share capital of the Company. The possible maximum dilution to shareholdings of those Qualifying Shareholders who do not subscribe to the Rights Shares is approximately 83.33%, while the dilution impact is approximately 37.23%.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in the production and sale of marble and marble related products in China. The Group is a mining operator, focusing on beige marble blocks and processing of marble slabs, and owned the largest beige marble mine, namely Zhangjiaba Mine, which is located in Zhenjiang Village, Xiangshui County, Jiangyou City of Sichuan Province, China, in terms of marble reserves, according to the certification issued by China Stone Material Association (中國石材協會) in August 2010.

The gross proceeds from the Rights Issue will be not less than HK$283.21 million (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than HK$291.80 million (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date). The net proceeds from the Rights Issue will be not less than HK$276.54 million (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than HK$284.96 million (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date).

The Company intends to apply net proceeds from the Rights Issue as to:

(i) approximately HK$191.76 million (RMB170.00 million) for the contribution of funding in the joint venture company for the calcium carbonate business, in which approximately HK$149.15 million (RMB132.22 million) for the set-up of manufacturing building (including the property, plant and equipment) and approximately HK$42.61 million (RMB37.78 million) for the general working capital of the business;

(ii) approximately HK$33.84 million (RMB30.00 million) for general working capital of the Group, including but not limited to the operating cash used for the daily production of marble and marble related products, the settlement of outstanding accounts payable to vendors and the general operating expenses of the Group; and

(iii) the remaining net proceed of approximately HK$50.94 million (RMB45.16 million) for the settlement of the potential damages arising from the litigation in relation to the breach of a written underwriting agreement and between the underwriter of the open offer announced by the Company on 14 May 2015.

(a) Expansion of income stream and development of calcium carbonate business

As disclosed in the annual report for the year ended 31 December 2016 of the Company, the Group is facing keen competition with the overseas marble stone suppliers. The overseas marble stone suppliers are willing to sell a high quality of marble stone at an affordable price in order to grab the market share in large growing market in the PRC. Currently, the quality of marble stones on the relatively upper benches of the Zhangjiaba mine is hard to compete with the import marble stones. The revenue of the Group during the past two years mainly relied on the sales of marble slags through the stripping of overburden and cracked limestone and sourcing the marble slabs from other suppliers for the Group's customers. In pursuance of the Group's strategic plan to increase its competitiveness and to seek market opportunities to supplement its marble stone related business, the Group intends to engage in the business of calcium carbonate production.

Calcium carbonate is a kind of non-metallic mineral material which can be classified as ground calcium carbonate or light calcium carbonate (together known as "Calcium Carbonate"). Calcium Carbonate is generally used in the industries of plastic, papers, printing, coating, chemicals, building materials, among others. The demand for Calcium Carbonate in the PRC is increasing due to its extensive applications, such as in the construction industry and for health and dietary usage. Calcium Carbonate is also one of the most important materials for the inorganic salt industry. In review of PRC's 12th Five-Year Plan (2011-2015) ("PRC's 12th Five-Year Plan") announced by the Ministry of Land and Resources of the PRC, the non-metallic mineral industry in the PRC maintained stable growth. Contributed by the effort put forth by the government of the PRC for regulation in relation to non-metallic mine exploitation, the quality and pricing of non-metallic mineral have seen an upward trend.

Looking forward to PRC's 13th Five-Year Plan (2016-2020) ("PRC's 13th Five-Year Plan") announced by the Ministry of Land and Resources of the PRC, the PRC government would continue the promoting and restructuring of the non-metallic mineral industry, in particular, to (i) eliminate the small scale enterprises which highly consumes natural resources, pollutes the environment and fails to fulfill safety requirements, and (ii) increase the entry barrier for enterprises, hopefully leading to the advancements of the non-metallic mineral industry and stable growth. Under these circumstances, the Board believes the demand for non-metallic mineral will maintain a steady rate of growth in the coming years.

While there are over a hundred calcium carbonate manufacturers in Jiangyou City and the Beichuan region in Sichuan Province, the government of the Jiangyou City intends to regulate the undeveloped and under-sized manufacturers in accordance with PRC's 13th Five-Year Plan, the Board therefore considers there is an opportunity for the Company to develop this business as the policies should favour medium-size or above enterprises. Sichuan Province is one of the major sourcing origin of Calcium Carbonate in the PRC. The Group owns the Zhangjiaba mine in the Sichuan Province, with a majority of ore not yet fully exploited. According to the Competent Person's Report, the Zhangjiaba mine located in Sichuan Province of the PRC contains 44.2 million cubic meter of measured and indicated marble resources, which represents 16.8 million cubic meter of proved and probable marble reserves based on a block rate of 38%. The resources and reserves estimates for marble stones of Zhangjiaba Mine in Sichuan Province as at 31 December 2015 and 31 December 2016 under the JORC Code (as defined in Chapter 18 of the Listing Rules) are set out in the following table:

JORC resource and reserve class	**2016**	**2015**
	Cubic meter	*Cubic meter*
Measured Resource	15.32 million	15.41 million
Indicated Resource	27.63 million	27.80 million
Total Resource	42.95 million	43.21 million
Proved Reserve	5.82 million	5.86 million
Probable Reserve	10.50 million	10.57 million
Total Reserve	16.32 million	16.42 million

Note: The resources and reserves for marble stones of Zhangjiaba Mine were estimated based on the Competent Person's Report. The increases and decreases due to mining consumption and exploration during the year were confirmed by internal experts.

Marble is geologically defined as metamorphosed limestone or dolomite that is thoroughly recrystallised. Commercially in the stone industry, marble also includes limestone or dolomite that is rock of sedimentary origin primarily composed of calcium carbonate. Marble slags produced by the cracked marble stones and through the stripping of overburden of the mine is the raw materials of the ground and composite calcium carbonate. Based on the Group's current production plans, the unutilised ore of the Zhangjiaba mine could provide supplies of Calcium Carbonate for at least 100 years. The Board believes the Group has sufficient capability to produce Calcium Carbonate from its own resources. As at the Latest Practicable Date, the Group is in contemplation with a company, Jiangyoushi Huachuan Kuangye Youxiangongsi*（江油市華川礦業有限公司）(the "JV Partner") to establish a joint venture company (the "JV Company") for the production of Calcium Carbonate. The JV Partner is principally engaged in the manufacturing and sales of ground calcium carbonate products, and has extensive experience in the industry. The JV Company is proposed to be set up as a production center for producing different types of Calcium Carbonate from the ore sourced from the Zhangjiaba mine. The Directors believe the JV Company would be able to supplement its existing marble and marble related businesses by utilising the same resources while producing a product which is of higher market demand. The Board intends to exploit, crush and grind the ore into high purity products ranging from particle sizes of 400 mesh, 1,500 mesh and/or 3,000 mesh which respectively have different commercial usages. The Board considers the Group would benefit from greater margin from the advanced types of products from the JV Company as a result. The Board also considers the Group has in place the required technical know-how and management experience in the mining industry. Our Directors and senior management have extensive expertise in mine exploration and development ranging from 5 years to 10 years and above. Taking into account of the above factors, the Board considers the business of the JV Company to be in the same line of business with the Group's existing businesses.

The current proposed Calcium Carbonate production plan includes three zones including ore crushing zone, ground calcium carbonate production zone and light calcium carbonate production zone. The major production processes in the ground calcium carbonate production zone includes crushing, grind and packing, while the major production processes in the light calcium carbonate production zone includes burning, refining, carbonising, filtering, drying, packing and gas purification. The JV Company intends to utilise highly-efficient, semi-automatic machinery and equipment in order to achieve low-cost production. The production plant is expected to be located in Xiangshuizhen Gongye Jizhongqu*（香水鎮工業集中區）(previously known as 香水石材產園), which is 5 kilometers away from the Zhangjiaba mine and 20 kilometers away from Jiangyou City, Sichuan Province, PRC. In view of the production plan, the Company proposes to set up a manufacturing site at the above location and to purchase relevant machinery and equipment for the factory. As Calcium Carbonate requires technologically advanced machinery and equipment to produce, the Directors consider the Rights Issue will allow the Company the necessary funding for engaging in this business.

On 14 April 2017, Zhuhai Jinhong Marble Industry Co., Ltd.* (珠海金弘石業有限公司) ("Zhuhai Jinhong"), a wholly-owned subsidiary of the Company, has entered into a non-legal binding memorandum of understanding (the "MOU") in relation to the proposed formation of the JV Company.

The MOU

The principal terms of the MOU are summarised below:

Date

14 April 2017

Parties

(i) Zhuhai Jinhong; and

(ii) the JV Partner.

The JV Company will be held responsible for its debt with its entire assets, whereas each of the parties will be held responsible to the JV Company to the extent of their respective capital contribution.

Registered capital and capital contribution

Pursuant to the MOU, the initial registered capital of the JV Company is expected to be not less than RMB5 million, which will be contributed by the parties in cash as follows:

	Amount of capital contribution *(RMB)*	**Percentage of equity interest in the JV Company** *(%)*
Zhuhai Jinhong	4,250,000	85.00
The JV Partner	750,000	15.00
Total	5,000,000	100.00

Scope of business and formation

The JV Company will be established as a limited liability company, with its production plant expected to be located in Xiangshuizhen Gongye Jizhongqu*（香水鎮工業集中區）(previously known as 香水石材產園), Jiangyou City, Sichuan Province, PRC. Details of the proposed calcium carbonate production plan has been set out in the section headed "Expansion of Income Stream and Development of Calcium Carbonate Business" in this circular.

Upon formation of the JV Company, Zhuhai Jinhong will be primarily responsible for contributing funding in order to establish the production plant, acquire the necessary plant and machinery, and will be the main marble supplier of the JV Company, while the JV Partner will be primarily responsible for providing the land use right, and the required know-how and expertise for the production.

Board composition and the management structure of the JV Company

The board of directors of the JV Company will consist of 5 members. Zhuhai Jinhong is entitled to nominate 4 directors, and the JV Partner is entitled to nominate 1 director. The chairman of the JV Company will be appointed by Zhuhai Jinhong, while the vice-chairman of the JV Company will be appointed by the JV Partner. A general manager and a deputy general manager in charge of the finance function of the JV Company will be nominated by Zhuhai Jinhong. Other senior management positions, which shall be nominated by the general manager, and/or recruited from the public, will be submitted for approval by the board of the JV Company.

Principal terms

Pursuant to the MOU, Zhuhai Jinhong and the JV Partner agree to, among other things, their responsibilities and rights as,

(a) Zhuhai Jinhong:

(i) to contribute funding of approximately RMB170 million, which will be used for the construction of production plant, including but not limited to the acquisition of plant and machinery and for working capital of the JV Company;

(ii) to plan and manage the project, and share the profit in proportion to the respective interest; and

(iii) to collaborate with the JV Partner in formulating the production plan and resource allocation of the JV Company.

(b) the JV Partner:

(i) to contribute the land use right and the required expertise to the JV Company;

(ii) to resolve issues which may arise during the process of construction of the production plant, and share the profit in proportion to the respective interest;

(iii) to prepare regulatory documents and conduct regulatory procedures in order to obtain approval from relative regulatory authorities with assistance from Zhuhai Jinhong; and

(iv) to collaborate with Zhuhai Jinhong in formulating the production plan and resource allocation of the JV Company.

Conditions precedent

It is expected that the formation of the JV Company will be conditional upon the fulfillment of the following conditions, among others:

(i) the provision of fund proof by the Company upon completion of the proposed Rights Issue;

(ii) compliance with all the applicable laws, rules and regulations, including but not limited to the relevant regulatory authorities in the PRC, the Stock Exchange and any other regulatory authority in Hong Kong (if applicable) and all other relevant third parties' consents or approvals for the proposed formation of the JV Company;

(iii) the Company conducting satisfactory due diligence in respect of the land to be contributed by the JV Partner and the JV Partner undertaking to assist in ensuring smooth proceeding of the due diligence within the exclusivity period; and

(iv) the board of Directors of the Company and the JV Partner having approved and authorised the MOU and the transactions contemplated thereunder.

Exclusivity period

The JV Partner agreed that it will not (i) solicit, initiate or encourage enquiries or offers from; or (ii) initiate or continue negotiations or discussions with or furnish any information to; or (iii) enter into any agreement or statement of intent or understanding with, any person or entity other than the Company or its subsidiaries with respect to the formation of the JV Company and/or the contents of the MOU of any part thereof, directly or indirectly, for a period of six (6) months from the date of the MOU.

Legal effect

Save for the aforesaid exclusivity period and the relevant provisions relating to confidentiality and governing law and dispute resolution, the MOU is not legally binding nor does it oblige either party thereto to proceed with a definitive agreement with respect to the formation of the JV Company. The terms of the formation of the JV Company are yet to be determined and are subject to further negotiations between the parties thereto.

Reasons and benefits for entering into the MOU

The Company is an investment holding company. The Group is principally engaged in the production and sale of marble stones and marble-related products in China.

Through the execution of this MOU, the Group is seeking to expand its income stream and develop the calcium carbonate business. The Directors are of view that by virtue of (i) the Group's own marble resources and (ii) the background of the JV Partner as a company with extensive experience in the industry, the parties will effectively work with each other in implementing the calcium carbonate production plan, The strategic corporation between Zhuhai Jinhong and the JV Partner will enable the Group to supplement its current marble business and to increase its competitiveness in the market, and in turn benefit the Company and its shareholders as a whole.

Regulatory procedures for establishment of the production plant

The formation of the JV Company is subject to the approval of the Administration for Industry and Commerce of the Jiangyou City* (江油市工商行政管理局), while the establishment of the production plant is subject to approvals from different government authorities of the PRC. The following are their respective statuses as at the Latest Practicable Date:

(i) Business Investment Notice (企業投資項目備案): the JV Partner has filed the notice of the proposed production plan in relation to the calcium carbonate business to the Jiangyou City of Science and Technology and Industry and Information Technology Bureau (江油市科技和工業信息化局) and obtained the written confirmation on 13 March 2016.

(ii) Site Selection (選址): the JV Partner has obtained the written approval from the People's Government of Xiangshui Town, Jiangyou City* (江油市香水鎮人民政府) on 25 March 2016 and the written approval from the Jiang You Shi Cheng Xiang Gui Hua He Zhu Fang Bao Zhang Ju (江油市城鄉規劃建設和住房保障局) on 6 April 2016.

(iii) Land Use Permit (建設用地規劃許可): Project site mapping has been completed and the Jiang You Shi Cheng Xiang Gui Hua He Zhu Fang Bao Zhang Ju (江油市城鄉規劃建設和住房保障局) issued the parameters on the land planning and design (地塊規劃設計條件) on 6 April 2016.

(iv) Environmental Assessment (環境影響評價): the JV Partner has obtained the written approval from the Jiangyoushi Huanjing Baohuju (江油市環境保護局) on 17 May 2016.

(v) Engineering Design (工程設計): the JV Partner has submitted the preliminary design plan* (初步設計方案) on 21 February 2017 and it has been verified by the People's Government of Xiangshui Town, Jiangyou City* (江油市香水鎮人民政府) and the Jiangyou City of Science and Technology and Industry and Information Technology Bureau (江油市科技和工業信息化局).

(vi) Provision of Land and Land Use Right Transfer (供地及土地使用權出讓階段): the Notice of the Pricing of the Land Use Right* (項目土地掛牌價格的函) has been issued on 27 March 2017 by the People's Government of Xiangshui Town, Jiangyou City* (江油市香水鎮人民政府) to the Land and Resources Department of Jiangyou City* (江油市國土資源局). However, the land use right transfer procedure is still in progress as at the Latest Practicable Date. The Company expects it to be completed in the third quarter of 2017.

(vii) Project Planning Permit (工程規劃許可階段): involving the issue of Planning on Construction Project Permit* (建設工程規劃許可). The Company expects it to be completed in the fourth quarter of 2017.

(viii) Construction Permit (施工許可階段): involving the review on, among others, tender, quality of engineering, safety oversight and safety measures and the issue of Construction Permit* (施工許可證) on site by the Jiang You Shi Cheng Xiang Gui Hua He Zhu Fang Bao Zhang Ju (江油市城鄉規劃建設和住房保障局). The Company expects it to be completed in the fourth quarter of 2017.

The JV Partner is responsible for conducting the above procedures and obtaining the approval from respective governmental authorities.

Tentative timetable

The Company intends to proceed with the proposed formation of the JV Company in accordance with the following tentative timetable (progress will be subject to revision as agreed by the parties from time to time):

(i) within 1 month after obtaining the Land Use Approval* (建設用地批准書) by the JV Partner, completion of the due diligence review in respect of the land to be contributed by the JV Partner;

(ii) within 7 days after the end of (i), to notify the JV Partner the results of the due diligence review in writing; and

(iii) assuming the due diligence review is with satisfactory result, to sign the formal joint venture agreement.

The formation of the JV Company is subject to, among others, further negotiation concerning the entering into of a formal agreement. At present stage, the terms and conditions of the formal agreement are yet to be finalised and agreed between Zhuhai Jinhong and the JV Partner. As such, the formation of the JV Company may or may not proceed. Further announcement(s) in respect of the formation of the JV Company shall be made by the Company in the event that any formal agreement has been entered into.

Breakdown and timeline of cash deployments

The funding by the Company is expected to be contributed by installments commencing from the third quarter of 2017 in commensurate with the required cash deployment by the JV Company, or at a later date, subject to the date of completion of the proposed Rights Issue.

Assuming the completion of the Rights Issue will take place in accordance with the expected timetable as stipulated in this circular, the Board expects to deploy approximately HK$149.15 million (RMB132.22 million) for the set-up of manufacturing building (including the property, plant and equipment) as follows, (i) the first payment for construction design will be paid in the third quarter of 2017, and the final payment will be paid in the fourth quarter of 2017; (ii) the construction of the new factory would commence in 2017 and will be completed in the second quarter of 2018; and (iii) the Company would purchase and install new machinery for the new factory starting from the fourth quarter of 2017 until the second quarter of 2018. Subject to the approvals from respective governmental authorities, the factory should be operational by the third quarter of 2018. The general working capital of approximately HK$42.61 million (RMB37.78 million) including, among others, staff remuneration, accounts payable to vendors and other utilities expenses for the business operation, will be used when the construction work is in progress, during the trial run of operation and afterwards. In summary, the indicative timeline for cash deployment is set out below:

	Calendar					
	2017		2018			
	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Construction design of new factory	5,080	3,500	–	–	–	–
Construction of new factory	–	21,140	5,340	5,360	–	–
Purchase and installation of new machinery	–	27,180	32,200	32,200	–	–
Working capital (including the trial run of operations)	7,000	1,500	1,500	1,500	7,040	19,460
	12,080	53,320	39,040	39,060	7,040	19,460

The timeline above is based on the extensive experiences of the management in relation to the implementation of the construction of new factory up to the Latest Practicable Date. However, given that third parties will necessarily be involved in the process, be it regulators, service or equipment providers or new staffs, there is no assurance that the Group will be able to meet the timeline indicated.

(b) General working capital

The Group plans to set aside approximately HK$33.84 million (RMB30 million) for general working capital of the Group. Based on the annual report of the Company for the year ended 31 December 2016, the net cash flows used in operating activities was approximately RMB10.95 million (equivalent to approximately HK$12.35 million), while according to the annual report of the Company for the year ended 31 December 2015, the net cash flow used in operating activities for 2015 was approximately RMB45.30 million (equivalent to approximately HK$51.10 million).

Based on the unaudited consolidated management accounts of the Group, the Group's bank and cash balances amounted to approximately RMB6.71 million (equivalent to approximately HK$7.57 million) as at 28 February 2017. The management of the Group periodically monitors and reviews the Group's current assets and liabilities to ensure there is sufficient working capital for the Group's daily operation. The Board considers that it will be a merit for the Group to have available working capital for its business operation and development.

The Directors are of the view that the Rights Issue can strengthen the financial position of the Group and provide working capital to the Group to meet any future development and obligations. The Rights Issue also represents good opportunities to broaden the shareholders' base and the capital base of the Company.

(c) Potential litigation claims

On 13 July 2015, Royal Moon International Company Limited (''Royal Moon''), the underwriter of the open offer announced by the Company on 14 May 2015, issued a writ of summons at the High Court of Hong Kong (the ''Writ'') against the Company. Pursuant to the Writ, Royal Moon claims against the Company, amongst others, a sum of not less than HK$150 million being damages for breach of the underwriting agreement made between Royal Moon and the Company dated 13 May 2015. The Company has filed acknowledgement of service of writ of summons to contest the proceedings and has been seeking legal advice in relation to the Writ.

On 7 March 2016, by consent between the Company and Royal Moon, the High Court of Hong Kong ordered that, among others, the Company does file and serve its defense by 4:00 p.m. on 29 March 2016. The Company has filed and served its defense accordingly.

The Group has reviewed the aforesaid significant outstanding litigation in order to assess the need for provisions. Among the factors considered, such as the nature of the litigation, legal processes and potential level of damages, the Company intends to reserve a readily available fund of approximately HK$50.94 million for any possible cash outflow for the potential damages compensation.

In the event the Company does not need to pay the potential damages arising from the litigation of the Company, the Company would use the respective portion of net proceeds for the purchase of machineries, general working capital of the Group and/or possible investments from time to time.

Other considerations in respect of the Rights Issue

Apart from the Rights Issue, the Board has also considered other financing alternatives such as bank borrowing and issue of new shares, including placing and open offer. Bank borrowing or debt financing will incur interest expenses. Assuming the gross proceeds of approximately HK$283.21 million from the Rights Issue is financed by bank borrowing, based on the prime rate of 5% for Hong Kong dollars, the Company will incur interest expenses of approximately HK$14.16 million per annum. In considering the financial position of the Company, the Board believes bank borrowing would not be preferential to the Company as more interest expenses would be occurred. Equity financing by way of placing would only be available to certain placees who were not necessarily the existing Shareholders and would dilute the shareholding of the existing Shareholders. Although an open offer is similar to a rights issue, an open offer would not provide an additional option to those Qualifying Shareholders who do not wish to take up their allotments to sell their provisionally allotted nil-paid Rights Shares. Furthermore, those Qualifying Shareholders who wish to increase their shareholding interests in the Company cannot acquire additional nil-paid Rights Shares in the market in the case of an open offer. The Board considers that the Rights Issue is in the interest of the Company and the Shareholders as a whole as: (i) Qualifying Shareholders have the option to subscribe the Rights Shares at their sole discretion; (ii) Qualifying Shareholders who do not take up their allotments can sell the nil-paid Rights Shares in the market; (iii) the Rights Issue allows the Qualifying Shareholders who participate to increase their interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability); and (iv) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlarged capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. Therefore the Rights Issue is a preferred means of fund raising than debt financing or other equity financing to the Company.

In determining the current subscription rate and the Subscription Price for the Rights Issue, the Company has considered the following factors: (i) a discount to the closing price of the Share is necessary in order to encourage the Shareholders to participate in the Rights Issue; (ii) the funding need of not less than HK$283.21 million; (iii) the recent rights issue conducted by other Hong Kong listed issuers; (iv) the Subscription Price has to be set at a discount level to the closing price of Share to be acceptable to the Underwriter; (v) the Subscription Price cannot be set below the par value per Share; (vi) the dilution effect to the existing Shareholders in the event that they do not take up the provisional allotment in full; and (vii) the Rights Issue is subject to the Independent Shareholders' approval at the SGM. The Company has approached five potential underwriters during the course of considering the Rights Issue and negotiated the subscription rate, Subscription Price, and underwriting commission with them. The Board considers that the Underwriter has offered the Company the most competitive terms and the capacity of having the Rights Issue fully underwritten. The terms of the Rights Issue were arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the capital needs of the Group, the financial position of the Group and the market price of the Shares as stated below:

(i) the Company recorded loss attributable to owners of the Company of approximately RMB124.5 million for the year ended 31 December 2016 and net cash used in operating activities of approximately RMB10.95 million for the year ended 31 December 2016; and

(ii) with reference to the historical trading records of the Company for the 3 months prior to the date of the Underwriting Agreement, (1) average trading liquidity of the Shares ranged from the maximum of 6,280,000 Shares, representing approximately 1.33% of the issued Shares, to nil Share and an average of 509,154 Shares, representing approximately 0.11% of the issued Shares; and (2) closing price of the Shares ranged from HK$0.3100 to HK$0.2240 and an average of HK$0.2479. In view of the inactive trading activities, the Board considers that the discount to the Subscription Price would encourage the Qualifying Shareholders to take up their entitlement so as to maintain their shareholdings in the Company and participate in the future growth of the Group.

In the event that the Shareholders do not take up their respective entitlement under the Rights Issue, their respective shareholdings interests in the Company will be diluted by 83.33%. However, the Board considers that such scenario of maximum dilution is unlikely to occur since it assumes that: (i) the Independent Shareholders would have voted in favour of the Rights Issue at the SGM; but (ii) no Independent Shareholder would take up their allotment under the Rights Issue, which is a complete misalignment between the voting behaviour of the Independent Shareholders and their economic interests represented in the form of subscribing for the Rights Issue. The Company has also given consideration to the dilution effect of the Rights Issue when determining the terms of the Rights Issue, but given that the Company, under the current circumstances, has limited/few alternatives to raise capital to satisfy the funding needs of the Group and to raise incentives of the Qualifying Shareholders' participation in the Rights Issue, the Directors therefore consider the current terms of the Rights Issue are fair and reasonable and in the interest of the Shareholders notwithstanding the potential dilution impact.

FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS

The following table summarises the fund raising activities by the Company including the past 12 months immediately prior to the Announcement:

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds	Actual use of proceeds
8 March 2016	Placing of new shares under specific mandate on a best effort basis	HK$197 million as the maximum net proceeds at the date of proposal and HK$106.38 million (as actually raised at the date of completion)	(a) 31%, approximately HK$62 million, to enhance the Group's production capacity; (b) 13%, approximately HK$25 million, to repay the loan and accrued interest of the Group; (c) 36%, approximately HK$71 million, to settle potential damages arising from the lawsuit and litigation; and (d) 20%, approximately HK$39 million, as the general working capital of the Company.	(a) approximately HK$63.74 million, to enhance the Group's production capacity; (b) approximately HK$28.33 million, to repay the loan and accrued interest of the Group; and (c) approximately HK$14.31 million, as the general working capital of the Company.

On 8 March 2016, the Company entered into a placing agreement with a placing agent for a placing of new shares under specific mandate on a best effort basis (the "March 2016 Placing"). Assuming the maximum of 2,000,000,000 placing shares were successfully placed, the net proceeds would have been approximately HK$197 million. On 23 May 2016, the March 2016 Placing was completed, an aggregate of 1,080,000,000 placing shares have been placed, and the net proceeds after deducting the placing fee and other related expenses payable by the Company amounted to approximately HK$106.38 million. Further details in relation to the actual use of net proceeds as at the date of the Circular are as follows:

(a) Enhancement of the Group's production capacity

The Group has used approximately HK$63.74 million to enhance the Group's production capacity, technologies and facilities by acquiring new machinery and equipment, including but not limited to electric generators, air compressors, excavators, cranes, loaders, pumps and drilling rigs. The Company believes that with the aforesaid acquisition, the Group has been provided with greater flexibility in its marble business and improved efficiency in its marble processing operations.

(b) Repayment of the loan and accrued interest of the Group

The Group has used approximately HK$28.33 million to repay loan principal amount of approximately HK$26.87 million and accrued interests of approximately HK$1.46 million. The loans were borrowed from four parties with annual fixed interest rate ranging from 12% to 15% and payable every 1, 3 or 6 months. The aforesaid loans had loan term ranging from 6 months to 3 years.

(c) General working capital of the Company

The Group has used approximately HK$14.31 million as the general working capital of the Company. Specifically, HK$5.09 million has been used for salaries, HK$4.83 million for rental, while the remaining amount of HK$4.39 was mainly used for professional expenses such as legal, audit, share registrar and printer fees as well as other administrative purposes, such as utilities expenses.

CHANGE OF BOARD LOT SIZE

The Board proposes that, subject to the completion of the Rights Issue, the board lot size of the Shares for trading on the Stock Exchange be changed from 10,000 Shares to 20,000 Shares with effect from Wednesday, 5 July 2017.

Based on the closing price of the Shares on the Last Trading Day of HK$0.217, the theoretical ex-rights price of each Share is HK$0.1362. On the basis of such theoretical ex-rights price and the new board lot size of 20,000 Shares, the new board lot value would be HK$2,724.

ADJUSTMENTS IN RELATION TO THE OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, there are no warrants, options, or their securities exchangeable or convertible in Shares other than the outstanding Share Options. As a result of the Rights Issue, it is expected that the exercise price, and/or the number of Shares, of the outstanding Share Options will be adjusted in accordance with the terms and conditions of the Share Option Scheme. The Company will engage the Company's auditors to review and determine the relevant adjustments and make further announcements on the appropriate adjustments and the date(s) they are expected to take effect in due course.

LISTING RULES IMPLICATIONS

In accordance with Rule 7.19(6) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval of the Independent Shareholders at the SGM by way of poll. Pursuant to Rule 7.19(6)(a) of the Listing Rules, the Rights Issue must be made conditional on approval by the Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. As at the Latest Practicable Date, the Company has no controlling Shareholder. The Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Rights Issue in accordance with Rule 7.19(6)(a) of the Listing Rules.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Rescission and Termination of the Underwriting Agreement"). Accordingly, the Rights Issue may or may not proceed.

Any Shareholder or other person contemplating transferring, selling or purchasing the Shares and/or Rights Shares in their nil-paid form is advised to exercise caution when dealing in the Shares and/or the nil-paid Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s). Any Shareholder or other person dealing in the Shares or in the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue are fulfilled (and the date on which the Underwriter's right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

GENERAL

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder. A notice convening the SGM to be held at 11:30 a.m. on Thursday, 25 May 2017 at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong together with the form of proxy are enclosed with this circular.

Whether or not you are able to attend the SGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time scheduled for holding the SGM (i.e. 11:30 a.m. on 23 May 2017) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

Subject to the approval of the Rights Issue by the Independent Shareholders at the SGM, the Prospectus containing further information regarding, among other things, the Rights Issue, including information on acceptances of the Rights Shares and other information in respect of the Group, and the PAL(s) are expected to be despatched to the Qualifying Shareholders on Friday, 9 June 2017. The Prospectus will be despatched to the Non-Qualifying Shareholders for information only.

RECOMMENDATION

The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Rights Issue. Donvex Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

You are advised to read carefully the letter of recommendation from the Independent Board Committee and the letter of advice from the Independent Financial Adviser set out on page 41 and pages 42 to 68 respectively of this circular. The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers that the terms of the Rights Issue (including the Underwriting Agreement) are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue (including the Underwriting Agreement) is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the proposed resolution approving the Rights Issue (including the Underwriting Agreement) at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
China Kingstone Mining Holdings Limited
Cheung Wai Kee
Company Secretary

* *Identification purpose only*

KINGSTONE
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CHINA KINGSTONE MINING HOLDINGS LIMITED
中國金石礦業控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 1380)

26 April 2017

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE AND CHANGE OF BOARD LOT SIZE

We refer to the circular dated 26 April 2017 (the ''Circular'') of the Company of which this letter forms part. Unless the context requires otherwise, capitalised terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of Rights Issue (including the Underwriting Agreement) are fair and reasonable insofar as the Independent Shareholders are concerned and whether the Rights Issue (including the Underwriting Agreement) is in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote. Donvex Capital Limited has been appointed as the independent financial adviser to advise the Independent Shareholders and us in this respect.

Having taken into account the advice and recommendation of the Independent Financial Adviser as set out in its letter of advice to the Independent Shareholders and us on pages 42 to 68 of the Circular, we consider that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, the Rights Issue (including the Underwriting Agreement) is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Mr. Ma Ho Yin, Ms Wang Yihua, Mr. Sheng Guoliang
Independent non-executive Directors

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex Capital Limited
富域資本有限公司

Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

26 April 2017

The Independent Board Committee and the Independent Shareholders of
China Kingstone Mining Holdings Limited

Dear Sirs,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 26 April 2017 to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalized terms used herein have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 3 March 2017, the Company announced that it proposed to raise gross proceeds of not less than approximately HK$283.21 million before expenses (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than approximately HK$291.80 million before expenses (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date), by way of allotment and issue of not less than 2,360,068,975 Rights Shares and not more than 2,431,653,560 Rights Shares on the basis of five (5) Rights Share for every one (1) Share held on the Record Date at the Subscription Price of HK$0.12 per Rights Share.

In accordance with Rule 7.19(6)(a) of the Listing Rules, as the Rights Issue will increase the issued share capital of the Company by more than 50%, the Rights Issue is subject to the approval by the Independent Shareholders at the SGM by way of poll.

As at the Latest Practicable Date, the Company has no controlling Shareholder. Therefore, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the Rights Issue. Accordingly, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution(s) approving the Rights Issue and the transactions contemplated thereunder at the SGM.

The Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Ma Ho Yin, Ms. Wang Yihua and Mr. Sheng Guoliang, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and as to voting in respect thereof at the SGM. We have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are independent from, and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give an independent advice in respect of the Rights Issue.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Directors and management of the Company and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of the Circular, Shareholders would be notified as soon as possible.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any form of independent in-depth investigation or audit into the businesses or affairs or future prospects of the Group.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Rights Issue and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

1. Background information of the Company

Principal business

The Group is principally engaged in the production and sale of marble and marble related products in China.

Historical financial information

Set out below is a summary of (i) the audited consolidated financial results of the Group for the three years ended 31 December 2014, 2015 and 2016 as extracted from the annual reports of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**") and for the year ended 31 December 2016 (the "**2016 Annual Report**"):

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	18,178	3,680	12,290
– Marble blocks	7,891	594	–
– Marble slabs	6,975	2,201	7,512
– Marble slags	3,312	885	4,778
Gross profit	9,053	1,074	2,945
Loss for the year attributable to owners of the Company	(28,608)	(196,265)	(124,548)

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Total assets	344,337	331,559	311,422
– Cash and bank balances	15,858	10,437	7,198
Total liabilities	44,003	125,708	142,046
Net assets	300,334	205,851	169,376

For the financial year ended 31 December 2015

According to the 2015 Annual Report, the Group recorded revenue of RMB3.7 million for the year ended 31 December 2015, representing a decrease of 79.7% as compared to approximately RMB18.2 million in the previous year. We understand that the decrease in revenue was primarily due to weak demand of construction materials and the marble stone deposit in the current layer of the Zhangjiaba mine is cracked. The quality of marble output did not fulfill the requirement of the Group's existing customers. As such, the production volume of marble products decreased.

The Group recorded a loss of RMB196.3 million for the year ended 31 December 2015 as compared to a loss of RMB28.6 million in the previous year, as a result of a combined effect of (i) a decrease in sales of marble products; (ii) an impairment loss of approximately RMB44.7 million arising from the marble mining operation of the Group; (iii) an impairment loss of approximately RMB19.3 million arising from the secured loan note of nominal amount of US$10 million issued by Magnificent Century Limited which was in default on the maturity date (i.e. 7 August 2015); (iv) an increase of approximately RMB18.4 million in administrative expenses; and (v) a provision for litigation of approximately RMB77.0 million in relation to the disputes with the underwriter to the open offer of the Company.

As at 31 December 2015, the Group's (i) total assets amounted to approximately RMB331.6 million, representing a decrease of 3.7% as compared to previous year; (ii) net assets amounted to approximately RMB205.9 million, representing a decrease of 31.5% as compared to previous year; and (iii) cash and bank balances amounted to approximately RMB10.4 million.

For the year ended 31 December 2016

According to the 2016 Annual Report, the Group recorded revenue of RMB12.3 million for the year ended 31 December 2016, representing an increase of 232.4% as compared to approximately RMB3.7 million in the year of 2015. The increase was mainly due to an increase in sales of marble slag and trading of marble slabs. During the year of 2016, the Group continues to carry out the stripping of the overburden materials at the surface of the Zhangjiaba mine. However, the quality of marble stones on the relatively upper benches of the mine is still hard to compete with the imported marble stones, it is expected that a further development of the mine to lower benches for higher quality of marble stones will be required for large block production. The Group recorded a loss of RMB124.5 million for the year ended 31 December 2016 as compared to approximately RMB198.9 million for the year ended 31 December 2015, such loss was primarily due to the impairment loss arising from the aforementioned secured loan note in default and the trade receivables of the Group.

As at 31 December 2016, the Group's (i) total assets amounted to approximately RMB311.4 million, representing a decrease of 6.1% as compared to that as at 31 December 2015; (ii) net assets amounted to approximately RMB169.4 million, representing a decrease of 17.7% as compared to that as at 31 December 2015; and (iii) cash and bank balances amounted to approximately RMB7.2 million.

2. Reasons for the Rights Issue and use of proceeds

The Group is a mining operator, focusing on beige marble blocks and processing of marble slabs, and owned the largest beige marble mine, namely Zhangjiaba Mine, which is located in Zhenjiang Village, Xiangshui County, Jiangyou City of Sichuan Province, China, in terms of marble reserves, according to the certification issued by China Stone Material Association (中國石材協會) in August 2010.

As referred to in the Letter from the Board, the Company intends to apply net proceeds from the Rights Issue as to,

(i) approximately HK$191.76 million (RMB170.00 million) for the contribution of funding in the joint venture company for the calcium carbonate business, in which approximately HK$149.15 million (RMB132.22 million) for the set-up of manufacturing building (including the property, plant and equipment) and approximately HK$42.61 million (RMB37.78 million) for the general working capital of the business;

(ii) approximately HK$33.84 million (RMB30.00 million) for general working capital of the Group, including but not limited to the operating cash used for the daily production of marble and marble related products, the settlement of outstanding accounts payable to vendors and the general operating expenses of the Group; and

(iii) the remaining net proceed of approximately HK$50.94 million (RMB45.16 million) for the settlement of the potential damages arising from the litigation in relation to the breach of a written underwriting agreement and between the underwriter of the open offer announced by the Company on 14 May 2015. In the event the Company does not need to pay the potential damages arising from the litigation of the Company, the Company would use the respective portion of net proceeds for the purchase of machineries, general working capital of the Group and/or possible investments from time to time.

Existing mining business of the Group

As stated in the Letter from the Board, the Group was yet facing keen competition with the overseas marble stone supplier. The overseas marble stone suppliers are willing to sell a high quality of marble stone at an affordable price in order to grab the market share in the large growing market in the PRC. Currently, the quality of marble stones on the relatively upper benches of the Zhangjiaba mine is hard to compete with the import marble stones. The revenue of the Group during the past two years mainly relied on the sales of marble slags through the stripping of overburden and cracked limestone and sourcing the marble slabs from other suppliers for the Group's customers.

In light of the above, the management of the Company is now striving to reposition of the marble stone business of the Group in the market and enhancing the production capacity to allow the expansion of business. In the meantime, the Group will look for the market opportunities to supplement its marble stone related business or other diversified projects, so as to manage the prevailing unpredictable market environment. In pursuance of the Group's strategic plan to increase its competitiveness and to seek market opportunities to supplement its marble stone related business, we noted that the Group intends to engage in the business of calcium carbonate production.

Expansion of income stream and development of calcium carbonate business

According to the Letter from the Board, we noted that Calcium carbonate is a kind of non-metallic mineral material which can be classified as ground calcium carbonate or light calcium carbonate (together known as "**Calcium Carbonate**"). Calcium Carbonate is generally used in the industries of plastic, papers, printing, coating, chemicals, building materials, among others. The demand for Calcium Carbonate in the PRC is increasing due to its extensive applications, such as in the construction industry and for health and dietary usage. Calcium Carbonate is also one of the most important materials for the inorganic salt industry. In review of PRC's 12th Five-Year Plan (2011-2015) announced by the Ministry of Land and Resources of the PRC, the non-metallic mineral industry in the PRC maintained stable growth. Contributed by the effort put forth by the government of the PRC for regulation in relation to non-metallic mine exploitation, the quality and pricing of non-metallic mineral have seen an upward trend.

Sichuan Province is one of the major sourcing origins of Calcium Carbonate in the PRC. The Group owns the Zhangjiaba mine in the Sichuan Province, with a majority of ore not yet fully exploited. According to the Competent Person's Report, the Zhangjiaba mine located in Sichuan Province of the PRC contains 44.2 million cubic meter of measured and indicated marble resources, which represents 16.8

million cubic meter of proved and probable marble reserves based on a block rate of 38%. Marble is geologically defined as metamorphosed limestone or dolomite that is thoroughly recrystallized. Commercially in the stone industry, marble also includes limestone or dolomite that is rock of sedimentary origin primarily composed of calcium carbonate. Marble slags produced by the cracked marble stones and through the stripping of overburden of the mine is the raw materials of the ground and composite calcium carbonate. Based on the Group's current production plans, the unutilised ore of the Zhangjiaba mine could provide supplies of Calcium Carbonate for at least 100 years.

We have discussed with the management of the Company and were given to understand that the Group intended to invest in and develop the marble mining and processing business in order to increase its competitiveness under the current market condition. The Directors believe that improvement in the Group's marble operations, including but not limited to enhancing its production capacities, techniques and efficiency, will be crucial for its business development. It is also essential for the Group to meet customers' specific requirements for marble and marble products in order to cater for different needs and maintain its competitive advantages.

As at the Latest Practicable Date, the Group is in contemplation with a company, Jiangyoushi Huachuan Kuangye Youxiangongsi* (江油市華川礦業有限公司) which has extensive experience in the industry in Jiangyou City, PRC, to establish a joint venture company for the production of Calcium Carbonate. The joint venture company is proposed to be set up as a production center for producing different types of Calcium Carbonate from the ore sourced from the Zhangjiaba mine (the "**Proposed Production Plan**"). The Directors believes the joint venture company would be able to supplement its marble and marble related businesses by utilising the same resources while producing a product which is of higher market demand and greater margin.

According to the research report "Calcium Carbonate Market: Global Industry Analysis" published by Transparency Market Research, a U.S.-based market intelligence firm providing global business information reports and services, states that the global market opportunity in calcium carbonate is expected to rise from US$19 billion in 2015 to US$25 billion by 2019. By region, Asia Pacific is expected to lead and account for 50.8% of the global calcium carbonate market by 2019, such increase was driven by robust demand from paper and plastics end-use sectors. By application, the paper segment is expected to account for 41.0% of the global calcium carbonate market by 2019, the plastic industry is also growing and with it, the demand for calcium carbonate, which provides minute size and high brightness to plastics. The demand for calcium carbonate is high from the construction industry, which is one of the major raw materials used in cement, paints and coatings.

In addition, since there is no potential substitute for calcium carbonate, the threat from substitutes will remain low in the coming years. Procuring raw materials is a crucial factor for new entrants wishing to compete in the market. Based on the market research conducted by us and given that the Company owns the Zhangjiaba mine with massive reserve for the supplies of Calcium Carbonate, we concur with the Directors' view that the business prospects of calcium carbonate production is promising in the coming years and the Company is in an advantageous position to capture the growing demand.

As advised by the management of the Company, the Proposed Production Plan includes three zones including ore crushing zone, ground calcium carbonate production zone and light calcium carbonate production zone. The major production processes in the ground calcium carbonate production zone includes crushing, grind and packing, while the major production processes in the light calcium carbonate production zone includes burning, refining, carbonising, filtering, drying, packing and gas purification. The joint venture company intends to utilise highly-efficient, semi-automatic machinery and equipment in order to achieve low-cost production. The production plant is expected to be located in Xiangshui Shicaichanyuan*（香水石材產園）, which is 5 kilometers away from the Zhangjiaba mine and 20 kilometers away from Jiangyou City, Sichuan Province, the PRC. The Company proposes to set up a manufacturing site at the aforesaid location and to purchase relevant machinery and equipment for the factory.

We have reviewed the feasibility report provided by the management of the Company, including detailed breakdown of expected cash deployments to the Proposed Production Plan and its proposed timeline, and consider that with the aforesaid technology improvement by acquiring new machinery and equipment, the Group can expand its income stream and the Rights Issue will provide necessary working capital for the Proposed Production Plan.

Cash flow position of the Group

Notwithstanding the Group recorded a cash and bank balances of approximately RMB87.3 million as at 30 June 2016 as disclosed in the interim report of the Company, arising from the completion of placing of new shares with a net proceeds of HK$106.4 million, details of which are set out in the section headed "Fund raising activities involving issue of securities in the past 12 months" in the Letter from the Board, we noted that the net proceeds of such has been fully utilised for (i) the enhancement of production capacity; (ii) the repayment of loan and accrued interest; and (iii) general working capital. Based on the latest financial information available to the Company, the Group remained cash and bank balances of approximately RMB6.7 million (equivalent to approximately HK$7.6 million) as at 28 February 2017. Furthermore, the Group recorded losses and negative cash flows from operating activities in recent years, we consider that it will be a merit for the Group to have available working capital for its development of calcium carbonate business with higher growth potential.

Taking into account the above factors and reasons, we consider that the Rights Issue represents an opportunity for the Group to improve its working capital and strengthen its capital base and financial position. Upon completion of the Rights Issue, the Group will be in a better liquidity position to capture the potential business opportunity described above as well as to support its existing business operation, and therefore increase the overall value of the Shares. We are of the view that it is in the interests of the Company and the Shareholders as a whole to raise the capital through the Rights Issue since it would allow the Qualifying Shareholders to maintain their respective pro rata shareholding interests in the Company and participate in the future growth and development of the Group.

3. Other financing alternatives considered by the Group

As stated in the Letter from the Board, apart from the Rights Issue, the Board has also considered other financing alternatives such as bank borrowing and issue of new shares, including placing and open offer. Bank borrowing or debt financing will incur interest expenses. Assuming the gross proceeds of approximately HK$283.21 million from the Rights Issue is financed by bank borrowing, the Company will incur interest expenses of approximately HK$14.16 million per annum based on the prime rate of 5%. In considering the financial position of the Company, the Board believes bank borrowing would not be preferential to the Company as more interest expenses would be occurred.

Equity financing by way of placing has been conducted by the Company in the past twelve months prior to the proposed Rights Issue and the Directors consider that it is not a desirable means to place new Shares again at the moment, after taking into account share placement would only be available to certain placees who were not necessarily the existing Shareholders and would dilute the shareholding of the existing Shareholders.

Although an open offer is similar to a rights issue, an open offer would not provide an additional option to those Qualifying Shareholders who do not wish to take up their allotments to sell their provisionally allotted nil-paid Rights Shares. Furthermore those Qualifying Shareholders who wish to increase their shareholding interests in the Company cannot acquire additional nil-paid Rights Shares in the market in the case of an open offer. The Board considers that the Rights Issue is in the interest of the Company and the Shareholders as a whole as: (i) Qualifying Shareholders have the option to subscribe the Rights Shares at their sole discretion; (ii) Qualifying Shareholders who do not take up their allotments can sell the nil-paid Rights Shares in the market; (iii) the Rights Issue allows the Qualifying Shareholders who participate to increase their interests in the shareholding of the Company by acquiring additional rights entitlement in the open market (subject to the availability); and (iv) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlarged capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so.

Having considered (i) placing of new Shares does not offer equal opportunity to all Shareholders to participate in the subscription of new Shares in order to allow them to maintain their proportionate interests in the Company; (ii) the continuous loss making position of the Group; and (iii) the Rights Issue will provide the Group with readily available fund for its mining business and operation without further incurring finance costs and increase its gearing ratio, we concur with the Directors' view that the Rights Issue is a preferred means of fund raising than debt financing or other equity financing to the Company.

4. Principal terms of the Rights Issue

The table below summarises the issue statistics of the Rights Issue:

Basis of the Rights Issue	:	five (5) Rights Share for every one (1) Share held on the Record Date
Subscription Price	:	HK$0.12 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	472,013,795 Shares

Number of Rights Shares	:	not less than 2,360,068,975 Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date)
Number of issued Shares upon completion of the Rights Issue	:	not less than 2,832,082,770 Shares and not more than 2,917,984,272 Shares
Amount to be raised before expenses	:	not less than HK$283.21 million and not more than HK$291.80 million

As at the Latest Practicable Date, the Company has 14,316,917 outstanding Share Options, which entitle the Share Options holders to convert into 14,316,917 Option Shares. Save for the aforesaid Share Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Assuming no Shares are issued or repurchased on or before the Record Date, the aggregate number of Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 500.00% of the total number of Shares in issue as at the Latest Practicable Date and will represent approximately 83.33% of the Shares in issue as enlarged by the Rights Issue.

Assuming all the outstanding Share Options being exercised in full and Option Shares have been issued pursuant thereto on or before the Record Date, and no Shares are issued or repurchased on or before the Record Date, the aggregate number of Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 515.17% of the total number of Shares in issue as at the Latest Practicable Date and will represent approximately 83.33% of the Shares in issue as enlarged by the Rights Issue.

Subscription Price

The Subscription Price for the Rights Shares is HK$0.12 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and/or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(a) a discount of approximately 44.70% to the closing price of HK$0.2170 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 11.89% to the theoretical ex-rights price of approximately HK$0.1362 per Share based on the closing price of HK$0.2170 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 46.57% to the average closing price of approximately HK$0.2246 per Share for the last five consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 24.05% to the closing price of HK$0.158 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

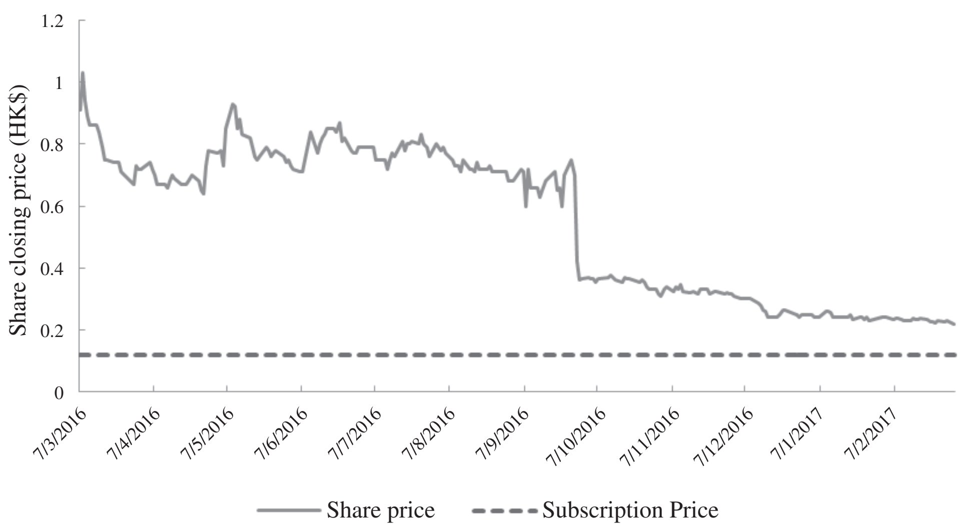
(e) a discount of approximately 70.36% to the audited consolidated net asset value per Share of approximately HK$0.4048 (based on the latest published audited net asset value of the Group of approximately RMB169,376,000 (equivalent to HK$191,056,000) as at 31 December 2016 and 472,013,795 Shares in issue as at the Latest Practicable Date).

As confirmed by the Directors, the Subscription Price was determined after arm's length negotiations between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions.

Historical share price performance

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily closing price of the Shares for a twelve-month period from 3 March 2016 up to the Last Trading Day and prior to the date of the Underwriting Agreement (the "**Review Period**"), for the purpose of illustrating the trend of the share price performance of the Shares. We consider that a period of twelve months prior to the Underwriting Agreement is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price.

Daily closing price of the Shares during the Review Period



Source: the website of the Stock Exchange (www.hkex.com.hk)

During the Review Period, the Company had completed share consolidation with every ten shares consolidated into one consolidated share and the adjustment to the Share price has been made taking into account of the share consolidation. As illustrated in the above chart, there was a general downward trend of closing price of the Shares since March 2016. We noted that the highest and the lowest closing price of the Shares in the Review Period were HK$1.03 on 8 March 2016 and HK$0.217 on 7 March 2017 respectively, with an average closing price of the Shares of approximately HK$0.55. The Subscription Price of HK$0.12 is lower than all the closing price of the Shares in the Review Period, which represents a discount of approximately 88.35% and 44.70% to the highest and lowest closing prices of the Shares respectively, and a discount of approximately 78.18% to the average closing price of the Shares.

We noted that it is a common market practice that the subscription price of a rights issue normally represents a discount to the past and prevailing market prices of the relevant shares, in order to enhance the attractiveness of a rights issue exercise and to encourage the qualifying shareholders to participate in a rights issue and maintain their respective pro rata shareholding interests for the future growth of a company. Hence, given the recent share price performance of the Company as shown above, we consider that the setting of the Subscription Price at a discount to the prevailing market price of the Shares is in line with general market practice.

Comparison with other rights issues

To further assess the fairness and reasonableness of the Rights Issue, we have selected and identified a list of 16 rights issues conducted by companies (the "**Comparables**") listed on the Stock Exchange for the three-month period from 3 December 2016 up to and including the date of the Underwriting Agreement (the "**Comparable Period**"), which is considered to be exhaustive, relevant and comprehensive for comparison purpose. We are of the view that the Comparable Period would provide us with the recent relevant information on the market sentiment, which plays an important role in the determination of the subscription price of a rights issue in general. Furthermore, we consider that the selection of the three-month period is appropriate for our analysis as a result of such period represents the recent structure of rights issue transactions in the Hong Kong stock market under the prevailing market condition, while reasonable number of such fund raising exercises could be included for reference purposes.

We noted that the business activities of the Comparables are not directly comparable to those carried out by the Group and the terms of the rights issue of the Comparables may vary from companies with different business nature, financial performance, future prospects and funding requirements. Nevertheless, based on (i) the Comparables are the most recent rights issue transactions announced to the public as accepted by other equity underwriters in Hong Kong in the recent three months prior to the date of the Underwriting Agreement; (ii) the terms of the Comparables were determined under similar market condition and sentiment and they might be able to reflect the recent trend of rights issue transactions in the Hong Kong stock market; and (iii) the size of Comparables is adequate with more than ten samples for the purpose of comparison during the Comparable Period, we consider that the Comparables are fair and representative samples for the purpose of providing a general reference to illustrate the recent market practice in relation to (a) subscription price of other proposed rights issue as compared to the prevailing market price of the relevant shares; (b) maximum dilution effect; and (c) underwriting commission under the recent market conditions and sentiments. Details regarding the Comparables are set out below:

Date of announcement	Company	Stock code	Basis of entitlement	Discount of average subscription price to closing price on last trading day or the date of agreement (approximate %) *(Note 1)*	Discount of average subscription price to the theoretical ex-entitlement price on last trading day or the date of agreement (approximate %) *(Note 1)*	Underwriting commission (%)	Potential maximum dilution of shareholding (%) *(Note 2)*
9/12/2016	New Ray Medicine International Holding Limited	6108	3 for 1	31.25	10.13	3.50	75.00
15/12/2016	Huisheng International Holdings Limited	1340	1 for 2	5.66	3.85	2.50	33.33
20/12/2016	Huarong International Financial Holdings Limited	993	1.5 for 20	17.00	16.00	1.50	6.98
21/12/2016	PPS International (Holdings) Limited	8201	1 for 2	40.00	30.77	2.00	33.33
21/12/2016	Jian ePayment Systems Limited	8165	1 for 8	7.53	6.72	3.00	11.11
21/12/2016	GET Holdings Limited	8100	1 for 2	7.10	4.90	3.50	33.33
22/12/2016	Tack Fiori International Group Limited	928	1 for 1	35.05	21.25	2.75	50.00
4/1/2017	Celebrate International Holdings Limited	8212	3 for 1	15.20	4.50	3.00	75.00
12/1/2017	Automated Systems Holdings Limited	771	1 for 2	42.11	32.65	HK$2,550,000 *(Note 3)*	33.33
16/1/2017	International Standard Resources Holdings Limited	91	1 for 2	43.75	34.16	2.50	33.33
16/1/2017	Landing International Development Limited	582	5 for 1	41.86	10.71	2.50 or 2.00 *(Note 4)*	83.33
24/1/2017	Vision Values Holdings Limited	862	1 for 2	39.00	29.90	2.50	33.33
25/1/2017	AKM Industrial Company Limited	1639	1 for 4	16.67	14.06	1.50	20.00

Date of announcement	Company	Stock code	Basis of entitlement	Discount of average subscription price to closing price on last trading day or the date of agreement (approximate %) *(Note 1)*	Discount of average subscription price to the theoretical ex-entitlement price on last trading day or the date of agreement (approximate %) *(Note 1)*	Underwriting commission (%)	Potential maximum dilution of shareholding (%) *(Note 2)*
26/1/2017	Global Tech (Holdings) Limited	143	1 for 2	30.90	23.10	HK$9,900,000 *(Note 5)*	33.33
20/2/2017	Golden Power Group Holdings Limited	8038	1 for 2	59.18	49.15	2.50	33.33
28/2/2017	Food Idea Holdings Limited	8179	1 for 1	17.65	9.68	0.25 or nil *(Note 6)*	50.00
			Maximum	59.18	49.15	3.50	83.33
			Minimum	5.66	3.85	nil	6.98
			Average	28.12	18.85		39.88
	The Company		**5 for 1**	**44.70**	**11.89**	**2.00**	**83.33**

Source: The Stock Exchange

Notes:

1. Based on the figures disclosed in the initial announcement of the Comparables respectively.

2. Maximum dilution effect of each rights issue/open offer is calculated as: (number of new shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%).

3. The commission amount was fixed at HK$2,550,000, which represents approximately 11.14% of the aggregate subscription price of the maximum number of the underwritten shares.

4. There are two underwriters for the rights issue conducted by this comparable. The underwriting commissions to the two underwriters are 2.5% and 2.0% of the total subscription price of the maximum number of the underwritten shares taken up respectively.

5. The commission amount was fixed at HK$9,900,000, which represents approximately 4.82% of the aggregate subscription price of the maximum number of the underwritten shares.

6. There are two underwriters for the rights issue conducted by this comparable. The underwriting commissions to the two underwriters are 0.25% of the total subscription price of the maximum number of the underwritten shares taken up and nil respectively.

Based on the above table, we noted that (i) the subscription prices to the closing price per share on the last trading day prior to the rights issue announcement of the Comparables ranged from a discount of approximately 5.66% to 59.18% (the "**LTD Market Range**"), with the mean at discount of approximately 28.12% (the "**LTD Market Mean**"). The discount of approximately 44.70% to the closing price per Share on the Last Trading Day as represented by the Subscription Price (the "**LTD Discount**") hence falls within the LTD Market Range and is deeper than the LTD Market Mean; (ii) the subscription prices to the theoretical ex-rights price per share based on the last trading day prior to the rights issue announcement of the Comparables ranged from a discount of approximately 3.85% to 49.15% (the "**TERP Market Range**"), with the mean at discount of approximately 18.85% (the "**TERP Market Mean**"). The discount of the Subscription Price of the Rights Issue to the theoretical ex-rights price per Share is approximately 11.89% (the "**TERP Discount**"), which is within the TERP Market Range and lower than the TERP Market Mean.

Having taken into account (i) the LTD Discount falls within the LTD Market Range as well as the TERP Discount falls within the TERP Market Range; (ii) the Subscription Price is lower than all the closing price of the Shares in the Review Period; (iii) it is inevitable for the Comparables to set their subscription prices at a discount to the prevailing market prices of the relevant shares in order to enhance the attractiveness of rights issue/open offer exercises; (iv) deeper discounts of approximately 24.05% and 70.36% represented by the Subscription Price to the closing price of the Shares on the Latest Practicable Date and to the audited consolidated net asset value per Share respectively as shown in the paragraph headed "Subscription Price" above would be easier to attract more Qualifying Shareholders to participate in the Rights Issue and accordingly maintain their shareholding interests in the Company by subscribing for their pro rata provisional entitlement of the Rights Issue and hence avoid dilution and participate as fully as they wish in the future growth of the Group; (v) the continuous loss making position of the Group and the Group will be in a better liquidity position upon completion of the Rights Issue in order to capture the business opportunity, in particular the Proposed Production Plan with earning potential; and (vi) a deep discount and a high ratio of Rights Shares will allow each Qualifying Shareholder to have greater flexibility in determining the extent of his/her/its participation in the Rights Issue that is most suitable for his/her/its own financial condition and/or investment strategy, we are of the view that the Subscription Price which has been set at a discount to the recent closing prices of the Shares with an objective of encouraging existing Qualifying Shareholders to take up their entitlements, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Overall assessment on the proposed structure of the Rights Issue

In determining the current subscription ratio and the Subscription Price for the Rights Issue, we noted that the Company has considered the following factors: (i) a discount to the closing price of the Share is necessary in order to encourage the Shareholders to participate in the Rights Issue; (ii) the funding needs of the Group of not less than HK$283.21 million; (iii) the recent rights issue conducted by other Hong Kong listed issuers; (iv) the Subscription Price has to be set at a discount to the closing price of Share that is acceptable to the Underwriter; (v) the Subscription Price cannot be set below the par value per Share; (vi) the dilution effect to the existing Shareholders in the event that they do not take up the provisional allotment in full; and (vii) the Rights Issue is subject to the Independent Shareholders' approval at the SGM.

We have discussed with the management of the Company regarding the proposed structure of the Rights Issue and understand that the Company has approached five potential underwriters during the course of negotiating the terms of Rights Issue, including but not limited to the subscription ratio, Subscription Price and underwriting commission, and the Underwriter has offered the most competitive terms and the capacity of having the Rights Issue fully underwritten.

As it is the intention of the Company to vigorously develop its business with a view to improve its financial result and maintain sufficient working capital, given the fact that the existing cash flow position of the Group is very tight to support its marble mining business development as described in the paragraph headed "Cash flow position of the Group" above, fund raising is inevitably required in order to sustain the development of the Group. Assuming the amount of fund raising maintains at the range of net proceeds from a minimum of approximately HK$283.21 million to a maximum of approximately HK$291.80 million by the Rights Issue, in the event that the subscription ratio were set at lesser proportion (such as three Rights Shares for one Shares held on the record date), the subscription price of such rights issue would have to be much higher than the Subscription Price or set the subscription price with less discount rate to the prevailing market price of the Share and thus the attractiveness of the Rights Issue would be greatly reduced.

Furthermore, in view of the recent trend of the rights issue transactions under the prevailing market condition, we have compared the Subscription Price and current subscription ratio for the Rights Issue to the Comparables as shown in the paragraph headed "Comparison with other rights issues" above, in order to assess the fairness of the current structure of the Rights Issue. We noted that (i) the LTD Discount is higher than the LTD Market Mean; (ii) a deeper discount represented by the Subscription Price to the prevailing market price of the Shares than the LTD Market Mean is necessary to attract more Qualifying Shareholders to participate in the Rights Issue as a result of a previous open offer has been conducted by the Company in 2015; and (iii) the TERP Discount is slightly lower than the TERP Market Mean. In the event that a higher subscription price or a lower subscription ratio was set by the Company, the discount represented by the Subscription Price would be significantly lower than the LTD Market Mean, we therefore consider that setting a higher Subscription Price and lowering the current subscription ratio are both not practical in view of the prevailing market condition and/or current funding needs of the Group.

Conclusion

Based on the above assessment conducted by us and having taken into account (i) the estimated net proceeds from the Rights Issue will be utilized to finance the contribution in the joint venture company for the development of calcium carbonate business, details of which are disclosed in the Letter from the Board; (ii) the Rights Issue will provide the Company necessary capital for a better use of its Zhangjiaba mine by producing different types of Calcium Carbonate, which is of higher market demand with greater margin; (iii) the Rights Issue will not exert additional finance costs to the loss making results of the Group and increase its gearing ratio; and (iv) if the Subscription Price is not attractive or even competitive, it is likely that less Shareholders would be willing to participate in the Rights Issue and as such, there would be more dilution impact on the shareholdings of the Company, we are of the view that raising funds by means of Rights Issue under the current subscription ratio and the Subscription Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

5. Underwriting Agreement

Pursuant to the Underwriting Agreement (which was supplemented on 24 April 2017), the Underwriter has conditionally agreed to fully underwrite not less than 2,360,068,975 Rights Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Rights Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date). The terms of the Underwriting Agreement (including the underwriting commission) were determined after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Rights Issue, and the current and expected market condition.

The Company will pay the Underwriter an underwriting commission of 2.0% of the total Subscription Price on the maximum number of the Underwritten Shares. As illustrated in the analysis set out in paragraph headed "Comparison with other rights issues" above, we noted that the underwriting commission charged by the underwriters for the Comparables were ranged from nil to 3.5%. Accordingly we are of the opinion that the underwriting commission of 2.0% for the Rights Issue under the Underwriting Agreement is in line with market practice. We have also reviewed other major terms of the Underwriting Agreement including, but not limited to, payment terms, termination of the Underwriting Agreement and conditions of the Underwriting Agreement (details of which are set out in the Letter from the Board) and we are not aware of any term which is unusual. As such, we are of the view that the terms of the Underwriting Agreement and the commission charged by the Underwriters are fair and reasonable so far as the Independent Shareholders are concerned.

6. No application for excess Rights Shares

As stated in the Letter from the Board, no excess Rights Shares will be offered to the Qualifying Shareholders and any Rights Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement.

We have discussed with the Directors and they hold the view that the Rights Issue will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company and is negotiated on an arm's length basis with the Underwriter, if application for excess Rights Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures. As advised by the management of the Company, the Board estimates that an additional cost of approximately HK$150,000 will have to be incurred for the administration of the excess application procedure (including preparing and arranging the excess application, reviewing the relevant documents, liaising with professional parties and printing of application forms, etc.). Taken into account the Group recorded (i) net cash used in operation activities of approximately RMB45.3 million and RMB11.0 million; (ii) loss of approximately RMB198.9 million and RMB124.5 million from its operations for the year ended 31 December 2015 and 2016, respectively; and (iii) cash and bank balances of approximately RMB6.7 million as at 28 February 2017, we consider that the existing cash flow position of the Group is relatively tight to support its marble mining business and it is important for the Group to minimise all costs which may be incurred during the fund raising exercise.

The absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Rights Shares in excess of their assured entitlements. However, the aforesaid should be balanced against the fact that (i) the Subscription Price is set at a discount to the prevailing market price of the Shares which provides reasonable incentives to all the Qualifying Shareholders who are positive about the future development of the Company to take up their respective assured entitlement of the Rights Shares and participate in the Rights Issue; (ii) the Qualifying Shareholders have the first right to decide whether to accept the Rights Issue; and (iii) the absence of excess application would avoid additional effort and costs in midst of the Group's loss making operation to administer the excess application procedures. Therefore, concerning tight cash flow position of the Group based on the latest financial information available to the Company, we consider it is justifiable for the Company not to offer any excess application to the Qualifying Shareholders which is still in the interests of the Company and the Shareholders as a whole.

In light of the above, we are of the view that the Rights Issue in the absence of excess application arrangement is fair and reasonable to the Company and the Shareholders as a whole.

7. Potential dilution effect on the interests of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

As in all other cases of rights issues and open offers, dilution on the shareholdings of those Qualifying Shareholders who do not take up in full their assured entitlements under the Rights Issue is inevitable. Nonetheless, Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, the Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

As at the Latest Practicable Date, the existing public Shareholders held 88.35% of the total issued share capital of the Company. If all the Qualifying Shareholders do not take up the Rights Shares to which they are entitled and the Underwriters take up all the Rights Shares, the percentage of shareholding (assuming no further issue or repurchase of Shares on or before the Record Date) of the existing public Shareholders will be reduced to approximately 14.73%, representing a dilution effect on the shareholding interests of approximately 83.33% as a result of the Rights Issue.

We are aware of the potential dilution effects aforementioned. In fact, the dilution magnitude of any rights issue depends mainly on the extent of the basis of entitlement under such exercise since a higher offering ratio of new shares to existing shares has a greater dilution effect on the shareholding. However, unlike other equity fund raising alternative such as placing of new Shares where shareholding of Qualifying Shareholders are immediately diluted, the Rights Issue at least provides an opportunity for Qualifying Shareholders to maintain their respective shareholdings in the Company. Moreover, we consider that the foregoing should be balanced against by the following factors:

(i) Independent Shareholders are given the chances to express their views on the terms of the Rights Issue and the Underwriting Agreement through their votes at the SGM;

(ii) Qualifying Shareholders have their choices of whether to accept the Rights Issue or not;

(iii) Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market;

(iv) the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their pro rata Rights Shares for the purpose of maintaining their respective shareholding interests in the Company at a relatively low price as compared to the historical price of the Shares; and

(v) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue.

Under the current subscription ratio proposed by the Company, offering a deep discount to the Qualifying Shareholders can enhance attractiveness of the Rights Issue given the fact that the existing cash flow position of the Group is relatively tight. Nevertheless, the LTD Discount still falls within the LTD Market Range as well as the TERP Discount falls within the TERP Market Range. Moreover, a deep discount of approximately 70.36% represented by the Subscription Price to the audited consolidated net asset value per Share of approximately HK$0.4048 (based on the latest published audited net asset value of the Group of approximately RMB169,376,000 (equivalent to HK$191,056,000) as at 31 December 2016 and 472,013,795 Shares in issue as at the Latest Practicable Date) could be easier to attract more Qualifying Shareholders to participate in the Rights Issue and accordingly maintain their shareholding interests in the Company by subscribing for their pro rata provisional entitlement of the Rights Issue and hence avoid dilution and participate as fully as they wish in the future growth of the Group.

On the balance of the genuine funding needs of proceeds from the Rights Issue and the inherent dilutive nature of the Rights Issue, it is reasonable to justify the interests of the Company and the Shareholders as a whole given the fact after completion of the Rights Issue, the liquidity position of the Group will be improved which is beneficial to its development of calcium carbonate business, rather than just to consider the possible dilution effect to the Shareholders. As such, we consider that the current proposed structure of Rights Issue with a reasonable discount represented by the Subscription Price is still in the interest of the Company and the Shareholders as a whole.

In addition to the inevitable dilution impact on the proposed structure of the Rights Issue as discussed in the paragraph headed "Overall assessment on the proposed structure of the Rights Issue", it is reasonable to consider that the scenario of maximum dilution effect is unlikely to occur since it assumes that the Independent Shareholders have voted in favour of the Rights Issue at the SGM which is a complete misalignment between the voting behaviour of the Independent Shareholders and their willingness to participate in the Rights Issue. As a result of an appropriate discount rate of the Subscription Price to the prevailing market price of the Shares is necessary to encourage the Qualifying Shareholders to participate in the Rights Issue, we consider that the current structure of the Rights Issue is in the best interests of the Company and the Shareholders as a whole notwithstanding the potential dilution impact, which may only happen when the Qualifying Shareholders do not subscribe for their pro rata Rights Shares, is also acceptable.

8. Financial effects of the Rights Issue

Adjusted consolidated net tangible assets

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the audited consolidated net tangible assets of the Group attributable to the owners of the Company is approximately HK$267.69 million as at 31 December 2016. After taking into account the inflow of the estimated net proceeds from the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company would increase to HK$512.85 million (on the basis that a minimum of 2,360,068,975 Rights Shares are issued).

According to the unaudited pro forma financial information of the Group set out in Appendix II to the Circular, the audited consolidated net tangible assets of the Group attributable to the owners of the Company per Share before the Rights Issue is approximately HK$0.567. Immediately after completion of the Rights Issue, the total number of Shares would increase to 2,832,082,770 Shares (on the basis that 2,360,068,975 Rights Shares are issued), the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share will decrease to approximately HK$0.181, representing a dilution effect of approximately 68.08%.

Working capital

According to the 2016 Annual Report, the audited net current liabilities of the Group were approximately RMB97.57 million as at 31 December 2016. Immediately after completion of the Rights Issue, the net current assets of the Group will increase by not less than HK$276.54 million. In this regard, we are of the view that the Rights Issue will improve the liquidity position of the Group.

Based on the foregoing, although the unaudited net tangible assets of the Group attributable to the owners of the Company per Share will be diminished, the net assets of the Group will be increased at the same magnitude of the net proceeds from the Rights Issue immediately after the completion of the Rights Issue. Hence, we are of the view that the improvement of the net assets of the Group is in the interests of the Company and the Shareholders as a whole.

Independent Shareholders should note that if all the Qualifying Shareholders decide to subscribe for their full provisional allotment entitlements of the Rights Shares, the Underwriter will not be subject to the allotment and issue of the Rights Shares in accordance with the Underwriting Agreement. Furthermore, as discussed above, the Rights Issue will (i) replenish the capital base, net asset value of the Group and enhance the financial position of the Company; and (ii) allow the Qualifying Shareholders to maintain their respective pro rata shareholding in the Company and to participate in the future growth and development of the Group, we consider that the terms of the Rights Issue are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Taken into account the principal factors and reasons regarding the Rights Issue including:

(a) the Rights Issue could represent an opportunity for the Group to enhance its working capital and strengthen its capital base and financial position;

(b) the Rights Issue would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate shareholding interests in the Company and to participate in the future growth and development of the Company;

(c) the Rights Issue provides the Qualifying Shareholders who decide not to take up their entitlements under the Rights Issue with the opportunity to sell the nil-paid Rights Shares in the market for economic benefits;

(d) the discount of the Subscription Price to the prevailing market price is necessary to encourage the Qualifying Shareholders to participate in the Rights Issue;

(e) the major terms of the Underwriting Agreement is in line with the general market practice;

(f) the inherent dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue; and

(g) the Rights Issue will enhance the net asset value and improve the liquidity position of the Group, we consider that, despite the inherent dilution effect to the Qualifying Shareholders who do not participate in the Rights Issue, the terms of the Rights Issue and the Underwriting Agreement are on normal and commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue and the entering into of the Underwriting Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Vily Leung
Director

A. FINANCIAL INFORMATION

The audited consolidated financial statements of the Company for the years ended 31 December 2014 and 31 December 2015 and 31 December 2016 together with the notes are disclosed in pages 46 to 111 of 2014 annual report, pages 55 to 131 of 2015 annual report and pages 62 to 143 of the 2016 annual report respectively.

The said financial information of the Company are available on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www. kingstonemining.com).

Please refer to the hyperlinks as stated below.

2014 annual report:
http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0424/LTN201504241386.pdf

2015 annual report:
http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0420/LTN201604201105.pdf

2016 annual report:
http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0412/LTN201704121348.pdf

B. INDEBTENDESS

At the close of business on 28 February 2017, being latest practicable date prior to this circular for ascertaining certain information relating to the indebtedness statement, the indebtedness of the Group was as follows:

Obligation under finance lease

The Group had outstanding obligation under finance leases of approximately RMB958,000, which was secured by the charges over the leased assets with a carrying amount of approximately RMB1,320,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of the borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at 28 February 2017.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 28 February 2017, up to and including the Latest Practicable Date.

C. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internally generated funds, existing facilities available to the Group and the estimated net proceeds from the Rights Issue, the Group will have sufficient working capital to satisfy its requirements for the next twelve months from the Latest Practicable Date.

D. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

E. BUSINESS AND FINANCIAL REVIEW

There was no geological exploration activity during the year. The Group focuses on the development and mining at the Zhangjiaba mine. The Zhangjiaba mine mainly divided into the eastern mining zone and the western mining zone. During the year of 2016, the Group continues to carry out the stripping of the overburden materials at the surface for the both eastern and western zone. It is expected that the further development of the mine to lower benches will be required for large block production.

For the year ended 31 December 2016, the Company recorded revenue of RMB12.3 million (year ended 31 December 2015: RMB3.7 million) and a gross profit of RMB2.9 million (year ended 31 December 2015: RMB1.1 million), representing an increase of approximately 232.4% and 163.6%, respectively compared to those for the year ended 31 December 2015. Net loss attributable to owners of the Company decreased by 36.6% from RMB196.3 million for the year ended 31 December 2015 to RMB124.5 million for the year ended 31 December 2016.

F. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the production and sale of marble and marble related products in China. The Group is a mining operator, focusing on beige marble blocks and processing of marble slabs, and owned the largest beige marble mine, namely Zhangjiaba Mine, which is located in Zhenjiang Village, Xiangshui County, Jiangyou City of Sichuan Province, China, in terms of marble reserves, according to the certification issued by China Stone Material Association (中國石材協會) in August 2010.

During the year under review, though the demand for construction materials in the PRC was expected to rise with the moderately growing property market, the Group has faced keen competition with the overseas marble stone suppliers. The overseas marble stone suppliers are willing to sell a high quality of marble stone at an affordable price in the PRC in order to grab the market share in the large growing market in the PRC. Currently, the quality of marble stones on the delivery upper benches of the Zhangjiaba mine is hard to compete with the import marble stones. The Group has decided to invest in and develop the marble mining and processing business in order to increase its competitiveness. The Group believes that improvement in the Group's marble operations, including but not limited to enhancing its production capacities, techniques and efficiency, will be crucial for its business development.

With the fierce completion in the PRC construction material market, the marble stone business of the Group is facing a great challenge and uncertainty in the forthcoming years.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group attributable to owners of the Company has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had been completed on 31 December 2016.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company upon completion of the Rights Issue as at the date to which it is made up or at any future date.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016, is extracted from the annual report of the Company for the year ended 31 December 2016 and is adjusted for the effect of the Rights Issue described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016	**Estimated net proceeds from the Rights Issue**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after completion of the Rights Issue**	**Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 per Share**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after completion of the Rights Issue per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*RMB*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on 2,360,068,975 Rights Shares at Subscription Price of HK$0.12 per Rights Share	267,690	245,163	512,853	0.567	0.181
Based on 2,431,653,560 Rights Shares at Subscription Price of HK$0.12 per Rights Share	267,690	252,626	520,316	0.567	0.178

Notes:

(1) The amount is determined based on the unaudited consolidated net tangible assets attributable to owners of the Company of approximately RMB267,690,000 as at 31 December 2016, which is extracted from the audited consolidated statement of financial position of the Group as at 31 December 2016 included in the published annual report of the Company for the year ended 31 December 2016.

(2) The estimated net proceeds from the Rights Issue of not less than approximately HK$276,544,000 (RMB245,163,000) and not more than approximately HK$284,962,000 (RMB252,626,000) are calculated based on not less than 2,360,068,975 Rights Shares and not more than 2,431,653,560 Rights Shares to be issued at the Subscription Price of HK$0.12 per Rights Share and after deduction of the estimated related expenses, including among others, underwriting commission, financial advisory fee and other professional fees, which are directly attributable to the Rights Issue, of not less than approximately HK$6,664,000 and not more than approximately HK$6,836,000.

(3) The calculation of the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 per Share is determined based on the audited consolidated net tangible assets of the Group attributable to owners of the Company of RMB267,690,000 divided by the number of shares in issue of 472,013,795 as at 31 December 2016.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 immediately after the completion of the Rights Issue per Share has been arrived at on the basis that not less than 2,832,082,770 Shares and not more than 2,917,984,272 Share, which represent 472,013,795 Shares in issue as at 31 December 2016 and not less than 2,360,068,975 Rights Shares and not more than 2,431,653,560 Rights Shares to be allotted and issued pursuant to the Rights Issue, were in issue assuming that the Rights Issue had been completed on 31 December 2016.

(5) No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2016.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA INFORMATION OF THE GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular from the independent reporting accountants of the Company, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong.

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

The Board of Directors
China Kingstone Mining Holdings Limited
Unit 6812-13, 68/F, The Center,
99 Queen's Road Central,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Kingstone Mining Holdings Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') by the directors of the Company (''Directors'') for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated net tangible assets as at 31 December 2016, and related notes (the ''Unaudited Pro Forma Financial Information'') as set out on page 72 of the circular issued by the Company. The applicable criteria on the basis of which the directors have complied the Unaudited Pro Forma Financial Information are described on page 73 of the circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed rights issue of the Company at a subscription price of HK$0.12 per rights share on the basis of five Rights Shares for every one existing share held on the record date (the ''Rights Issue'') as if the transaction had taken place as at 31 December 2016. As part of this process, information about the Group's consolidated statement of financial position of the Group as at 31 December 2016, as extracted from the published annual report of the Company for year ended 31 December 2016 dated 21 March 2017.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of the Rights Issue on consolidated net tangible assets of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Elite Partners CPA Limited
Certified Public Accountants

Hong Kong, 26 April 2017

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

B. SHARE CAPITAL

(a) Share capital as at the Latest Practicable Date

Authorised:		*HK$*
150,000,000,000	Shares	1,500,000,000
Issued and fully paid:		
472,013,795	Shares	4,720,138

(b) Share capital upon completion of the Rights Issue (assuming no further issue or repurchase of Shares on or before the Record Date)

Authorised:		*HK$*
150,000,000,000	Shares	1,500,000,000
Issued and fully paid:		
472,013,795	Shares	4,720,138
2,360,068,975	Rights Shares to be allotted and issued under the Rights Issue	23,600,690
2,832,082,770	Shares in issue immediately upon completion of the Rights Issue	28,320,828

(c) Share capital upon completion of the Rights Issue (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding Share Options in full on or before the Record Date)

Authorised:		*HK$*
150,000,000,000	Shares	1,500,000,000
Issued and fully paid:		
486,330,712	Shares upon exercise of the outstanding Share Options in full	4,863,307
2,431,653,560	Rights Shares to be allotted and issued under the Rights Issue	24,316,536
2,917,984,272	Shares in issue immediately upon completion of the Rights Issue	29,179,843

All the Rights Shares to be issued will rank *pari passu* in all respect with each other, including, in particular, as to dividends, voting rights and capital, and once issued and fully paid, with all the Shares in issue as at the date of allotment and issue of the Rights Shares.

The Company will apply to the Listing Committee for the listing of and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange. As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived. As at the Latest Practicable Date, the Company has 14,316,917 outstanding Share Options, which entitle the Share Options holders to convert into 14,316,917 Option Shares. Save for the aforesaid Share Options, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

C. DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATION CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers (the ''Model Code'') contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of Shares held	Interest in underlying Shares pursuant to Share Option Scheme *(Note 1)*	Approximate % of the issued share capital of the Company
Mr. Wang Minliang	(a) Interest in controlled corporation *(Note 2)*	8,081	–	0.00%
	(b) Beneficial owner	6,324	–	0.00%
Zhang Cuiwei	Beneficial owner	–	3,046,153	0.65%

Note:

1. The Share Option Scheme, under which the Board may, at its discretion, offer any eligible persons (as hereinafter mentioned) options to subscribe for shares in the Company subject to the terms and conditions stipulated therein. The Share Option Scheme has a life of 10 years from the date of adoption.

2. The 8,081 Shares of the Company were directly owned by Jiang Tong Investments Limited, where Mr. Wang Minliang owns 100% of the issued share capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

D. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS

(i) None of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2016 (being the date to which the latest published annual report for the audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and

(ii) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

E. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there were no existing or proposed service contracts between the Directors and any member of the Group which were not determinable by the Group within one year without payment of compensation, other than statutory compensation.

F. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than a director or chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	**Capacity**	**Number of underlying shares**	**Long/short position**	**Percentage of the issued share capital of the Company**
Sorrento Securities Limited *(Note 1)*	Others	2,110,068,975	Long position	74.50%
Ninotre Investment Limited	Beneficial owner	54,966,083	Long position	11.65%

Note 1: 2,110,068,975 Shares of the Company represent the number of Rights Shares underwritten by Sorrento Securities Limited pursuant to the Underwriting Agreement, assuming no further issue or repurchase of Shares on or before Record Date. The approximate percentage of the total issued Shares was calculated

based on the number of Shares which were expected to be issued upon completion of the Rights Issue as at the date of the Underwriting Agreement, being 2,832,082,770 Shares (assuming no Qualifying Shareholders has taken up the Rights Shares and no further issue of new Shares or repurchase of Shares prior to completion of the Rights Issue).

Save as disclosed above, as at Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

G. LITIGATION

As at the Latest Practicable Date, there was one litigation of material importance, known to the Directors, pending or threatened against any member of the Group.

On 13 July 2015, Royal Moon International Company Limited (''Royal Moon''), the underwriter of the open offer announced by the Company on 14 May 2015, issued a writ of summons at the High Court of the Hong Kong Special Administrative Region (the ''Writ'') against the Company. Pursuant to the Writ, Royal Moon claims against the Company, amongst others, a sum of not less than HK$150,000,000 being damages for the breach of a written underwriting agreement made between Royal Moon and the Company dated 13 May 2015. The Group made a provision of RMB82,358,000 (equivalent to HK$92,000,000) in relation to an estimated cash outflow in relation to the litigation.

Apart from the litigation disclosed above, no member of the Group was engaged in other litigations or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claim which would materially and adversely affect the operations of the Company is known to the Directors to be pending or threatened by or against any member of the Group.

H. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding and including the Latest Practicable Date and were or might be material:

(i) the Underwriting Agreement dated 3 March 2017 entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Rights Issue;

(ii) the placing agreement dated 8 March 2016 entered into between the Company and the placing agent, SEEC Media Securities Limited, a licensed corporation to conduct in Type 1 (dealing in securities) regulated activity under the SFO in relation to the placing;

(iii) the underwriting agreement dated 15 May 2015 entered into between the Company and the underwriter, Royal Moon International Limited on relation to the underwriting arrangement in respect of the open offer not more than 1,388,437,918 offer shares on the basis of one offer share for every two existing shares held on the record date at the subscription price of HK$0.1 per offer share; and

(iv) the sale and purchase agreement dated 13 May 2015 entered into between the Company's subsidiary and Qilu International Investment Limited in relation to the acquisition of the loan note of nominal amount of USD10 million issued by Magnificent Century Limited.

I. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions, letters or advices which are contained in this circular:

Name	Qualifications
Elite Partners CPA Limited	Certified Public Accountants
Donvex Capital Limited	A licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, advice or report, dated 26 April 2017 as the case may be, and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interest in any assets which had been, since 31 December 2016 (being the date to which the latest published annual report for the audited financial statements of the Company were made up), acquired, disposed of by or leased to, or were proposed to be acquired, disposed of by or leased to any member of the Group.

J. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office	Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
Principal Office in Hong Kong	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Authorised Representatives	Mr. Wang Minliang Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong Mr. Cheung Wai Kee Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Company Secretary	Mr. Cheung Wai Kee *(A fellow member of the Hong Kong Institute of Certified Public Accountants)*
Auditor/Reporting Accountants	Elite Partners CPA Limited *Certified Public Accountants* 10/F. 8 Observatory Road Tsim Sha Tsui Kowloon, Hong Kong
Principal Banker	China Construction Bank (Asia) Corportion Limited Unit C, 20/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong

Bermuda Principal Share Registrar and Transfer Office	Estera Management (Bermuda) Limited Canon's Court 22 Victoria Street Hamilton HM12 Bermuda
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F. Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Legal Adviser to the Company as to the Rights Issue	Tang Tso & Lau Room 209, 2/F. China Insurance Group Buildings 141, Des Voeux Road Central, Hong Kong
Underwriter	Sorrento Securities Limited 11/F. The Wellington 198 Wellington Street Central, Hong Kong
Financial Adviser to the Company as to the Rights Issue	Sorrento Capital Limited 11/F. The Wellington 198 Wellington Street Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as to the Rights Issue	Donvex Capital Limited Unit 1305, 13/F. Carpo Commercial Building 18-20 Lyndhurst Terrace Central, Hong Kong

K. PARTICULARS OF DIRCTORS

(a) Name and address of the Directors

Executive Directors

Name	Address
Mr. Wang Minliang	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Mr. Zhang Jianzhong	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Mr. Zhang Weijun	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Ms. Zhang Cuiwei	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong

Independent non-executive Directors

Mr. Ma Ho Yin	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Ms. Wang Yihua	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong
Mr. Sheng Guoliang	Unit 6812-13, 68/F The Center 99 Queen's Road Central Hong Kong

(b) Profile of the Directors

Executive Directors

Mr. Wang Minliang (王民良) (“**Mr. Wang**”), aged 54, is an executive Director and a chairman of the Board of the Company. Mr. Wang was appointed as a non-executive Director on 17 July 2015 and was re-designated as an executive Director effective on 1 January 2016. Mr. Wang is primarily responsible for the Group’s overall corporate strategies, management and business development. Mr. Wang has also been appointed as the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Wang has over 20-years experience and entrepreneurship in real estate development and various kinds of investment in the PRC.

Mr. Zhang Jianzhong (張建忠) (“**Mr. Zhang**”), aged 59, is an executive Director of the Company. Mr. Zhang has been an executive Director of the Company since 30 August 2013. Mr. Zhang in an associate professor, conferred by Ministry of Geology and Mineral Resources of the PRC, and holds a bachelor degree in Engineering and Law. Since 1991, Mr. Zhang has been involved in management work relating to stone mining, processing and marketing. From 1991 to May 2002, he worked in Wuhan Lingda Stone Materials Co., Ltd.* (武漢翎達石材有限公司), which is a company found by the China University of Geosciences* (中國地質大學) and other parties in 1990, where he had taken up posts such as deputy factory director, office head and factory director. Prior to joining the Company, Mr. Zhang served as deputy general manager of Wuhan Zhongdida Assets Management Co., Ltd. (武漢中地大資產經營有限公司). Mr. Zhang has extensive expertise in geology, and sophisticated experiences in stone mine exploration and development.

Mr. Zhang Weijun (張衛軍) (“**Mr. Zhang**”), aged 58, is an executive Director of the Company. Mr. Zhang has been an executive Director of the Company since 24 December 2015. Mr. Zhang is primarily responsible for the business development of the Group. Mr. Zhang has about 10 years of experience in mining industry and is currently a vice president of a mining company in the PRC.

Ms. Zhang Cuiwei (張翠薇) (“**Ms. Zhang**”), aged 48, is an executive Director of the Company. Ms. Zhang was first appointed as an executive Director of the Company on 30 April 2013 and ceased to be an executive Director of the Company on 14 July 2015. Ms. Zhang has been re-appointed as executive Director with effect from 1 January 2016. Ms. Zhang graduated in Foreign Languages and Literature from Jilin University of the PRC. Ms. Zhang is primarily responsible for corporate operational management and administration of the Group. Ms. Zhang has about 20 years of experience in corporate management, personnel and administration affairs. Ms. Zhang is interested in Share Options granted under the Share Option Scheme with the right to subscribe for 3,046,153 Shares of the Company.

Independent non-executive Directors

Mr. Ma Ho Yin (馬浩賢) (“**Mr. Ma**”), aged 34, is an independent non-executive Director of the Company. Mr. Ma has been an independent non-executive Director of the Company since 25 December 2015. Mr. Ma obtained a Bachelor Degree of Engineering in Industrial Engineering and Engineering Management (Transportation Logistics Management) from The Hong Kong University of Science and Technology. Mr. Ma has around 10 years of experience in financial planning, asset and risk management and dealing in securities. Mr. Ma is currently an associate director of a leading wealth management company focusing on wealth management services.

Ms. Wang Yihua (王藝華) (“**Ms Wang**”), aged 46, is an independent non-executive Director of the Company. Ms. Wang has been an independent non-executive Director of the Company since 28 December 2015. Ms Wang holds a Bachelor Degree in Management from the Party School of the Central Committee of the Communist Party of China (Hubei Branch) and obtained the Qualification Certificate of Speciality and Technology approved and issued by Ministry of Personnel, PRC with speciality in intermediate level of accountancy conferred by the Ministry of Finance, PRC. Ms. Wang has over 20 years of experience in finance, accounting and relevant management gained from an investment company in the PRC.

Mr. Sheng Guoliang (盛國良) (“**Mr. Sheng**”), aged 49, is an independent non-executive Director of the Company. Mr. Sheng has been an independent non-executive Director of the Company since 28 December 2015. Mr. Sheng has completed a three years’ course in Public Affairs Management at Huzhou University. Mr. Sheng has around 5 years of experience in mining industry and hotel management respectively.

L. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, financial advising fees, printing, registration, translation, legal and accounting fees are estimated to be not less then approximately HK$6,664,000 and not more than approximately HK$6,860,000 and are payable by the Company.

M. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at unit 6812-13, 68/F, The Center, 99 Queen's Road Central, Hong Kong, from the date of this circular up to and including the date of the SGM:

(i) the Memorandum and the Bye-laws;

(ii) the annual reports of the Company for the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016;

(iii) the letter from the Independent Board Committee, the text of which is set out on page 41 of this circular;

(iv) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 42 to 68 of this circular;

(v) the independent reporting accountants' assurance report on the unaudited pro forma financial information of the Group issued by Elite Partners CPA Limited set out in Appendix II to this circular;

(vi) the written consents referred to in the paragraph under the heading "Experts and Consents" in this Appendix;

(vii) the material contracts disclosed in the paragraph under the heading "Material Contracts" in this Appendix; and

(viii) this circular.

N. GENERAL

In case of inconsistency, the English text of this circular, the accompanying notice of the SGM and form of proxy shall prevail over its Chinese text.

CHINA KINGSTONE MINING HOLDINGS LIMITED
中國金石礦業控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 1380)

NOTICE OF SGM

NOTICE IS HEREBY GIVEN that an special general meeting ("**SGM**") of China Kingstone Mining Holdings Limited (the "**Company**") will be held at Portion 2, 12/F., The Center, 99 Queen's Road Central, Central, Hong Kong at 11:30 a.m. on Thursday, 25 May 2017 for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) the underwriting agreement dated 3 March 2017 as supplemented by a supplemental agreement dated 24 April 2017 (the "**Underwriting Agreement**") entered into between the Company as issuer and Sorrento Securities Limited (the "**Underwriter**") as underwriter (a copy of which has been produced to the SGM marked "**A**" and initialled by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder (including but not limited to the arrangement for the taking up of the unsubscribed Rights Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified;

(b) subject to the Underwriting Agreement becoming unconditional and the Underwriting Agreement not having been terminated by the Underwriter in accordance with the terms thereof,

(i) the issue by way of rights (the "**Rights Issue**") to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on 7 June 2017 or such other date as the Company and the Underwriter may agree by reference to which entitlements to the Rights Issue are to be determined (the "**Record Date**") (excluding those Shareholders (the "**Non-Qualifying Shareholders**") with registered addresses outside Hong Kong whom the directors of the Company (the "**Directors**") consider it necessary or expedient to exclude, after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in that place) (the "**Qualifying Shareholders**") of not less than 2,360,068,975 Shares (assuming no further issue or repurchase of Shares on or before the Record Date) and not more than 2,431,653,560 Shares (assuming no further issue or repurchase of Shares other than as a result of the issue of Shares upon exercise of the outstanding share options in full on or before the Record Date) (each a "**Rights Share**") at the subscription price of HK$0.12 per Rights Share on the basis of five Rights Shares for every one Share then held by Qualifying Shareholders on the Record Date be and is hereby approved; and

(ii) the board (the "**Board**") of Directors (or its duly constituted committee) be and is hereby authorised to allot and issue the Rights Shares (in their nil-paid and fully-paid forms) pursuant to the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Board may make such exclusions or other arrangements in relation to Non-Qualifying Shareholders as it deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and

(c) the Board (or its duly constituted committee) be and is hereby authorised to sign and execute such documents and do all such acts and things incidental to the Rights Issue or as it considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Rights Issue, the Underwriting Agreement and the transactions contemplated thereunder and to make or agree such variations, amendments or waiver as may in its discretion consider to be desirable and in the interests of the Company."

By order of the Board
China Kingstone Mining Holdings Limited
Cheung Wai Kee
Company Secretary

Hong Kong, 26 April 2017

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal place of business in Hong Kong:
Unit 6812-13, 68/F
The Center
99 Queen's Road Central
Hong Kong

Notes:

1. A form of proxy to be used for the SGM is enclosed.

2. Any shareholder of the Company ("**Shareholders**") entitled to attend and vote at the SGM is entitled to appoint a proxy to attend and vote on behalf of him/her/it. A proxy needs not be a Shareholder. A Shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares of the Company in respect of which each such proxy is so appointed.

3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM (i.e. 11:30 a.m. on 23 May 2017) or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM or any adjournment thereof should such member so wishes and, in such event, the form of proxy shall be deemed to be revoked.

   The register of members of the Company will be closed from Thursday, 18 May 2017 to Thursday, 25 May 2017 (both dates inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for attending the SGM, all transfers, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Wednesday, 17 May 2017.

4. Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the SGM personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register of members of the Company in respect of the relevant joint holding.

5. All votes to be taken at the SGM shall be conducted by way of poll.

As at the date of this notice, the Board comprises four executive Directors, namely, Mr. Wang Minliang (Chairman), Mr. Zhang Jianzhong, Mr. Zhang Weijun and Ms. Zhang Cuiwei; and three independent non-executive Directors, namely, Mr. Ma Ho Yin, Ms. Wang Yihua and Mr. Sheng Guoliang.