
HISTORY, REORGANIZATION AND GROUP STRUCTURE

HISTORY AND DEVELOPMENT

Our Group

Our Group currently comprises our Company, China Silver BVI, China Silver Hong Kong, Zhejiang Fuyin, Longtianyong Nonferrous Metals and Longtianyong Recycling. Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 19, 2012. We are principally engaged in the production and sale of silver ingots, see the section headed “Business” in this prospectus for more information.

Milestones of Our Development

The following are some of the important milestones in our history to date:

<u>Year</u>	<u>Event</u>
2002	Longtianyong Nonferrous Metals was established
2005	The “Longtianyong” (“龍天勇”) brand was first recognized as one of the “20 Most Popular Silver Brands” (全國用戶最喜愛20家白銀品牌) in China by the Shanghai White Platinum & Silver Exchange and Longtianyong Nonferrous Metals applied for the registration of the “Longtianyong” (“龍天勇”) trademark
2008	Longtianyong Nonferrous Metals was named as an “Environmentally-Friendly Promoting Enterprise (環境友好促進單位)” by the China Environmental Journalists Association (中國環境新聞工作者協會) Longtianyong Nonferrous Metals was named as a “Leading Enterprise in the Silver Smelting Industry” by China Industry News (中國工業報社)
2009	The “Longtianyong” (“龍天勇”) trademark was registered in China Longtianyong Nonferrous Metals was named as a “Provincial Level Private Technology Enterprise (省級民營科技企業)” by the Department of Science and Technology of Jiangxi Province (江西省科學技術廳)
2010	Longtianyong Nonferrous Metals was one of the first batch of companies to be certified as a “Circular Economy Exemplar Enterprise” in Jiangxi Province
2011	Longtianyong Nonferrous Metals was awarded RMB10 million by the NDRC for its comprehensive and environmentally-friendly production process Longtianyong Nonferrous Metals was admitted to the silver list of the LBMA Good Delivery List
2012	The “Longtianyong” (“龍天勇”) brand was recognized as one of the “20 Most Popular Silver Brands” (全國用戶最喜愛20家白銀品牌) in China by the Shanghai White Platinum & Silver Exchange for eight consecutive years since 2005 Our Company was incorporated as part of our Reorganization

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Longtianyong Nonferrous Metals

Longtianyong Nonferrous Metals is our operating subsidiary in the PRC and was established in the PRC on May 22, 2002 by four co-founders, namely, Mr. Chen Wantian (a director of Longtianyong Nonferrous Metals and the chairman and chief executive officer of our Company), Mr. Chen Wanlong (a director of Longtianyong Nonferrous Metals), Mr. Chen Wanming (an employee of Longtianyong Nonferrous Metals) and Mr. Chen Zhiyong (a director of Longtianyong Nonferrous Metals), with a registered capital of RMB5 million at the time of its establishment, of which 40% was contributed by Mr. Chen Wantian, 20% by Mr. Chen Wanlong, 20% by Mr. Chen Wanming and the remaining 20% by Mr. Chen Zhiyong. All the four co-founders were raised in the same town and they have known each other since their childhood. When Mr. Chen Wantian decided to explore opportunities in the non-ferrous metals industry as he considered that there were prospects in the industry, Mr. Chen Wanlong, Mr. Chen Wanming and Mr. Chen Zhiyong, all of whom were businessmen pursuing business opportunities in the PRC at that time, decided to join Mr. Chen Wantian to set up the business. Save as disclosed above, there is no other relationship among the four co-founders of Longtianyong Nonferrous Metals.

In anticipation of the establishment of Longtianyong Nonferrous Metals, however, the co-founders wanted to have a nominal equal and balanced shareholding proportion among them in order to facilitate the representation of their respective roles in Longtianyong Nonferrous Metals with equal importance when dealing with external parties. They have all been designated specific roles in Longtianyong Nonferrous Metals such that Mr. Chen Wantian was responsible for the general operations of Longtianyong Nonferrous Metals, Mr. Chen Wanlong was responsible for dealing with the suppliers, Mr. Chen Wanming was responsible for dealing with the customers and Mr. Chen Zhiyong was responsible for liaising with the relevant government authorities. To achieve this, Mr. Chen Wantian and Ms. Zhou Peizhen (the spouse of Mr. Chen Wantian) entered into a share trust contract dated April 28, 2002 with Mr. Chen Wancheng. Mr. Chen Wancheng is the brother of Mr. Chen Wantian and a director of Longtianyong Nonferrous Metals. Pursuant to the share trust contract, Mr. Chen Wancheng agreed to hold and manage 20% of the equity interests in Longtianyong Nonferrous Metals (as increased, reduced or transferred from time to time) as nominee for and on behalf of and for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen, who enjoyed all rights and benefits derived from those equity interests. Mr. Chen Wantian provided all the funding for the registered capital in Longtianyong Nonferrous Metals in respect of the 20% equity interests held by Mr. Chen Wancheng for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen (including the funding for the subsequent increase in the registered capital of Longtianyong Nonferrous Metals in proportion to the equity interests held for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen). Mr. Chen Wantian and Ms. Zhou Peizhen have not provided any benefit or advantage to Mr. Chen Wancheng for entering into the trust arrangement. As a result, Mr. Chen Wancheng became a nominee owner of 20% equity interest in Longtianyong Nonferrous Metals. The above arrangement was agreed by the four co-founders of Longtianyong Nonferrous Metals. As advised by our PRC legal advisors, Jingtian & Gongcheng, the share trust contract among Mr. Chen Wantian, Ms. Zhou Peizhen and Mr. Chen Wancheng is legally effective and binding on the parties.

Subsequent changes in the equity interest in Longtianyong Nonferrous Metals prior to the Reorganization were as follows:

On December 25, 2006,

- (a) Mr. Chen Wanquan, a brother of Mr. Chen Wantian and Mr. Chen Wancheng, and a director of Longtianyong Nonferrous Metals, entered into an equity transfer agreement with Mr. Chen Zhiyong pursuant to which Mr. Chen Wanquan acquired 20% of the

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equity interest in Longtianyong Nonferrous Metals from Mr. Chen Zhiyong for a consideration of RMB1 million, which was determined by reference to the registered capital of Longtianyong Nonferrous Metals. Mr. Chen Wanquan acquired such 20% equity interest with the understanding that such acquisition was for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen, who are the actual beneficial owners of such 20% equity interest. Mr. Chen Wantian provided all the funding for such acquisition. In order to achieve a nominal balanced and equal shareholding proportion among nominal shareholders in Longtianyong Nonferrous Metals, Mr. Chen Wantian and Ms. Zhou Peizhen entered into a share trust contract dated December 25, 2006 with Mr. Chen Wanquan. Pursuant to the share trust contract, Mr. Chen Wanquan agreed to hold and manage 20% of the equity interests in Longtianyong Nonferrous Metals (as increased, reduced or transferred from time to time) as nominee for and on behalf of and for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen, who enjoyed all rights and benefits derived from those equity interests. Mr. Chen Wantian and Ms. Zhou Peizhen have not provided any benefit or advantage to Mr. Chen Wanquan for entering into the trust arrangement. As advised by our PRC legal advisors, Jingtian & Gongcheng, the share trust contract among Mr. Chen Wantian, Ms. Zhou Peizhen and Mr. Chen Wanquan is legally effective and binding on the parties.

Following the acquisition and the trust arrangement, Mr. Chen Wantian and Ms. Zhou Peizhen had beneficial ownership of a 60% equity interest in Longtianyong Nonferrous Metals, with 20% held through Mr. Chen Wancheng as nominee and 20% held through Mr. Chen Wanquan as nominee. The remaining 40% equity interest in Longtianyong Nonferrous Metals was owned as to 20% by Mr. Chen Wanlong and 20% by Mr. Chen Wanming.

Save for Mr. Chen Wancheng and Mr. Chen Wanquan who are the brothers of Mr. Chen Wantian and directors of Longtianyong Nonferrous Metals, Mr. Chen Wantian and Ms. Zhou Peizhen and their respective associates do not have any past or present relationship, business or otherwise, with Mr. Chen Wancheng and Mr. Chen Wanquan.

Save for (i) the trust arrangement entered into between Mr. Chen Wantian, Ms. Zhou Peizhen and Mr. Chen Wancheng, and (ii) the trust arrangement entered into between Mr. Chen Wantian, Ms. Zhou Peizhen and Mr. Chen Wanquan, there was no other entrustment arrangement in respect of the equity interests in Longtianyong Nonferrous Metals held by each of the other three co-founders.

- (b) Mr. Wan Chenglai (an Independent Third Party) entered into an equity transfer agreement with Mr. Chen Wancheng pursuant to which Mr. Wan Chenglai acquired 10% of the equity interest in Longtianyong Nonferrous Metals from Mr. Chen Wancheng for a consideration of RMB500,000, which was determined by reference to the registered capital of Longtianyong Nonferrous Metals. Mr. Chen Wancheng sold the 10% equity interest with the understanding that such sale was for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen. As a result of such sale, the beneficial ownership in Longtianyong Nonferrous Metals owned by Mr. Chen Wantian and Ms. Zhou Peizhen was reduced to 50%; and
- (c) Mr. Wu Chengtu (an Independent Third Party) entered into an equity transfer agreement with Mr. Chen Wanming pursuant to which Mr. Wu Chengtu acquired 10%

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of the equity interest in Longtianyong Nonferrous Metals from Mr. Chen Wanming for a consideration of RMB500,000, which was determined by reference to the registered capital of Longtianyong Nonferrous Metals. After this transfer, Longtianyong Nonferrous Metals was then owned as to 50% by Mr. Chen Wantian (with 10% held through Mr. Chen Wancheng as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen and 20% held through Mr. Chen Wanquan as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), 10% by Mr. Wan Chenglai, 20% by Mr. Chen Wanlong, 10% by Mr. Wu Chengtu and 10% by Mr. Chen Wanming.

On September 30, 2007,

- (a) Mr. Wu Wenyong (an Independent Third Party) entered into an equity transfer agreement with Mr. Wu Chengtu pursuant to which Mr. Wu Wenyong acquired 10% of the equity interest in Longtianyong Nonferrous Metals from Mr. Wu Chengtu for a consideration of RMB500,000, which was determined by reference to the registered capital of Longtianyong Nonferrous Metals; and
- (b) Mr. Chen Rong (an Independent Third Party) entered into an equity transfer agreement with Mr. Chen Wanming pursuant to which Mr. Chen Rong acquired 10% of the equity interest in Longtianyong Nonferrous Metals from Mr. Chen Wanming for a consideration of RMB500,000, which was determined by reference to the registered capital of Longtianyong Nonferrous Metals.

Mr. Wan Chenglai, Mr. Wu Wenyong and Mr. Chen Rong are businessmen who have been pursuing business opportunities in the PRC. Mr. Wan Chenglai and Mr. Wu Wenyong have come to know Mr. Chen Wantian through Mr. Chen Wantian's father in the 1990s, while Mr. Chen Rong was raised in the same town as Mr. Chen Wantian and they have known each other since their childhood. At the relevant times, Longtianyong Nonferrous Metals was undergoing expansion of its business and needed capital for development. Mr. Wan Chenglai, Mr. Wu Wenyong and Mr. Chen Rong learned of the above investment opportunity from Mr. Chen Wantian and decided to invest in Longtianyong Nonferrous Metals due to their positive view on the prospect of non-ferrous metals industry in the PRC. Mr. Wan Chenglai, Mr. Wu Wenyong and Mr. Chen Rong have completed each of their capital injections in Longtianyong Nonferrous Metals using their respective personal funds. As a result of the above transfers, Longtianyong Nonferrous Metals was then owned as to 50% by Mr. Chen Wantian (with 10% held through Mr. Chen Wancheng as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen and 20% held through Mr. Chen Wanquan as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), 10% by Mr. Wan Chenglai, 20% by Mr. Chen Wanlong, 10% by Mr. Wu Wenyong and 10% by Mr. Chen Rong. As advised by our PRC legal advisors, Jingtian & Gongcheng, the abovementioned equity transfer agreements dated December 25, 2006 and September 30, 2007 are legally effective and binding on the parties, and are properly and legally completed and settled.

On November 16, 2007, the registered capital of Longtianyong Nonferrous Metals was increased from RMB5 million to RMB50 million. In relation to the RMB45 million increase in registered capital, Mr. Chen Wanquan (as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), Mr. Chen Wantian, Mr. Chen Wanlong, Mr. Chen Wancheng (as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), Mr. Chen Rong, Mr. Wan Chenglai and Mr. Wu Wenyong contributed RMB7 million, RMB9 million, RMB7 million, RMB7.5 million,

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RMB7.5 million, RMB3.5 million and RMB3.5 million, respectively. As a result of such non-proportional capital contribution, Longtianyong Nonferrous Metals was then held as to 52% by Mr. Chen Wantian (with 16% held through Mr. Chen Wanquan as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen and 16% held through Mr. Chen Wancheng as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), 16% by Mr. Chen Wanlong, 16% by Mr. Chen Rong, 8% by Mr. Wan Chenglai and 8% by Mr. Wu Wenyong.

On January 12, 2009, the registered capital of Longtianyong Nonferrous Metals was further increased from RMB50 million to RMB110 million. In relation to the RMB60 million increase in registered capital, Mr. Chen Wanquan (as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), Mr. Chen Wantian and Mr. Wu Wenyong contributed RMB15.3 million, RMB31.5 million and RMB13.2 million, respectively. As a result of such non-proportional capital contribution, the shareholding of Longtianyong Nonferrous Metals was as below prior to the Reorganization:

Mr. Chen Wantian	66.18% ⁽¹⁾
Mr. Wu Wenyong	15.64%
Mr. Chen Wanlong	7.27%
Mr. Chen Rong	7.27%
Mr. Wan Chenglai	3.64%

(1) With 21.18% held through Mr. Chen Wanquan as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen, and 7.27% held through Mr. Chen Wancheng as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen.

Longtianyong Recycling

Longtianyong Recycling was established in the PRC on February 11, 2009 by Longtianyong Nonferrous Metals with a registered capital of RMB5 million. The business scope of Longtianyong Recycling primarily includes (i) the sale of non-ferrous metals, steel and ore products and (ii) the recycle and sale of scrap non-ferrous metal (other than gold).

Longtianyong Recycling ceased to conduct any further business since the end of 2010 and we decided to maintain the dormant status of Longtianyong Recycling until there is a better opportunity for further development of the recycling business in the future.

China Silver Hong Kong

China Silver Hong Kong was incorporated in Hong Kong on May 24, 2010 as an investment holding company with an authorized share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Upon its incorporation, its entire issued capital of HK\$10,000 was held by Richwise Capital.

China Silver BVI

China Silver BVI was incorporated in the BVI on July 29, 2010 as an investment holding company with authorized share capital of US\$100,000 divided into 100,000 share of US\$1.00 each.

Zhejiang Fuyin

Zhejiang Fuyin was established in the PRC on March 28, 2012 by China Silver Hong Kong with a registered capital of US\$8 million. Zhejiang Fuyin's business scope, as set out in its

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business licence, primarily includes wholesale, retail, import and export of jewelry, diamond (excluding bare diamond), gold, silver products and ornaments, metal products and crafts. Our Group has registered the business scope of Zhejiang Fuyin to complement our current principal and sole line of business of silver production and sale. While our Group currently does not have concrete plans to expand the business operation of Zhejiang Fuyin, our Directors initially considered that this may be a natural expansion of our business should opportunities arise.

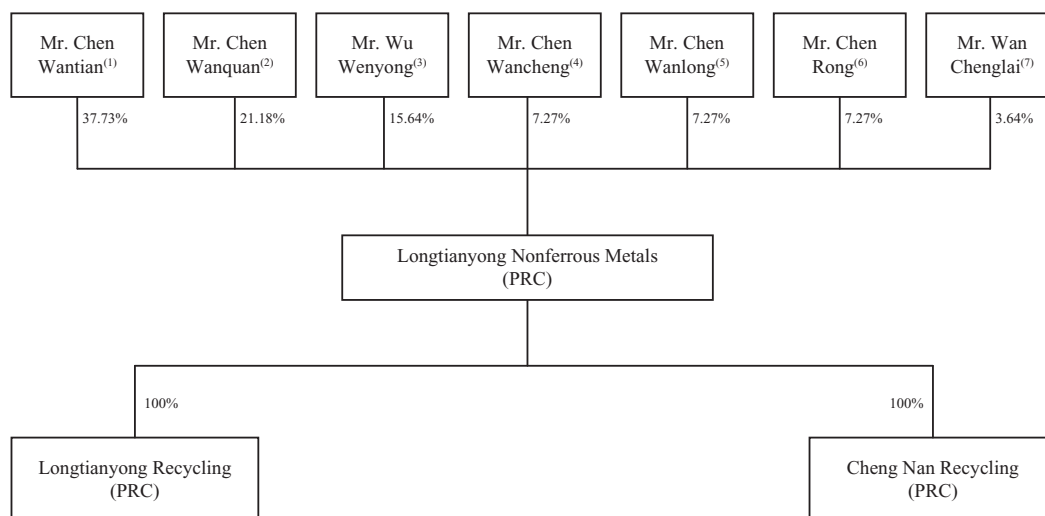
Our Company

Our Company was incorporated in the Cayman Islands on July 19, 2012 with an authorized share capital of HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each.

For details of the changes in the share capital of our offshore Group companies pursuant to the Reorganization, see the paragraph headed “Establishment of Offshore Structure” in this section.

THE REORGANIZATION

Immediately prior to the Reorganization, the shareholding structure of Longtianyong Nonferrous Metals was as follows:



(1) Mr. Chen Wantian is an executive Director, the chairman and the chief executive officer of our Group.

(2) Mr. Chen Wanquan is a brother of Mr. Chen Wantian and Mr. Chen Wancheng, and a director of Longtianyong Nonferrous Metals. The 21.18% equity interests in Longtianyong Nonferrous Metals were held by Mr. Chen Wanquan as nominee for and on behalf of and for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen, who enjoyed all rights and benefits derived from those equity interests.

(3) Mr. Wu Wenyong is an Independent Third Party and a passive investor.

(4) Mr. Chen Wancheng is a brother of Mr. Chen Wantian and Mr. Chen Wanquan, and a director of Longtianyong Nonferrous Metals. The 7.27% equity interests in Longtianyong Nonferrous Metals were held by Mr. Chen Wancheng as nominee for and on behalf of and for the benefit of Mr. Chen Wantian and Ms. Zhou Peizhen, who enjoyed all rights and benefits derived from those equity interests.

(5) Mr. Chen Wanlong is a director of Longtianyong Nonferrous Metals.

(6) Mr. Chen Rong is an Independent Third Party and a passive investor.

(7) Mr. Wan Chenglai is an Independent Third Party and a passive investor.

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Pre-IPO Investment

Rich BVI was incorporated in the BVI on July 13, 2010. The entire issued share capital of Rich BVI was US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each, which was held by an Independent Third Party.

Richwise Capital is a company incorporated in the BVI on April 22, 2010 and is directly and beneficially owned as to 70% and 30% by Mr. Shi Jinlei and Mr. Huang Yuanzhe, respectively. Mr. Shi Jinlei and Mr. Huang Yuanzhe are financial investors engaging in private equity investments. They share positive view on the prospect of non-ferrous metals industry in the PRC with and came to know Mr. Chen Wantian in early 2010 through business contact. Richwise Capital, Longtianyong Nonferrous Metals, Mr. Chen Wantian, Ms. Zhou Peizhen, Mr. Chen Wanlong, Mr. Wan Chenglai, Mr. Chen Rong and Mr. Wu Wenyong initially entered into an investment and shareholders' agreement on October 20, 2010 (the "Original Investment Agreement") pursuant to which, Richwise Capital agreed to invest US\$10 million for 20% of the shareholding in Longtianyong Nonferrous Metals in connection with the proposed listing of Longtianyong Nonferrous Metals in a stock exchange acceptable to Richwise Capital. In late 2011, having considered the various options available for the proposed listing of Longtianyong Nonferrous Metals after the execution of the Original Investment Agreement, the parties decided to proceed to apply for the Listing on the Stock Exchange and proceeded to undertake the Reorganization.

On November 1, 2011, Ms. Zhou Peizhen acquired the entire issued share capital in Rich BVI for a consideration of US\$50,000.

China Silver BVI was incorporated in the BVI under its initial name of "Noble Pride Holdings Limited" on July 29, 2010. On August 9, 2010, China Silver BVI allotted 50,000 ordinary shares of US\$1.00 each in its capital to Rich BVI for a consideration of US\$50,000. As a result, China Silver BVI became a wholly-owned subsidiary of Rich BVI. On November 7, 2011, China Silver BVI changed its name from "Noble Pride Holdings Limited" to "China Silver Holdings Ltd. 中國白銀控股有限公司".

China Silver Hong Kong was incorporated in Hong Kong on May 24, 2010 under its initial name of "Richwise Nonferrous Metals Co., Limited 睿富有色金屬有限公司". It changed its name to "China Silver Co., Limited 中國白銀有限公司" on August 16, 2010. On November 14, 2011, the initial subscriber of China Silver Hong Kong, namely Richwise Capital, transferred the entire issued share capital of China Silver Hong Kong comprising 10,000 ordinary shares of HK\$1.00 each to China Silver BVI for a consideration of HK\$10,000. As a result, China Silver Hong Kong became a wholly-owned subsidiary of China Silver BVI.

The Original Investment Agreement was supplemented by a supplemental agreement dated August 8, 2012, which took effect from July 2, 2012, among the parties to the Original Investment Agreement, and two additional parties, namely, China Silver BVI and Rich BVI (together, the "Investment and Shareholders' Agreements"). Under the Investment and Shareholders' Agreements, Richwise Capital, instead of investing in Longtianyong Nonferrous Metals as contemplated in the Original Investment Agreement, agreed to invest US\$10 million to (i) acquire 10,000 existing ordinary shares of US\$1.00 each in the capital of China Silver BVI from Rich BVI for a cash consideration of US\$5 million; and (ii) subscribe for 10,000 new ordinary shares of US\$1.00 each in the capital of China Silver BVI for a cash consideration of US\$5 million, such that upon completion of these investments and the transactions contemplated thereunder, Rich BVI and Richwise Capital will hold 80% and 20%, respectively, of the enlarged share capital of China

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Silver BVI or our Company. The aforementioned investment by Richwise Capital was funded by the proceeds from its previous investments in overseas companies.

In connection with the Investment and Shareholders' Agreements, China Silver BVI allotted a further 40,000 ordinary shares of US\$1.00 each in its capital to Rich BVI for a cash consideration of US\$40,000.

The consideration for the subscription of 10,000 new ordinary shares in the capital of China Silver BVI was fully settled on July 12, 2012 and the consideration for the acquisition of 10,000 existing ordinary shares in the capital of China Silver BVI from Rich BVI was fully settled on July 13, 2012. The proceeds from the subscription of the new ordinary shares in the capital of China Silver BVI were used for the purposes of paying up part of Zhejiang Fuyin's registered capital in connection with the Reorganization and financing the working capital of our Company.

As a result of the above-described share transfer and subscriptions, China Silver BVI was held as to 80% and 20%, respectively, by Rich BVI and Richwise Capital.

Accordingly, the investment by Richwise Capital was fully, unconditionally and irrevocably completed on July 13, 2012. The investment cost associated with the Shares transferred to Richwise Capital was approximately HK\$0.52 per Share, which was determined with reference to the financial result of Longtianyong Nonferrous Metals for the year ended December 31, 2010, representing an approximately 63.6% discount to the mid-point of the indicative price range of the Offer Price. A summary of certain rights of Richwise Capital under the Investment and Shareholders' Agreements are set out as follows:

- (a) **Pre-emptive right:** the pre-emptive right to subscribe for new shares of China Silver BVI or our Company under the same terms and conditions in the event that China Silver BVI or our Company issues any new shares;
- (b) **Restrictions on issuance of new shares at a lower subscription price:** the right to be allotted new shares at nil consideration if China Silver BVI or our Company issues new shares or any equity securities at a price which is lower than the subscription price under the Investment and Shareholders' Agreements so that the average price of the shares held by Richwise Capital would not be higher than the issue price of such new shares;
- (c) **Right of first refusal and tag along right:** in the event that other shareholders of China Silver BVI or our Company intend to sell their shares to any third party, (i) the right of first refusal; or (ii) the right to co-sell such number of shares to that third party based on its pro rata shareholding on the same terms and conditions;
- (d) **Drag along right:** in the event that Richwise Capital and the controlling shareholder(s) of China Silver BVI agree to dispose of China Silver BVI or our Company, the right to require the remaining shareholders to consent to and participate in such disposal on the same terms and conditions;
- (e) **Redemption right:** in the event that Listing does not occur within 36 months after the completion of investment under the Investment and Shareholders' Agreements, the right to require China Silver BVI or our Company to repurchase part or all of the shares held by Richwise Capital at a price of Richwise Capital's total investment amount plus an amount equal to the total investment amount multiplied by an internal rate of return of 10% per annum;

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- (f) **Liquidation preference:** the preferential right to recover Richwise Capital's total investment amount plus an amount equal to the total investment amount multiplied by an internal rate of return of 10% per annum before distribution of proceeds to other shareholders in the event of liquidation; and
- (g) **Share transfer right:** China Silver BVI or our Company and their respective shareholders shall grant their consent (and waive any right of first refusal) in the event that such consent is required by law for any proposed transfer of shares held by Richwise Capital.

In relation to the right set out in paragraph (b), Richwise Capital has confirmed that such right was only applicable prior to the completion of the Global Offering to prevent the dilution of Richwise Capital's shareholdings in our Company as a result of the entry of any new private equity investor at a price lower than the subscription price paid by Richwise Capital before the completion of the Global Offering and accordingly, such right did not apply to the Global Offering. Further, Richwise Capital also confirmed that upon completion of the Global Offering, such right will terminate and will cease to be applicable as between the existing Shareholders, Best Conduct and the public Shareholders.

Pursuant to the Investment and Shareholders' Agreements, the rights under paragraphs (a) to (d), (f) and (g) shall be terminated upon completion of the Global Offering while the right under paragraph (e) above has been wholly and unconditionally waived with effect from February 7, 2012.

The Sole Sponsor is of the view that the pre-IPO investment made by Richwise Capital is in compliance with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee on October 13, 2010.

Establishment of Offshore Structure

On July 19, 2012, the initial subscriber transferred the entire issued share capital of our Company, comprising one Share, to Rich BVI and our Company issued and allotted an additional 99,999 Shares in its capital to Rich BVI for a nominal consideration.

Best Conduct was incorporated in the BVI on September 27, 2007 and later became a wholly-owned subsidiary of Richwise Capital. On August 14, 2012, Rich BVI and Richwise Capital transferred 80,000 and 20,000 ordinary shares of US\$1.00 each, the aggregate of which represents the entire issued share capital of China Silver BVI, to our Company.

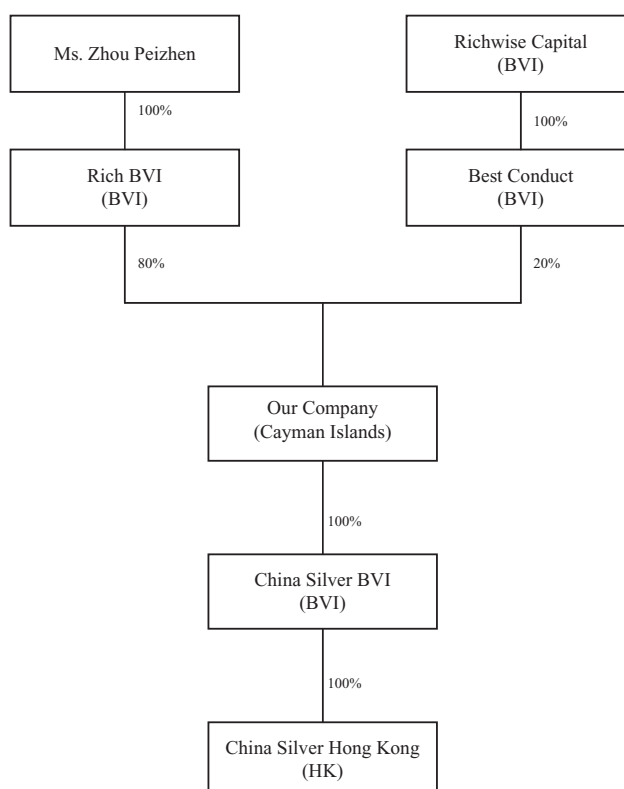
The consideration for Rich BVI's transfer is a nominal amount of US\$1.00 and the consideration for Richwise Capital's transfer is an agreement to carry out a subsequent transfer of 20,000 Shares, representing 20% of the issued share capital of our Company, by Rich BVI to Best Conduct pursuant to a letter of nomination dated August 15, 2012 from Richwise Capital and Best Conduct, pursuant to which Richwise Capital has nominated Best Conduct to hold Richwise Capital's interest under the Investment and Shareholders' Agreements. The subsequent transfer was carried out on August 15, 2012. As a result, Richwise Capital, through Best Conduct, held 20% of the issued share capital of our Company. Immediately following the completion of the Capitalization Issue, the Global Offering and the sale of the Sale Shares (assuming the Over-allotment Option is not exercised and no options have been granted under the Share Option Scheme), Richwise Capital, through Best Conduct, will hold 14.00% of the issued Share capital of our Company. Such Shares are not considered part of the public float for the purposes of Rule 8.08(1) of the Hong Kong Listing Rules and shall be subject to a lock-up period of six months after the Listing pursuant to a deed of lock-up undertaking dated December 11, 2012.

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China Silver Mining Limited 中國白銀礦業有限公司 (“China Silver Mining”) and China Silver Group Co., Limited 中國白銀集團有限公司 (“China Silver Group”) were both incorporated in Hong Kong on January 17, 2012 and November 22, 2011, respectively. Both companies have not commenced any business and as we do not currently have any plans for these companies, we have disposed their shares to Ms. Zhou Peizhen as described below.

On July 5, 2012, China Silver BVI transferred the entire issued share capital of China Silver Mining comprising 10,000 ordinary shares of HK\$1.00 each to Ms. Zhou Peizhen for a consideration of HK\$10,000. On the same day, China Silver BVI transferred the entire issued share capital of China Silver Group comprising 10,000 ordinary shares of HK\$1.00 each to Ms. Zhou Peizhen for a consideration of HK\$10,000. As a result of the above transfers, China Silver Mining and China Silver Group ceased to be our indirect wholly-owned subsidiaries and both companies are currently wholly-owned by Ms. Zhou Peizhen. On September 11, 2012, China Silver Group changed its name to “China Silver Jewellery Group Limited 中國白銀珠寶集團有限公司”.

The ownership structure upon completion of the above-mentioned steps is set out below:



Onshore Reorganization

Zhejiang Fuyin

China Silver Hong Kong established Zhejiang Fuyin as its wholly foreign owned enterprise on March 28, 2012 with a registered capital of US\$8 million, of which US\$1.6 million has been paid up as of June 26, 2012. Pursuant to the articles of association of Zhejiang Fuyin, the remaining registered capital is to be fully paid up within two years from the date of issuance of Zhejiang Fuyin’s business licence (which is, on or before March 27, 2014). Our PRC legal

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advisors, Jingtian & Gongcheng, have advised that the funding of the registered capital of Zhejiang Fuyin in installments is in compliance with all the applicable PRC laws and regulations and accordingly, Zhejiang Fuyin is legally owned by China Silver Hong Kong under the PRC laws even though only 20% of the registered capital of Zhejiang Fuyin has been paid. As our Group has control over Zhejiang Fuyin, the consolidation of the results of operations of Zhejiang Fuyin into our Group complies with the relevant accounting standards regardless of the percentage of capital contribution made by our Group to Zhejiang Fuyin during the Track Record Period. We plan to contribute the balance of the registered capital of Zhejiang Fuyin in one lump sum within one month after the Listing.

Longtianyong Nonferrous Metals

On March 31, 2012, Zhejiang Fuyin and the then shareholders of Longtianyong Nonferrous Metals (namely Mr. Chen Wantian, Mr. Chen Wanquan (as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), Mr. Wu Wenyong, Mr. Chen Wancheng (as nominee for and on behalf of Mr. Chen Wantian and Ms. Zhou Peizhen), Mr. Chen Wanlong, Mr. Chen Rong and Mr. Wan Chenglai) entered into the Longtianyong Equity Transfer Agreement pursuant to which the then shareholders of Longtianyong Nonferrous Metals agreed to sell the entire equity interest in Longtianyong Nonferrous Metals to Zhejiang Fuyin for a consideration of RMB110 million based on the registered capital of Longtianyong Nonferrous Metals and Zhejiang Fuyin became the sole shareholder of Longtianyong Nonferrous Metals on April 27, 2012. The sum of RMB110 million was funded by an interest free and unsecured loan from Mr. Chen Wantian to Zhejiang Fuyin on July 19, 2012 and Zhejiang Fuyin settled the consideration of acquisition to each shareholder of Longtianyong Nonferrous Metals on the same day. Zhejiang Fuyin has repaid the loan of RMB110 million to Mr. Chen Wantian prior to completion of Global Offering from cash reserves on hand and cash flow generated from our operations. As advised by our PRC legal advisors, Jingtian & Gongcheng, the Longtianyong Equity Transfer Agreement is legally effective and binding on the parties.

Longtianyong Recycling

Longtianyong Nonferrous Metals established Longtianyong Recycling on February 11, 2009 with the intention of exploring the business opportunities in the recycling industry in China. On January 1, 2009, the PRC government implemented certain tax incentives under the Notice of the Ministry of Finance and the State Administration of Taxation on the VAT Policies on Renewable Resources (財政部、國家稅務總局關於再生資源增值稅政策的通知) (the “Notice”). According to the Notice, eligible taxpayers who pay VAT on sales of renewable resources prior to the end of 2010 can enjoy a refund of VAT. Pursuant to the Notice, Longtianyong Recycling was entitled to the refund of 70% and 50% of the VAT paid by it based on the sales of renewable resource in 2009 and 2010, respectively.

On June 15, 2009, Longtianyong Nonferrous Metals transferred its 51% and 49% of the equity interest in Longtianyong Recycling to Mr. Zhou Peiliang (the brother of Ms. Zhou Peizhen and an employee of Longtianyong Nonferrous Metals) and Mr. Chen He (the son of Mr. Chen Wancheng and an employee of Longtianyong Nonferrous Metals), respectively, for a consideration of RMB2.55 million and RMB2.45 million, respectively, because the directors of Longtianyong Nonferrous Metals were under the belief that Longtianyong Recycling had to be separately held by other parties in order to enjoy such tax incentives as a matter of industry practice. The consideration was based on the registered capital of Longtianyong Recycling. On the same date, Longtianyong Nonferrous Metals entered into a share trust contract with each of Mr. Zhou Peiliang

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and Mr. Chen He pursuant to which Mr. Zhou Peiliang and Mr. Chen He agreed to hold and manage the equity interests in Longtianyong Recycling held by each of them as nominee for and on behalf and for the benefit of Longtianyong Nonferrous Metals. As advised by our PRC legal advisors, Jingtian & Gongcheng, the share trust contracts between Longtianyong Nonferrous Metals, Mr. Zhou Peiliang and Mr. Chen He are legally effective and binding on the parties.

After further clarification with the relevant PRC authority, the directors of Longtianyong Nonferrous Metals came to understand that the Notice did not specifically require Longtianyong Recycling to be separately held by another party. As a result, Longtianyong Nonferrous Metals decided to become the registered shareholder of Longtianyong Recycling. On September 3, 2010, Longtianyong Nonferrous Metals entered into an equity transfer agreement with Mr. Zhou Peiliang and Mr. Chen He pursuant to which Mr. Zhou Peiliang and Mr. Chen He transferred the 51% and 49% equity interest respectively held by them to Longtianyong Nonferrous Metals, for a consideration of RMB2.55 million and RMB2.45 million, respectively, which were based on the registered capital of Longtianyong Recycling.

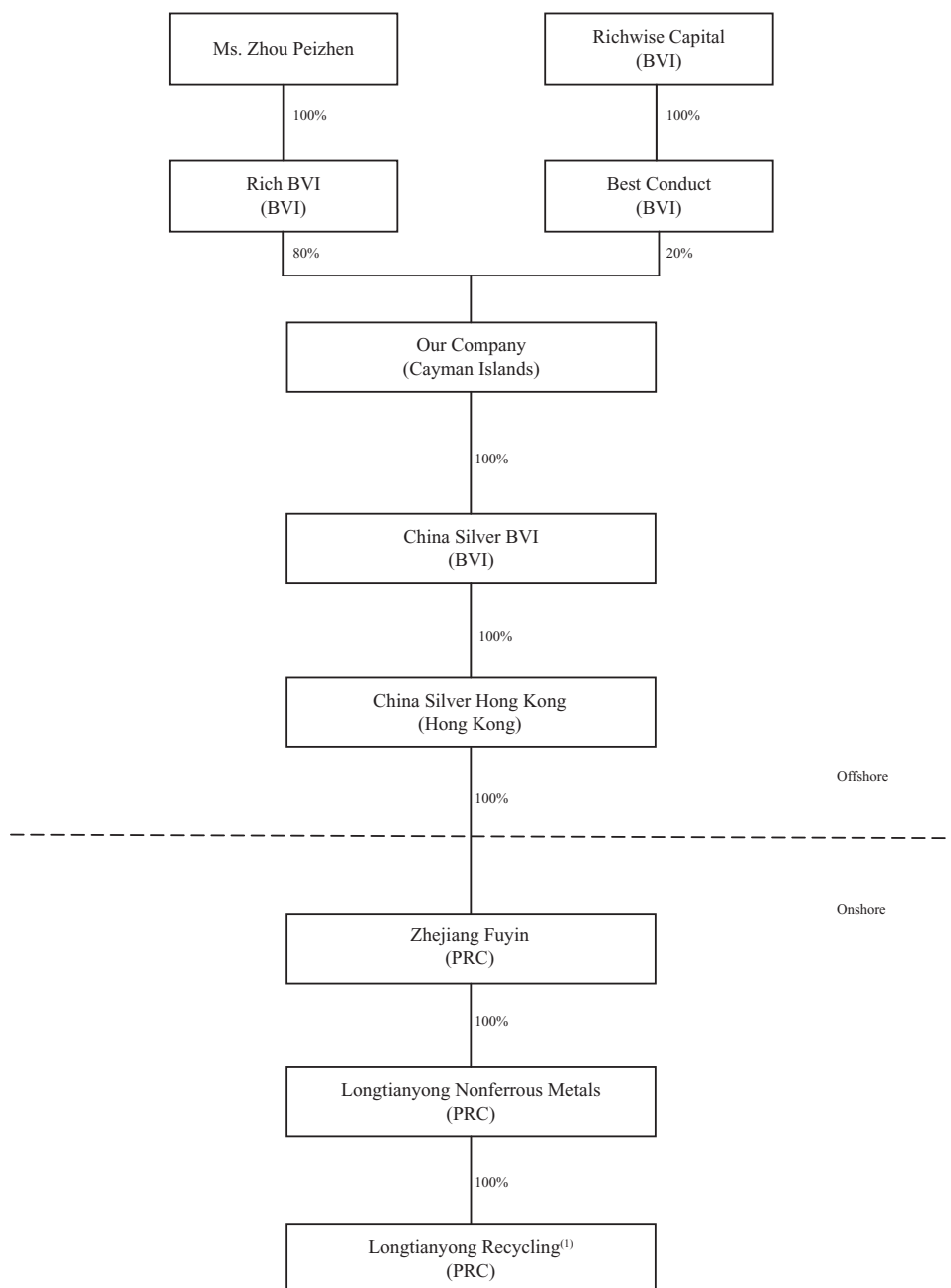
With the termination of the tax incentives under the Notice at the end of 2010, Longtianyong Recycling ceased to conduct any further business and is currently dormant. We decided to retain Longtianyong Recycling as our subsidiary and to maintain the dormant status of Longtianyong Recycling until such time as we decide to engage in the recycling business in China again.

Cheng Nan Recycling

Cheng Nan Recycling was established on July 15, 2002 in the PRC by Independent Third Parties to primarily engage in the recycling and sale of scrap non-ferrous metals and scrap precious metals (other than gold). Mr. Chen Wanlong (who was also a shareholder and a director of Longtianyong Nonferrous Metals at the relevant time) became a shareholder of Cheng Nan Recycling on October 21, 2003. As such, the business dealings between Cheng Nan Recycling and Longtianyong Nonferrous Metals became related party transactions. In addition, since it was in the same recycling business as Longtianyong Recycling, our other subsidiary, it constituted a business of one of our shareholders, namely Mr. Chen Wanlong that competes with us. In order to discontinue past related party transactions and solve the business competition issue in anticipation of our listing plan, we acquired Cheng Nan Recycling in September 2010 from its then shareholders, namely Mr. Chen Wanlong and Yongfeng Guanshan Forest Farm (永豐縣官山林場) (an Independent Third Party), pursuant to an equity transfer agreement dated September 3, 2010 for an aggregate consideration of RMB2.2 million based on the net asset value of Cheng Nan Recycling. However, with the termination of the tax incentives under the Notice, we de-registered Cheng Nan Recycling on July 30, 2012.

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Our Group structure upon completion of the above-mentioned steps is set out below:



(1) Longtianyong Nonferrous Metals established Longtianyong Recycling in view of certain tax incentives under PRC laws. Such incentives were subsequently terminated at the end of year 2010. Since then, Longtianyong Recycling has not conducted any further business and it is currently dormant. Longtianyong Nonferrous Metals decided to maintain the dormant status of Longtianyong Recycling until such time as we decide to engage in the recycling business in China again.

Trust Arrangement

As part of the Reorganization, Success BVI and Everywhere BVI were incorporated in the BVI on July 5, 2012. Easy BVI and Highflier BVI were incorporated in the BVI on July 9, 2012.

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On August 7, 2012, Ms. Zhou Peizhen applied for one ordinary share, which constitutes the entire issued capital, in each of Easy BVI, Success BVI, Highflier BVI and Everywhere BVI.

On August 15, 2012, Rich BVI transferred 12,510, 5,820, 5,820 and 2,910 Shares representing 12.51%, 5.82%, 5.82% and 2.91% of the then issued share capital of our Company, respectively, to Easy BVI, Success BVI, Highflier BVI and Everywhere BVI, each for a nominal consideration of HK\$1.00.

On August 14, 2012, Ms. Zhou Peizhen, as the settlor, established five discretionary trusts, namely the Chen Family Trust, WWY Trust, CWL Trust, CR Trust and WCL Trust. On August 15, 2012, she transferred her entire interests in Rich BVI, Easy BVI, Success BVI, Highflier BVI and Everywhere BVI to Rich Guernsey, Easy Guernsey, Success Guernsey, Highflier Guernsey and Everywhere Guernsey, respectively. Rich Guernsey, Easy Guernsey, Success Guernsey, Highflier Guernsey and Everywhere Guernsey are wholly-owned and controlled by the trustee of each of the trusts respectively. The trustee of all five trusts is Credit Suisse Trust Limited. The Chen Family Trust is a discretionary trust with Mr. Chen Wantian, Ms. Zhou Peizhen and their children as discretionary beneficiaries. WWY Trust is a discretionary trust with Mr. Wu Wenyong, his spouse and their children as discretionary beneficiaries. CWL Trust is a discretionary trust with Mr. Chen Wanlong, his spouse and their children as discretionary beneficiaries. CR Trust is a discretionary trust with Mr. Chen Rong, his spouse and their children as discretionary beneficiaries. WCL Trust is a discretionary trust with Mr. Wan Chenglai, his spouse and their children as discretionary beneficiaries.

Credit Suisse Trust Limited as the trustee of the five trusts has, amongst other powers, the powers usually granted to a trustee, including:

- (a) applying all or any part of the trust fund and the income thereof to and for the maintenance, education, advancement or otherwise for the benefit of any of the beneficiaries;
- (b) paying or transferring of the trust fund and the income thereof to the trustees of any other trust for the benefit of the beneficiaries; and
- (c) holding the trust fund and the income for the benefit of the beneficiaries.

The protector of the Chen Family Trust is Mr. Chen Wantian, the protector of WWY Trust is Mr. Wu Wenyong, the protector of CWL Trust is Mr. Chen Wanlong, the protector of CR Trust is Mr. Chen Rong and the protector of WCL Trust is Mr. Wan Chenglai.

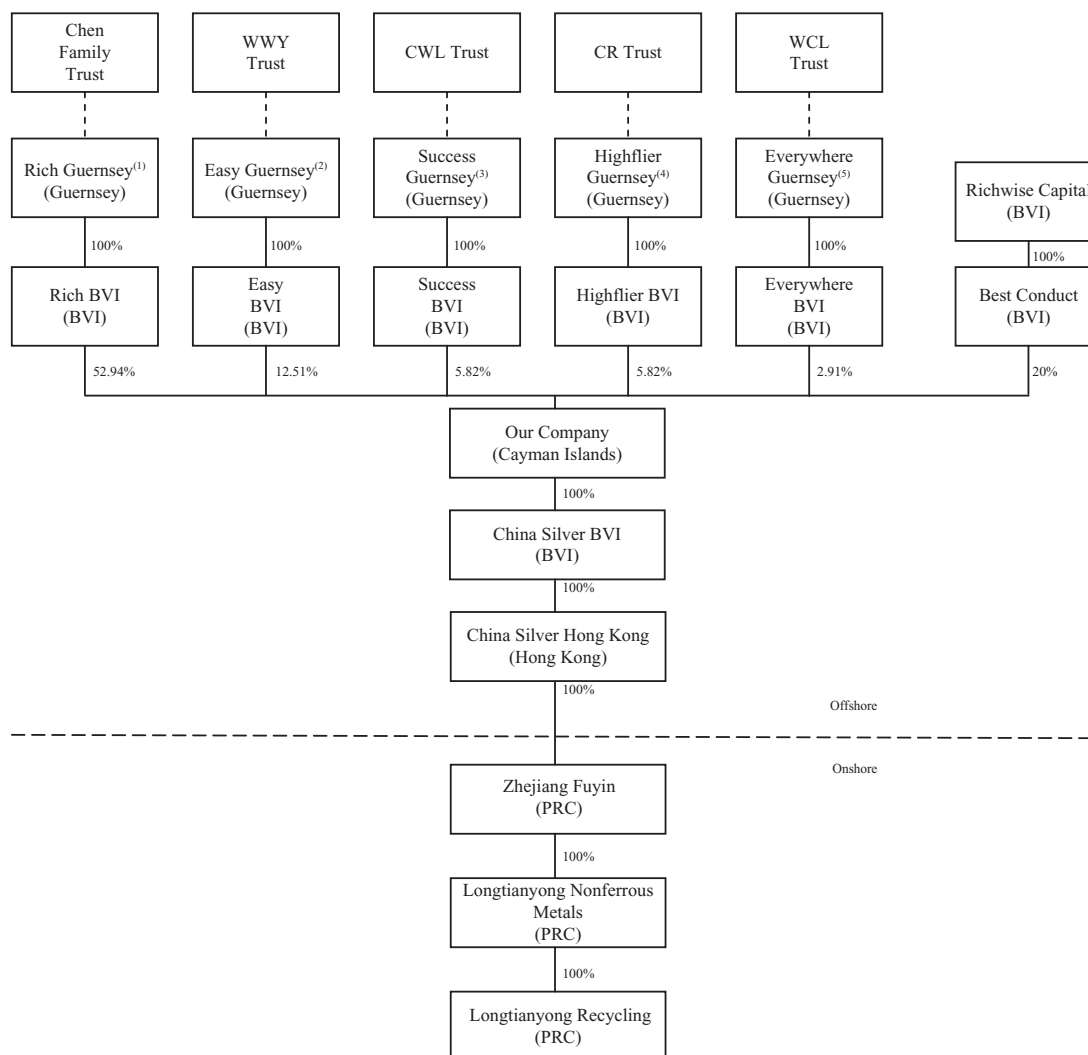
The proper law of the five trusts is the laws of the Island of Guernsey and the provisions of the five trusts are subject to, and enforceable under, the laws of the Island of Guernsey. Under each of the five trusts, certain discretions of the trustee are only exercisable by the trustee with the consent of the protector of each of the respective trusts and such discretions include: (i) determining the date of termination of the trust; (ii) changing the proper law of the trust; (iii) appointment of income to beneficiaries; (iv) appointment of capital and income to beneficiaries on termination of the trust; (v) general powers of appointment and advancement; (vi) exclusion of beneficiaries; (vii) addition of beneficiaries; and (viii) variation of the trust powers and provisions of the trust.

In addition, for as long as there is a protector in office in each trust, the trustee shall not have any investment or asset management powers, including powers to interfere in the

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management of the business of our Company and the voting rights attached to the Shares. The settlor has no reserved power under the five trusts. The investment and asset management powers in each trust are vested solely in the protector of that particular trust. The protector in each trust also has the power to appoint or remove the trustee of that particular trust.

The ownership structure upon establishment of the above-mentioned trusts is set out below:



(1) Rich Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of the Chen Family Trust.

(2) Easy Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WWY Trust.

(3) Success Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CWL Trust.

(4) Highflier Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CR Trust.

(5) Everywhere Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WCL Trust.

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THE REORGANIZATION AND CIRCULAR 75

According to the Circular 75, domestic residents who establish or control an overseas special purpose vehicle must conduct foreign exchange registration with the local SAFE authority; and domestic residents who have contributed their assets or shares of a domestic enterprise into an overseas special purpose vehicle, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas special purpose vehicle with the local SAFE authority. The Circular 75 applies to each of Mr. Chen Wantian, Mr. Wu Wenyong, Mr. Chen Wanlong, Mr. Chen Rong and Mr. Wan Chenglai, and any other individual who is a resident in the PRC and is an indirect shareholder of Longtianyong Nonferrous Metals through foreign holding companies. Following the completion of the Reorganization, each of Mr. Chen Wantian, Mr. Wu Wenyong, Mr. Chen Wanlong, Mr. Chen Rong and Mr. Wan Chenglai has applied for the required registration with the governing SAFE authority under the Circular 75. We expect that the relevant authority will complete the registration shortly after the Listing. As confirmed by Jingtian & Gongcheng, our PRC legal advisors, these registrations are merely procedural matters and there will not be any legal obstacle to complete such registrations.

THE REORGANIZATION AND THE NEW M&A RULE

Under the New M&A Rule, an offshore special purpose vehicle formed for listing purposes and controlled, directly or indirectly, by PRC companies or individuals, in cases where its shareholder or itself purchases the equities of the shareholders of a domestic company or subscribed for the increased capital of a domestic company by paying with its equities or additional issued shares, shall be required to obtain approval from the CSRC prior to the listing and trading of securities of such offshore special purpose vehicle on an overseas stock exchange. In accordance with the New M&A Rule, the “takeover of a domestic enterprise by a foreign investor” means that the foreign investor purchases by agreement the equities of the shareholders of a domestic non-foreign-invested enterprise (“Domestic Enterprise”) or subscribes to the increased capital of a Domestic Enterprise, and thus changes the Domestic Enterprise into a foreign-invested enterprise; or a foreign investor established a foreign invested enterprise, and through which it purchases by agreement the assets of a Domestic Enterprise and owns its assets; or a foreign investor purchases by agreement the assets of a Domestic Enterprise, and then invest such assets to establish a foreign-invested enterprise and own the assets.

Our PRC legal advisors, Jingtian & Gongcheng, have advised us the acquisition of Longtianyong Nonferrous Metals by Zhejiang Fuyin which is subsequently wholly-owned beneficially by the Chen Family Trust, WWY Trust, CWL Trust, CR Trust and WCL Trust through China Silver Hong Kong pursuant to the Longtianyong Equity Transfer Agreement complies with the PRC legal requirements and, in particular, this transaction did not contravene the New M&A Rule given that (i) Ms. Zhou Peizhen, a citizen of Saint Christopher (St. Kitts) and Nevis since September 2011 and the then ultimate shareholder of Zhejiang Fuyin at the point of our acquisition of Longtianyong Nonferrous Metals, is not a “domestic natural person” under the New M&A Rule; (ii) our Company is not an offshore special purpose vehicle as defined under the New M&A Rule as our Company was established by Ms. Zhou Peizhen; and (iii) although Mr. Chen Wantian is a domestic natural person of the PRC and the source of funding for acquisition of Longtianyong Nonferrous Metals by Zhejiang Fuyin was provided by Mr. Chen Wantian on an unsecured and non-interest bearing basis, Mr. Chen Wantian does not hold any shareholdings in the offshore companies, but is merely one of the beneficiaries of the Chen Family Trust. In addition, we have consulted with the head of Foreign Investment Management Division of the Department of

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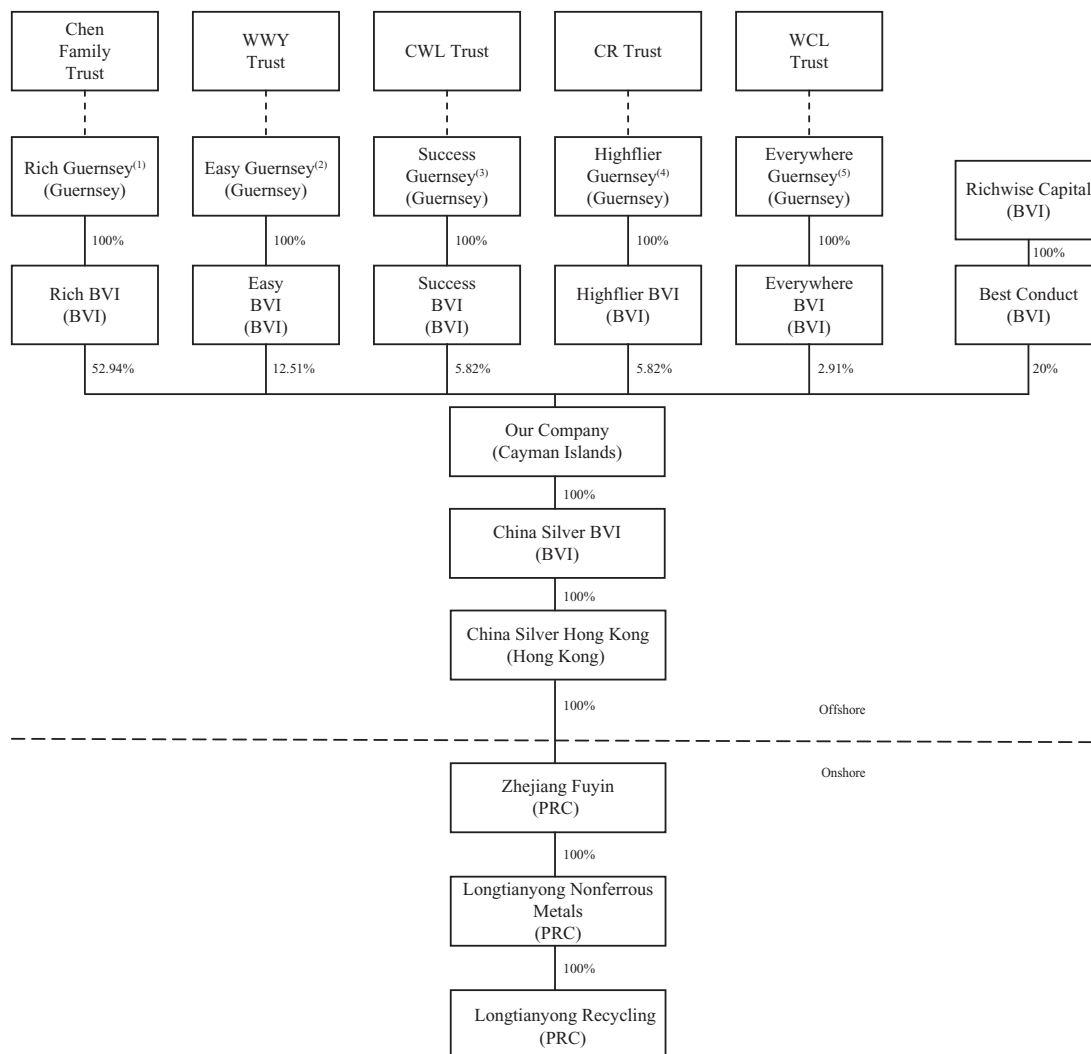
Commerce of Jiangxi Province (江西省商務廳外國投資管理部) (“Jiangxi MOFCOM”). Having disclosed all relevant facts relating to the reorganization of Longtianyong Nonferrous Metals, including the husband-wife relationship between Mr. Chen Wantian and Ms. Zhou Peizhen and that the source of funding for acquisition of Longtianyong Nonferrous Metals by Zhejiang Fuyin was provided by Mr. Chen Wantian on an unsecured and non-interest bearing basis, the Jiangxi MOFCOM has confirmed in writing on October 26, 2012 that the acquisition of Longtianyong Nonferrous Metals by Zhejiang Fuyin does not belong to the circumstances for the acquisition of domestic enterprises by foreign investors under the New M&A Rule. Accordingly, our PRC legal advisors, Jingtian & Gongcheng, have advised us that neither our Company nor any of our subsidiaries is required to obtain approvals or permits from any PRC government authorities or departments or complete any other legal procedures, or register with any other PRC government authorities or departments for the purpose of the Reorganization and the Listing.

Our PRC legal advisors, Jingtian & Gongcheng, have further advised us that the Reorganization was conducted in compliance with all applicable PRC laws and regulations and that all necessary approvals from PRC regulatory authorities, excluding the necessary foreign exchange registration which has been applied for, have been obtained.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

GROUP STRUCTURE

Set out below is the shareholding structure of our Group immediately prior to the Capitalization Issue, the Global Offering and the sale of the Sale Shares:



(1) Rich Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of the Chen Family Trust.

(2) Easy Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WWY Trust.

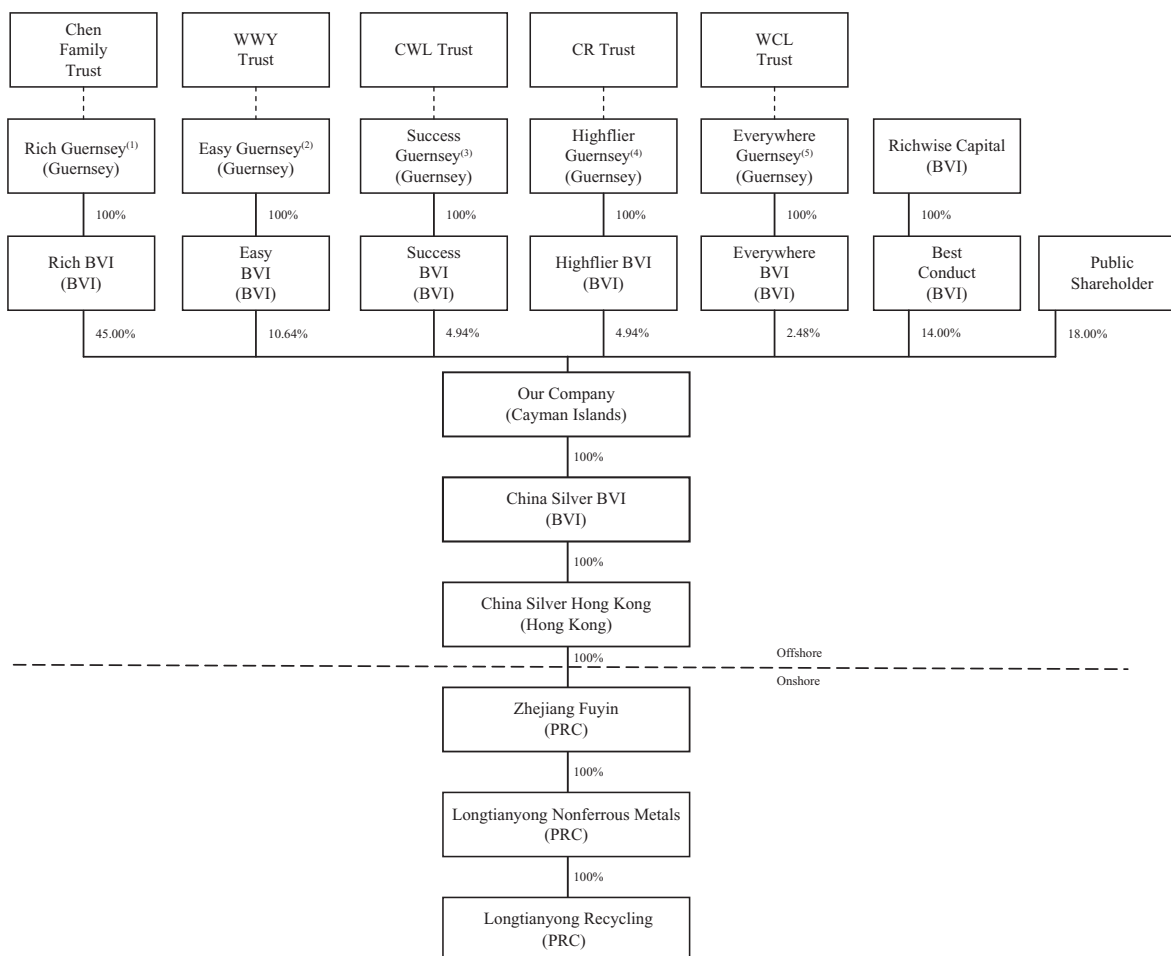
(3) Success Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CWL Trust.

(4) Highflieger Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CR Trust.

(5) Everywhere Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WCL Trust.

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Immediately following completion of the Capitalization Issue, the Global Offering and the sale of the Sale Shares (assuming that (i) the Over-allotment Option has not been exercised; and (ii) no options have been granted under the Share Option Scheme), the shareholding structure of our Group will be as follows:



1. Rich Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of the Chen Family Trust.
2. Easy Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WWY Trust.
3. Success Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CWL Trust.
4. Highflier Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of CR Trust.
5. Everywhere Guernsey is wholly-owned and controlled by Credit Suisse Trust Limited as the trustee of WCL Trust.