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## EXCHANGEABLE BONDS

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Silver Lion has issued two rounds of Exchangeable Bonds for an aggregate principal sum of US\$85,000,000 to Challenger Mining 8 Limited (“Challenger”) and the Round 2 Bond Investors including leading international financial institutions and private equity firms such as Deutsche Bank AG, London Branch and MS China 3 Limited, an affiliate of Morgan Stanley. The Directors believe by bringing in investors of such caliber will enhance the profile of the Group.

We expect to benefit from the investors’ commitment to the Company, and to leverage on their global perspective and corporate governance measures, together with their investment experience, local knowledge and relationship network to enhance our strategic business model.

### **US\$25,000,000 SECURED BOND (THE “ROUND 1 BOND”)**

#### *Overview*

On February 8, 2010, Challenger entered into the Round 1 Bond Deed with the Company, Silver Lion, Gilberta, Next Horizon, Dehong Yinbang, Dehong Yinrun, Kunrun, Mr. Ran Xiaochuan and Mr. Shi Xiangdong, pursuant to which Challenger subscribed for secured bonds in the aggregate principal amount of US\$25,000,000 due 2012 and issued by Silver Lion.

In light of a reorganization of the share capital of Silver Lion, the parties to the Round 1 Bond Deed (the “Round 1 Parties”) together with Mr. Ran Chenghao, Hover Wealth, Diamond Century and Grow Brilliant entered into a deed of accession dated December 24, 2010, pursuant to which inter alia (a) Challenger consented to allotment and issuance of new shares of Silver Lion to Mr. Shi Xiangdong, Mr. Ran Chenghao and Diamond Century; and (b) certain terms of the Round 1 Bond Deed were amended to reflect the reorganization of the share capital of Silver Lion, such as the acceding of Mr. Ran Chenghao and Hover Wealth to the Round 1 Bond Deed (the “Deed of Accession”).

The Round 1 Bond Deed was further amended by a deed of amendment dated April 21, 2011 amongst the Round 1 Parties, together with Mr. Ran Chenghao and Hover Wealth (the “Deed of Amendment”). The Deed of Amendment amended certain provisions of the Round 1 Bond Deed for the purposes of facilitating the issuance of the Round 2 Bond (as defined below), including the amendment of the date of maturity of the Round 1 Bond to April 26, 2013.

The Round 1 Bond Deed was further amended by another deed of amendment dated November 10, 2011 to amend certain provisions for the purposes of facilitating the Global Offering.

#### *Conversion*

The Round 1 Bond is convertible into our Shares owned and held by Silver Lion immediately prior to the commencement of dealings in our Shares on the Stock Exchange on the Listing Date. Challenger has the automatic right to exchange the Round 1 Bond into Shares representing 8.59% of the issued share capital of the Company immediately prior to the Global Offering (without taking into account the exercise of the Over-allotment Option and any options granted under Share Option Scheme). The exercise of the exchange is not subject to any conditions. The conversion ratio was fixed and determined at the time of the signing of Round 1 Bond Deed based on arm’s length negotiations among the parties considering the principal sum of the investment against risks the investors faced at the time of the investment. The conversion ratio has no linkage to the Offer Price or any milestone of the Global Offering whatsoever.

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### *Mandatory Redemption*

If Challenger does not exercise its exchange right to exchange the Round 1 Bond into our Shares prior to the Global Offering, Silver Lion has the right to demand all outstanding principal sum and accrued interest (the “Redemption Amount”) be redeemed on the Listing Date. The accrued interest of the Round 1 Bond, which will be 200% of the outstanding principal amount on the date of the redemption, was fixed and concluded at the time of the signing of the Round 1 Bond Deed. The Redemption Amount will be settled by Shares owned and held by Silver Lion.

All Shares subject to transfer either under the exercise of the conversion right or Mandatory Exchange will be settled immediately before Listing.

### *Cash Interest*

The Round 1 Bond shall bear cash interest on the principal amount outstanding from time to time. Cash Interest shall accrue at the rate of 20% per annum until the earlier of (i) the redemption date which is, as amended by the Deed of Amendment, 24 calendar months after the issue date of the Round 2 Bond, which is April 26, 2013; or (ii) mandatory exchange pursuant to the Global Offering.

### *Other rights under the Round 1 Bond Deed*

Challenger is entitled to various other rights under the Round 1 Bond Deed, and such rights are summarized below, all of which shall terminate upon the Listing.

- Accounting and information rights

Each of the corporate parties (including Hover Wealth) to the Deed of Accession shall provide Challenger with copies of its audited accounts and management accounts within a specified time frame and information which Challenger may request relating to (i) any fund-raising or business activities or plans, (ii) any proposed or contemplated public offerings or listings or (iii) any event or circumstance which may have a material adverse or beneficial effect on its business or affairs.

- Board seat

The Round 1 Bondholders shall have the right to appoint and maintain in office a person to act as a director on each of the boards of Silver Lion, the Company, Gilberta and Next Horizon and to remove any such director so appointed. In the absence of an appointment of such a director, the Round 1 Bondholders may appoint a representative to attend any meeting of the boards as an observer. Such observer is not subject to any re-election. Before the Global Offering, the Round 1 Bondholders appointed one observer in the Company’s bond meetings. This right shall terminate on the Listing Date and the observer will resign prior to Listing.

- Pre-emption rights

Subject to as provided under the Round 1 Bond Deed, the Round 1 Bond Deed provides that the Company shall not issue any securities, unless the Company has offered Challenger and our Shareholders (excluding any Shareholders, who are Shareholders only by virtue of participating in any employee share scheme of the Company) the right to

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purchase any such securities on a pro-rata basis and the right to oversubscribe if any other Shareholder elects not to purchase any Shares which it is entitled to do so on a pro-rata basis. For the purpose of calculating the pro-rata basis of Shareholders only, any Round 1 Bond which have not been converted under the Round 1 Bond Deed, shall be deemed to have been so converted into Shares in accordance with the Round 1 Bond Deed.

### US\$60,000,000 SECURED BOND (THE “ROUND 2 BOND”)

#### *Overview*

On April 20, 2011, the Round 2 Bond Investors entered into the Round 2 Subscription Agreement with the Company, Silver Lion, Mr. Ran Xiaochuan and Mr. Ran Chenghao, pursuant to which the Round 2 Bond Investors subscribed for secured bonds in the aggregate principal amount of US\$60,000,000 and issued by Silver Lion. The bond instruments were issued by Silver Lion on April 26, 2011 and further amended on November 10, 2011 (the “Round 2 Bond Deed”). The Round 2 Bond is convertible into those of our Shares owned and held by Silver Lion immediately prior to the commencement of dealings in our Shares on the Stock Exchange on the Listing Date.

#### *Conversion*

The Round 2 Bond Investors have the automatic right to exchange the Round 2 Bond into our Shares. The identity of the Round 2 Bond Investors and the respective subscription amount and conversion ratio are set forth as follows:

<b>Round 2 Bond Investors</b>	<b>Subscription Amount (in US\$)</b>	<b>Percentage of Shares that can be converted immediately prior to the Global Offering (without taking into account the exercise of the Over-allotment Option or any options granted under the Share Option Scheme)</b>
Deutsche Bank AG, London Branch . . . . .	35,000,000	9.14
MS China 3 Limited (an affiliate of Morgan Stanley) . . . .	10,000,000	2.61
F.S. B. S. Limited Partnership . . . . .	6,562,500	1.71
RD 8 Limited Partnership . . . . .	5,437,500	1.43
CMS 2 Limited Partnership . . . . .	3,000,000	0.78

The conversion ratios were fixed and determined at the time of the signing of the Round 2 Bond based on arm’s length negotiations among the parties considering the principal sum of the investment against the risks the investors face at the time of the investment. The conversion ratios have no linkage with the Offer Price or any milestone of the Global Offering whatsoever.

The maturity date of the Round 2 Bond is April 26, 2013.

#### *Mandatory Redemption*

If any of the Round 2 Bond Investors does not exercise its exchange right to exchange into our Shares prior to the Global Offering, Silver Lion has the right to demand such outstanding principal sum and accrued interest (the “Round 2 Redemption Amount”) be redeemed on the Listing Date. The accrued interest of the Round 2 Bond, which will be 140% of the outstanding principal amount on

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the date of the redemption, was fixed and concluded at the time of the signing of the Round 2 Subscription Agreement. The Round 2 Redemption Amount will be settled by Shares owned and held by Silver Lion.

All Shares subject to transfer either under the exercise of the conversion right or Mandatory Exchange will be settled immediately before Listing.

### *Cash Interests*

The Round 2 Bond further provides that cash interest shall accrue on the principal amount outstanding from time to time at the rate of 15% per annum until the date of conversion of the Round 2 Bond into our Shares or the redemption date which is 24 calendar months after issue date of the Round 2 Bond, i.e. April 26, 2013.

### *Other rights under the Round 2 Bond*

The Round 2 Bond Investors are entitled to various other rights under the Round 2 Bond, and such rights are summarized below, all of which shall terminate upon the Listing.

- Accounting and information rights

Silver Lion shall provide each of the Round 2 Bond Investors copies of the Group's audited accounts and management accounts within a specified time frame and information which each of the Round 2 Bond Investors may request relating to the business, operations or financial affairs of the Group.

- Board seat

The Round 2 Bond Investors holding in aggregate not less than 50% of the total amount of the Round 2 Bond then outstanding shall have the right to appoint one non-executive director to the board of each company in our Group. The right to appoint directors shall terminate on the Listing Date.

- Financial covenants

Silver Lion shall ensure that the Group shall not exceed certain debt ratios and interest cover ratios set by the Round 2 Bond Investors from the issue date to June 30, 2013.

## **PROCEEDS OF THE EXCHANGEABLE BONDS AND THE KR LOAN AGREEMENT**

The proceeds of the KR Loan Agreement, the Round 1 Bond and Round 2 Bond totalling US\$90 million were received by Silver Lion, of which, up to May 31, 2011, US\$80.5 million was then injected to the Company through shareholder's loan. The proceeds (i.e. the shareholder's loan) received by the Company from Silver Lion were reflected in the Accountants' Report as "Due to the immediate holding company" and "Increase in an amount due to the immediate holding company" under "cash flows from financing activities" in the Company's consolidated statements of financial position and the Company's statement of cash flow, respectively. The Company has then injected further funds to our subsidiaries. In particular, Dehong Yinbang has increased its registered capital of US\$28,000,000 while Next Horizon has made a shareholder loan to Dehong Yinbang in the amount of US\$21,000,000.

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We utilized the remaining proceeds for the development and operation of the Shizishan Mine such as the construction of mining related facilities and purchase of mining and processing equipment. As of the Latest Practicable Date, US\$69.6 million of the proceeds have been utilized.

Out of the remaining US\$9.5 million proceeds of the KR Loan Agreement, the Round 1 Bond and Round 2 Bond that were not injected to the Company by Silver Lion, US\$6 million has been retained in the interest reserve amount, US\$2.5 million has been retained as expenses to professional parties and US\$1 million has been retained as cash as general working capital of Silver Lion.

None of the proceeds of the Global Offering will be used to repay any outstanding loans or debts under the KR Loan Agreement, the Round 1 Bond and Round 2 Bond since all outstanding loans have been converted into our Shares immediately before the Global Offering.

### SECURITY PROVIDED TO ROUND 1 AND ROUND 2 BONDHOLDERS

Our Group provided certain collateral to the KR Lenders, Challenger and the Round 2 Bond Investors by entering the following agreements (collectively the “**Security Documents**”):

- (a) the BVI Law Amendment Agreement;
- (b) the Cayman Law Amendment Agreement;
- (c) the Hong Kong Law Amendment Agreement;
- (d) a share mortgage governed by the law of the British Virgin Islands entered into by Mr. Ran Chenghao in favor of Challenger in respect of the share capital owned by Mr. Ran Chenghao in Hover Wealth and dated December 24, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (e) a debenture governed by the law of the British Virgin Islands entered into by Hover Wealth and Challenger and dated December 24, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (f) a share mortgage governed by the law of the British Virgin Islands entered into by Hover Wealth and Challenger in respect of the share capital owned by Hover Wealth in Silver Lion and dated December 24, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (g) a share mortgage governed by the law of the British Virgin Islands entered into by Mr. Shi Xiangdong and Challenger in respect of the share capital owned by Mr. Shi Xiangdong in Silver Lion and dated February 8, 2010 and amended by a deed of consent and variation dated December 24, 2010 (and as further amended and restated pursuant to the BVI Law Amendment Agreement);
- (h) a debenture governed by the law of the British Virgin Islands entered into by the Silver Lion and Challenger and dated February 8, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (i) a share mortgage governed by the law of the Cayman Islands entered into by the Silver Lion and Challenger in respect of the share capital owned by Silver Lion in the Company

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and dated December 23, 2010 (as amended and restated pursuant to the Cayman Law Amendment Agreement);

- (j) a debenture governed by the law of the Cayman Islands entered into by the Company and Challenger and dated February 8, 2010 (as amended and restated pursuant to the Cayman Law Amendment Agreement);
- (k) a share mortgage governed by the law of the British Virgin Islands entered into by the Company and Challenger in respect of the share capital owned by the Company in Gilberta and dated February 8, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (l) a debenture governed by the law of the British Virgin Islands entered into by Gilberta and Challenger and dated February 8, 2010 (as amended and restated pursuant to the BVI Law Amendment Agreement);
- (m) a share mortgage governed by the law of Hong Kong entered into by Gilberta and Challenger in respect of the share capital owned by Gilberta in Next Horizon and dated February 8, 2010 (as amended and restated pursuant to the Hong Kong Law Amendment Agreement); and
- (n) a debenture governed by the law of Hong Kong entered into by Next Horizon and Challenger and dated February 8, 2010 (as amended and restated pursuant to the Hong Kong Law Amendment Agreement).

Pursuant to an intercreditor agreement dated April 20, 2011 among other parties, the KR Lenders, Challenger and the Round 2 Bond Investors, the collateral secured under the Security Documents shall be held by a security trustee on trust for the KR Lenders, Challenger and the Round 2 Bond Investors on the terms contained in the intercreditor agreement. The intercreditor agreement further provides that the collateral secured under the Security Documents shall rank *pari passu* without preference among the KR Lenders, Challenger and the Round 2 Bond Investors.

Any security created under each of the above agreements will be terminated and released on or prior to the Listing Date.

### INFORMATION ABOUT CHALLENGER AND ROUND 2 BOND INVESTORS

Challenger is administered by a fiduciary administrator, Hawksford Fund Services Jersey Limited, whose directors are directors of Hawksford Fund Services Jersey Limited. Challenger is incorporated in Jersey. Its ultimate investors are multiple high net worth individual investors.

Deutsche Bank AG is a global financial service company with its headquarters in Frankfurt, Germany. The bank has a large presence in Europe, the Americas, Asia Pacific and the emerging markets. The bank invests in expanding markets, such as the Middle East, Latin America, Central & Eastern Europe and Asia Pacific. The bank offers financial products and services for corporate and institutional clients along with private and business clients. Services include sales, trading, research and origination of debt and equity; mergers and acquisitions; risk management products, such as derivatives, corporate finance, wealth management, retail banking, fund management, and transaction banking.

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MS China 3 Limited is an affiliate of Morgan Stanley. Morgan Stanley is a leading global financial services firm providing a wide range of investment banking, securities, and investment management services. Morgan Stanley's employees serve clients worldwide including corporations, governments, institutions and individuals from more than 1,300 offices in 42 countries.

Each of CMS 2 Limited Partnership, F.S. B. S. Limited Partnership and RD 8 Limited Partnership is a limited partnership established in Jersey with a general partner limited company administered by Hawksford Fund Services Jersey Limited. The directors of Hawksford Fund Services Jersey Limited are the directors of each of the general partners. F.S. B. S. Limited Partnership is funded by an investment fund based in the United Kingdom. Each of CMS 2 Limited Partnership and RD 8 Limited Partnership is a collective investment vehicle funded ultimately by multiple high net worth individual investors.

### CORPORATE BENEFIT

In determining the investment considerations payable by KR Lenders, Challenger and the Round 2 Bond Investors, we took into account investment risks that the investors were subject to when making the investment which include (a) the risks involved in our mining business, given that the Shizishan Mine was still in the early stages of development and we had not commenced trial production until the end of July 2011 and commercial production in October, 2011 and the Company did not have all the requisite mining licenses at the time of the pre-IPO investment; (b) the Company, at the time of the pre-IPO investment did not complete the exploration of the Shizishan Mine and there was no guarantee that the development plan of the Shizishan Mine would be executed according to plan and the actual production would materialize, (c) the relative value of our Shares at the time when the investors made the investment; (d) the illiquidity of the Shares at the time when the investors made the investment; and (e) the significant capital expenditure requirements of the Shizishan Mine. We consider that the entering into of the KR Loan Agreement, the Round 1 Bond and the Round 2 Bond are in the interests of the Group as a whole.

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### GENERAL

The following table summarizes details of the KR Loan, Round 1 Bond and Round 2 Bond:

Name of Investor	Date of investment agreement	Subscription Amount (in US\$)	Date of receipt of principal sum by the Group	Cost per paid by each Investor immediately before the Global Offering (in HK\$) <sup>(1)</sup>	Percentage of shareholding in the Company held by each Investor upon completion of the Global Offering <sup>(1)</sup>
KR Lenders . . . . .	January 15, 2010	5,000,000	December 19, 2009	1.05	1.86
Challenger . . . . .	February 8, 2010	25,000,000	February 9, 2010	1.51	6.44
Deutsche Bank AG, London Branch . . . . .	April 20, 2011	35,000,000	April 28, 2011	1.99	6.85
MS China 3 Limited (an affiliate of Morgan Stanley) . . . . .	April 20, 2011	10,000,000	April 28, 2011	1.99	1.96
F.S.B.S. Limited Partnership . . . . .	April 20, 2011	6,562,500	April 28, 2011	1.99	1.28
RD 8 Limited Partnership . . . . .	April 20, 2011	5,437,500	April 28, 2011	1.99	1.07
CMS 2 Limited Partnership . . . . .	April 20, 2011	3,000,000	April 28, 2011	1.99	0.59

*Note:*

- (1) Without taking into account the exercise of any Over-allotment Option and options granted under the Share Option Scheme. Assuming exercise of the conversion right of the Exchangeable Bonds in full.

The KR Lenders, Challenger and the Round 2 Bond Investors are Independent Third Parties and are not related to our Group nor any connected persons of our Company. Save that there may be common investors in Challenger and CMS 2 Limited Partnership, the KR Lenders, Challenger and the Round 2 Bond Investors are not related to one another. All of the Shares that would be exchanged and held by each of the KR Lenders, Challenger and the Round 2 Bond Investors shall count as part of the public float for the purposes of Rule 8.08 of the Listing Rules, save and except in the event any of Challenger or the Round 2 Bond Investors become a connected person of the Company as a result from any transfer of Shares under the top-up right under the Round 1 Bond or Round 2 Bond.

The Shares that would be exchanged and held by each of Challenger and the Round 2 Bond Investors are subject to a lock-up period of six months immediately after the Listing Date.

The principal sum under the KR Loan Agreement, the Round 1 Bond Deed and the Round 2 Subscription Agreement have been received by the Group on December 19, 2009, February 9, 2010, and April 28, 2011 respectively. All of the principal sums under the KR Loan Agreement, the Round



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1 Bond Deed and the Round 2 Subscription Agreement have been irrevocably received by the Group more than 28 clear days before the submission of the listing application of our Company, therefore, the Sole Sponsor is of the view that the Company is in compliance with the Interim Guidance on Pre-IPO Investments published by the Listing Committee of the Stock Exchange on October 13, 2010.