*The following discussion of our financial position and results of operations should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2009, 2010 and 2011 and as of and for the six months ended June 30, 2011 and 2012 including the notes thereto, attached as Appendix I to this prospectus. We have prepared our financial statements in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board.*

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, actual outcome and developments are subject to a number of risks and uncertainties. Factors that could cause or contribute to such differences include those discussed in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading silver producer in China, deploying a comprehensive production process designed to recover and refine non-ferrous metals to maximize economic value. According to CRU, we were ranked as the tenth largest silver producer in China in terms of annual production volume in 2011. Our principal product is silver ingot of not less than 99.995% purity sold under our well-recognized brand name "Longtianyong", which accounted for approximately 70% or more of our revenue during the three years ended December 31, 2011 and the six months ended June 30, 2012. We also produce other non-ferrous metals including lead ingot, bismuth ingot and antimony ingot.

We recover and refine our metal products from high-content ore powder, smelting slag and low-content ore powder, which are our principal raw materials. We procure our raw materials from domestic suppliers. Cost of raw materials accounted for a significant portion of our total cost of sales.

Over the years, we have established a strong and diversified customer base consisting of 20 to 30 major Chinese downstream manufacturers or metal trading companies, many of which are among the largest or leading enterprises in the end-user markets for silver products in China. For example, our largest customer is China Minmetals Nonferrous Metals Co., Ltd. (五礦有色金屬股份有限公司), which is a state-owned enterprise with a large market share in China's non-ferrous metal markets. Our five largest customers accounted for approximately 75.7%, 66.3%, 68.1% and 71.3% of our total revenue for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. As a result of our proven track record in consistently producing high quality silver ingot, we have established long term relationships with our customers, and believe that demand from our established customer base will rise in tandem with the expansion of our production capacity.

Our revenue grew significantly at a CAGR of 84.3% from RMB289.7 million for the year ended December 31, 2009 to RMB559.3 million for the year ended December 31, 2010 and to RMB984.2 million for the year ended December 31, 2011, and from RMB453.5 million for the six months ended June 30, 2011 to RMB620.9 million for the six months ended June 30, 2012. The growth in revenue during the Track Record Period was mainly driven by the increase in sales of our silver ingot. We produced approximately 88.7 tonnes, 104.4 tonnes, 112.9 tonnes, 56.3 tonnes and 83.2 tonnes of silver ingots for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively.

Our profit and total comprehensive income was RMB37.1 million, RMB98.3 million, RMB115.4 million, RMB89.7 million and RMB54.5 million for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012.

BASIS OF PRESENTATION

In the preparation for a listing of our Company's shares on the Stock Exchange, the companies now comprising the Group underwent the Reorganization which principally involves the following steps:

- Rich BVI was incorporated in the BVI on July 13, 2010. On November 1, 2011, Ms. Zhou Peizhen acquired the entire issued share capital in Rich BVI from the initial subscriber.

- Our Company was incorporated in the Cayman Islands and became a wholly-owned subsidiary of Rich BVI on July 19, 2012.

- China Silver BVI was incorporated in BVI and became a wholly-owned subsidiary of our Company on August 14, 2012.

- China Silver Hong Kong was incorporated in Hong Kong and became a wholly-owned subsidiary of China Silver BVI on November 14, 2011. China Silver Hong Kong established Zhejiang Fuyin as its wholly foreign owned enterprise on March 28, 2012.

- Pursuant to the Original Investment Agreement as supplemented by a supplemental agreement, Richwise Capital's investment of US$10 million to become a 20% shareholder of China Silver BVI was fully settled on July 13, 2012.

- Longtianyong Nonferrous Metals was established in the PRC on May 22, 2002 by Mr. Chen Wantian and three other individual shareholders. After several share transfers, Longtianyong Nonferrous Metals was nominally held by seven individual shareholders, who transferred the entire equity interest in Longtianyong Nonferrous Metals to Zhejiang Fuyin on April 27, 2012.

- On August 15, 2012, Rich BVI transferred part of its equity interests of our Company to four BVI companies wholly-owned by Ms. Zhou Peizhen each for a nominal consideration.

- On August 15, 2012, Ms. Zhou Peizhen, as the settlor, established five discretionary trusts and transferred her entire interests in Rich BVI and the above four other BVI companies to five Guernsey companies which are wholly-owned and controlled by the trustee of each of the five family trusts, respectively.

Please see the section headed "History, Reorganization and Group Structure — The Reorganization" in this prospectus for more details.

Upon completion of the Reorganization on August 15, 2012, our Company became the holding company of the companies now comprising the Group.

The combined statements of comprehensive income and combined statements of cash flows, which include the results and cash flows of the companies now comprising the Group for the Track Record Period, have been prepared as if our Company had always been the holding company of the Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of establishment/incorporation or acquisition, whichever is a shorter period.

The combined statements of financial position at the end of each reporting period have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the effective date of establishment/incorporation or acquisition.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be, affected by a number of factors, including the following:

- demand for our silver ingots in China;
- expansion of our production capacity and increase of our production output in recent years;
- prices of our silver ingot and raw materials; and
- advancement of production technology and ability to recover and refine other metals from raw materials.

Demand for our silver ingots in China

We derived approximately 70% or more of our revenue during the Track Record Period from the sales of our principal product, silver ingots, in China. As a result, the market demand for silver products in China has an important effect on our results of operations and profitability.

According to CRU, the total silver demand in China, the world's largest silver consumption country, increased from 7,575 tonnes in 2007 to 13,044 tonnes in 2011 at a CAGR of 14.6%, driven by the growing fabrication demand and increasing investment demand during the economic crisis. As silver has unique physical properties of electrical conductivity at room temperature, thermal conductivity, high reflectance, light-sensitive imaging, catalyst in manufacturing, and antibacterial and anti-inflammatory effect, it has been widely used in electrical, renewable energy, medical, health care and other industrial sectors. Driven by the growing demand from China's high-end technology manufacturing sector, the market demand for silver fabrication products in China is forecast to increase from 4,725 tonnes in 2012 to 6,225 tonnes in 2016 at a CAGR of 7.1%, compared to the CAGR of 7.3% from 2007 to 2011, according to CRU. CRU also estimates that silver investor demand in China grew at a CAGR of 19.2% over the period of 2007-2011 and reached 8,704 tonnes in 2011. This demand is expected to remain above 8,000 tonnes during 2012 to 2016. Our Directors believe that silver price is expected to continually increase in the near future.

Silver has also been widely used as adornment jewelry in China. As China's economic structure changes from focusing on export and foreign investment to domestic consumption, consumer-related industries are becoming more and more important in China. With China's per capita GDP in 2011 exceeding US$4,000 and the continuous urbanization in China, Chinese consumers' demand for jewelry, artifacts and other luxury products made of silver has increased rapidly. According to CRU, China's consumption of silver in jewelry adornment is forecasted to increase from approximately 1,474 tonnes in 2012 to 2,014 tonnes in 2016 at a CAGR of 8.1%.

In addition, silver has a long history as a popular form of investment in China. Due to a substantial increase of the silver price in recent years, driven by depreciation of the U.S. dollar, the European debt crises, inflation fear, current low prevailing interest rates and investment in commodities as an asset class to further wealth growth, Chinese consumers increasingly purchase silver as an investment vehicle. Since silver contracts only started trading on the Shanghai Futures Exchange as recently as May 2012, silver has quickly become one of the metals with the highest average daily trading volume.

Because of the increased demand for silver in China's end-user market, there have been significant increases in purchase orders from our customers, which consist of major Chinese manufacturers and trading companies of metal products in China. The sales volume of our silver ingots during the Track Record Period increased from 88.7 tonnes for the year ended December 31, 2009 to approximately 112.9 tonnes for the year ended December 31, 2011 at a CAGR of 12.8%, and from 49.7 tonnes for the six months ended June 30, 2011 to 86.0 tonnes for the six months ended June 30, 2012, representing a growth rate of 73.0%

However, any future slowdown of the PRC economy could result in reduced demands for silver and in turn the market demands for our silver ingots, which would have an adverse effect on our business, financial condition and results of operations.

Expansion of our production capacity and increase of our production output in recent years

Our production plant is located in the Western Industrial Park of Yongfeng County, Jiangxi province. We currently have one integrated production system through which we produce our principal product of silver ingot and other by-products, such as lead ingot, bismuth ingot and antimony ingot. We have started to purchase, install and improve our integrated production system since 2009, and by the end of 2009, the total designed annual production capacity of our integrated production system achieved 250 tonnes of silver ingots and has remained at the level of 250 tonnes thereafter. We were ranked as the tenth largest silver producer in China in terms of annual production volume for the year ended December 31, 2011, according to CRU. The expansion of our production capacity enabled us to increase our production output gradually during our Track Record Period. The following table sets forth information relating to the designed annual production capacity of silver ingots, actual production volume of silver ingots and utilization rate of our integrated production system for the year ended December 31, 2009, 2010 and 2011, and the six months ended June 30, 2011 and 2012:

	Year ended December 31,			Six months ended June 30,	
	2009	**2010**	**2011**	**2011**	**2012**
Designed annual silver production capacity (tonnes)	250	250	250	250	250
Actual silver production volume (tonnes)	88.7	104.4	112.9	56.3	83.2
Utilization rate[(1)]	35.5%[(2)]	41.8%	45.2%	45.0%[(3)]	66.6%[(3)]

(1) Utilization rate is calculated by dividing the actual production volume for the relevant period with the designed annual production capacity as of the end of the relevant period. The actual production volume is based on a production schedule of 300 days per year.

(2) The actual silver production volume in 2009 included 59.1 tonnes of silver ingots produced at our old production plant and 29.6 tonnes of silver ingots produced at our current production plant. Our old production plant had a designed annual silver production capacity of approximately 100 tonnes of silver ingots. Therefore, the utilization rate of 2009 with respect to our old production plant was approximately 59.1% and the utilization rate of 2009 with respect to our current production plant was approximately 11.8%.

(3) These are annualized rates. In computing the annualized utilization rate, the actual production volume was multiplied by two.

We believe that the installation of our integrated production system to expand our production capacity and the gradual increase of our production volume during the Track Record Period have strengthened our market position and enhanced our competitiveness in the market. See the section headed "Business — Our Production Facilities" in this prospectus for additional disclosures on our utilization rate. To further increase our profit margin and improve the profitability, we intend to use the net proceeds from the Global Offering to expand our production facilities, warehouses and ancillary facilities, purchase additional machinery and equipment. We expect to gradually achieve an annual silver production capacity of 400 tonnes by 2013, 550 tonnes by 2014 and 650 tonnes by 2015. See the section headed "Business — Our Strategies — Expand production capacity to further strengthen our established market position" in this prospectus for more details about our expansion plan.

A decrease in utilization rate of our integrated production system would directly reduce our actual production volume of silver ingots and negatively impact our revenue and results of operations. The following table shows the impact on our revenue as a result of the increase/decrease in the utilization rate of our integrated production system for our silver ingot in two different scenarios, assuming all other factors remain the same, for the periods indicated:

Increase/decrease in utilization rate of our integrated production system for our silver ingot	**Increase/ decrease in revenue for 2009**	**Increase/ decrease in revenue for 2010**	**Increase/ decrease in revenue for 2011**	**Increase/ decrease in revenue for the six months ended June 30, 2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
5%	40,830	66,773	108,965	90,288
10%	81,659	133,546	217,930	180,575

The following breakeven analysis shows (i) the minimum utilization rates of our silver production; and (ii) the minimum sales volume of our silver ingots to cover our fixed costs, assuming all other factors remain the same:

	Year ended December 31, 2009	**Year ended December 31, 2010**	**Year ended December 31, 2011**	**Six months ended June 30, 2012**
Minimum utilization rate of our silver production	14.1%	11.4%	14.4%	23.4%*
Minimum sales volume of our silver ingots *(tonnes)*	35.2	28.6	36.1	58.4**

* *This is annualized rate. In computing the annualized utilization rate, the minimum production volume was multiplied by two.*

** *Annualized figure, representing the minimum sales volume for the half year times two.*

Prices of our silver ingot and raw materials

Price of our silver ingot

As silver ingots are the primary source of income for our Group, our operating results are directly affected by the movements of silver price in China. The movements of silver price have been caused by various market forces, such as global and PRC end-user market demands for silver, global and PRC supplies from mine production and silver scrap, gold price, investment trading, fluctuations in the U.S. dollar value, the European debt crises, inflation fear and changes in prevailing interest rates. The sales price of our silver ingots is determined with reference to the closing China Domestic Silver Price on the day prior to the delivery of our silver ingots. For the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, the average selling price of our silver ingots per tonne was approximately RMB2.9 million, RMB3.8 million, RMB6.4 million, RMB6.3 million and RMB5.4 million, respectively. The price movements of silver in China follows that in the international market. The price movements of silver in China directly affect our business, financial condition and results of operations.

The following table shows the sales revenue, sales volume and average selling price of our silver ingot for the periods indicated:

	Year ended December 31			Six months ended June 30,	
	2009	2010	2011	2011	2012
				(unaudited)	
Revenue (RMB'000)	255,992	402,518	719,448	314,564	468,522
Sales volume (tonnes)	88.7	104.7	112.9	49.7	86.0
Average selling price (RMB'000 per tonne)	2,886.0	3,844.5	6,372.4	6,329.3	5,447.9

Our results of operations are directly affected by fluctuations on the selling price of our silver ingots. During the Track Record Period, the maximum fluctuation in the China Domestic Silver Price for a two-month period was approximately 35% and the absolute average fluctuation in the China Domestic Silver Price for a two-month period was approximately 10%. The following table shows our revenue and gross profit as a result of increase/decrease in the average selling price of our silver ingots in these two different scenarios, assuming all other factors remain the same, for the periods indicated:

Increase/decrease in the average selling price of our silver ingot	Increase/ decrease in revenue and gross profit for 2009	Increase/ decrease in revenue and gross profit for 2010	Increase/ decrease in revenue and gross profit for 2011	Increase/ decrease in revenue and gross profit for the six months ended June 30, 2012
	RMB'000	RMB'000	RMB'000	RMB'000
10.0%	25,599	40,252	71,945	46,852
35.0%	89,597	140,881	251,807	163,983

Prices of our raw materials

In our production model, we recover and refine silver, lead and other metal by-products from raw materials and sell our products which meet quality standards to customers. We determine the price of our raw materials primarily based on the content levels of silver and lead by reference to (i) in the case of silver, the mean of the China Domestic Silver Price; and (ii) in the case of lead, the mean price of No. 1 Lead Ingot provided by the Shanghai Metals Market, both on the day immediately before delivery of the raw materials, after applying a 10 to 40% discount. The discount depends on the types of raw materials, which is generally determined through negotiations. Therefore, the price movements of silver and lead in China also directly affect the prices of our principal raw materials, namely, high-content ore powder, smelting slag and low-content ore powder. Our cost of raw materials consumed amounted to RMB205.4 million, RMB378.1 million, RMB756.5 million, RMB299.7 million and RMB510.0 million for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively, accounting for 93.8%, 93.6%, 95.0%, 94.1% and 95.9% of our total cost of sales for the same periods. As a result, the price movements of silver and lead in China, which directly affect the prices of raw materials, also have an important impact on our business, financial condition and results of operations.

In our production model, we recover and refine silver, lead and other metal by-products from raw materials and sell our products which meet quality standards to customers.

The following table sets forth our total purchase amount, purchase volume and average purchase price of each of our high-content ore powder, smelting slag, low-content ore powder and anode slime for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009[1]	2010	2011	2011	2012
High-content ore powder					
Amount *(RMB'000)*	65,677	228,978	388,972	195,519	258,178
Purchase volume (tonnes)	5,442	14,664	18,323	9,377	11,630
Average purchase price *(RMB'000 per tonne)*	12.1	15.6	21.2	20.9	22.2
Smelting slag					
Amount *(RMB'000)*	10,597	91,405	181,182	92,097	115,156
Purchase volume (tonnes)	843	6,572	9,456	4,755	6,181
Average purchase price *(RMB'000 per tonne)*	12.6	13.9	19.2	19.4	18.6
Low-content ore powder					
Amount *(RMB'000)*	30,371	101,541	166,091	83,053	93,250
Purchase volume (tonnes)	8,748	22,383	24,009	11,473	14,020
Average purchase price *(RMB'000 per tonne)*	3.5	4.5	6.9	7.2	6.7
Anode slime[1]					
Amount *(RMB'000)*	113,138	—	—	—	—
Purchase volume (tonnes)	304	—	—	—	—
Average purchase price *(RMB'000 per tonne)*	372.2	—	—	—	—

(1) In 2009, we also carried out production at our old production plant which only had the capability of recovering and refining silver from anode slime. After 2009, we no longer purchased anode slime.

Our total purchase amounts of the principal raw materials, namely high-content ore powder, smelting slag and low-content ore powder, increased during the Track Record Period, primarily because we increased our purchase volumes of the principal raw materials to meet with our expanded production scale and the average purchase prices of the principal raw materials followed a general increasing trend, which was affected by the fluctuations of silver and lead prices in the PRC and international markets.

An increase in the prices of our principal raw materials would negatively impact our gross profit margins if we were not able to transfer the increased cost resulting from such price increase through increase in the selling prices of our silver ingots and other non-ferrous metals. The following table shows the increase/decrease in our cost of raw materials consumed in the 10% and 35% fluctuation scenarios, assuming all other factors remain the same, for the periods indicated:

Increase/decrease in average purchase price of our principal raw materials	Increase/ decrease in cost of raw materials consumed for 2009	Increase/ decrease in cost of raw materials consumed for 2010	Increase/ decrease in cost of raw materials consumed for 2011	Increase/decrease in cost of raw materials consumed for the six months ended June 30, 2012
	RMB'000	RMB'000	RMB'000	RMB'000
10.0%	20,540	37,814	75,648	50,998
35.0%	71,891	132,349	264,768	178,492

Fluctuation of silver prices

Fluctuation of silver prices in China directly affects our profitability.

The cost of our principal raw materials is determined based on the content levels of silver and lead and with reference to their then prevailing market prices after applying certain percentage of discount and such discount represents our main source of income and our gross profit. Upon completion of our production, we then sold most of our finished goods at the prevailing market prices which were determined with reference to the prevailing closing prices of relevant metals in the relevant markets one day prior to our delivery, after deduction of reasonable freight charges where applicable. Any fluctuation in silver prices during our production cycle (from order of raw materials to sale of our end products) would increase/reduce the average selling price of our silver ingots and as a result lead to the fluctuation of our gross profit for the same period.

Although fluctuation of silver prices affects our profitability, it does not necessarily mean that a movement in silver prices in a particular period directly results in the same degree of movement in our gross margin for the same period. Based on a regression model, during the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the China Domestic Silver Price had a correlation of 74%, 63%, 37% and 81% with our gross profit margin for the same year/period, respectively. The positive correlation between the China Domestic Silver Price and our gross profit margin demonstrates that our gross profit margin moved generally in line with the changes in the silver market price in China. The correlation was relatively strong in 2009 and during the six months ended June 30, 2012, because the silver market price in China was in a general upward (or downward) trend in the respective periods, causing the China Domestic Silver Price and our gross profit margin to increase (or decrease) in the same direction. When the silver market price became volatile in 2011, the correlation became lower because the China Domestic Silver Price moved up and down within a short period of time, causing the positive effect of price increase partially offset by the negative effect of price decrease on our gross profit margin. Such overall impact was partially neutralized by other factors including change in our product mix, market prices of other non-ferrous metals in China, production cycle, purchase prices of raw materials and other production costs such as direct labor, all of which we have taken into account in calculation of correlations.

During the Track Record Period, our inventory of raw materials to support our continuous production was one to two months (our average turnover days of inventories were 50 to 80 days) and our production lead time (from acceptance of delivery of raw materials to sale of end products) was one to three months. As such, our typical total production cycle (from order of raw materials to sale of our end products) was two to four months. A change in silver market price during our production cycle has an impact on both our revenue and cost of materials consumed and therefore, affects our gross profit margin.

During the Track Record Period, the maximum fluctuation in the China Domestic Silver Price for a two-month period was approximately 35% and the absolute average fluctuation in the China Domestic Silver Price for a two-month period was approximately 10%.

The following table shows the impact on our gross profit margin as a result of increase/ decrease in our average selling price in these two different scenarios, with reference to a regression projection, assuming all other factors remain the same, for the periods indicated:

Increase/decrease in our average selling price	Gross profit margin for 2009	Increase/ decrease in gross profit margin for 2009	Gross profit margin for 2010	Increase/ decrease in gross profit margin for 2010	Gross profit margin for 2011	Increase/ decrease in gross profit margin for 2011	Gross profit margin for the six months ended June 30, 2012	Increase/ decrease in gross profit margin for the six months ended June 30, 2012
Increase by 10%	27.4%	3.0%	28.6%	0.8%	22.1%	3.0%	20.0%	5.6%
Decrease by 10%	20.4%	-4.0%	24.4%	-3.4%	14.7%	-4.4%	7.8%	-6.6%
Increase/decrease in our average selling price								
Increase by 35%	36.1%	11.7%	33.8%	6.0%	31.4%	12.3%	35.3%	20.9%
Decrease by 35%	11.7%	-12.7%	19.1%	-8.7%	5.4%	-13.7%	-7.5%	-21.9%

To minimize the impact caused by the fluctuation of silver price in China during our production cycle and maximize our return from our purchase of raw materials, we plan to continue to enhance production efficiency by reducing our production lead time, reducing our inventory of raw materials, and reducing our average turnover days of inventories. After the Track Record Period and up to the Latest Practicable Date, we achieved a production cycle of approximately one to two months. We also plan to enter into hedging transactions where applicable. Please refer to the section headed "Business — Hedging Arrangements" in this prospectus for further details.

Advancement of production technology and ability to recover and refine other metals from raw materials

Because the purchase price of our raw materials is determined based on the content levels of silver and lead contained in the raw materials and the contents of other metals and minerals are disregarded, our ability to recover and refine other metals will increase our profit margin and improve our profitability. We have developed advanced production techniques and technology and possess proprietary know-how to recover and refine other metals from the raw materials. In addition to silver ingot and lead ingot, we are able to recover and refine other metal by-products such as bismuth ingot, antimony ingot, zinc oxide and non-standard gold through additional processing of raw materials. Our revenue of other by-products as a percentage of the total revenue increased steadily during the Track Record Period and accounted for 1.5%, 9.4%, 13.0%, 15.2% and 10.9% of our total revenue for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. Our advanced production technology and our ability to recover and refine other metals from raw materials not only improved our profitability during the Track Record Period, but also diversified our product portfolio.

To further increase our profit margin and improve our profitability, we possess production technologies for other metals, for example, selenium, which have commercial value and market demand in China, and intend to make production in the near future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. The key sources of estimations and uncertainties in the application of our accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 5 to the Accountants' Report included in Appendix I in this prospectus.

When reviewing our financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial information. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Although we believe that these estimates are reasonable, the determination of these items requires management judgments based on information and financial data that may change in future periods, and as a result of which, actual results could differ from those estimates.

Allowance for inventories

Inventories are valued at the lower of cost and net realizable value. We regularly review our inventory levels in order to identify slow-moving and obsolete inventories. When we identify items of inventories which have a market price that is lower than its carrying amount, we estimate the amount of write-down of inventories as allowance for inventories. Since most of our inventories are commodities which are readily tradable in the market, we did not have obsolete inventories during the Track Record Period.

Estimated allowance for trade receivables

Management regularly reviews the recoverability of trade receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realization of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, allowance may be required.

Estimated useful life of property, plant and equipment

Plant and machinery included in property, plant and equipment are depreciated over their useful economic lives. The assessment of estimated useful lives is a matter of judgment based on the experience of our management, taking into account factors such as technological progress, conditions of the plant and machinery and changes in market demand. Useful lives are periodically reviewed for continued appropriateness. We currently estimate the useful life of our property, plant and equipment to be from five to twenty years.

COMBINED RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our combined statements of comprehensive income:

Combined Statements of Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Revenue	289,727	559,291	984,172	453,463	620,875
Cost of sales	(218,945)	(404,003)	(796,260)	(318,448)	(531,551)
Gross profit	70,782	155,288	187,912	135,015	89,324
Other income	98	107	196	52	104
Administrative expenses	(13,730)	(13,217)	(15,818)	(7,178)	(8,823)
Selling and distribution expenses	(965)	(1,114)	(1,179)	(533)	(575)
Research and development expenses	(3,110)	(5,661)	(10,194)	(5,167)	(3,199)
Loss on disposal of property, plant and equipment	—	(783)	(647)	(6)	(103)
Other expenses	(229)	(119)	(121)	(101)	(10)
Finance costs	(1,961)	(2,861)	(5,291)	(1,897)	(3,498)
Profit before tax	50,885	131,640	154,858	120,185	73,220
Income tax expense	(13,754)	(33,354)	(39,448)	(30,518)	(18,761)
Profit and total comprehensive income for the year/period	37,131	98,286	115,410	89,667	54,459

DESCRIPTION OF THE MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We derived revenue primarily from sales of our silver ingots, which accounted for 88.4%, 72.0%, 73.1%, 69.4% and 75.5% of our total revenue for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. During our production process of silver ingot, we also recover and refine other metal by-products including lead ingot, bismuth ingot and antimony ingot. The following table sets forth the revenue and percentage of total revenue of our products for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2009		2010		2011		2011		2012	
	Revenue (RMB'000)	Percentage of revenue	Revenue (RMB'000)	Percentage of revenue	Revenue (RMB'000)	Percentage of revenue	Revenue (RMB'000)	Percentage of revenue	Revenue (RMB'000)	Percentage of revenue
							(unaudited)			
Silver ingot	255,992	88.4%	402,518	72.0%	719,448	73.1%	314,564	69.4%	468,522	75.5%
Lead ingot	29,375	10.1%	104,444	18.7%	137,060	13.9%	69,961	15.4%	84,459	13.6%
Bismuth ingot	—	—	12,983	2.3%	68,856	7.0%	36,668	8.1%	38,023	6.1%
Antimony ingot	—	—	22,628	4.0%	40,473	4.1%	21,262	4.7%	23,865	3.8%
Non-standard gold and others	4,360	1.5%	16,718	3.0%	18,335	1.9%	11,008	2.4%	6,006	1.0%
Total	289,727	100.0%	559,291	100.0%	984,172	100.0%	453,463	100.0%	620,875	100.0%

Our revenue grew significantly at a CAGR of 84.3% from RMB289.7 million for the year ended December 31, 2009 to RMB559.3 million for the year ended December 31, 2010 and to RMB984.2 million for the year ended December 31, 2011, and from RMB453.5 million for the six months ended June 30, 2011 to RMB620.9 million for the six months ended June 30, 2012. The growth in revenue during the Track Record Period was mainly driven by the increase in sales of our silver ingots.

Silver ingot

To capture the growing market demand for our silver ingots, we expanded our annual designed production capacity to 250 tonnes at the end of 2009 and increased our production volume during the Track Record Period. The sales volume of our silver ingots increased from approximately 88.7 tonnes for the year ended December 31, 2009 to approximately 104.7 tonnes for the year ended December 31, 2010, and to approximately 112.9 tonnes for the year ended December 31, 2011. In addition, in line with the increase in global and PRC silver price during the same period, the average selling price of our silver ingot increased from approximately RMB2.9 million per tonne for the year ended December 31, 2009 to approximately RMB3.8 million per tonne for the year ended December 31, 2010, and further to approximately RMB6.4 million per tonne for the year ended December 31, 2011. As a result of the increases in both the sales volume and the average selling price for our silver ingot, our revenue of silver ingot increased from approximately RMB256.0 million for the year ended December 31, 2009 to approximately RMB402.5 million for the year ended December 31, 2010, and further to approximately RMB719.4 million for the year ended December 31, 2011, representing a CAGR of 67.6%. Furthermore, our revenue of silver ingot increased by 48.9% from RMB314.6 million for the six months ended June 30, 2011 to approximately RMB468.5 million for the six months ended June 30, 2012, primarily due to the increase in sales volume from approximately 49.7 tonnes to 86.0 tonnes for the same period, partially offset by the decrease in the average selling price of our silver ingot for the same period, as a result of the decrease in silver price in China, from approximately RMB6.3 million per tonne to RMB5.4 million per tonne for the same period.

By-Products

After we moved to our current production plant in 2009 and as our production technology for other by-products of non-ferrous metals further developed and matured following the completion of the trial production and further improvement, we commenced commercial production of lead ingot, non-standard gold and zinc oxide in October 2009, and bismuth ingot and antimony ingot in 2010. The sales volume of our lead ingot increased significantly from approximately 2,559.0 tonnes for the year ended December 31, 2009 to approximately 7,749.0 tonnes for the year ended December 31, 2010, and to approximately 9,997.0 tonnes for the year ended December 31, 2011, which was in line with the increase in our production volume of silver ingots. During the same period, the average selling price of our lead ingot increased from approximately RMB11,500 per tonne for the year ended December 31, 2009 to approximately RMB13,500 per tonne for the year ended December 31, 2010, and further to approximately RMB13,700 per tonne for the year ended December 31, 2011. As a result of the increases in both the sales volume and the average selling price of our lead ingot, our revenue of lead ingot increased from approximately RMB29.4 million for the year ended December 31, 2009 to approximately RMB104.4 million for the year ended December 31, 2010, and further to approximately RMB137.1 million for the year ended December 31, 2011, representing a CAGR of 116.0%. Our revenue of lead ingot increased by 20.7% from approximately RMB70.0 million for the six months ended June 30, 2011 to approximately RMB84.5 million for the six months ended June 30, 2012, primarily because the sales volume of our lead ingot further increased from approximately 4,898.8 tonnes to 6,491.7 tonnes, which was partially offset by the decrease in the average selling price of our lead ingot from approximately RMB14,300 per tonne to RMB13,000 per tonne for the same period.

As we increased the production volumes of our silver ingot and lead ingot, the aggregate production volume of other by-products such as bismuth ingot and antimony ingot increased as well. As a result of the above factors, our aggregate revenue of other by-products increased from approximately RMB4.4 million for the year ended December 31, 2009 to approximately RMB52.3 million for the year ended December 31, 2010, and further to approximately RMB127.7 million for the year ended December 31, 2011, representing a CAGR of 441.1%. Furthermore, the aggregate revenue of our other by-products remained stable at RMB68.9 million for the six months ended June 30, 2011 compared to RMB67.9 million for the six months ended June 30, 2012.

Cost of sales

Our raw materials are mainly high-content ore powder, smelting slag and low-content ore powder. Our cost of sales consists substantially of the cost of raw materials consumed, which accounted for 93.8%, 93.6%, 95.0%, 94.1% and 95.9% of our cost of sales for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. Our other cost of sales primarily includes direct labor costs and manufacturing overhead cost such as depreciation, supplemental materials, electricity and coal.

The following table sets forth a breakdown of our cost of sales and its percentage for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2009		2010		2011		2011		2012	
	Amount RMB'000	Percentage of cost of sales	Amount RMB'000	Percentage of cost of sales	Amount RMB'000	Percentage of cost of sales	Amount RMB'000	Percentage of cost of sales	Amount RMB'000	Percentage of cost of sales
							(unaudited)			
Cost of raw materials consumed . . .	205,403	93.8%	378,140	93.6%	756,479	95.0%	299,672	94.1%	509,976	95.9%
Direct labor	4,113	1.9%	8,167	2.0%	13,442	1.7%	5,862	1.8%	6,862	1.3%
Manufacturing overhead	9,429	4.3%	17,696	4.4%	26,339	3.3%	12,914	4.1%	14,713	2.8%
Total	218,945	100%	404,003	100%	796,260	100%	318,448	100%	531,551	100%

Cost of raw materials consumed increased during the Track Record Period primarily because (i) we gradually increased our production volume to cope with the growing market demand of our ingots during the Track Record Period after we upgraded our integrated production system and expanded our production capacity in 2009; and (ii) a general increase in purchase prices of principal raw materials.

Direct labor costs include salary, benefits and other expenses relating to staff directly involved in our production process, accounted for approximately 1.9%, 2.0%, 1.7%, 1.8% and 1.3% of our cost of sales for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. The direct labor costs increased during the Track Record Period because we hired additional production workers in anticipation of the gradual increase in our production volume and operation scale.

Manufacturing overhead accounted for approximately 4.3%, 4.4%, 3.3%, 4.1% and 2.8% of our cost of sales for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. The increase in manufacturing overhead was in line with our expanded operation scale. Manufacturing overhead as a percentage of cost of sales decreased during the Track Record Period as a result of the economies of scale achieved.

Gross profit and gross profit margin

We recorded gross profits of RMB70.8 million, RMB155.3 million, RMB187.9 million, RMB135.0 million and RMB89.3 million for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. Our purchase cost of raw material is determined by the content levels of silver and lead. Other types of minerals or metals contained in the raw materials are not taken into account in determining their purchase price. As a result, the cost of sales for silver ingot and lead ingot will absorb the entire cost of raw materials consumed plus portion of direct labor and manufacturing overhead costs, while the cost of sales for other non-ferrous metals will only absorb an allocated portion of direct labor and manufacturing overhead costs. Because our cost of raw materials consumed accounted for approximately 95% of our cost of sales and our direct labor and manufacturing overhead cost only accounted for approximately 5% of our cost of sales during the Track Record Period, the cost of sales allocated to other non-ferrous metals were significantly lower than the cost of sales of silver ingot and lead ingot. This has resulted in a significant difference between the gross profit margin of silver and lead, on one hand, and other non-ferrous metals, on the other hand.

The following table sets forth a breakdown of our gross profit and gross profit margin by product groups for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2009	2009	2010	2010	2011	2011	2011	2011	2012	2012
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
							(unaudited)	(unaudited)		
Silver ingot and lead ingot	66,658	23.4%	104,973	20.7%	65,581	7.7%	68,500	17.8%	24,496	4.4%
Other non-ferrous metals	4,124	94.6%	50,315	96.2%	122,331	95.8%	66,515	96.5%	64,828	95.5%
Overall	70,782	24.4%	155,288	27.8%	187,912	19.1%	135,015	29.8%	89,324	14.4%

Year ended December 31, 2010 compared to year ended December 31, 2009

The increase in gross profit from RMB70.8 million for the year ended December 31, 2009 to RMB155.3 million for the year ended December 31, 2010 was (i) primarily due to the increase in gross profit of other non-ferrous metals by RMB46.2 million from RMB4.1 million for the year ended December 31, 2009 to RMB50.3 million for the year ended December 31, 2010; and (ii) partially due to the increase in gross profit of silver ingot and lead ingot by RMB38.3 million from RMB66.7 million for the year ended December 31, 2009 to RMB105.0 million for the year ended December 31, 2010. Our overall gross profit margin increased from 24.4% for the year ended December 31, 2009 to 27.8% for the year ended December 31, 2010, primarily due to the increase in our gross profit margin of other non-ferrous metals for the same periods, partially offset by the slight decrease in the gross profit margin of silver ingot and lead ingot.

The significant increase in gross profit of other non-ferrous metals was mainly due to the significant increase in sales of other non-ferrous metals because (i) we commenced recovery and refinery of our bismuth ingot and antimony ingot in 2010, which we did not produce in 2009; and (ii) our production of non-standard gold and zinc oxide had been limited to part of the year in 2009, as compared to a full year in 2010. The gross profit margin of other non-ferrous metals increased as we produced more non-ferrous metals other than silver ingots and lead ingots on a full year basis. Our ability to allocate our direct labor and manufacturing overhead costs among the mix of a greater number of products further improves the gross profit margin of other non-ferrous metals.

The increase in gross profit of silver ingot and lead ingot was primarily due to the increase in sales of silver ingot and lead ingot, partially offset by the decrease in gross profit margin of silver ingot and lead ingot. Our gross profit margin of silver ingot and lead ingot decreased from 23.4% for the year ended December 31, 2009 to 20.7% for the year ended December 31, 2010 primarily due to the fluctuation in the prices of silver and lead during our production cycle (from order of raw materials to eventual sale of our silver ingot and lead ingot to customers).

Year ended December 31, 2011 compared to year ended December 31, 2010

Our gross profit increased from RMB155.3 million for the year ended December 31, 2010 to RMB187.9 million for the year ended December 31, 2011, primarily due to the increase in gross profit of other non-ferrous metals by RMB72.0 million from RMB50.3 million for the year ended December 31, 2010 to RMB122.3 million for the year ended December 31, 2011, partially offset by the decrease in the gross profit of silver ingot and lead ingot by RMB39.4 million from RMB105.0 million for the year ended December 31, 2010 to RMB65.6 million for the year ended December 31, 2011. Our overall gross profit margin decreased to 19.1% for the year ended December 31, 2011 primarily due to the decrease in our gross profit margin of silver ingot and lead ingot to 7.7% for the year ended December 31, 2011.

The significant increase in the gross profit of non-ferrous metals from the year ended December 31, 2010 to the year ended December 31, 2011 was mainly due to the significant increase in sales of non-ferrous metals in the year ended December 31, 2011. Our gross profit margin of other non-ferrous metals remained relatively stable in the year ended December 31, 2010 and the year ended December 31, 2011 as our product mix of other non-ferrous metals remained relatively stable in these two years.

The decrease in the gross profit of silver ingot and lead ingot in the year ended December 31, 2011 was mainly due to the decrease in the gross profit margin of silver ingot and lead ingot from 20.7% for the year ended December 31, 2010 to 7.7% for the year ended December 31, 2011 as a result of the increased volatility in the prices of silver and lead in the PRC and international markets during our production cycle, which led to a gross loss of silver ingot and lead ingot in the second half of 2011.

During the year ended December 31, 2011, the one-month and two-month fluctuations of China Domestic Silver Price were in the range of -15.1% to 20.0% and -19.4% to 34.8%, as compared to the range of -5.8% to 19.1% and -3.6% to 33.5% for the year ended December 31, 2010, respectively. The one-month fluctuation of the China Domestic Silver Price in each of 2011 and 2010 represents the largest decrease and the largest increase of the monthly average of China Domestic Silver Prices between two consecutive months by percentage in the respective one-year period, and the two-month fluctuation of the China Domestic Silver Price in each of 2011 and 2010 represents the largest decrease and the largest increase of the monthly average of China Domestic Silver Prices between two alternate months (for example, January and March) by percentage for the same respective one-year period. In other words, the monthly average of China Domestic Silver Price experienced a maximum 15.1% drop and a maximum 20% increase in any two consecutive months period, and a maximum 19.4% drop and a maximum 34.8% increase in any two alternate months period in 2011, compared to a maximum 5.8% drop and a maximum 19.1% increase in any two consecutive months period and a maximum 3.6% drop and a maximum 33.5% increase in any two alternate months period in 2010.

From January to September 2010, China Domestic Silver Price was relatively stable and fluctuated within a narrow range and the one-month and two-month fluctuation of China Domestic Silver Price was within the range of approximately 5%. During the period from October 2010 to April 2011, China Domestic Silver Price doubled and the monthly average China Domestic Silver Price increased to approximately RMB9.1 million per tonne in April 2011 from approximately RMB4.4 million per tonne in September 2010 as a result of the new quantitative easing measures adopted by the U.S. Federal Reserve. Furthermore, in line with the significant increase in China Domestic Silver Price from October to December 2010, our gross profit margin for silver ingot and lead during such period increased further. From May to December 2011, as a result of the uncertain economic outlook, China Domestic Silver Price was in a decreasing trend and the monthly average of China Domestic Silver Price decreased to RMB6.4 million per tonne in December 2011. Since we purchased raw materials at lower prices when China Domestic Silver Price was in an increasing trend in the first half of 2011, our gross profit margin for silver ingot and lead ingot increased in the first half of 2011; however, the situation reversed in the second half of 2011 as a result of the decreasing China Domestic Silver Price. Given that China Domestic Silver Price was more volatile and moved up and down sharply within a short period of time in the year ended December 31, 2011, our gross profit margin for silver ingot and lead ingot was lower in the year ended December 31, 2011, as compared to that in the year ended December 31, 2010.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Our gross profit decreased to RMB89.3 million for the six months ended June 30, 2012 from RMB135.0 million for the six months ended June 30, 2011 primarily due to the decrease in the gross profit of silver ingot and lead ingot. The gross profit of silver ingot and lead ingot decreased by RMB44.0 million from RMB68.5 million for the six months ended June 30, 2011 to RMB24.5 million for the six months ended June 30, 2012, mainly due to the decrease in gross profit margin of silver ingot and lead ingot from 17.8% for the six months ended June 30, 2011 to 4.4% for the six months ended June 30, 2012. Due to the same reason, our overall gross profit margin decreased from 29.8% for the six months ended June 30, 2011 to 14.4% for the six months ended June 30, 2012.

The significant decrease in gross profit and gross profit margin of silver ingot and lead ingot, despite the sales of silver ingot and lead ingot increased during the same period, was primarily due to the unfavorable market environment in China for silver and lead products caused by the persistent debt crisis in Europe and the fluctuations in the prices of silver ingot and lead ingot during the first half of 2012. During the six months ended June 30, 2012, the China Domestic Silver Price was generally in a decreasing trend. The average silver price in China decreased by 6.3% from RMB6.3 million per tonne for January 2012 to RMB5.9 million per tonne for June 2012. In comparison, the average silver price in China increased by 23.0% from RMB6.3 million per tonne for January 2011 to RMB7.8 million per tonne for June 2011.

In addition, during the six months ended June 30, 2012, the one-month and two-month fluctuations of China Domestic Silver Price were in the range of -7.9% to 11.2% and -11.5% to

9.8%, as compared to the range of -11.5% to 20.0% and -14.5% to 34.8% for the six months ended June 30, 2011, respectively. In other words, the monthly average of China Domestic Silver Price experienced a maximum 7.9% drop and a maximum 11.2% increase in any two consecutive months period and a maximum 11.5% drop and a maximum 9.8% increase in any two alternate months period for the first six months in 2012, compared to a maximum 11.5% drop and a maximum 20.0% increase in any two consecutive months period and a maximum 14.5% drop and a maximum 34.8% increase in any two alternate months period for the first six months in 2011.

During the six months ended June 30, 2012, China Domestic Silver Price was generally in a downward trend because of the persistent debt crisis in Europe and the monthly average of China Domestic Silver Price decreased by 8% to RMB5.9 million per tonne in June 2012 from RMB6.4 million per tonne in December 2011. Since our gross profit of silver ingot and lead ingot has been generally correlated to the movements of China Domestic Silver Price, the negative movement of China Domestic Silver Price had a negative impact on our gross profit margin of silver ingot and lead ingot for the six months ended June 30, 2012.

Our gross profit and gross profit margin of other non-ferrous metals remained stable for the period as our sales of other non-ferrous metals remained at a similar level between the two periods.

Other income

Other income primarily consists of bank interest income and income from sales of scrap metals.

Administrative expenses

Administrative expenses consist primarily of salaries and benefits of the administrative and management staff, depreciation of property, plant and equipment, entertainment expenses, traveling expenses, property tax and other expenses.

Set out below is a breakdown of our administrative expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Salaries of the administrative and management staff	5,045	4,544	6,047	2,592	3,149
Benefits of the administrative and management staff	988	1,371	1,908	925	1,025
Depreciation of property, plant and equipment	3,817	2,627	2,423	1,287	1,155
Entertainment expenses	351	609	811	305	441
Traveling expenses	413	547	679	282	288
Property tax	369	436	636	318	327
Social welfare and insurance	874	510	628	301	344
Motor vehicle expenses	483	468	565	253	236
Listing expenses	—	—	—	—	325
Other expenses	1,390	2,105	2,121	915	1,533
	13,730	13,217	15,818	7,178	8,823

After the completion of the Phase I construction of our current production plant by the end of 2008, we conducted the trial production and further improvement until October 2009. The salaries and wages of our production workers in the total amount of RMB0.9 million and the depreciation charge for property, plant and equipment relating to our production facilities not in operation of RMB1.9 million during our trial production period were included in the administrative expenses. Without such amounts, the salaries of the administrative and management staff and depreciation of property, plant and equipment would have increased from 2009 to 2010.

Our listing expenses incurred and recognized as administrative expenses for the six months ended June 30, 2012 were RMB325,000.

Selling and distribution expenses

Selling and distribution expenses consist primarily of transportation costs of our silver ingots to our customers. Selling and distribution expenses also include salaries and benefits for our sales and marketing personnel, traveling and entertainment expenses, and other expenses.

Set out below is a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Transportation costs	529	551	641	327	389
Salaries and benefits for our sales and marketing personnel	249	269	277	125	136
Traveling and entertainment expenses	133	230	140	32	12
Other expenses	54	64	121	49	38
	965	1,114	1,179	533	575

Research and development expenses

Research and development expenses consist primarily of expenses for specific research projects in cooperation with third party research institutes, salaries and benefits of research and development staff, technical consultation fees, and other expenses.

Set out below is a breakdown of our research and development expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Expenses for specific research projects	1,000	3,100	6,760	3,540	1,840
Salaries of research and development staff	1,420	1,754	2,087	947	695
Technical consultation fees	480	500	1,000	500	500
Research and development staff benefits	180	238	300	153	132
Other expenses	30	69	47	27	32
	3,110	5,661	10,194	5,167	3,199

Finance costs

Our finance costs consist of interest expenses on our short-term bank borrowings.

Other expenses

Other expenses mainly represent our donation to local elementary schools to support education.

Income tax

Our effective tax rates for each of the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 were approximately 27.0%, 25.3%, 25.5%, 25.4% and 25.6%, respectively. There is no material fluctuation in our effective tax rates, which is in line with the standard tax rates of 25% applicable to our PRC subsidiaries as set forth in note 10 of Part A to the Accountants' Report included in Appendix I to this prospectus.

We are not subject to the profit tax of Cayman Islands, BVI and Hong Kong as we had no assessable income arising in or derived from the respective jurisdictions during the Track Record Period.

Our Directors confirm that, pursuant to the confirmation letters with respect to Longtianyong Nonferrous Metals and Longtianyong Recycling issued by the relevant PRC and local tax bureaus on July 13, 2012 and July 31, 2012, respectively, each of these two subsidiaries of us has made all the required tax filings under the relevant tax laws and regulations in China, has paid all outstanding tax liabilities, and is not subject to any administrative punishment or potential administrative punishment with PRC tax authorities.

PERIOD TO PERIOD COMPARISON

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Revenue

Our revenue increased by approximately 36.9% to approximately RMB620.9 million for the six months ended June 30, 2012 from approximately RMB453.5 million for the six months ended June 30, 2011, primarily due to the increase in the sales of our silver ingot, and to a lesser extent, due to the increase in the sales of our other by-products.

The increase in the sales of silver ingot was mainly due to the increase in the sales volume of silver ingot, and partially offset by a decrease in the average selling price of our silver ingot. The increase in the sales volume of silver ingot was mainly because the market demands for our products increased and we continued to gradually increase production volume of our silver ingot. The decrease in the average selling price of our silver ingot for the same period was in line with the recent decrease of the silver price in China primarily caused by the persistent debt crisis in Europe. The increase in the aggregate sales of our other by-products was mainly due to the increase in the aggregate production volumes of our other by-products along with the increase in the production volume of our silver ingot.

Cost of sales

Cost of sales increased by approximately 66.9% to approximately RMB531.6 million for the six months ended June 30, 2012 from approximately RMB318.4 million for the six months ended June 30, 2011. The increase in our cost of sales was primarily due to the increase in cost of raw materials consumed as a result of our increased production volume. Our cost of raw materials consumed increased by approximately 70.2% to approximately RMB510.0 million for the six months ended June 30, 2012 from approximately RMB300.0 million for the six months ended June 30, 2011, primarily due to the increase in the purchase volumes of high-content ore powder, smelting slag and low-content ore powder. Our average purchase prices of high-content ore powder increased from RMB20,900 per tonne for the six months ended June 30, 2011 to RMB22,200 per tonne for the six months ended June 30, 2012, our average purchase prices of smelting slag decreased from RMB19,400 per tonne for the six months ended June 30, 2011 to RMB18,600 per tonne for the six months ended June 30, 2012, and our average purchase prices of low-content ore powder decreased from RMB7,200 per tonne for the six months ended June 30, 2011 to RMB6,700 per tonne for the six months ended June 30, 2012.

Gross profit and gross profit margin

Our gross profit decreased by approximately 33.8% to approximately RMB89.3 million for the six months ended June 30, 2012 from approximately RMB135.0 million for the six months ended June 30, 2011, primarily due to the decrease in our gross profit margin which was partially offset by the increase in our revenue for the same period. Our overall gross profit margin decreased from 29.8% for the six months ended June 30, 2011 to 14.4% for the six months ended June 30, 2012 primarily due to the decrease in our gross profit margin for silver ingot and lead ingot from 17.8% for the six months ended June 30, 2011 to 4.4% for the six months ended June 30, 2012 as a result of the unfavorable market environment in China for silver and lead products caused by the persistent debt crisis in Europe and the fluctuation in the price of silver ingot and lead ingot during the production cycle.

Other income

Other income represented bank interest income and remained stable at RMB0.1 million for the six months ended June 30, 2011 and 2012.

Administrative expenses

Administrative expenses increased by approximately 22.9% to approximately RMB8.8 million for the six months ended June 30, 2012 from approximately RMB7.2 million for the six months ended June 30, 2011, mainly due to the increase in salaries and benefits paid to our management and administrative staff reflecting the increase in the headcount of our management and administrative staff as we continued to expand scale of our operations, and the increase in average salary of our management and administrative staff to the market rate level. Our administrative expenses as a percentage of the total revenue slightly decreased to approximately 1.4% for the six months ended June 30, 2012 from approximately 1.6% for the six months ended June 30, 2011 due to the economies of scale from our expanded operation.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 7.9% to approximately RMB0.6 million for the six months ended June 30, 2012 from approximately RMB0.5 million for the six months ended June 30, 2011. The increase in our selling and distribution expenses was mainly due to the increase in our transportation cost as a result of the increased sales volume of our silver ingot.

Research and development expenses

Our research and development expenses decreased by approximately 38.1% to approximately RMB3.2 million for the six months ended June 30, 2012 from approximately RMB5.2 million for the six months ended June 30, 2011. The decrease in research and development expenses was mainly attributable to the decrease in expenses for research projects in cooperation with third party research institutions by approximately 48.0% from approximately RMB3.5 million for the six months ended June 30, 2011 to RMB1.8 million for the same period of 2012. As our production technologies have became mature, we have gradually developed independently production technology for recovery and refinery of other metal by-products in-house. The expenses for research projects represented the remaining progress payment to Jiangxi University of Science and Technology after the collaborative research project in developing production technology of needle tellurium had been completed.

Finance costs

Finance costs increased by approximately 84.4% to approximately RMB3.5 million for the six months ended June 30, 2012 from approximately RMB1.9 million for the six months ended June 30, 2011. Finance costs were higher for the six months ended June 30, 2012 primarily due to our increased average bank borrowings and the increase in average interest rate.

Income tax

Income tax expense decreased by approximately 38.5% to approximately RMB18.8 million for the six months ended June 30, 2012 from approximately RMB30.5 million for the six months ended June 30, 2011 mainly due to our decreased profit before tax. The effective tax rate remained stable at 25.6% for the six months ended June 30, 2012 as compared to 25.4% for the six months ended June 30, 2011.

Profit for the year

As a result of the foregoing factors, our profit for the six months ended June 30, 2012 decreased by approximately 39.3% to approximately RMB54.5 million for the six months ended June 30, 2012 from approximately RMB89.7 million for the six months ended June 30, 2011. Our net profit margin decreased to 8.8% for the six months ended June 30, 2012 from 19.8% for the six months ended June 30, 2011 mainly as a result of decreased gross profit margin during the same period.

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenue

Our revenue increased by approximately 76.0% to approximately RMB984.2 million for the year ended December 31, 2011 from approximately RMB559.3 million for the year ended December 31, 2010, primarily due to the increase in the sales of our silver ingot, and to a lesser extent, due to the increase in the sales of our bismuth ingot and antimony ingot during the same period.

The increase in sales of our silver ingot was mainly attributed to the increase in the average selling price and sales volume of our silver ingot. The average selling price of our silver ingot increased from approximately RMB3.8 million per tonne to RMB6.4 million per tonne for the same period, which was in line with the increase in the silver price in China during the same period. The sales volume of our silver ingot increased from approximately 104.7 tonnes to 112.9 tonnes for the same period as the market demand for our silver ingots increased and we continued to gradually increase our production volume to achieve our designed production capacity of 250 tonnes. In addition, the increase in the sales of our bismuth ingot and antimony ingot was mainly due to (i) the significant increases in the sales volumes of our bismuth ingot and antimony ingot for the year ended December 31, 2011 as we only commenced the production of bismuth ingot and antimony ingot in October 2010 and only three months' sales of these two products were recorded in the year ended December 31, 2010; and (ii) the increase in the respective average selling prices of our bismuth ingot and antimony ingot.

Cost of sales

Cost of sales increased by approximately 97.1% to approximately RMB796.3 million for the year ended December 31, 2011 from approximately RMB404.0 million for the year ended December 31, 2010. The increase in our cost of sales was primarily due to the increase in cost of raw materials consumed. Cost of raw materials consumed increased by approximately 100.1% to approximately RMB756.5 million for the year ended December 31, 2011 from approximately RMB378.1 million for the year ended December 31, 2010, primarily due to the increase in the average purchase price and the purchase volume of principal raw materials. As a result of the increasing market prices of silver and lead in China, our average purchase price of high-content ore powder increased from RMB15,600 per tonne for the year ended December 31, 2010 to RMB21,200 per tonne for the year ended December 31, 2011, our average purchase price of smelting slag increased from RMB13,900 per tonne for the year ended December 31, 2010 to RMB19,200 per tonne for the year ended December 31, 2011, and our average purchase price of low-content ore powder increased from RMB4,500 per tonne for the year ended December 31, 2010 to RMB6,900 per tonne for the year ended December 31, 2011.

Gross profit and gross profit margin

Our gross profit increased by approximately 21.0% to approximately RMB187.9 million for the year ended December 31, 2011 from approximately RMB155.3 million for the year ended December 31, 2010, primarily due to the increase in sales, and partially offset by a decrease in gross profit margin. Our overall gross profit margin decreased to 19.1% for the year ended December 31, 2011 primarily due to the drop in our gross profit margin for silver ingot and lead ingot to 7.7% for the year ended December 31, 2011 as a result of the fluctuation and the increased volatilities in the prices of silver and lead in China and international markets during our production cycle. Our gross profit margin for other non-ferrous metals remained relatively stable in 2010 and 2011 as our product mix of other non-ferrous metals remained relatively stable in these two years.

Other income

Other income slightly increased to approximately RMB0.2 million for the year ended December 31, 2011 from approximately RMB0.1 million for the year ended December 31, 2010, primarily because the average bank deposit rate increased in the year ended December 31, 2011.

Administrative expenses

Administrative expenses increased by approximately 19.7% to approximately RMB15.8 million for the year ended December 31, 2011 from approximately RMB13.2 million for the year ended December 31, 2010, mainly due to the increase in salaries and benefits paid to our administrative and management staff, reflecting the increase in the number of our administrative and management staff as we continue to expand the scale of our operations, and the increase in average salary of our management and administrative staff to the market level. Our administrative expenses as a percentage of the total revenue decreased to approximately 1.6% for the year ended December 31, 2011 from approximately 2.4% for the year ended December 31, 2010 as a result of the economies of scale achieved from our expanded operation.

Selling and distribution expenses

Our selling and distribution expenses slightly increased by approximately 5.8% to approximately RMB1.2 million for the year ended December 31, 2011 from approximately RMB1.1 million for the year ended December 31, 2010. The increase of RMB0.1 million resulted from the increase in the transportation costs as a result of the slight increase in the sales volume of our silver ingot from 104.7 tonnes for the year ended December 31, 2010 to 112.9 tonnes for the year ended December 31, 2011.

Research and development expenses

Our research and development expenses increased by approximately 80.1% to approximately RMB10.2 million for the year ended December 31, 2011 from approximately RMB5.7 million for the year ended December 31, 2010. The significant increase in our research and development expenses was mainly attributable to the increase in expenses for specific research projects in cooperation with third party research institutions by approximately 118.1% from approximately RMB3.1 million to RMB6.8 million for the same period. The expense for specific research projects in cooperation with third party research institutions for the year ended December 31, 2011 was related to our collaborative research project with Jiangxi University of Science and Technology in developing the production technology for bismuth. See the section headed "Business — Research and Development" in this prospectus for further details. Our research and development expenses as a percentage of the total revenue remained stable at 1.0% during the two years ended December 31, 2011.

Finance costs

Finance costs increased by approximately 84.9% to approximately RMB5.3 million for the year ended December 31, 2011 from approximately RMB2.9 million for the year ended December 31, 2010. Finance costs were higher for the year ended December 31, 2011 primarily due to our increased average bank borrowings and the increase in average interest rate.

Income tax

Income tax expense increased by approximately 18.3% to approximately RMB39.4 million for the year ended December 31, 2011 from approximately RMB33.4 million for the year ended December 31, 2010 mainly due to our increased profit before tax. Our effective tax rate remained stable at 25.3% for the year ended December 31, 2010 as compared to 25.5% for the year ended December 31, 2011.

Profit for the year

As a result of the foregoing factors, our profit for the year increased by approximately 17.4% to approximately RMB115.4 million for the year ended December 31, 2011 from approximately RMB98.3 million for the year ended December 31, 2010. Our profit margin decreased from 17.6% for the year ended December 31, 2010 to 11.7% for the year ended December 31, 2011, primarily due to the decrease in gross profit margin as explained above.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenue

Our revenue increased by approximately 93.0% to RMB559.3 million for the year ended December 31, 2010 from RMB289.7 million for the year ended December 31, 2009, primarily due to the increase in the sales of our silver ingot and lead ingot, and partially because we commenced production of bismuth ingot and antimony ingot in 2010. Furthermore, our production of lead ingot, non-standard gold and zinc oxide was limited to part of the year in 2009.

The increase in sales of our silver ingot is primarily attributable to the increase in the average selling price of our silver ingot, and partially as a result of the increased sales volume for the same period. The average selling price of silver ingot increased from approximately RMB2.9 million per tonne to RMB3.8 million per tonne for the same period, which was in line with the increase of silver price in China during the same period.

After the completion of the Phase I construction of our current production plant by the end of 2008, we conducted the trial production and further improvement until October 2009 to enhance our production technology and train production workers. Both of our old production plant and our current production plant were in operation to produce silver ingots in 2009. Our current production plant went into full production in 2010. As a result, the production volume of our silver ingot increased from approximately 88.7 tonnes for the year ended December 31, 2009 to 104.4 tonnes for the year ended December 31, 2010.

Because our old production plant did not produce any lead ingot, our current production plant produced lead ingot for only six months in 2009. As a result, the sales volume of our lead ingot increased from approximately 2,559.0 tonnes for the year ended December 31, 2009 to approximately 7,749.0 tonnes for the year ended December 31, 2010.

Cost of sales

Cost of sales increased by approximately 84.5% to approximately RMB404.0 million for the year ended December 31, 2010 from approximately RMB218.9 million for the year ended December 31, 2009, primarily due to the increase in our cost of raw materials consumed. Our cost of raw materials consumed increased by approximately 84.1% to approximately RMB378.1 million for the year ended December 31, 2010 from approximately RMB205.4 million for the year ended December 31, 2009, primarily due to (i) the increase in the average purchase prices of high-content ore powder, smelting slag and low-content ore powder from RMB12,100 per tonne, RMB12,600 per tonne and RMB3,500 per tonne for the year ended December 31, 2009 to RMB15,600 per tonne, RMB13,900 per tonne and RMB4,500 per tonne for the year ended December 31, 2010, respectively, which were driven up by the increasing market prices of silver and lead in China; and (ii) an increase in our purchase volumes of principal raw materials as we gradually increased our production volumes of silver ingots and other non-ferrous metals in 2010 after we had completed the Phase I construction of our current production plant by the end of 2008 and the subsequent trial production and further improvement by October 2009. Our old production plant recovered and refined silver from anode slime for the year ended December 31, 2009, and our current production plant recovered and refined silver ingots directly from high-content ore powder, smelting slag and low-content ore powder starting from 2009. Total cost of anode slime consumed and average purchase price of anode slime was RMB113.1 million and RMB372,200 per tonne for the year ended December 31, 2009.

Gross profit and gross profit margin

Our gross profit increased significantly by approximately 119.4% to approximately RMB155.3 million for the year ended December 31, 2010 from approximately RMB70.8 million for the year ended December 31, 2009, primarily due to the increased sales revenue as a result of our expanded production scale, and partially due to the increase in our gross profit margin. Our overall gross profit margin increased from 24.4% for the year ended December 31, 2009 to 27.8% for the year ended December 31, 2010, primarily due to an increase in our gross profit margin of other non-ferrous metals, and partially offset by a slight decrease in the gross profit margin of silver ingot and lead ingot. The gross profit margin of other non-ferrous metals increased as we commenced recovery and refinery of our bismuth ingot and antimony ingot in 2010, which we did not produce in 2009 and our production of non-standard gold and zinc oxide was limited to part of the year in 2009, as compared to full year in 2010. Therefore, our direct labor and manufacturing overhead costs are allocated among the mix of a greater number of products, resulting in improved gross profit margin. Our gross profit margin for silver ingot and lead ingot decreased from 23.4% for the year ended December 31, 2009 to 20.7% for the year ended December 31, 2010 primarily due to the fluctuation in the prices of silver and lead during our production cycle.

Other income

Other income mainly represented bank interest income and remained stable at approximately RMB0.1 million for each of the two years ended December 31, 2009 and 2010.

Administrative expenses

Our administrative expenses decreased slightly by approximately 3.7% to approximately RMB13.2 million for the year ended December 31, 2010 from approximately RMB13.7 million for the year ended December 31, 2009. This slight decrease in administrative expenses was mainly due to the decrease in depreciation of property, plant and machinery of RMB1.2 million, which was partially offset by the increase in travel and entertainment expenses and other office expenses. Depreciation of property, plant and machinery slightly decreased primarily because we conducted the trial production and further improvement of our current production plant until October 2009 and included certain depreciation of property, plant and machinery relating to our production facilities not in operation into administrative expenses for the year ended December 31, 2009. In addition, because of the above reason, during the same period in the year ended December 31, 2009, the salaries and wages of our production workers were included in the salaries of the administrative and management staff which drove up the balance in the year ended December 31, 2009. Administrative expenses as a percentage of revenue decreased to 2.4% for the year ended December 31, 2010 from 4.7% for the year ended December 31, 2009, primarily as a result of the economies of scale achieved from our expanded operation.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 15.4% from approximately RMB1.0 million for the year ended December 31, 2009 to approximately RMB1.1 million for the year ended December 31, 2010. The increase of RMB0.1 million resulted from the increase in travel and entertainment expenses of approximately RMB0.1 million as we strengthened our marketing efforts following expansion of our production capacity and increase of our production output.

Research and development expenses

Our research and development expenses increased significantly by approximately 82.0% to approximately RMB5.7 million for the year ended December 31, 2010 from approximately RMB3.1 million for the year ended December 31, 2009. The increase in research and development expenses was mainly attributable to the significant increase in expenses for specific research projects in cooperation with third party research institutions by approximately 210.0% from approximately RMB1.0 million for the year ended December 31, 2009 to approximately RMB3.1 million for the year ended December 31, 2010. The expense for specific research projects in cooperation with third party research institutions in 2010 was related to our collaborative research project with Jiangxi University of Science and Technology in developing production technology for antimony ingot. See the section headed "Business – Research and Development" in this prospectus for further details. Our research and development expenses as a percentage of revenue remained stable at 1.0% for the year ended December 31, 2010, as compared to 1.1% for the year ended December 31, 2009.

Finance costs

Finance costs increased by approximately 45.9% to approximately RMB2.9 million for the year ended December 31, 2010 from approximately RMB2.0 million for the year ended December 31, 2009. The increase in finance costs was mainly due to our increased average bank borrowings during the same period.

Income tax

Income tax expense increased by approximately 142.5% to approximately RMB33.4 million for the year ended December 31, 2010 from approximately RMB13.8 million for the year ended December 31, 2009, primarily due to the increase in our profit before tax. The effective tax rates decrease to 25.3% for the year ended December 31, 2010 from 27.0% for the year ended December 31, 2009 as certain expenses were not allowable for tax deduction for the year ended December 31, 2009.

Profit for the year

As a result of the foregoing factors, our profit for the year increased by approximately 164.7% to approximately RMB98.3 million for the year ended December 31, 2010 from approximately RMB37.1 million for the year ended December 31, 2009. Net profit margin increased from 12.8% for the year ended December 31, 2009 to 17.6% for the year ended December 31, 2010 primarily due to (i) the increase in gross profit margin; and (ii) the decrease in administrative expenses as a percentage of sales as explained above.

NET CURRENT ASSETS

The table below sets forth our current assets and current liabilities as of the dates indicated and the Latest Practicable Indebtedness Date, which is no more than two calendar months prior to the date of this prospectus:

	As of December 31,			As of June 30,	As of October 31,
	2009	2010	2011	2012	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
CURRENT ASSETS					
Prepaid lease payments	226	256	394	432	432
Inventories	59,900	128,108	151,765	127,907	173,722
Trade receivables	933	1,958	4,486	5,773	28,027
Trade deposits	2,210	7,157	2,757	2,218	7,257
Prepayments	—	—	—	—	4,474
Amounts due from related parties	—	—	233	246	496
Bank balances and cash	52,533	49,909	41,200	74,857	92,708
	115,802	187,388	200,835	211,433	307,116
CURRENT LIABILITIES					
Trade and other payables	16,762	31,662	15,775	25,956	39,203
Customer receipts in advance	—	9,909	1,844	—	—
Amounts due to related parties	7,239	1,602	—	—	314
Consideration payable	—	—	—	110,000	—
Refundable investment deposits	—	—	—	21,792	—
Loan from a controlling shareholder	—	—	—	—	110,000
Income tax payable	7,639	15,888	6,931	14,497	10,585
Bank borrowings	30,000	50,000	100,000	60,000	60,000
	61,640	109,061	124,550	232,245	220,102
NET CURRENT ASSETS (LIABILITIES)	**54,162**	**78,327**	**76,285**	**(20,812)**	**87,014**

We had net current liabilities as of June 30, 2012 primarily due to the consideration payable of RMB110 million classified as a current liability resulting from our Reorganization.

Inventories

The following table sets forth a summary of our inventory balances as of the dates indicated:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	26,899	47,615	63,119	63,526
Work in progress	23,771	63,984	71,501	61,578
Finished goods	9,230	16,509	17,145	2,803
	59,900	128,108	151,765	127,907

Our inventories increased by approximately 113.9% to RMB128.1 million as of December 31, 2010 from RMB59.9 million as of December 31, 2009 primarily due to the expansion of our operation scale and the increase in our production volume after we had completed the Phase I construction of our current production plant by the end of 2008 and the subsequent trial production and further improvement by October 2009. Our inventories increased by 18.5% from RMB128.1 million as of December 31, 2010 to RMB151.8 million as of December 31, 2011, primarily because we increased our inventories of raw materials and work in progress in 2011 as we continued to gradually expand our production scale and increase our production volume, partially offset by an improvement in production efficiency and inventory management. Our inventories decreased by 15.7% from RMB151.8 million as of December 31, 2011 to RMB127.9 million as of June 30, 2012, primarily because we shortened our production cycle and inventory turnover after our production processes became more efficient. Our inventory of finished goods decreased from approximately RMB17.1 million as at December 31, 2011 to RMB2.8 million as at June 30, 2012 as we had delivered and completed our sales orders immediately prior to June 30, 2012.

During the Track Record Period, we generally maintained approximately one to two months' inventory of raw materials to support our continuous production because our production lead time was approximately one to three months. After we had completed the Phase I construction by the end of 2008, our integrated production system went through trial production for fine-tuning and further improvement during most of 2009. Our inventory of raw materials was approximately two months in 2009 while our production lead time was approximately three months at that time. As our production technologies became more developed and matured later during the Track Record Period, we improved our production efficiency and further reduced our production lead time to approximately one month, and we reduced our inventory of raw materials to approximately one month.

Inventories with a carrying value of RMB22.7 million, RMB48.5 million and RMB49.2 million were pledged to secure short-term loans granted to us as of December 31, 2010 and 2011 and June 30, 2012, respectively.

The following table sets forth the turnover days of our inventories for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2009	**2010**	**2011**	**2012**
Average turnover days of inventories[1]	83.7	84.9	64.1	48.1

1. *Average turnover days of inventories for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplied by 365 days for a year or 183 days for half year.*

Our average turnover days of inventories slightly increased to 84.9 days for the year ended December 31, 2010 from 83.7 days for the year ended December 31, 2009 primarily because we increased our inventory balance as of December 31, 2010 to meet our expanded production scale after we had completed the Phase I construction of our current production plant by the end of 2008 and the subsequent trial production and further improvement by October 2009. Our average turnover days of inventories decreased from 84.9 days for the year ended December 31, 2010 to 64.1 days for the year ended December 31, 2011, and further to 48.1 days for the six months ended June 30, 2012 primarily because we shortened our production cycle and inventory turnover after our production processes became more efficient.

As of October 31, 2012, approximately 96.18% of our inventories as of June 30, 2012 had been utilized or sold.

Trade receivables

The following table sets forth a summary of the trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	933	1,958	4,486	5,773

We generally require our customers to prepay a certain percentage of the purchase price of our products before delivery and our customers will usually settle the remaining balance of the purchase price within seven to ten days after delivery. The percentage of prepayment for our silver ingot is between 70% to 90%, lead ingot or zinc oxide is between 60% to 80%, while bismuth ingot or antimony ingot is between 60% to 70%. As a result of this policy, we did not have significant amount of trade receivables during the Track Record Period.

Our trade receivables increased in line with our sales during the Track Record Period. Our trade receivables increased to approximately RMB2.0 million as of December 31, 2010 from RMB1.0 million as of December 31, 2009, to RMB4.5 million as of December 31, 2011, further to RMB5.8 million as of June 30, 2012

The following table sets forth the average turnover days of our trade receivables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Average turnover days of trade receivables[1]	0.8	0.9	1.2	1.5

1. *Average turnover days of trade receivables for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables by revenue for the relevant period and then multiplied by 365 days for a year or 183 days for half year.*

Our average turnover days of trade receivables are generally low because we generally require prepayment of purchase price of our products before delivery. Our average turnover days of trade receivables remained stable at around 1 day during the Track Record Period.

The following table sets forth an ageing analysis (based on dates of invoices) of our trade receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	993	1,958	4,486	5,773

Our trade receivables were neither past due nor impaired at the end of the respective reporting period. These receivables relate to a number of independent customers that have good financial histories and established track records with us. No allowance for doubtful debts was made during the Track Record Period.

As of October 31, 2012, all of our trade receivables as of June 30, 2012 had been settled.

Trade payables

The following table sets forth a summary of the trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	10,546	20,080	7,984	20,186

Our trade payables arise primarily from our purchase of raw materials. We are generally required by our suppliers to prepay 30-50% of the purchase price of our raw materials prior to delivery, with the balance to be settled within one month after delivery. Prepayment arrangement at a certain percentage of the purchase price of raw materials is market practice in the silver industry and we believe our arrangement with suppliers is consistent with this practice. The number of years of our business relationship with our suppliers ranges from three to four years. During the Track Record Period and up to the Latest Practicable Date, there was no material change in our raw materials suppliers, nor had we suffered from any supply shortage or faced any problems to secure our raw materials, nor had any of our suppliers tightened the credit terms in their agreements with us.

Our trade payables increased by 90.4% to RMB20.1 million as of December 31, 2010 from approximately RMB10.5 million as of December 31, 2009, primarily because we increased our purchases to meet with our expanded production scale, after our current production plant came into full operation in late 2009. Our trade payables decreased by 60.2% to RMB8.0 million as of December 31, 2011 from RMB20.1 million as of December 31, 2010, as we settled our trade payables more quickly in anticipation of the earlier Chinese New Year holiday in January 2012. Our trade payables maintained at RMB20.2 million as of June 30, 2012 as a result of our expanded operation scale although we settle our trade payables more quickly.

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Average turnover days of trade payables[1]	13.5	13.8	6.4	4.8

1. *Average turnover days of trade payables for a certain period is derived by dividing the arithmetic mean of opening and closing balances of trade payables, by cost of sales for the relevant period and then multiplied by 365 days for a year or 183 days for half year.*

Our average turnover days of trade payables remained stable at 13.8 days for the year ended December 31, 2010 as compared to 13.5 days for the year ended December 31, 2009. Our average turnover days of trade payables decreased to 6.4 days for the year ended December 31, 2011 primarily due to the decrease in our trade payables balance as at December 31, 2011 when we settled our trade payables more quickly in anticipation of the earlier Chinese New Year holiday in January 2012. Our average turnover days of trade payables further decreased to 4.8 days for the six months ended June 30, 2012 because we have settled our trade payables earlier to speed up the delivery of raw materials, which enabled us to reduce our inventory level and inventory turnover day.

We usually settle our trade payables balance with suppliers within one to two week after the delivery to maintain a good business relationship with our suppliers, as a result, our average turnover days of trade payables are shorter than the one-month credit period generally granted to us. As we believe such prepayment arrangement and credit terms are in line with the industry practice, we have not attempted to negotiate with suppliers for an extension of credit term.

The following table sets forth an ageing analysis of the trade payables of our Group as of the dates indicated:

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	10,546	20,080	7,984	20,186

Our trade payables are less than 30 days as we usually settle the balance for purchase of raw materials within one month after delivery based on contract terms.

As of October 31, 2012, all of our trade payables as of June 30, 2012 had been settled.

Customer receipts in advance

Customer receipts in advance represented the amount receipt in advance from our customers before delivery of our products. The balance of the customer receipts in advance for each sales order is reversed and recognized as settlement from sales upon delivery of our products to the customers. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had customer receipts in advance of nil, RMB9.9 million, RMB1.8 million and nil. Our balance of customer receipts in advance depends on, among others, whether we deliver finished goods to customers at the end of the period or year, timing of the sales orders and prepayment from our customers after signing of sales contracts and will be determined on a case by case basis. We had no customer receipts in advance as of December 31, 2009 and June 30, 2012 primarily because either we had delivered all our products to our customers after we had received advance payments from them or we had not received prepayments from our customers after we had signed sales contracts with them at that point of time.

Amounts due from/to related parties

As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had amounts due from related parties totaling approximately nil, nil, RMB0.2 million and RMB0.2 million, respectively, mainly representing the unpaid consideration of the acquisition of China Silver BVI.

As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had amounts due to related parties totaling approximately RMB7.2 million, RMB1.6 million, nil and nil, respectively.

Amount due to a related party as of December 31, 2009 represented cash advance for operating activities from Cheng Nan Recycling prior to our acquisition of the company. Amount due to a related party as of December 31, 2010 represented the consideration payable to Mr. Chen Wanlong for the acquisition of the 71.5% equity interest of Cheng Nan Recycling. We acquired Cheng Nan Recycling to discontinue prior related party transactions and solve the business competition issue in anticipation of our listing plan. However, as the relevant tax incentives were terminated, we deregistered Cheng Nan Recycling on July 30, 2012.

For further details regarding balances with related parties, see Note 22 of the combined financial information set out in the Accountants' Report included in Appendix I to this prospectus.

All amounts due to related parties are unsecured, non-interest bearing and payable on demand. As of the Latest Practicable Date, all balances with related parties had been settled.

Consideration payable and loan from a Controlling Shareholder

As of June 30, 2012, we had consideration of RMB110 million payable to the individual shareholders of Longtianyong Nonferrous Metals in connection with the acquisition of all the equity interest in Longtianyong Nonferrous Metals by Zhejiang Fuyin on April 27, 2012 as part of the Reorganization. The Group obtained a loan of RMB110 million from Mr. Chen Wantian and settled the full amount of the consideration payable on July 19, 2012 which was subsequently classified as a loan from the Controlling Shareholder and was outstanding as at October 31, 2012. The loan had not been capitalized but settled in December 2012 prior to completion of the Global Offering from our cash reserves on hand and cash flows generated from our operations.

With respect to the amounts due from/to related parties and the consideration payable, our PRC legal advisors, Jingtian & Gongcheng, have advised us that such amounts due from/to and the consideration payable to related parties are not in violation of any PRC laws or regulations, including the General Principles of Loans (貸款通則). Jingtian & Gongcheng have further advised us that the General Principles of Loans is only applicable to money borrowings for interest with definite terms, and such payables and receivables between us and our related parties were not money borrowings for interest and are not prohibited by or in violation of the General Principles of Loans.

Refundable investment deposits

Refundable investment deposits represented the investment deposits of RMB21.8 million which we had received from Richwise Capital as of June 30, 2012 in connection with its US$10 million investment. The investment was completed in July 2012 upon fulfillment of the conditions precedent and the refundable investment deposits were subsequently transferred to our equity. See the section headed "History, Reorganization and Group Structure — The Reorganization" in this prospectus for further details.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

We finance our operations primarily with cash flows from operations and short-term borrowings. Our primary uses of funds have been capital expenditures, working capital and repayment of short-term borrowings. Any significant decrease in demand for, or pricing of, our products or a significant decrease in the availability of bank loans may adversely impact our liquidity.

The following table sets forth our cash flows for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2011 RMB'000 (unaudited)	2012 RMB'000
Net cash from operating activities	46,479	66,337	80,967	3,799	102,436
Net cash used in investing activities	(22,296)	(60,702)	(11,783)	(2,263)	(3,073)
Net cash from (used in) financing activities	26,073	(8,259)	(77,893)	(27,499)	(65,706)
Net increase (decrease) in cash and cash equivalents	50,256	(2,624)	(8,709)	(25,963)	33,657
Cash and cash equivalents at beginning of the year/period	2,277	52,533	49,909	49,909	41,200
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	52,533	49,909	41,200	23,946	74,857

Net cash from operating activities

We derive our cash inflow from operations principally from payments for the sale of our products. Our cash outflow used in operations is principally for purchases of raw materials, salary payments, PRC income tax payments and payment of research and development costs.

For the six months ended June 30, 2012, we had net cash inflows from operating activities before working capital changes of RMB83.2 million and a net cash inflow of RMB102.4 million. The difference of RMB19.2 million is mainly attributed to (i) the decrease in inventories of RMB23.9 million as we shortened production cycle and inventory turnover to enhance efficiency and (ii) the increase in trade and other payables of RMB9.7 million as we settled the trade payables more quickly at year end of 2011 in anticipation of the earlier Chinese New Year holiday in early 2012, partially offset by the payment of PRC income tax of RMB11.7 million.

For the six months ended June 30, 2011, we generated net cash inflows from operating activities before working capital changes of RMB128.1 million and a net cash inflow of RMB3.8 million. The difference of RMB124.3 million mainly reflected the increase in inventories of RMB90.5 million as we increased our inventories for our increased production volume due to our expanded production scale, the decrease in customer receipts in advance of RMB9.9 million, the increase in our trade receivables of RMB7.5 million as our revenue from silver ingot increased primarily due to the increasing silver price during the first half of 2011, and the payment of PRC income tax of RMB29.0 million, partially offset by the increase in trade and other payable of RMB10.2 million as we increased our purchase of raw materials to meet our expanded production scale.

For the year ended December 31, 2011, we generated net cash inflows from operating activities before working capital changes of RMB172.9 million and a net cash inflow of RMB81.0 million. The difference of RMB91.9 million mainly reflected the increase in inventories of RMB23.7 million as we increased our inventories for our expanded production scale and increased production volume, a decrease in trade and other payables of RMB11.8 million as we settled our trade payables more quickly in anticipation of the earlier Chinese New Year holiday in January 2012, a decrease in customer receipts in advance of RMB8.1 million and the payment of PRC income tax of RMB50.4 million.

For the year ended December 31, 2010, we generated net cash inflows from operating activities before working capital changes of RMB144.9 million and a net cash inflow of RMB66.3 million. The difference of RMB78.6 million mainly reflected an increase in inventories of RMB68.2 million as we increased our inventories for our expanded production scale in 2010, and payment of PRC income tax of RMB25.1 million, partially offset by an increase in trade and other payables of RMB10.8 million as we increased our purchases to meet our expanded production scale and an increase in customer receipts in advance of RMB9.9 million as we received prepayments from our customers before the delivery of goods prior to year end for our increased sales volume.

For the year ended December 31, 2009, we generated net cash inflows from operating activities before working capital changes of RMB60.7 million and a net cash inflow of RMB46.5 million. The difference of RMB14.2 million mainly reflected an increase in inventories of RMB19.4 million as we increased our inventories for our expanded production scale in 2009 after we had completed the Phase I construction of our current production plant in 2008 and the subsequent trial production and further improvement by October 2009, and payment of PRC income tax of RMB4.4 million, partially offset by an increase in trade and other payables of RMB10.3 million as we increased our purchases required by our expanded operation scale.

Net cash used in investing activities

The principal items affecting net cash used in investing activities during the Track Record Period were our capital expenditures for (i) purchase of property, plant and equipment, and prepayments to land use rights in relation to construction and improvement of our current production plant; and (ii) acquisition of a registered patent from an Independent Third Party to improve our production technique of purification and removal of titanium in copperas solution.

Net cash used in investing activities was RMB3.1 million for the six months ended June 30, 2012. The amount reflected cash primarily used for purchase of property, plant and equipment of approximately RMB2.1 million in relation to additional improvement of our current production plant, prepayment of RMB1.9 million for land preparation works for the Phase III construction of our production facility, and payment of RMB1.2 million for the remaining progress payment of the registered patent, partially offset by government grant received of RMB2.0 million.

Net cash used in investing activities was RMB2.3 million for the six months ended June 30, 2011. The amount mainly reflected cash used for purchase of property, plant and equipment of RMB2.3 million which was related to additional improvement of our current production plant.

Net cash used in investing activities was RMB11.8 million for the year ended December 31, 2011. The amount primarily reflected cash used for purchase of property, plant and equipment of RMB7.3 million, prepayment of RMB6.9 million, deposits for purchase of property, and plant and equipment of RMB5.7 million, all of which were related to additional improvement of our current production plant, and partially offset by government grant received of RMB8.0 million from the NDRC for the purpose of further developing and enhancing our technology and application.

Net cash used in investing activities was RMB60.7 million for the year ended December 31, 2010. The amount primarily reflected cash used for purchase of property, plant and equipment for our production facilities of RMB52.3 million, prepayment of RMB1.5 million for the purchase price of the land use rights we acquired, both of which relating to the Phase II construction of our production plant, deposits of RMB4.8 million for the registered patent, and acquisition of Cheng Nan Recycling for a consideration of RMB2.2 million.

Net cash used in investing activities was RMB22.3 million for the year ended December 31, 2009. The amount primarily reflected cash used for purchase of property, plant and equipment of RMB14.9 million, prepayment of RMB6.7 million for the purchase price of the land use rights we acquired and deposits for the purchase of property, plant and equipment of RMB0.9 million, all of which were related to Phase I construction of our production plant.

Net cash from (used in) financing activities

Our financing activities during the Track Record Period mainly included capital injection from equity holders, proceeds from and repayments of bank borrowings in relation to the construction and further improvement of our current production plant, and payment of dividends and interest expenses.

Net cash used in financing activities for the six months ended June 30, 2012 was RMB65.7 million. The amount primarily reflected repayment of bank borrowings of RMB70.0 million and payment of dividends of RMB44.0 million, partially offset by proceeds from new bank borrowings of RMB30.0 million and receipt of refundable investment deposits of RMB21.8 million.

Net cash used in financing activities for the six months ended June 30, 2011 was RMB27.5 million. The amount primarily reflected repayment of bank borrowings of RMB50.0 million and payment of dividends of RMB44 million, partially offset by proceeds from additional bank borrowings of RMB70.0 million.

Net cash used in financing activities for the year ended December 31, 2011 was RMB77.9 million. The amount primarily reflected dividends payment of RMB121.0 million, and repayment of bank borrowings of RMB50.0 million, partially offset by proceeds from new bank borrowings of RMB100.0 million.

Net cash used in financing activities for the year ended December 31, 2010 was RMB8.3 million. The amount primarily reflected repayment of bank borrowings of RMB30.0 million, payment of dividends of RMB22.0 million and repayment to related parties of RMB5.0 million, partially offset by proceeds from new bank borrowings of RMB50.0 million.

Net cash from financing activities for the year ended December 31, 2009 was RMB26.1 million. The amount primarily reflected capital injections from equity holders of RMB60.0 million, proceeds from new bank borrowings of RMB30.0 million and advance from related parties of RMB7.2 million, partially offset by repayment of bank borrowings of RMB60.0 million, payment of dividends of RMB5.0 million and interest paid of RMB4.2 million.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital expenditure

Our capital expenditures comprised expenditures on (i) purchase of property, plant and equipment in relation to the Phase II construction and additional improvement of our production plant; (ii) prepayments for the purchase price of the land use rights we acquired; and (iii) acquisition of the registered patent from an Independent Third Party. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
				(unaudited)	
Purchase of property, plant and equipment	14,838	57,363	3,196	2,319	8,334
Prepayments for leasehold land	6,656	1,500	6,944	—	1,878
Acquisition of an intangible asset	—	—	—	—	6,000
Total	21,494	58,863	10,140	2,319	16,212

Our current production plant with the annual designed production capacity of 250 tonnes for silver ingots underwent two phases of construction, with Phases I and II completed in 2008 and 2010, respectively. We have completed additional improvement of our current production plant by March 2012. The prepayments for leasehold land in the amount of RMB1.9 million for the six months ended June 30, 2012 represented our cost paid for land preparation works for the Phase III construction of our production facility. We do not plan to acquire additional parcels of land in the near future.

As the operations of our current production facilities have become more stable and developed and our production workers have become more proficient, we have achieved a high or full utilization of our designed production capacity since June 2012. We plan to continue to expand our production capacity by using the net proceeds from the Global Offering. The following table sets forth our planned capital expenditure for the year ending December 31, 2013, 2014 and 2015:

	Year ending December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Construction of production unit	47,500	7,500	—
Purchase of property, plant and equipment	111,500	29,950	—
Total	159,000	37,450	—

For the year ending December 31, 2013, our planned capital expenditure mainly includes purchases of property, plant and equipment in relation to (i) our Phase III construction for RMB67.5 million; (ii) improvement and upgrade of our environmental protection system for RMB33 million; and (iii) enhancement of our research and development capability for RMB11 million. In addition, our planned capital expenditure includes the construction of new production units of RMB47.5 million in connection with the Phase III construction to expand our production plant and increase our designed annual capacity of our silver ingots to 650 tonnes.

For the year ending December 31, 2014, our planned capital expenditure mainly includes purchases of property, plant and equipment in relation to (i) additional improvement in connection with the Phase III construction of our production plant for RMB4.1 million; and (ii) further improvement and upgrade of our environmental protection system for RMB25.9 million. In addition, our planned capital expenditure includes the construction of additional production units in connection with the Phase III construction of our production plant for RMB7.5 million.

The estimated useful lives of our production plant, machinery and equipment are approximately from five to ten years. Because our production plant, machinery and equipment were put into operation since the completion of the construction of our new production plant in 2008 and the trial production in 2009 and we expect they will be in good operational conditions in their remaining useful lives, our planned capital expenditure does not include the replacement of property, plant and equipment.

As at the Latest Practicable Date, we have not incurred or committed any planned capital expenditure for the year ending December 31, 2013, 2014 and 2015. We plan to fund our planned capital expenditure by using the net proceeds from the Global Offering, our cash flow generated from our operations and bank borrowings.

Capital commitments

The table below sets forth the breakdown of our capital commitments as of the dates indicated:

	As at December 31,			As at June 30,
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of				
— property, plant and equipment	600	—	4,314	—
— an intangible asset	—	1,200	1,200	—
	600	1,200	5,514	—

Our capital commitments increased significantly to RMB5.5 million as of December 31, 2011 from RMB1.2 million as of December 31, 2010, primarily due to the acquisition of property, plant and equipment in relation to the additional improvement of our production plant with the annual production capacity of 250 tonnes of silver ingots.

The capital commitments in relation to an intangible asset are for the remaining progress payment of the acquisition of the registered patent from an Independent Third Party.

INDEBTEDNESS

Bank Borrowings

As of October 31, 2012, the Latest Practicable Indebtedness Date for the purpose of this indebtedness statement, which is no more than two calendar months prior to the date of this prospectus, we had a total of borrowings of RMB60,000,000, which were all short term bank borrowings. The following table sets forth our bank borrowings as of the dates indicated.

	As of December 31,			As of June 30,	As of October 31,
	2009	2010	2011	2012	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Secured bank borrowings repayable within one year	30,000	50,000	100,000	60,000	60,000

All of our past bank borrowings and our existing outstanding bank borrowings were short-term borrowings from Bank of Ganzhou, Ji An Branch (贛州銀行吉安分行) (the "Bank of Ganzhou"). They were denominated in RMB and were fixed rate borrowings. The interest rates of these bank borrowings were 6.00% to 6.64%, 6.64%, 6.64% to 8.20% and 7.89% to 8.20% per annum for the year ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively, which were generally 25% higher than the then prevailing benchmark rate published by the PBOC due to the tightening monetary policy of the PRC government. The increases in the interest rates for our bank borrowings during the Track Record Period were in line with the prevailing interest rates in the lending market in China. To the best of our Directors' knowledge, the bank lending rates to Chinese privately-owned companies during the Track Record Period were generally set at approximately 20% to 30% higher than the prevailing benchmark rate published by the PBOC during the same period due to tightening monetary policy of the PRC government.

Our bank borrowings increased to RMB50.0 million as of December 31, 2010 as compared to 30.0 million as of December 31, 2009, and further to RMB100.0 million as of December 31, 2011. We increased our bank borrowings in 2010 and particularly in 2011 primarily to support the capital needs arising from the purchase of raw materials for our expanded production capacities after construction of our current product facilities during those years. Our bank borrowings decreased to RMB60.0 million as of June 30, 2012, as further described below.

Our bank borrowings, which amounted to RMB100.0 million as of December 31, 2011, comprised of three short-term loans extended from the Bank of Ganzhou to Longtianyong Nonferrous Metals: (i) a loan of RMB50 million with the daily compound interest rate of 7.8875% repayable within one year after April 27, 2011; (ii) a loan of RMB20 million with the annual interest rate of 7.8875% (daily compounded) repayable within one year after May 9, 2011; and (iii) a loan of RMB30 million with the annual interest rate of 8.2% (daily compounded) repayable within one year after September 26, 2011. The first two loans were secured by the land use rights and property ownership rights in respect of our buildings (repaid as of June 30, 2012). The third loan is secured by our inventories and production equipment (repaid as of October 31, 2012). We repaid all these bank loans as of October 31, 2012.

As of the Latest Practicable Indebtedness Date, we had bank borrowings amounting to RMB60.0 million extended from the Bank of Ganzhou to fund our working capital, consisting of (i) a loan of RMB30.0 million with the annual interest rate of 8.2% (daily compounded), repayable within one year after May 18, 2012, and (ii) a loan of RMB30.0 million with the annual interest rate of 7.5% (daily compounded), repayable within one year after October 12, 2012. The two loans are secured by the land use rights and property ownership rights in respect of our buildings. During the Track Record Period and up to the Latest Practicable Date, the lending environment in China and relevant interest rate had no impact on our business.

In the loan agreements, we are required provide advance notice and obtain written consent from the Bank of Ganzhou upon occurrence of merger, acquisition, setting up a joint venture, split-up, change of shareholder or restructuring. During the Track Record Period and up to the Latest Practicable Date, we had not breached any material covenant under the loan agreements, nor defaulted on any loan payment.

The table below sets forth the repayment schedule for the two outstanding bank borrowings we have with the Bank of Ganzhou:

Principal amount (RMB)	Loan origination date	Due date
30,000,000	May 18, 2012	May 17, 2013
30,000,000	October 12, 2012	October 11, 2013

To ensure that we maintain reasonable cash reserves and working capital for our operations and to further support our working capital in anticipation of the production expansion plan, we obtained a loan of RMB50.0 million with the annual interest rate of 7.5% (daily compounded), repayable within one year after December 4, 2012. This loan is secured by majority of our inventories of raw materials and certain of our work in progress products.

We have not encountered any difficulties in obtaining additional bank borrowings or credit facilities up to the Latest Practicable Indebtedness Date. We will continue to adhere to our prudent financial policy and take bank borrowings in appropriate amounts in accordance with our production needs. As of the Latest Practicable Indebtedness Date, we did not have any material external debt financing plan.

Banking facilities

As of the Latest Practicable Indebtedness Date, we had not entered into any banking facility and did not have any undrawn banking facilities. We believe we will have no difficulty in obtaining any banking facilities in the future.

We are in the process of securing an additional bank loan commitment. Based on a confirmation from the Bank of Ganzhou dated October 26, 2012, it had principally agreed with us on the terms and conditions of a bank loan of RMB80 million for working capital purposes and committed to provide the bank loan to us subject to the conditions of the loan being met.

Pledge of assets

As of the Latest Practicable Indebtedness Date, all our outstanding bank borrowings were secured by the land use rights and property ownership rights in respect of our buildings. The pledge of inventories as of June 30, 2012 was released upon the repayment of the relevant bank loan on September 26, 2012. The table below sets forth the carrying amounts of our assets that were pledged to secure the general banking facilities or bank borrowings as of the dates indicated.

	As of December 31,			As of June 30,	As of October 31,
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2012 RMB'000
					(unaudited)
Buildings	40,432	38,345	65,971	64,173	62,974
Prepaid lease payments and land use rights	4,364	4,272	11,944	11,816	11,730
Inventories	—	22,689	48,548	49,211	—
	44,796	65,306	126,463	125,200	74,704

Other Borrowings

In addition, as of June 30, 2012, we had unpaid consideration of RMB110 million payable to the individual shareholders of Longtianyong Nonferrous Metals in connection with the acquisition of all the equity interest in Longtianyong Nonferrous Metals by Zhejiang Fuyin from them as part of the Reorganization. The consideration was subsequently settled on July 19, 2012 by obtaining a loan of RMB110 million from Mr. Chen Wantian. The loan from Mr. Chen Wantian, which was outstanding as at October 31, 2012, is unsecured, interest-free and was repaid on December 5, 2012 from our cash reserves on hand and cash flows generated from our operations. Please see the paragraph headed "— Net Current Assets — Consideration payable and loan from a Controlling Shareholder" in this section for further information.

Save as aforesaid or as otherwise disclosed herein, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities, or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities as at the Latest Practicable Indebtedness Date.

Financial Ratios

The following table sets forth a summary of our key financial ratios during the Track Record Period:

Financial Ratios	Formulae	As of/year ended December 31, 2009	2010	2011	As of/six months ended June 30, 2012
Profitability ratios:					
1. Growth					
a. Revenue growth		—	93.0%	76.0%	36.9%
b. Net profit growth		—	164.7%	17.4%	-39.3%
2. Profit margins					
a. Gross margin	a. Gross profit/Revenue x 100%	24.4%	27.8%	19.1%	14.4%
b. Net profit margin before interest and tax	b. Net profit before interest and tax/Revenue x 100%	18.2%	24.0%	16.3%	12.4%
c. Net profit margin	c. Net profit after tax/Revenue x 100%	12.8%	17.6%	11.7%	8.8%
3. Return on equity					
a. Return on equity	a. Net profit/Average total equity x 100%	28.7%	46.0%	46.3%	27.7%
b. Return on total assets	b. Net profit/Total assets x 100%	19.1%	32.9%	31.2%	14.2%
Liquidity ratios:					
1. Liquidity ratios					
a. Current ratio	a. Current assets/Current liabilities	1.9	1.7	1.6	0.9
b. Quick ratio	b. (Current assets — Inventories)/Current liabilities	0.9	0.5	0.4	0.4
2. Turnover ratios					
a. Inventories turnover days	a. Average inventories/Cost of sales x (365 days or 183 days)	83.7	84.9	64.1	48.1
b. Receivables turnover days (average collection period)	b. Average trade receivables/ Revenue x (365 days or 183 days)	0.8	0.9	1.2	1.5
c. Payables turnover days (average payment period)	c. Average trade payables/ Cost of sales x (365 days or 183 days)	13.5	13.8	6.4	4.8
Capital adequacy ratio:					
1. Gearing ratio	Total bank borrowings/Total equity x 100%	17.1%	19.9%	40.6%	40.8%
2. Debt to net worth ratio					
a. Debt to equity ratio	a. Net debt (Total bank borrowings-bank balances and cash)/Total equity x 100%	-12.8%	0.0%	23.8%	-10.1%
b. Interest coverage	b. Profit before interest and tax/interest	26.9	47.0	30.3	21.9

Current ratio and quick ratio

Our current ratios were 1.9, 1.7, 1.6 and 0.9 as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. Our current ratio remained relatively stable during the three years ended December 31, 2011, primarily reflecting the stability of our working capital structure. The comparatively lower current ratio of 0.9 as of June 30, 2012 was mainly as a result of the consideration payable of RMB110 million in relation to the Reorganization. Our inventory balance attributes a significant portion of our current assets and thus affect our quick ratio. Our quick ratios were 0.9, 0.5, 0.4 and 0.4 as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. The drop in quick ratio from 0.9 as of December 31, 2009 to 0.5 as of December 31, 2010 and 0.4 as of December 31, 2011 was primarily due to an increase in inventories as a result of our expanded operation scale after we had completed the Phase I construction of our current production plant by the end of 2008 and the subsequent trial production and further improvement by October 2009. Our quick ratio further decreased to 0.4 as of June 30, 2012 was mainly due to the consideration payable of RMB110 million.

Gearing ratio

Gearing ratio equals to total bank borrowings divided by total equity, expressed as a percentage. Our gearing ratios were 17.1%, 19.9%, 40.6% and 40.8% as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. The higher gearing ratios as of December 31, 2011 and June 30, 2012 was due to the additional bank borrowings we incurred as our working capital to meet our expanded production scale and the lower equity balance as a result of the Reorganization.

Return on equity

Our return on equity ("ROE") increased from 28.7% for the year ended December 31, 2009 to 46.0% for the year ended December 31, 2010 and further to 46.3% for the year ended December 31, 2011, primarily due to the increase in net profit during the Track Record Period, while the equity base remained relatively stable during the same period. Our production output gradually increased subsequent to the completion of the construction of our new production plant in 2008 and the trial production in 2009, which improved our net profit margin and assets turnover in 2010 and our ROE of 2010 increased accordingly. In 2011, because our assets turnover increased further due to our enhanced production efficiency and the increasing silver market price, our revenue and net profit increased; however, our net profit margin decreased due to the increased volatility in the prices of silver and lead in the PRC for the same period. As a result of the combining effect of an increase in assets turnover, which was partially offset by the decrease in our net profit margin, our ROE remained relatively stable from 2010 to 2011. Further, ROE was 27.7% for the six months ended June 30, 2012, as a result of the lower gross profit and net profit for the period.

Return on total assets

Our return on total assets ("ROA") increased from 19.1% for the year ended December 31, 2009 to 32.9% for the year ended December 31, 2010 and 31.2% for the year ended December 31, 2011, primarily due to the increase in net profit during the Track Record Period. Total assets increased by approximately 52.2% during the year ended December 31, 2010 due to the increasing production scale. Total assets remained relatively stable for the year ended December 31, 2010 and 2011 and the six months ended June 30, 2012. ROA for the six months ended June 30, 2012 was 14.2%, as a result of the lower gross profit and net profit for the period.

RELATED PARTY TRANSACTIONS

Save for the transactions disclosed under "— Net Current Assets — Amounts due from/to related parties" and "— Net Current Assets — Consideration payable and loan from a Controlling Shareholder," we entered into transactions with Cheng Nan Recycling to purchase raw materials totaling approximately RMB3.7 million. For further details regarding related parties transactions, see Notes 26 and 33 of the combined financial information set out in the Accountants' Report included in Appendix I to this prospectus.

Our Directors confirmed that the transactions we entered into with Cheng Nan Recycling to purchase raw materials were conducted in the ordinary and usual course of business and on normal commercial terms and that the acquisition of the 71.5% equity interest of Cheng Nan Recycling were on normal commercial terms as mutually agreed between the parties.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

WORKING CAPITAL

Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks, our Directors are of the opinion that we will have available sufficient working capital for our operations at least for the 12 months following the date of this prospectus.

LISTING EXPENSE INCURRED AND TO BE INCURRED

During the Track Record Period, we incurred listing expenses of approximately RMB1.3 million (equivalent to HK$1.6 million) which solely represent Reporting Accountants' fees and recognized an amount of RMB325,000 (equivalent to HK$400,000) as administrative expenses for the six months ended June 30, 2012. The remaining amount will be off-set against share premium account or expended off subsequent to June 30, 2012.

Our listing expenses to be recognized after June 30, 2012 is estimated to be approximately RMB44.2 million (equivalent to HK$54.4 million), of which only approximately RMB27.4 million (equivalent to HK$33.7 million) is expected to be recognized as administrative expenses. The remaining balance of RMB16.8 million (equivalent to HK$20.7 million) will be deferred and set off against the share premium account in accordance with Paragraph 37 of Hong Kong Accounting Standard 32 "Financial Instruments: Presentation" issued by the Hong Kong Institute of Certified Public Accountants because our Directors consider that the remaining balance of RMB16.8 million (equivalent to HK$20.7 million) is incremental cost directly attributable to issue of our Shares under the Global Offering that otherwise would have been avoided.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are, in the normal course of business, exposed to market risk such as interest rate risk, commodity price risk and liquidity risk. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Interest rate risk

We are exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and cash flow interest rate risk in relation to variable-rate bank balances as these balances carry interest at prevailing market rates. We currently do not have an interest rate hedging policy. However, our Directors monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise. Our Directors consider that the exposure to the Group arising from cash flow interest rate risk is limited and no sensitivity analysis is therefore prepared.

Foreign currency risk

We collect all of the revenue in RMB and incur most of the expenditures as well as capital expenditures in RMB. The investment from Richwise Capital was denominated in the foreign currency of US dollar which exposed us to currency risk. We did not use any financial instruments to hedge against currency risk. Because the investment was completed and capitalized in July 2012, our Directors consider the foreign current risk was limited and did not make any sensitivity analysis.

Commodity price risk

High-content ore powder, smelting slag and low-content ore powder are the principal raw materials of our products and the cost of raw materials consumed accounted for over 93% of our total cost of sales in the Track Record Period. The purchase price of our principal raw materials is determined based on the levels of silver and lead contents, the prices of which are set by the Shanghai White Platinum & Silver Exchange and the Shanghai Metals Market, respectively. Fluctuations on commodity prices of silver and lead contents in high-content ore powder, smelting slag and low-content ore powder will have a significant impact on our earnings, cash flows as well as the value of the inventories. In addition, we are exposed to market price risk through fluctuations of the silver price as we generate our revenue primarily from sales of silver ingot in China. Although we have achieved to reduce our production cycle (from order of raw materials to sale of our end products) to approximately one to two months after the Track Record Period, the silver price may have fallen or risen during our production cycle and we bear the risks and rewards of such price fluctuations. We do not enter into any derivative instruments or future contracts to hedge any price fluctuations of raw materials, silver and lead. Therefore, fluctuations of silver and lead prices could have a significant effect on our revenue and profit for a given period. Please see the paragraph headed "— Principal Factors Affecting Our Results of Operations — Prices of our silver ingots and raw materials" in this section, and the sections headed "Business — Hedging Arrangements" and "Risk Factors — Our business and results of operations are dependent on the demands in the end-user market for and the market price of silver products in China, which are driven by factors beyond our control" in this prospectus for additional information including the relevant sensitivity analysis.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2012

We believe that on the bases and assumptions as set forth in Appendix III to this prospectus, and in the absence of unforeseen circumstances, our consolidated profit for the year ending December 31, 2012 is expected to be not less than RMB152.6 million. The profit forecast has been prepared by our Directors based on our audited combined financial information for the six months ended June 30, 2012, our unaudited management accounts for the four months ended October 31, 2012 and a forecast of the results for the remaining two months ending December 31, 2012.

The profit forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants' Report in Appendix I to this prospectus.

The unaudited pro forma forecast earnings per Share for the year ending December 31, 2012 is expected to be not less than RMB0.18. This amount has been calculated based on the forecasted consolidated profit for the year ending December 31, 2012 and the weighted average number of Shares outstanding during the year ending December 31, 2012, adjusted as if our Company had been listed since January 1, 2012, of 842,605,902 Shares, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option. In calculation of the weighted average number of Shares, we have taken into account the effect of acquisition of 10% equity interest in the Group through subscription of new shares by Richwise Capital under the Pre-IPO Investment, which was completed on July 13, 2012.

A change in the utilization rate of our integrated production system would directly affect our production volume of silver ingot and negatively impact our revenue and results of operation. The following sensitivity analysis shows the impact on our revenue as a result of the increase/decrease in the utilization rate of our integrated production system for our silver ingot for the two-months ending December 31, 2012 in two different scenarios, assuming all other factors remain the same:

Increase/decrease in utilization rate of our integrated production system for our silver ingot for the two months ending December 31, 2012	Increase/decrease in revenue
	RMB'000
5.0%	15,076
10.0%	30,152

The following breakeven analysis shows (i) the minimum utilizations of our silver production and (ii) the minimum sales volume of our silver ingot to cover our fixed costs for the year ending December 31, 2012, excluding the one-off listing expenses of approximately RMB27.7 million:

Minimum utilization rate of silver production	20.9%
Minimum sales volume of silver ingot (tonnes)	52.4

During the Track Record Period, the maximum fluctuation in the China Domestic Silver Price for a two-month period was approximately 35% and the absolute average fluctuation in the China Domestic Silver Price for a two-month period was approximately 10%.

The following table provides a sensitivity analysis showing the impact on our revenue and gross profit as a result of the increase/decrease in the China Domestic Silver Price or the two-month period ending December 31, 2012 in the 10% and 35% fluctuation scenarios, assuming all other factors remain the same:

Increase/decrease in the China Domestic Silver Price for the two months ending December 31, 2012	Increase/decrease in revenue and gross profit for the year ending December 31, 2012
	RMB'000
10.0%	22,170
35.0%	77,597

The following table provides a sensitivity analysis showing the increase/decrease in our cost of raw materials consumed as a result of the increase/decrease in the average purchase price of our raw materials consumed in the two-month period ending December 31, 2012 in the 10% and 35% fluctuation scenarios, assuming all other factors remain the same:

Increase/decrease in average purchase price of raw materials consumed for the two months ending December 31, 2012	Increase/decrease in cost of raw materials consumed for the year ending December 31, 2012
	RMB'000
10.0%	22,527
35.0%	78,843

DIVIDEND POLICY

We paid dividends in the amount of RMB5 million, RMB22 million, RMB121 million and RMB44 million in the year ended December 31, 2009, 2010, 2011, and the six months ended June 30, 2012, respectively. Our payment of dividends in the past does not represent our future dividend policy.

The declaration of future dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require foreign-invested enterprises to set aside part of their profit for the year as statutory reserves, and therefore such profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or pursuant to any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future. Currently we do not have any contractual arrangement under which future dividends are restricted.

We do not expect to declare further dividends in respect of the year ending December 31, 2012. Subject to the above policy, we intend to recommend annually in subsequent years for the foreseeable future a dividend distribution of 20% to 30% of our distributable profit for the year. Any dividends declared will be in Hong Kong dollars with respect to our Shares on a per share basis, and our Company will pay such dividends in Hong Kong dollars.

PROPERTY VALUATION

Particulars of our Group's property interests are set out in Appendix IV to this prospectus. Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the property interests of our Group as of October 31, 2012. A summary of values and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are included in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the net book value of relevant property interests including land use rights from our audited combined financial statements as of June 30, 2012 to the unaudited net book value of our Group's property interests as of October 31, 2012:

	RMB'000
Net book value of property interests of our Group as of June 30, 2012	111,118[1]
Movements for the four months ended October 31, 2012:	
Depreciation	(1,814)
Net book value as of October 31, 2012	109,304
Valuation surplus as of October 31, 2012	17,810
Valuation as of October 31, 2012 per Appendix IV Valuation Report	127,114

(1) This amount consists of approximately RMB90.6 million of buildings and RMB20.5 million of prepaid lease payments as of June 30, 2012.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as of June 30, 2012 as if the Global Offering had occurred on June 30, 2012 and is based on the combined net assets derived from the audited financial information of our Group as of June 30, 2012, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

	Audited combined net tangible assets of our Group as at June 30, 2012	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group	Unaudited pro forma adjusted net tangible assets per Share	
	(RMB'000)	(RMB'000)	(RMB'000)	RMB	HK$
Based on the Offer Price of HK$1.18 for each Offer Share	141,152	82,292	223,444	0.28	0.34
Based on the Offer Price of HK$1.68 for each Offer Share	141,152	136,029	277,181	0.34	0.42

Note: Please see "Appendix II — Unaudited Pro Forma Financial Information" in this prospectus for further details regarding the assumptions used and the calculation method.

RECENT MARKET AND FINANCIAL DEVELOPMENT

According to CRU, for the ten months ended October 31, 2012, China's domestic silver production was 10,520 tonnes representing an increase of 13.5% as compared with the same period in 2011, primarily due to an increase in the number of domestic miners engaged in silver production.

The monthly average China Domestic Silver Price had declined from RMB7,041 per kilogram for February 2012 to RMB5,798 per kilogram for July 2012; it has recovered to RMB6,990 per kilogram for November 2012 as a result of the adoption of the quantitative easing measures by the U.S. Federal Reserve in mid-September 2012, including maintaining low interest rate for a considerable long period of time (currently anticipated through mid-2015). The overall increasing trend of silver price during July 2012 to November 2012, which has improved our profitability and working capital.

Based on our unaudited condensed consolidated financial statements for the ten months ended October 31, 2012 which have been reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", our revenue increased by 48.7% from RMB826.9 million for the ten months ended October 31, 2011 to RMB1,229.5 million for the ten months ended October 31, 2012, primarily due to the increase in sales revenue of our silver ingots resulting from an increase in our utilization rate as our production technologies and techniques became more stable and developed, and the increased working capital from our operation and the pre-IPO investment. From June 2012 onwards, we have achieved a high or full utilization of our designed production capacity.

Our average selling price of silver ingot, lead ingot, bismuth ingot and antimony ingot for the ten months ended October 31, 2012 were RMB5.5 million, RMB12,900, RMB111,300 and RMB64,300 per tonne, respectively, which was comparable to the corresponding average selling price of RMB5.4 million, RMB13,000, RMB117,700 and RMB67,400 for the six months ended June 30, 2012.

Our gross profit increased by 27.7% from RMB170.3 million for the ten months ended October 31, 2011 to RMB217.5 million for the ten months ended October 31, 2012 and our overall gross profit margin decreased to 17.7% from 20.6% for the same period. As the U.S. Federal Reserve adopted the quantitative easing measures in mid-September 2012, the global commodity prices such as gold and silver have rebounded. Subsequent to June 30, 2012 and up to October 31, 2012 following the upward trend of non-ferrous metal price in international market, China's domestic non-ferrous metal price has increased accordingly. Our gross profit margin for silver ingot and lead ingot was 7.4% for the ten months ended October 31, 2012, as compared to 9.0% for the same period in 2011. Our gross profit margin for other non-ferrous metals was 96.3% for the ten months ended October 31, 2012, as compared to 96.0% for the same period in 2011. Our net profit increased while our net profit margin for the ten months ended October 31, 2012 decreased as compared to the same period in 2011, primarily due to a decrease in our gross profit margin as explained above, and partially because of the listing expenses of RMB18.6 million recognized during the ten months ended October 31, 2012.

NO MATERIAL ADVERSE CHANGE

After performing all the due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors have confirmed that since June 30, 2012 (being the date on which our latest audited combined financial statements were prepared, as set out in the Accountants' Report on our Group in Appendix I to this prospectus) and up to the date of this prospectus, (i) we have not experienced any material decrease or cancellation of orders by customers or delay in payment by our major customers; (ii) none of our suppliers has tightened the credit terms in their agreements with us; and (iii) there has been no material adverse change in our financial or trading position.