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December 14, 2012

The Directors
China Silver Group Limited
CCB International Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to China Silver Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2011 and the six months ended June 30, 2012 (the "Track Record Period") (the "Financial Information") for inclusion in the prospectus of the Company dated December 14, 2012 in connection with the proposed listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Prospectus").

The Company, which acts as an investment holding company, was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on July 19, 2012. Pursuant to a group reorganization, as more fully explained in the section headed "History, Reorganization and Group Structure" in the Prospectus (the "Reorganization"), the Company became the holding company of the companies now comprising the Group which are principally engaged in the manufacture of silver and other non-ferrous metals for sale in the People's Republic of China (the "PRC"). Other than the transactions relating to the Reorganization, the Company has not carried on any business since the date of its incorporation.

The Company has equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company					Principal activity	Form of company
			At December 31,			At June 30,	At date of this report		
			2009	2010	2011	2012			
Directly owned									
China Silver Holdings Limited ("China Silver BVI") 中國白銀控股有限公司	The British Virgin Islands (the "BVI") July 29, 2010	Ordinary shares US$100,000	N/A	N/A^	100%	100%	100%	Investment holding	Limited liability
Indirectly owned									
China Silver Co., Limited ("China Silver Hong Kong") 中國白銀有限公司	Hong Kong May 24, 2010	Ordinary shares HK$10,000	N/A	N/A^	100%	100%	100%	Investment holding	Limited liability
China Silver Group Co., Limited ("China Silver Group") 中國白銀集團有限公司	Hong Kong November 22, 2011	Ordinary shares HK$10,000	N/A	N/A	100%	100%	—	Inactive	Limited liability
China Silver Mining Limited ("China Silver Mining") 中國白銀礦業有限公司	Hong Kong January 17, 2012	Ordinary shares HK$10,000	N/A	N/A	N/A	100%	—	Inactive	Limited liability
Zhejiang Fuyin Silver Co., Ltd.* ("Zhejiang Fuyin") 浙江富銀白銀有限公司	The PRC March 28, 2012	Registered capital US$8,000,000#	N/A	N/A	N/A	100%	100%	Investment holding	Wholly foreign owned
Jiangxi Longtianyong Nonferrous Metals Co., Ltd.* ("Longtianyong Nonferrous Metals") 江西龍天勇有色金屬有限公司	The PRC May 22, 2002	Registered capital RMB110,000,000	100%	100%	100%	100%	100%	Manufacture of silver and other non-ferrous metals for sale	Wholly foreign owned
Yongfeng Cheng Nan Waste Materials Recycling Co., Ltd.* ("Cheng Nan Recycling") 永豐縣城南廢舊物資回收有限公司	The PRC July 15, 2002	Registered capital RMB1,000,000	N/A	100%	100%	100%	N/A	Inactive	Wholly foreign owned
Yongfeng Longtianyong Waste Materials Recycling Co., Ltd.* ("Longtianyong Recycling") 永豐縣龍天勇廢舊物資回收有限公司	The PRC February 11, 2009	Registered capital RMB5,000,000	100%	100%	100%	100%	100%	Inactive	Wholly foreign owned

^ China Silver BVI and China Silver Hong Kong were acquired by the Group on November 1, 2011 and November 14, 2011, respectively.

* English translated name is for identification only.

Capital injection to this entity is not completed as at the date of this report. The unpaid capital amounted to US$6,400,000.

All companies now comprising the Group have adopted December 31, as their financial year end date.

No audited statutory financial statements have been prepared for the Company and China Silver BVI since their respective dates of incorporation/acquisition as there is no statutory requirement to do so.

No audited statutory financial statements of China Silver Hong Kong have been prepared since its acquisition by China Silver BVI. The upcoming statutory financial statements of China Silver Hong Kong will cover a period of fifteen months from October 1, 2011 to December 31, 2012.

No statutory financial statements of China Silver Group, China Silver Mining and Zhejiang Fuyin have been prepared for the Track Record Period as these companies were incorporated/established on November 22, 2011, January 17, 2012 and March 28, 2012, respectively, and none of them has carried on any transactions other than those relating to the Reorganization. We have reviewed all relevant transactions of these companies, the Company, China Silver BVI and China Silver Hong Kong and carried out such procedures as we considered necessary for their inclusion in the Financial Information. China Silver Group and China Silver Mining were subsequently disposed of on July 5, 2012.

The statutory financial statements of Longtianyong Nonferrous Metals for each of the three years ended December 31, 2011 were prepared in accordance with relevant accounting rules and financial regulations applicable to PRC enterprises (the "PRC GAAP") and were audited by 江西國晨會計師事務所有限責任公司 Jiangxi Guochen Certified Public Accountants ("Jiangxi Guochen"), certified public accountants registered in the PRC.

Cheng Nan Recycling was acquired by Longtianyong Nonferrous Metals on September 3, 2010. The statutory financial statements of Cheng Nan Recycling for the year ended December 31, 2010 and December 31, 2011 were prepared in accordance with the PRC GAAP and were audited by Jiangxi Guochen. Cheng Nan Recycling was subsequently deregistered on July 30, 2012.

Longtianyong Recycling has been a subsidiary of Longtianyong Nonferrous Metals since its establishment. The statutory financial statements of Longtianyong Recycling for the period from February 11, 2009 (date of establishment) to December 31, 2009 and each of the two years ended December 31, 2011 were prepared in accordance with the PRC GAAP and were audited by Jiangxi Guochen.

For the purpose of this report, the directors of China Silver BVI have prepared the consolidated financial statements of China Silver BVI and its subsidiaries for the Track Record Period in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). We have performed an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 2 of Section A below. No adjustments have been made by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of China Silver BVI who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2009, 2010, 2011 and June 30, 2012 and of the combined results and combined cash flows of the Group for the Track Record Period.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended June 30, 2011 together with the notes thereon have been extracted from the Group's unaudited combined financial information for the same period (the "June 2011 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review of the June 2011 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the June 2011 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue	6	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	7	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	8	(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	9	(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	10	(13,754)	(33,354)	(39,448)	(30,518)	(18,761)
Profit and total comprehensive income for the year/period	11	37,131	98,286	115,410	89,667	54,459

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	At December 31, 2009 RMB'000	At December 31, 2010 RMB'000	At December 31, 2011 RMB'000	At June 30, 2012 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	109,727	156,722	147,297	149,375
Prepaid lease payments	16	10,728	11,945	18,460	20,089
Intangible asset	17	—	—	—	5,849
Deposits for acquisition of property, plant and equipment		891	—	5,700	—
Deposit for acquisition of an intangible asset	17	—	4,800	4,800	—
Deferred tax asset	18	—	—	2,000	2,500
		121,346	173,467	178,257	177,813
CURRENT ASSETS					
Prepaid lease payments	16	226	256	394	432
Inventories	19	59,900	128,108	151,765	127,907
Trade receivables	20	933	1,958	4,486	5,773
Trade deposits	21	2,210	7,157	2,757	2,218
Amounts due from related parties	22	—	—	233	246
Bank balances and cash	23	52,533	49,909	41,200	74,857
		115,802	187,388	200,835	211,433
CURRENT LIABILITIES					
Trade and other payables	24	16,762	31,662	15,775	25,956
Customer receipts in advance	25	—	9,909	1,844	—
Amounts due to related parties	22	7,239	1,602	—	—
Consideration payable	26	—	—	—	110,000
Refundable investment deposits	27	—	—	—	21,792
Income tax payable		7,639	15,888	6,931	14,497
Bank borrowings	28	30,000	50,000	100,000	60,000
		61,640	109,061	124,550	232,245
NET CURRENT ASSETS (LIABILITIES)		54,162	78,327	76,285	(20,812)
TOTAL ASSETS LESS CURRENT LIABILITIES		175,508	251,794	254,542	157,001
CAPITAL AND RESERVES					
Paid-in capital/share capital	29	110,000	110,000	110,338	338
Reserves		65,508	141,794	136,204	146,663
TOTAL EQUITY		175,508	251,794	246,542	147,001
NON-CURRENT LIABILITY					
Deferred income	30	—	—	8,000	10,000
TOTAL EQUITY AND NON-CURRENT LIABILITY		175,508	251,794	254,542	157,001

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ share capital	Statutory reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
		(note)		
At January 1, 2009	50,000	3,509	29,868	83,377
Profit and total comprehensive income for the year	—	—	37,131	37,131
Capital injections	60,000	—	—	60,000
Transfer	—	4,105	(4,105)	—
Dividend paid (note 14)	—	—	(5,000)	(5,000)
At December 31, 2009	110,000	7,614	57,894	175,508
Profit and total comprehensive income for the year	—	—	98,286	98,286
Transfer	—	8,593	(8,593)	—
Dividend paid (note 14)	—	—	(22,000)	(22,000)
At December 31, 2010	110,000	16,207	125,587	251,794
Acquisition of China Silver BVI	338	—	—	338
Profit and total comprehensive income for the year	—	—	115,410	115,410
Transfer	—	13,017	(13,017)	—
Dividend paid (note 14)	—	—	(121,000)	(121,000)
At December 31, 2011	110,338	29,224	106,980	246,542
Reorganization (note 2)	(110,000)	—	—	(110,000)
Profit and total comprehensive income for the period	—	—	54,459	54,459
Dividend paid (note 14)	—	—	(44,000)	(44,000)
At June 30, 2012	338	29,224	117,439	147,001
Unaudited				
At January 1, 2011	110,000	16,207	125,587	251,794
Profit and total comprehensive income for the period	—	—	89,667	89,667
Dividend paid (note 14)	—	—	(44,000)	(44,000)
At June 30, 2011	110,000	16,207	171,254	297,461

note: According to the relevant requirements in the memorandum of association of Longtianyong Nonferrous Metals, a portion of its profits after taxation has to be transferred to the statutory reserve. The transfer to this reserve must be made before the distribution of a dividend to the equity owners. The reserve can be applied either to set off accumulated losses or to increase capital.

COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2009 RMB'000	Year ended December 31, 2010 RMB'000	Year ended December 31, 2011 RMB'000	Six months ended June 30, 2011 RMB'000 (unaudited)	Six months ended June 30, 2012 RMB'000
OPERATING ACTIVITIES						
Profit before tax		50,885	131,640	154,858	120,185	73,220
Adjustments for:						
Amortization of intangible asset		—	—	—	—	151
Bank interest income		(89)	(98)	(176)	(52)	(104)
Depreciation of property, plant and equipment		7,753	9,507	11,960	5,923	6,119
Finance costs		1,961	2,861	5,291	1,897	3,498
Loss on disposal of property, plant and equipment		—	783	647	6	103
Release of prepaid lease payments		159	253	291	129	211
Exchange differences		—	—	21	—	17
Operating cash flows before movements in working capital		60,669	144,946	172,892	128,088	83,215
(Increase) decrease in inventories		(19,357)	(68,208)	(23,657)	(90,498)	23,858
Increase in trade receivables		(624)	(1,025)	(2,444)	(7,469)	(1,287)
(Increase) decrease in trade deposits		(145)	(4,947)	4,400	2,384	539
Increase in amounts due from related parties		—	—	—	—	(30)
Increase (decrease) in trade and other payables		10,319	10,767	(11,754)	10,204	9,680
Increase (decrease) in customer receipts in advance		—	9,909	(8,065)	(9,909)	(1,844)
Cash generated from operations		50,862	91,442	131,372	32,800	114,131
PRC income tax paid		(4,383)	(25,105)	(50,405)	(29,001)	(11,695)
NET CASH FROM OPERATING ACTIVITIES		46,479	66,337	80,967	3,799	102,436
INVESTING ACTIVITIES						
Purchase of property, plant and equipment		(14,838)	(52,339)	(7,329)	(2,319)	(2,133)
Prepayments for leasehold land		(6,656)	(1,500)	(6,944)	—	(1,878)
Deposits paid for acquisition of property, plant and equipment		(891)	—	(5,700)	—	—
Acquisition of an intangible asset		—	(4,800)	—	—	(1,200)
Acquisition of a subsidiary	35	—	(2,239)	—	—	—
Interest received		89	98	176	52	104
Proceeds on disposal of property, plant and equipment		—	78	14	4	34
Government grant received		—	—	8,000	—	2,000
NET CASH USED IN INVESTING ACTIVITIES		(22,296)	(60,702)	(11,783)	(2,263)	(3,073)
FINANCING ACTIVITIES						
Capital injections from equity holders		60,000	—	—	—	—
New bank borrowings raised		30,000	50,000	100,000	70,000	30,000
Advance from related parties		7,239	1,602	—	—	—
Receipt of refundable investment deposits		—	—	—	—	21,792
Repayment of bank borrowings		(60,000)	(30,000)	(50,000)	(50,000)	(70,000)
Dividend paid		(5,000)	(22,000)	(121,000)	(44,000)	(44,000)
Interest paid		(4,166)	(2,861)	(5,291)	(1,897)	(3,498)
Repayment to related parties		(2,000)	(5,000)	(1,602)	(1,602)	—
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

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on July 19, 2012. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business is located in Western Industrial Park, Yongfeng County, Jiangxi Province, the PRC.

The Company is an investment holding company. The principal activity of the Group is the manufacture of silver and other non-ferrous metals for sale in the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. REORGANIZATION, BASIS OF PRESENTATION AND PREPARATION OF THE FINANCIAL INFORMATION

Prior to the Reorganization, Longtianyong Nonferrous Metals was owned by certain individuals, including Mr. Chen Wantian, a director of the Company, and his spouse (collectively the "Longtianyong Shareholders"). In the preparation for a listing of the Company's shares on the Stock Exchange ("Listing"), the companies now comprising the Group underwent the Reorganization which principally involves the following steps:

(i) Incorporation of Rich Union Enterprises Limited ("Rich BVI") in the BVI on July 13, 2010. By March 28, 2012, Rich BVI became the holding company of China Silver BVI, China Silver Hong Kong and Zhejiang Fuyin. Rich BVI is beneficially owned by the Longtianyong Shareholders;

(ii) On April 27, 2012, the Longtianyong Shareholders transferred their equity interest in Longtianyong Nonferrous Metals to Zhejiang Fuyin, whereby a sum of RMB110 million was payable by Zhejiang Fuyin to the Longtianyong Shareholders (note 26);

(iii) On July 13, 2012, an independent investor, Richwise Capital Group Limited ("Richwise Capital"), became a 20% shareholder of China Silver BVI by means of (a) subscription of new shares therein to the extent of 10% and (b) acquiring existing shares therein from the Longtiangyong Shareholders to the extent of another 10%; and

(iv) Interspersing the Company between China Silver BVI and its shareholders on August 14, 2012.

Upon completion of the Reorganization on August 15, 2012, the Company became a 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 the 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 where this 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.

Basis of preparation

At June 30, 2012, the Group had net current liabilities of approximately RMB20.8 million. In preparing the Financial Information, consideration has been taken of the opinion of the directors of the Company that (i) the net current liability position was temporary as it was primarily due to the payment obligation to the Longtianyong Shareholders pursuant to the Reorganization and (ii) in July 2012, the Group received fresh capital of approximately RMB31.5 million (equivalent to US$5 million) pursuant to the completion of the investment by Richwise Capital in the Group. Accordingly, the Financial Information has been prepared on a going concern basis.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The IASB issued a number of new and revised International Accounting Standards ("IASs"), IFRSs, amendments and interpretations ("IFRICs") (hereinafter collectively referred to as the "New IFRSs") which are effective for the Group's financial periods beginning on January 1, 2012. For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently adopted all these New IFRSs throughout the Track Record Period.

The Group has not early applied the following New IFRSs that have been issued at the date of this report but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after January 1, 2013

2 Effective for annual periods beginning on or after January 1, 2015

3 Effective for annual periods beginning on or after July 1, 2012

4 Effective for annual periods beginning on or after January 1, 2014

The directors of the Company anticipate that the application of these New IFRSs will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting policies which conform with IFRSs issued by the IASB. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The principal accounting policies are set out below.

Basis of combination

The Financial Information incorporates the financial statements of the companies now comprising the Group.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on combination.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods, or for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the combined statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Retirement benefit costs

Payments to defined contribution scheme are recognized as an expense when employees have been rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution scheme where the Group's obligations under the schemes are equivalent to those arising in a defined contributed retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Financial instruments

Financial assets and financial liabilities are recognized in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, amounts due from related parties, bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loan and receivable is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related parties, consideration payable, refundable investment deposits and bank borrowings) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next twelve months are disclosed below.

Allowance for inventories

Inventories are valued at the lower of cost and net realizable value. The Group regularly reviews its inventory levels in order to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price that is lower than its carrying amount, the Group estimates the amount of write-down of inventories as allowance for inventories.

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 were 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 the Group's 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.

6. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture of silver and other non-ferrous metals from industrial wastes for sale in the PRC. The Group's chief operating decision maker, being the executive directors of the Company, regularly reviews the revenue analysis by products and the Group's combined profit for the year/period prepared based on the accounting policies set out in note 4 for the purposes of resources allocation and performance assessment. Accordingly, it is not necessary to analyze the Group's revenue, results, assets and liabilities by operating segment.

Geographical information

The Group's revenue is derived from the PRC, based on the location of customers, and all of its non-current assets are located in the PRC, based on the location of assets. Therefore, no geographical information is presented.

Analysis of revenue by products

An analysis of revenue by products is as follows:

	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)	
Silver ingot	255,992	402,518	719,448	314,564	468,522
Lead ingot	29,375	104,444	137,060	69,961	84,459
Bismuth ingot	—	12,983	68,856	36,668	38,023
Antimony ingot	—	22,628	40,473	21,262	23,865
Non-standard gold	2,121	8,077	7,712	5,252	3,658
Zinc oxide	2,239	8,641	10,477	5,744	2,051
Others	—	—	146	12	297
	289,727	559,291	984,172	453,463	620,875

Information about major customers

An analysis of revenue from customers contributing over 10% of the Group's total revenue is as follows:

	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)	
Customer A	123,827	178,519	298,852	143,722	150,958
Customer B	52,221	97,017	181,002	77,134	119,041
Customer C (note)	—	—	99,827	—	116,557

note: Customer C did not contribute over 10% of the Group's total revenue in the years ended December 31, 2009 and December 31, 2010 and the six months ended June 30, 2011.

7. OTHER 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)	
Bank interest income	89	98	176	52	104
Scrap sales	9	9	20	—	—
	98	107	196	52	104

8. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses mainly represent expenses for specific research, staff costs and technical consultation fees incurred for the enhancement of production techniques.

9. FINANCE COSTS

	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)	
Interest on bank borrowings wholly repayable within five years	1,961	2,861	5,291	1,897	3,498

10. INCOME TAX EXPENSE

	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)	
PRC Enterprise Income Tax ("EIT")					
- current year/period	13,702	33,274	41,159	30,229	18,974
- underprovision in respect of prior years	52	80	289	289	287
	13,754	33,354	41,448	30,518	19,261
Deferred taxation for the year/period	—	—	(2,000)	—	(500)
	13,754	33,354	39,448	30,518	18,761

During the Track Record Period:

(i) the Group had no assessable profit subject to tax in any jurisdictions other than the PRC; and

(ii) the Group's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25%.

The tax charge for the Track Record Period can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	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)	
Profit before tax	50,885	131,640	154,858	120,185	73,220
Tax at the domestic income tax rate of 25%	12,721	32,910	38,715	30,046	18,305
Tax effect of expenses not deductible for tax purpose	973	372	444	183	169
Tax effect of tax loss not recognized	8	—	—	—	—
Utilization of tax loss previously not recognized	—	(8)	—	—	—
Underprovision in respect of prior years	52	80	289	289	287
Tax charge for the year/period	13,754	33,354	39,448	30,518	18,761

Under the Law of the PRC on EIT, withholding tax is imposed on dividends payable to non-PRC shareholders which is declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to approximately RMB118.9 million as at June 30, 2012 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. As at December 31, 2009, 2010 and 2011, there were no such temporary differences as the Group's PRC subsidiaries were owned by the Longtianyong Shareholders without an offshore holding structure prior to the Reorganization.

Details of deferred tax asset recognized are set out in note 18.

11. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD

	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)	
Profit and total comprehensive income for the year/period has been arrived at after charging:					
Directors' emoluments (note 12)	988	1,221	2,024	857	1,010
Other staff costs	11,500	15,771	22,938	10,117	11,470
Retirement benefit scheme contributions, excluding those of directors	2,318	3,098	4,979	2,523	2,560
Total staff costs	14,806	20,090	29,941	13,497	15,040
Auditor's remuneration	8	12	12	12	38
Amortization of intangible asset	—	—	—	—	151
Cost of inventories recognized as expenses	218,945	404,003	796,260	318,448	531,551
Depreciation of property, plant and equipment	7,753	9,507	11,960	5,923	6,119
Listing expenses	—	—	—	—	325
Net exchange losses	—	—	21	—	39
Release of prepaid lease payments	159	253	291	129	211

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of the Company during the Track Record Period are as follows:

	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)	
Fees	—	—	—	—	—
Salaries and other allowances	977	1,209	2,005	849	998
Retirement benefit scheme contributions	11	12	19	8	12
	988	1,221	2,024	857	1,010
Executive directors					
Mr. Chen Wantian	657	823	1,074	475	515
Mr. Song Guosheng	331	398	489	218	233
Mr. Chen Guoyu	—	—	461	164	262
	988	1,221	2,024	857	1,010

Employees

The Group's five highest paid individuals for the Track Record Period include both directors of the Company and employees as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
				(unaudited)	
Number of directors of the Company	2	2	3	3	3
Number of employees	3	3	2	2	2

Emoluments of the highest paid individuals who are also directors of the Company are set out above in this note. The emoluments of the remaining highest paid employees are as follows:

	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 and other allowances	1,108	1,307	1,093	490	517
Retirement benefit scheme contributions	16	18	15	7	8
	1,124	1,325	1,108	497	525

note: The emoluments of each of the above employees for the Track Record Period is below HK$1,000,000 (equivalent to approximately RMB813,000 as at June 30, 2012).

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful with regard to the Reorganization and the presentation of the results for the Track Record Period on a combined basis as disclosed in note 2.

14. DIVIDENDS

The Company has neither paid nor declared any dividend since its incorporation. However, prior to the Reorganization, Longtianyong Nonferrous Metals paid the following dividends to its then equity holders during the Track Record Period:

	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)	
Dividends recognized as distribution:					
Dividend for the year ended December 31, 2009	5,000	—	—	—	—
Dividend for the year ended December 31, 2010	—	22,000	—	—	—
Dividend for the year ended December 31, 2011	—	—	121,000	44,000	—
Dividend for the six months ended June 30, 2012	—	—	—	—	44,000
	5,000	22,000	121,000	44,000	44,000

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At January 1, 2009	56,369	44,805	1,100	5,767	108,041
Additions	—	14,618	143	77	14,838
At December 31, 2009	56,369	59,423	1,243	5,844	122,879
Additions	41,179	15,713	206	265	57,363
Disposals	(259)	(2,618)	(279)	—	(3,156)
At December 31, 2010	97,289	72,518	1,170	6,109	177,086
Additions	—	2,609	489	98	3,196
Disposals	—	(869)	(19)	—	(888)
At December 31, 2011	97,289	74,258	1,640	6,207	179,394
Additions	8,136	192	6	—	8,334
Disposals	(26)	(89)	(41)	(100)	(256)
At June 30, 2012	105,399	74,361	1,605	6,107	187,472
DEPRECIATION					
At January 1, 2009	1,959	1,730	302	1,408	5,399
Provided for the year	2,690	3,792	172	1,099	7,753
At December 31, 2009	4,649	5,522	474	2,507	13,152
Provided for the year	3,317	4,874	202	1,114	9,507
Disposals	(187)	(1,845)	(263)	—	(2,295)
At December 31, 2010	7,779	8,551	413	3,621	20,364
Provided for the year	4,621	6,108	296	935	11,960
Disposals	—	(215)	(12)	—	(227)
At December 31, 2011	12,400	14,444	697	4,556	32,097
Provided for the period	2,407	3,122	153	437	6,119
Disposals	(5)	(13)	(29)	(72)	(119)
At June 30, 2012	14,802	17,553	821	4,921	38,097
CARRYING VALUE					
At December 31, 2009	51,720	53,901	769	3,337	109,727
At December 31, 2010	89,510	63,967	757	2,488	156,722
At December 31, 2011	84,889	59,814	943	1,651	147,297
At June 30, 2012	90,597	56,808	784	1,186	149,375

The Group's buildings are erected on land held under medium-term land use rights in the PRC.

Depreciation is charged so as to write off the cost of items of property, plant and equipment less their residual values, over their estimated useful lives using the straight-line method, at the following rates per annum:

Buildings	5% or over the term of the relevant land lease, whichever is shorter
Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed for reporting purposes as:				
Non-current asset	10,728	11,945	18,460	20,089
Current asset	226	256	394	432
	10,954	12,201	18,854	20,521

17. INTANGIBLE ASSET

The Group completed the acquisition of an intangible asset from an independent third party during the six months ended June 30, 2012 at a consideration of RMB6,000,000, out of which RMB4,800,000 had been paid in the year ended December 31, 2010 as a deposit. The intangible asset represents a patent for certain production techniques with a registered life up to August 2028. The intangible asset is amortized on a straight-line basis over the remaining useful life, i.e. 16.5 years.

	RMB'000
COST	
At January 1, 2009, December 31, 2009, December 31, 2010, December 31, 2011	—
Addition	6,000
At June 30, 2012	6,000
AMORTIZATION	
At January 1, 2009, December 31, 2009, December 31, 2010, December 31, 2011	—
Provided for the period	151
At June 30, 2012	151
CARRYING VALUE	
At December 31, 2009, December 31, 2010, December 31, 2011	—
At June 30, 2012	5,849

18. DEFERRED TAX ASSET

The deferred tax asset is attributable to the deferred income as detailed in note 30 and movements thereon during the Track Record Period are as follows:

	RMB'000
At January 1, 2009, December 31, 2009, December 31, 2010	—
Credited to profit or loss	2,000
At December 31, 2011	2,000
Credited to profit or loss	500
At June 30, 2012	2,500

19. INVENTORIES

	At December 31,			At 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

20. TRADE RECEIVABLES

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

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customer in the industry. The Group generally grants its customers a credit period of 30 days and requires advance deposits from its customers before delivery of goods. The aged analysis of the Group's trade receivables by invoice date at the end of the reporting period is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
0-30 days	933	1,958	4,486	5,773

The above trade receivables were neither past due nor impaired at the end of the reporting period. These receivables relate to customers that have a good repayment record with the Group.

The Group does not hold any collateral over the above balances, but management considers that no impairment loss is necessary in view of the financial background of these customers and their subsequent repayments.

No allowance for doubtful debts was recognized during the Track Record Period.

21. TRADE DEPOSITS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade deposits paid to suppliers	2,210	7,157	2,757	2,218

22. AMOUNTS DUE FROM (TO) RELATED PARTIES

Amounts due from related parties

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Chen Wantian (note i)	—	—	210	195
Mr. Chen Wanlong (note ii)	—	—	23	36
Mr. Chen Zhiyong (note ii)	—	—	—	15
	—	—	233	246

Amounts due to related parties

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cheng Nan Recycling (note iii)	(7,239)	—	—	—
Mr. Chen Wanlong (note ii)	—	(1,602)	—	—
	(7,239)	(1,602)	—	—

notes:

(i) Mr. Chen Wantian is a director of the Company and Longtianyong Nonferrous Metals and also has control over the Group.

(ii) These persons are the directors of Longtianyong Nonferrous Metals and also have beneficial interest in the Group.

(iii) Cheng Nan Recycling was previously controlled and 71.5% owned by Mr. Chen Wanlong. It became a subsidiary of the Group on September 3, 2010.

The above balances are non-trade in nature, unsecured, non-interest bearing and repayable on demand. The directors of the Company consider that the amounts will be fully settled before Listing.

23. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and saving bank deposits. The bank balances carry interest at prevailing market rates as follows:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Interest rates per annum	0.36%	0.36%	0.36%-0.50%	0.44%-0.50%

24. TRADE AND OTHER PAYABLES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	10,546	20,080	7,984	20,186
Value-added tax and other taxes payables	3,613	3,331	2,533	1,317
Construction payables	—	4,133	—	501
Others	2,603	4,118	5,258	3,952
	6,216	11,582	7,791	5,770
	16,762	31,662	15,775	25,956

The following is an aged analysis of the Group's trade payables present based on invoice date at the end of the reporting period:

	At December 31,			At 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

The credit period of purchase of goods ranges from 20 to 30 days. The Group has financial management policies in place to ensure that all payables are settled within credit time frame.

25. CUSTOMER RECEIPTS IN ADVANCE

The amounts represent deposits received in advance of delivery of goods to customers.

26. CONSIDERATION PAYABLE

The amount represents the consideration payable to the Longtianyong Shareholders for the transfer of their equity interest in Longtianyong Nonferrous Metals to Zhejiang Fuyin on April 27, 2012 pursuant to the Reorganization. On July 19, 2012, the Group settled the full amount of the consideration payable by obtaining a loan of RMB110 million from Mr. Chen Wantian, which is unsecured, interest-free and has been repaid prior to completion of Listing.

27. REFUNDABLE INVESTMENT DEPOSITS

During the six months ended June 30, 2012, the Group received amounts totalling approximately RMB21.8 million (out of which RMB11.8 million was denominated in foreign currency of US$) from Richwise Capital as refundable deposits pending revision of the terms of investment by Richwise Capital in the Group (the "Richwise Investment").

The Richwise Investment was completed in July 2012.

28. BANK BORROWINGS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings repayable within one year	30,000	50,000	100,000	60,000

All the Group's bank borrowings are denominated in RMB and they carry interest at fixed rates. The effective interest rates of the bank borrowings (which are also equal to contracted interest rates) during the Track Record Period are as follows:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Effective interest rates per annum	6.00%-6.64%	6.64%	6.64%-8.20%	7.89%-8.20%

The bank borrowings are secured by the Group's buildings, leasehold land interests and inventories, details of which are set out in note 34.

29. PAID-IN CAPITAL/SHARE CAPITAL

During the year ended December 31, 2009, Longtianyong Nonferrous Metals increased its paid-in registered capital by RMB60,000,000 to RMB110,000,000.

For the purpose of the presentation of the combined statements of financial position, the balances of paid-in capital/share capital represent:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Paid-in capital of Longtianyong Nonferrous Metals	110,000	110,000	110,000	—
Share capital of China Silver BVI	—	—	338	338
	110,000	110,000	110,338	338

30. DEFERRED INCOME

Since 2008, for the purpose of enhancing production efficiency and implementing more environmental friendly production technologies, the Group invested approximately RMB137 million in a project for comprehensive use of scarce metal resources (稀有金屬資源綜合利用項目) in the form of buildings, warehouses, plant and machineries which are classified as property, plant and equipment of the Group (collectively referred to as the "PPE Investment").

The PPE Investment was a qualified project under a government-sponsored scheme and accordingly Jiangxi Development and Reform Commission (江西省發展和改革委員會) has agreed to grant a government subsidy of RMB10,000,000, of which RMB8,000,000 and RMB2,000,000 were received by Longtianyong Nonferrous Metals during the year ended December 31, 2011 and the six months ended June 30, 2012, respectively. The subsidy will become unconditional and be recognized as income over the useful lives of the related assets upon fulfillment of two conditions as follows:

(i) The amount of PPE Investment would not be less than RMB128 million; and

(ii) Satisfactory final inspection by Jiangxi Development and Reform Commission.

As at June 30, 2012, final inspection by Jiangxi Development and Reform Commission has not yet been initiated. Accordingly, the Group has not started releasing the amount to income. In the opinion of the directors of the Company, the final inspection will be carried out by the end of 2012.

31. CAPITAL COMMITMENTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	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	—

32. RETIREMENT BENEFIT PLAN

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the local government in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The total costs charged to the profit or loss are as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Contributions to the retirement benefit plan for the year/period	2,329	3,110	4,998	2,531	2,572

It represents contributions paid or payable to the above scheme by the Group during the Track Record Period.

33. RELATED PARTY DISCLOSURES

(I) Related party transactions

During the Track Record Period, other than the transactions relating to the Reorganization, the Group had the following transactions with related parties:

		Year ended December 31,			Six months ended June 30,	
Related party	Nature of transaction	2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Mr. Chen Wanlong	Acquisition of 71.5% equity interest of Cheng Nan Recycling (note 35)	—	1,602	—	—	—
Cheng Nan Recycling (note)	Purchase of raw materials	3,728	—	—	—	—

note: Cheng Nan Recycling was previously controlled and 71.5% owned by Mr. Chen Wanlong. It became a subsidiary of the Group on September 3, 2010. The amount represents transactions between Longtianyong Nonferrous Metals and Cheng Nan Recycling prior to September 3, 2010.

(II) Related party balances

Details of the related party balances are set out in notes 22 and 26.

(III) Compensation of key management personnel

The emoluments of directors and other members of key management of the Group during the Track Record Period are as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term benefits	1,241	1,525	2,502	1,034	1,363
Post-employment benefits	21	24	35	25	23
	1,262	1,549	2,537	1,059	1,386

34. PLEDGE OF ASSETS

At the end of the each reporting period, assets with the following carrying amounts were pledged to secure the general banking facilities granted to the Group.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	40,432	38,345	65,971	64,173
Prepaid lease payments — land use rights	4,364	4,272	11,944	11,816
Inventories	—	22,689	48,548	49,211
	44,796	65,306	126,463	125,200

35. ACQUISITION OF A SUBSIDIARY

On September 3, 2010, the Group acquired 100% equity interest of Cheng Nan Recycling for a cash consideration of RMB2,241,000.

Assets acquired at the date of acquisition are as follows:

	RMB'000
Amount due from a related party	2,239
Bank balances and cash	2
	2,241

Net cash outflow arising in the acquisition

	RMB'000
Cash consideration paid	2,241
Less: bank balances and cash acquired	(2)
	2,239

36. INFORMATION OF FINANCIAL POSITION OF THE COMPANY

The Company was incorporated on July 19, 2012 with an authorized share capital of HK$390,000 divided into 39,000,000 share of HK$0.01 each. Other than the transactions set out in the sections headed "Statutory and General Information" and "History, Reorganization and Group Structure" in the Prospectus, the Company had no transaction up to the date of this report.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the companies comprising the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of bank borrowings as disclosed in note 28 and equity, comprising paid-in capital/share capital and various reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new capital raised as well as the issue of new debt or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	53,466	51,867	45,919	80,876
Financial liabilities				
Amortized cost	47,904	76,630	108,127	212,894

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, amounts due from (to) related parties, bank balances and cash, trade and other payables, consideration payable, refundable investment deposits and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Included in the Group's bank balances as at June 30, 2012 were amounts of approximately RMB1.3 million and RMB10.0 million denominated in foreign currencies of HK$ and US$, respectively, and they exposed the Group to foreign currency risk. The directors of the Company consider the risk is limited due to its short maturity and no sensitivity analysis is presented.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to its fixed-rate bank borrowings.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances because these balances carry interest at prevailing market rates.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The directors of the Company consider that the exposure to the Group arising from cash flow interest rate risk is limited and no sensitivity analysis is therefore prepared.

Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the combined statements of financial position.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
Amount due from the largest debtor as a percentage to total trade receivables	44%	73%	38%	26%
Total amount due from the five largest debtors as a percentage to total trade receivables	100%	100%	99%	99%

The Group has implemented the following procedures to minimize its credit risk:

(i) A delegated team is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

(ii) Because of the nature of the Group's products, the Group generally requires a substantial amount of customer deposit in advance of delivery of goods.

(iii) Management regularly visits the Group's key customers to understand their latest financial position and to ensure that there is no dispute on the amounts due.

(iv) Management reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts

In this regard, the directors of the Company consider that the Group's credit risk on trade receivables is significantly reduced. In addition, the Group keeps exploring new customers to diversify and strengthen its customer base and thus, reduce the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilization of borrowings and ensures compliance with loan covenants.

The following tables detail the Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand	Less than 1 month	1 - 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2009							
Trade and other payables	—	—	10,665	—	—	10,665	10,665
Amounts due to related parties	—	7,239	—	—	—	7,239	7,239
Bank borrowings — fixed rate	6.64	—	—	—	30,540	30,540	30,000
		7,239	10,665	—	30,540	48,444	47,904
As at December 31, 2010							
Trade and other payables	—	—	20,895	4,133	—	25,028	25,028
Amounts due to related parties	—	1,602	—	—	—	1,602	1,602
Bank borrowings — fixed rate	6.64	—	—	—	51,000	51,000	50,000
		1,602	20,895	4,133	51,000	77,630	76,630
As at December 31, 2011							
Trade and other payables	—	—	8,127	—	—	8,127	8,127
Bank borrowings — fixed rate	7.98	—	—	—	103,641	103,641	100,000
		—	8,127	—	103,641	111,768	108,127
As at June 30, 2012							
Trade and other payables	—	—	21,102	—	—	21,102	21,102
Consideration payable		110,000	—	—	—	110,000	110,000
Refundable investment deposits	—	21,792	—	—	—	21,792	21,792
Bank borrowings — fixed rate	8.20	—	—	30,593	32,163	62,756	60,000
		131,792	21,102	30,593	32,163	215,650	212,894

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

39. MAJOR NON-CASH TRANSACTION

As detailed in note 26, the consideration for the transfer of the equity interest in Longtianyong Nonferrous Metals of RMB110 million pursuant to the Reorganization was not settled as at June 30, 2012 and was recorded as consideration payable.

B. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Group to the directors of the Company in respect of the Track Record Period.

Under the arrangement currently in force, the aggregate amount of remunerations payable to the Company's directors for the year ending December 31, 2012 is estimated to be approximately RMB2.2 million.

C. SUBSEQUENT EVENTS

Subsequent to June 30, 2012, the relevant transactions set out in the sections headed "Statutory and General Information" and "History, Reorganization and Group Structure" in the Prospectus were completed.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the subsidiaries in the Group have been prepared in respect of any period subsequent to June 30, 2012.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong