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*This section discusses information regarding our mines and operations, including resources, mining and processing capacities and production volumes. Unless otherwise indicated, all technical data in this section is based on the Competent Person's Report, which is included as Appendix V to this Prospectus. In addition, we commissioned Hatch as an industry consultant to prepare an independent research report, the Hatch Report. Unless otherwise indicated, information and statistics relating to the global and PRC non-ferrous metal industry in this and other sections of this Prospectus have been derived from the Hatch Report.*

*We are a developing pure mining company with a limited operating history. A number of our business prospects and market position described below, including but not limited to our ramp-up plan, capital expenditure and market position information, are based on forward-looking statements rather than historical facts. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ materially from those expressed in any forward-looking statements. See "Forward-looking Statements" and "Risk Factors" in this Prospectus.*

### OVERVIEW

We are the largest lead and zinc pure mining company in Yunnan Province in terms of resources with abundant and high-grade silver reserves, according to the Hatch Report. On the Listing Date, we will also be the first non-ferrous metal pure mining company<sup>(1)</sup> listed on the Stock Exchange. As a pure mining company, we only conduct upstream operations in exploration, mining and primary processing of mineral resources with no downstream operations in smelting and refining. We currently own and operate a large-scale, high-grade lead-zinc-silver polymetallic mine in Yunnan Province, the Shizishan Mine, which contains abundant and high-grade silver reserves. The mining permit for the Shizishan Mine has a term of 15 years ending in April 2026 and covers an area of 3.20 sq. km. We are currently at the commercial production stage of the Shizishan Mine with a current mining capacity of 700 tpd. Based on the JORC ore reserves of 8,024,000 tonnes at the Shizishan Mine and our current estimated production level of 48 ktpa (350 tpd) in 2011, 419 ktpa (1,270 tpd) in 2012, and 660 ktpa (2,000 tpd) from 2013 and onwards, the ore reserves at the Shizishan Mine are estimated to support approximately 12.5 years of mine operation. We also own the exploration right to the Dazhupeng Mine, a lead-zinc-silver polymetallic mine in Yunnan Province. In line with our vision to be a leading non-ferrous metal pure mining company in China and in order to leverage on our transferable experience and skills of processing lead-zinc-silver ore, we have also secured exclusive long-term, low-cost polymetallic tungsten-tin raw ore supply from the Lushan Mine, a tungsten-tin polymetallic mine in Yunnan Province. To tap into the abundant non-ferrous metal resources in Yunnan Province, we have also entered into an agreement to acquire the Liziping Mine and have an option to acquire the Dakuangshan Mine. Both the Liziping Mine and the Dakuangshan Mine are lead-zinc-silver polymetallic mines located in Yunnan Province. With our abundant and high-grade lead, zinc and silver resources and reserves and strategic proximity to local mineral assets and smelters in Yunnan Province, we believe that we are well-positioned to capture the market opportunities presented by the increasing demand for refined lead and zinc and the resulting significant supply shortfall in lead and zinc concentrates in China. In addition, we believe that non-ferrous metal concentrate producers enjoy and will continue to enjoy the highest margin in the non-ferrous metal value chain. Therefore, our strategy is to continue to focus on our business operation as a

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*Note:*

- (1) Non-ferrous metal pure mining company refers to a pure mining company that operates mines containing metals other than iron, manganese and chromium and alloys that do not contain appreciable amounts of iron, manganese or chromium, which includes lead, zinc, silver, tungsten and tin.

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pure mining company and we currently do not intend to expand our operations to downstream business such as metal smelting and refining.

The Shizishan Mine contains abundant and high-grade lead, zinc and silver resources and reserves. According to the Competent Person's Report, as of October 25, 2011, the Shizishan Mine had an aggregate of 8,829,000 tonnes of JORC measured and indicated resources and 8,024,000 tonnes of JORC reserves, containing 745,900 tonnes of lead metal, 477,300 tonnes of zinc metal and 2,000 tonnes (64.3 million ounces) of silver metal in JORC reserves. The estimated average resource and reserve grades for lead, zinc and silver of the Shizishan Mine are 9.4% and 9.3%, 6.0% and 6.0%, and 256 g/t and 250 g/t, respectively. These are significantly higher than 3.3%, 5.4% and 100 g/t, which are the industry average grades for underground lead mines, underground zinc mines and the silver content threshold for silver ore in China, respectively, according to the Hatch Report. Based on the JORC ore reserves of 8,024,000 tonnes at the Shizishan Mine and our current estimated production level of 48 ktpa (350 tpd) in 2011, 419 ktpa (1,270 tpd) in 2012, and 660 ktpa (2,000 tpd) from 2013 and onwards, the ore reserves at the Shizishan Mine are estimated to support approximately 12.5 years of mine operation. In addition, according to the Competent Person's Report, there is excellent potential to expand the currently defined resources at the Shizishan Mine. Our abundant and high-grade lead, zinc and silver polymetallic resources and reserves position us well to capitalize on any increase in the market demand for and price of lead, zinc and silver.

Yunnan Province has the second largest lead reserves, the second largest zinc reserves and the third largest silver resources in China, according to the Hatch Report, which provides us with significant opportunities to expand our resources and reserves through selective acquisition of local mineral assets. As such, on June 9, 2011, we entered into a share transfer agreement with Song Denghong (an Independent Third Party), the owner of the Liziping Company which owns the exploration right (covering an area of 18.29 sq.km and with a validity term from December 2010 to December 2012) to the Liziping Mine, a lead-zinc-silver polymetallic mine in Yunnan Province. Pursuant to the share transfer agreement, we agreed to purchase 90% of the equity interest in the Liziping Company from Song Denghong. Under the share transfer agreement, Song Denghong undertakes to us that the lead and zinc resources of the Liziping Mine are not less than 1,000 kt in terms of metal contained. According to the Competent Person's Report, the Competent Person considers the likelihood of the definition of resources in the area of the Liziping Mine that will be drilled to be high and the mineralization tenor and geometry observed likely to be continuous. The Competent Person also considers the potential identification of the mineralized structures at depth to be encouraging for future exploration and the likelihood for discovery of significant mineralization at depth to be likely. As of the Latest Practicable Date, we have not completed such acquisition, therefore, we have no legal ownership right to the Liziping Mine. We currently expect to complete such acquisition in May 2012. The consideration payable for the 90% equity interest of the Liziping Company will be determined based on the amount of lead and zinc resources of the Liziping Mine, and will in any event be no less than RMB216 million and no more than RMB756 million. If (i) the lead and zinc resources of the Liziping Mine are less than 300 kt (in terms of metal contained) according to the final reviewed exploration report prepared by an Independent Third Party exploration entity designated by us or (ii) we are not satisfied with the results of our legal due diligence or audit on the Liziping Company and/or the Liziping Mine, we have the right to unilaterally terminate the share purchase agreement and Song Denghong shall refund all the deposit and payment made, and all the exploration expenses incurred, by us.

Furthermore, we also entered into an option agreement on May 21, 2011 with Xi Wanli (an Independent Third Party), a shareholder of the Dakuangshan Company which owns the mining right to the Dakuangshan Mine. The option agreement allows us to purchase 90% of the equity interest in the Dakuangshan Company from Xi Wanli at our sole discretion within a period of 18 months

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starting from May 2011. The Dakuangshan Mine has a current mining capacity of approximately 500 tpd and processing capacity of approximately 100 tpd. As of the Latest Practicable Date, we have not exercised such option, therefore, we have no legal ownership right to the Dakuangshan Mine. The Dakuangshan Mine is a lead-zinc-silver polymetallic mine and has a mining permit covering an area of 1.56 sq. km. Under the option agreement, Xi Wanli undertakes to us that the Dakuangshan Mine has lead and zinc resources of no less than 400 kt in terms of metals contained, with the grades for lead, zinc and silver contained being no less than 3%, 7% and 50 g/t, respectively. The consideration for the 90% equity interest in the Dakuangshan Company will be determined based on the lead and zinc metals contained in the estimated resources of the Dakuangshan Mine that are category 332 and above at a price not less than RMB500/t and not more than RMB700/t (which was determined based on arms-length negotiations among the parties and was not referenced to any specific prevailing market price or benchmark) and will not exceed RMB145.0 million. The Directors believe this price is relatively attractive.

In addition, Yunnan Province has many smelters with large smelting capacities and is the second largest non-ferrous metal producing province (in terms of metal production from mine) in China, according to the Hatch Report. The location of the Shizishan Mine places us in close proximity to these potential customers and provides us with readily accessible infrastructure, including convenient local transportation and abundant water and electricity supplies, both of which are key utilities for our mining and processing operations.

We are currently at the commercial production stage of the Shizishan Mine with a current mining capacity of 700 tpd. We are undertaking a ramp-up of our mining capacity, which is expected to enable us to attain a planned mining capacity of 1,000 tpd in the second quarter of 2012 and 2,000 tpd (our full planned mining capacity) in the fourth quarter of 2012. We attained a full planned processing capacity of 2,000 tpd at the end of July 2011. According to the Competent Person's Report, the estimated total cash cost and total production cost for the Shizishan Mine will be approximately RMB1,313 (approximately US\$207) and RMB1,511 (approximately US\$238), respectively, per tonne of concentrate in 2013, the first year in which we will operate at our full planned mining and processing capacities. Silver is a byproduct of our processing process due to the polymetallic nature of the lead-zinc ore of the Shizishan Mine. As a result, revenue from silver can be deducted from the estimated total cash cost and production cost for the Shizishan Mine as a byproduct credit, which is consistent with common industry practice to deduct byproduct credit from cash cost and production cost of main stream products. Because of the high degree of silver contained in our concentrate products, both of the estimated total cash cost and total production cost for the Shizishan Mine are negative after deducting revenue from silver which is higher than the estimated total cash cost and total production cost at the Shizishan Mine. After deducting the value of silver contained in our concentrates based on the average spot price of silver for October 2011 on the Shanghai White Platinum & Silver Exchange, which is RMB6.89 per gram, our estimated total cash cost and total production cost will be approximately RMB-3,022 (approximately US\$-475) and RMB-2,825 (approximately US\$-444), respectively, per tonne of concentrate in 2013.

In addition to the Shizishan Mine, we obtained an exploration permit for the Dazhupeng Mine which is valid for three years from April 2011 to April 2014 and covers an area of 15.19 sq. km. According to the Dazhupeng Preliminary Survey, the Dazhupeng Mine is a lead-zinc-silver polymetallic mine in Yunnan Province located only approximately 20 km away from the Shizishan Mine and has significant potential in lead, zinc, gold and silver resources. In line with our vision to be a leading non-ferrous metal pure mining company in China and in order to leverage on our transferable experience and skills of processing lead-zinc-silver ore, we have also secured exclusive long-term, low-cost polymetallic tungsten-tin raw ore supply from the Lushan Mine, a tungsten-tin polymetallic mine in Yunnan Province located only approximately 30 km away from the Shizishan

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Mine. Under such a pure contractual supply arrangement, we have not acquired any legal ownership right to the Lushan Mine. Pursuant to our exclusive supply agreement with Xiangcaopo Mining and its owner, Li Jincheng, Xiangcaopo Mining, which owns the right to the Lushan Mine, will supply all its polymetallic raw tungsten-tin ore to us for a period of at least 15 years, with the price for the raw ore of RMB260/t for the first five years. This prefixed price is expected to enable us to capitalize on any potential increase in the market price of tungsten and tin. According to the Lushan Geological Report, the results of the drill holes, and geological logging and underground sampling of the Lushan Mine have been highly encouraging to date, and clearly highlight the exploration potential within the exploration limits. With successful completion of the exploration, it is highly likely a significant mineral resource will be defined within the exploration limits of the Lushan Mine. The drilling and sampling will also likely result in further identification of mineralization along strike of the known mineralization. We plan to construct a new gravity-selection processing line at the Shizishan Mine ore processing plant to process tungsten-tin raw ore sourced from the Lushan Mine.

Since our inception in April 2009, we have primarily focused our business activities on exploration, mine planning, and construction and infrastructure development to prepare for the commercial production of lead-silver and zinc-silver concentrates and did not to generate revenue from our operations during the Track Record Period. As a result, our loss for the period from April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011 were RMB1.5 million, RMB5.1 million and RMB245.6 million, respectively. We commenced commercial production in October 2011.

### COMPETITIVE STRENGTHS

We believe that we possess the following competitive strengths:

*We are the largest lead and zinc pure mining company in Yunnan Province in terms of resources abundant and high-grade silver reserves and, on the Listing Date, will be the first non-ferrous metal pure mining company listed on the Stock Exchange with abundant and high-grade silver reserves*

We are the largest lead and zinc pure mining company in Yunnan Province in terms of resources with abundant and high-grade silver reserves, according to the Hatch Report. On the Listing Date, we will also become the first non-ferrous metal pure mining company listed on the Stock Exchange. While there are a number of Hong Kong-listed companies which own non-ferrous metal resources or are engaged in the production of non-ferrous metal products, currently there is no Hong Kong-listed company focusing purely on the mining of non-ferrous metals or with non-ferrous metal resources as large as the Shizishan Mine. We believe that the control of or access to high-quality non-ferrous metal resources is, and will continue to be, a core competitive factor in the PRC non-ferrous metal industry. We believe, after the Shizishan Mine reaches its full mining capacity in 2012, its abundant and high-grade resources will help us to achieve our leading market position. Our such position will, among other things, enhance our profile and attractiveness to investors, provide us with increased access to external funding sources for our future expansion, enable us to benefit from economies of scale in our operations and enjoy strong pricing power for our products, and help us to more effectively secure customers.

China has in recent years experienced a significant supply shortfall of non-ferrous metal concentrates products while having an excess in smelting capacity nationwide, according to the Hatch Report. According to the Hatch Report, China is the world's largest lead and zinc consumer. China's consumption of refined lead and zinc increased by a CAGR of 16.7% and 11.9%,

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respectively, from 2004 to 2010, primarily due to strong demand for lead-acid batteries from the motor vehicle industry and galvanized steel products from the construction, transport and consumer electronics industries. As a result, China has experienced significant supply shortage for lead, zinc and silver concentrates in the past few years. According to the Hatch Report, China has been a net importer of lead and zinc concentrates in recent years and had a supply shortfall in lead and zinc concentrates of 985 kt and 1,464 kt, respectively, in 2010. The huge gap between the supply from concentrates production and the demand from smelting capacities enables the pure mining companies which control and operate the concentrates production to enjoy stronger bargaining power when negotiating pricing terms with their smelter customers. As a result, we believe that non-ferrous metal concentrate producers enjoy and will continue to enjoy the highest margin in the non-ferrous metal value chain.

The Shizishan Mine's abundant and high-grade silver reserves enable us to have a strong exposure to silver. According to the Competent Person's Report, the Shizishan Mine contains 2,000 tonnes (64.3 million ounces) of silver metal in JORC reserves. The estimated average resource and reserve grade for silver is 250 g/t, which is significantly higher than 100g/t, the silver content threshold for silver ore in China according to the Hatch Report. Calculated based on the prevailing market prices of lead, zinc and silver as of October 31, 2011 from the Shanghai Metals Market and the Shanghai White Platinum & Silver Exchange, the value of silver contained in the concentrates we produce from the Shizishan Mine ore amounts to approximately 45% of the combined value of all the metals contained in our concentrates. As a precious metal, silver has been particularly desirable to investors during periods of weak economic confidence and high inflation. Silver investment demand in China increased at a CAGR of 66.5% from 2004 to 2010 and peaked at 9,201 tonnes in 2010, making it the biggest driver of China's increasing silver demand for the same period. Moreover, international silver prices, which the PRC silver prices track closely, generally maintained a continuous upward trend from 2004 to 2010 and exceeded US\$32 per ounce as of October 2011. We believe that we are well-positioned to capitalize on increases in the market demand for and price of silver because of our abundant and high-grade silver reserves at the Shizishan Mine.

### *The Shizishan Mine has abundant and high-grade polymetallic resources and reserves*

The Shizishan Mine has abundant polymetallic resources and reserves. According to the Competent Person's Report, as of October 25, 2011, the Shizishan Mine had an aggregate of 8,829,000 tonnes of JORC measured and indicated resources and 8,024,000 tonnes of JORC reserves, containing 745,900 tonnes of lead metal, 477,300 tonnes of zinc metal and 2,000 tonnes (64.3 million ounces) of silver metal in JORC reserves. Based on the JORC ore reserves of 8,024,000 tonnes at the Shizishan Mine and our current estimated production level of 48 ktpa (350 tpd) in 2011, 419 ktpa (1,270 tpd) in 2012, and 660 ktpa (2,000 tpd) from 2013 and onwards, the ore reserves at the Shizishan Mine are estimated to support approximately 12.5 years of mine operation. According to the Competent Person's Report, there is excellent potential to expand the currently defined resources at the Shizishan Mine. See "— The Shizishan Mine, Dazhupeng Mine and Lushan Mine have significant exploration potential."

In addition, according to the Competent Person's Report, our polymetallic resources and reserves at the Shizishan Mine are high-grade. The estimated average resource and reserve grades for lead, zinc and silver of the Shizishan Mine are 9.4% and 9.3%, 6.0% and 6.0%, and 256 g/t and 250 g/t, respectively. These are significantly higher than 3.3%, 5.4% and 100g/t, which are the industry average grades for underground lead mines, underground zinc mines and the silver content threshold for silver ore in China, respectively, according to the Hatch Report. We believe that our high-grade lead-zinc-silver resources and reserves will enable us to enjoy high margins and

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capitalize on any increase in the market prices of lead, zinc and silver. Moreover, our abundant and high-grade polymetallic resources allow us to maintain a competitive cost structure, consistent product quality and stable supply to our customers, which we believe will enable us to obtain attractive financial returns and enjoy significant competitive advantages in the highly fragmented non-ferrous metal market in China.

***Our favorable cost position will enable us to enjoy high profitability***

Because of the high-grade and polymetallic nature of our lead-zinc ore from the Shizishan Mine that include abundant and high-grade silver content, we believe that we will become a low-cost producer in the lead and zinc mining industry in China after we complete the full ramp-up plan of our mining and processing capacities in the fourth quarter of 2012. According to the Competent Person's Report, the estimated total cash cost and total production cost for the Shizishan Mine will be approximately RMB1,313 (approximately US\$207) and RMB1,511 (approximately US\$238), respectively, per tonne of concentrate in 2013, the first year in which we will operate at our full planned mining and processing capacities. After deducting the value of silver contained in our concentrates based on the average spot price of silver for October 2011 on the Shanghai White Platinum & Silver Exchange, which is RMB6.89 per gram, our estimated total cash cost and total production cost will be approximately RMB-3,022 (approximately US\$-475) and RMB-2,825 (approximately US\$-444), respectively, per tonne of concentrate in 2013. We believe the following factors will contribute to our favorable cost position, which is expected to enable us to enjoy a relatively high profit margin.

- *High-grade polymetallic ore with abundant silver content.* Costs in the mining industry are broadly linked to the cost of ore extraction. As a result, we believe that the high-grade polymetallic ore at the Shizishan Mine with abundant silver content will enable us to enjoy higher margins per tonne of ore extracted. In addition, due to the polymetallic content of the ore at the Shizishan Mine, we are able to separate and produce lead-silver concentrates and zinc-silver concentrates using a single streamlined production process, which will generate significant cost efficiencies in the production process.
- *Large-scale operations.* We plan to conduct our operations through large-scale mining and processing. For example, we have attained our full planned processing capacity of 2,000 tpd and mining capacity of 700 tpd as of the Latest Practicable Date. Upon completion of the full ramp-up plan for the Shizishan Mine in the fourth quarter of 2012, we expect our mining capacity to reach 2,000 tpd. Such large-scale operations will position us well to achieve economies of scale, which we believe will enhance our bargaining position with our current and potential customers.
- *Advanced and reliable technologies and equipment.* In choosing our mining method, we draw on successful mining practices used both in China and internationally to, among other things, maintain effective cost control, minimize mining loss and dilution, and achieve high ore recovery rates, and adopt an efficient, safe and environment-friendly mining method for the Shizishan Mine. We also place a strong emphasis on using advanced, reliable equipment and technologies in our processing operations to achieve greater efficiencies. For example, our ore crushers are from Metso, one of the world's leading mining and construction equipment and solutions provider.
- *Outsourcing labor-intensive works.* We sub-contract our labor-intensive mining operations to experienced third parties. This means that our management can focus on

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core activities which are most important to our operations, including exploration, mine design, mining and processing design, quality control, and environmental and safety protection and that we only have to employ a small number of management staff and technical personnel to provide guidance, supervision and management with regard to our mining operations. We believe this outsourcing arrangement will continue to result in reductions in mining expenditure, salaries and other staff-related expenses, which should further improve our cost position.

***We will enjoy stable and low-cost polymetallic ore supply from the Lushan Mine on an exclusive basis***

In line with our vision to be a leading non-ferrous metal pure mining company in China and in order to leverage on our transferable experience and skills of processing lead-zinc-silver ore, we entered into an exclusive supply agreement on December 31, 2010 with Xiangcaopo Mining, which owns rights to the Lushan Mine, and Li Jincheng, the sole owner of Xiangcaopo Mining and an Independent Third Party. Pursuant to this agreement, Xiangcaopo Mining agreed to supply all its polymetallic tungsten-tin raw ore from the Lushan Mine to us on an exclusive basis. Unless we request for an earlier termination, the exclusive ore supply agreement will expire upon the later of (i) the 15<sup>th</sup> anniversary of December 31, 2010, or (ii) the expiration of the Lushan Mine's exploration permit and mining permit (which may be renewed upon expiration). In addition, we have the sole discretion to extend the term of the exclusive ore supply agreement, if we so request before the expiration of its term. In connection with the exclusive ore supply agreement, Li Jincheng pledged his entire equity interest in Xiangcaopo Mining to us in May 2011. Li Jincheng also entered into a guarantee agreement with us on July 7, 2011. Pursuant to such guarantee agreement, Li Jincheng agrees to guarantee Xiangcaopo Mining's performance of its duties under the exclusive ore supply agreement, including Xiangcaopo Mining's refund of any prepayment amount advanced by us if Xiangcaopo Mining defaults in its raw ore supply to us. The price for the tungsten-tin raw ore sourced from the Lushan Mine will be RMB260/t for the first five years. For more details, please refer to the subsection headed "— Lushan Mine and Exclusive Ore Supply Agreement." According to the Lushan Preliminary Exploration Report, nine mineral veins of tungsten, two mineral veins of tin, and 0.3 sq. km of stream tin had been discovered in the Lushan Mine as of January 1, 2011, and there is significant exploration potential to identify other metal resources such as bismuth, lead and cadmium. According to the Lushan Geological Report, the results of the drill holes and geological logging and underground sampling of the Lushan Mine have been highly encouraging to date, and clearly highlight the exploration potential within the exploration limits. With successful completion of the exploration, it is highly likely a significant mineral resource will be defined within the exploration limits of the Lushan Mine. The drilling and sampling will also likely result in further identification of mineralization along strike of the known mineralization. We plan to construct a new gravity-selection processing line at the Shizishan Mine ore processing plant to process tungsten-tin raw ore sourced from the Lushan Mine. Our exclusive arrangement with respect to the Lushan Mine will provide us a stable long-term supply of polymetallic raw ore at a low fixed cost. We believe the prefixed price of RMB260/t is attractive and will enable us to attain a profitable tungsten-tin raw ore processing business. The prefixed price will also enable us to capitalize on any potential increase in the market price of tungsten and tin as the cost of the tungsten-tin raw ore sourced from the Lushan Mine will not increase in tandem with the market price. In addition, the new gravity-selection processing line at the Shizishan Mine ore processing plant is only approximately 30 km away from the Lushan Mine. We believe this proximity will enable us to enjoy relatively low transportation costs and economical operations.

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### *We are well-positioned to expand our resources and reserves through selective acquisitions*

We are well-positioned to further increase resources and reserves through the acquisition of non-ferrous metal resources. Yunnan Province, where our current operations are located, has the second largest lead reserves, the second largest zinc reserves and the third largest silver resources in China, according to the Hatch Report. Our location in the non-ferrous metal-rich region of Yunnan Province provides us with access to abundant non-ferrous metal resources in the surrounding regions. In addition, as indicated in the Yunnan Non-ferrous Metal Development Plan, the government of Yunnan Province encourages exploration activities and the consolidation of non-ferrous metal mines by large mining companies. The Yingjiang County government authority issued government meeting minutes on May 11, 2011 expressly supporting our efforts to consolidate local non-ferrous metal resources. We believe these governmental policies will put us in a favorable position in our future acquisition activities.

On June 9, 2011, we entered into a share transfer agreement with Song Denghong (an Independent Third Party), the owner of the Liziping Company which owns the exploration right to the Liziping Mine, a lead-zinc-silver polymetallic mine in Yunnan Province. Liziping Mine's exploration permit covers an area of 18.29 sq.km. and has a validity term from December 29, 2010 to December 29, 2012. Under the share transfer agreement, Song Denghong undertakes to us that the lead and zinc resources of the Liziping Mine are not less than 1,000 kt in terms of metal contained. According to the Competent Person's Report, the Competent Person considers the likelihood of the definition of resources in the area of the Liziping Mine that will be drilled to be high and the mineralization tenor and geometry observed likely to be continuous. The Competent Person also considers the potential identification of the mineralized structures at depth to be encouraging for future exploration and the likelihood for discovery of significant mineralization at depth to be likely. Pursuant to such agreement, we agreed to purchase 90% of the equity interest in the Liziping Company from Song Denghong. We currently expect to complete such acquisition in May 2012. The consideration payable for the 90% equity interest of the Liziping Company will be determined based on the amount of lead and zinc resources of the Liziping Mine, and will in any event be no less than RMB216 million and no more than RMB756 million. The consideration payable for the 90% equity interest of the Liziping Company was arrived at after arms-length negotiations between the parties. In order to secure the performance of the share purchase agreement, Song Denghong pledged his entire interest in the Liziping Company to us. We will ensure that the acquisition of the Liziping Mine will comply with the of the Listing Rules requirements.

On May 21, 2011, we had also entered into an option agreement with the Xi Wanli (an Independent Third Party), a shareholder of the Dakuangshan Company which owns the mining right to the Dakuangshan Mine. Such option agreement allows us to purchase 90% of the equity interest in the Dakuangshan Company from Xi Wanli at our sole discretion, within a period of 18 months starting from May 2011. The Dakuangshan Mine is located approximately 100 km from the Shizishan Mine. The mining permit for the Dakuangshan Mine covers an area of 1.56 sq. km. Under the option agreement, Xi Wanli undertakes to us that the Dakuangshan Mine has lead and zinc resources of no less than 400 kt in terms of metals contained, with the grades for lead, zinc and silver contained being no less than 3%, 7% and 50 g/t, respectively. The consideration for the 90% equity interests in the Dakuangshan Company will be determined based on the lead and zinc metals contained in the estimated resources of the Dakuangshan Mine that are category 332 and above at a price not less than RMB500/t and not more than RMB700/t (which was determined based on arms-length negotiations among the parties and was not referenced to any specific prevailing market price or benchmark) and will not exceed RMB145.0 million. The Directors believe this price is relatively attractive. Xi Wanli pledged 50% of his equity interests in the Dakuangshan Company that owns the Dakuangshan Mine to us on July 29, 2011 to secure the performance of the option agreement. This



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option agreement provides us with an important opportunity to quickly expand our polymetallic resources in the future. In connection with the execution of the option agreement, we have conducted preliminary due diligence on the Dakuangshan Mine and the Dakuangshan Company. If we decide to exercise our option, the terms of purchase would be subject to further negotiations with the shareholder and such purchase will comply with the applicable requirements of the Listing Rules.

***The Shizishan Mine, Dazhupeng Mine and Lushan Mine have significant exploration potential***

We are well-positioned to significantly increase our resources and reserves in the future due to the significant exploration potential of the Shizishan Mine and Dazhupeng Mine. According to the Shizishan Detailed Exploration Report, six lead-zinc-silver polymetallic lodes have been discovered in the permitted mining area of the Shizishan Mine and three of these lodes contain approximately 89% of the total resources at the Shizishan Mine. We have focused our exploration activities on these three lodes, and the Competent Person estimates that these three lodes contain abundant and high-grade lead, zinc and silver resources and reserves. See “— The Shizishan Mine has abundant and high-grade polymetallic resources and reserves.” As a result, we believe that, with further exploration at the Shizishan Mine (especially for the remaining three lodes identified in the Shizishan Detailed Exploration Report), there is significant potential to define more lead, zinc and silver resources within our permitted mining area. In addition, according to the Competent Person’s Report, mineralization within the Shizishan Mine is open along the strike at both the north and south ends of the current drilling limits. By the date of the Competent Person’s Report, only a small portion of the permitted mining area of the Shizishan Mine had been drilled and four main lodes (one of which is beyond the elevation limit of our current mining permit) had been successfully identified as a result of the drillings. Based on these, the Competent Person confirms that there is excellent potential to expand the currently defined resources at the Shizishan Mine with further drilling within the remainder of the permitted mining area. The exploration right for the Dazhupeng Mine covers an area of 15.19 sq. km. According to the Dazhupeng Preliminary Survey, the Dazhupeng Mine is a lead-zinc-silver polymetallic mine and has significant exploration potential to identify lead, zinc, gold and silver resources.

Furthermore, the Lushan Mine, which is currently at the exploration stage, also has significant exploration potential. The exploration area designated in the exploration permit of the Lushan Mine covers an aggregate area of approximately 81.55 sq. km. Xiangcaopo Mining expects to complete its first phase exploration activities at the Lushan Mine in the first quarter of 2012. It will continue to conduct exploration activities for the remaining areas of the Lushan Mine covered by its exploration right certificate in 2012. It expects to commence its polymetallic raw ore supply to us from the third quarter of 2012. According to the Lushan Preliminary Exploration Report, which focused on an aggregate area of approximately 1.73 sq. km, nine mineral veins of tungsten, two mineral veins of tin, and 0.3 sq. km of stream tin had been discovered at the Lushan Mine as of January 1, 2011, and there is significant exploration potential to identify other metal resources such as bismuth, lead and cadmium. According to the Lushan Geological Report, the results of the drill holes, and geological logging and underground sampling of the Lushan Mine have been highly encouraging to date, and clearly highlight the exploration potential within the exploration permit. With successful completion of the exploration, it is highly likely a significant mineral resource will be defined within the exploration limits of the Lushan Mine. The drilling and sampling will also likely result in further identification of mineralization along strike of the known mineralization. We believe that, with further exploration at the Lushan Mine (especially for the remaining area of approximately 80.15 sq. km), there is significant potential to define more polymetallic resources within the scope of Lushan Mine’s exploration permit.

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We are committed to materializing the potential of the Shizishan Mine and the Dazhupeng Mine through continuous exploration efforts. We are also committed to assisting in the exploration of the Lushan Mine to tap into its potential.

***We benefit from our strategic location in Yunnan Province and our mine's close proximity to end customers and readily accessible infrastructure***

According to the Hatch Report, China is the world's largest lead and zinc consumer. China's consumption of refined lead and zinc increased by a CAGR of 16.7% and 11.9%, respectively, from 2004 to 2010, primarily due to strong demand for lead-acid batteries from the motor vehicle industry and galvanized steel products from the construction, transport and consumer electronics industries. As a result, China has experienced significant supply shortage for lead and zinc concentrates in the past few years. According to the Hatch Report, China has been a net importer of lead and zinc concentrates in recent years and had a supply shortfall in lead and zinc concentrates of 985 kt and 1,464 kt, respectively, in 2010. We believe that, as the Chinese economy continues its rapid growth, the demand for refined lead and zinc and the shortfall in China's supply of lead and zinc concentrates will further increase. Although Yunnan Province has the second largest lead reserves and the second largest zinc reserves in China, it has also experienced a significant supply shortage of lead and zinc concentrates in recent years. Yunnan produced 106 kt of lead concentrate in 2010, which was less than a fifth of Yunnan's refined lead production capacity of 565 kt in 2010. Similarly, Yunnan's zinc concentrate output was 547 tonnes in 2010 while its refined zinc production was 870 tonnes in 2010, which meant that almost 40% Yunnan's zinc concentrate demand was met by imports in 2010.

In addition, the location of the Shizishan Mine places us in close proximity to potential end customers of our concentrate products with large smelting capacities. Yunnan Province is the second largest non-ferrous metal producing province (in terms of metal production from mine) in China, according to the Hatch Report. There are 14 non-ferrous metal smelters in Yunnan Province, including Xiangyun Feilong Non-ferrous Metal (祥雲飛龍), Jinding Zinc (金鼎鋅業), Yunxi Group (雲錫集團) and Chihong Zinc & Germanium (馳宏鋅鍺), with a combined smelting capacity of more than 530 kt of lead concentrate, 850 kt of zinc concentrate and 616 tonnes of silver concentrate per annum in 2007, respectively. The large demand of these local smelters provides us with a significant degree of visibility and stability in potential demand for our concentrate products. Given our strategic location in Yunnan Province and our position as the largest lead and zinc pure mining company in terms of resources with abundant and high-grade silver reserves in Yunnan Province, we believe that we are well-positioned to capture the market opportunities presented by the increasing demand of refined lead and zinc and the resulting significant supply shortfall in lead and zinc concentrates in China.

Furthermore, the convenient location of the Shizishan Mine provides us with easy access to readily accessible infrastructure. The Shizishan Mine is only approximately 300 m away from a county road that is approximately 45 km away from Yingjiang County. The Shizishan Mine is also approximately 50 km away from the Houqiao railway station located along the planned Kunming-Southeast Asia International Railroad, which will connect to China's national railway network. The construction of the Kunming-Southeast Asia International Railroad is expected to be completed before 2016. This proximity to the railway network is expected to expand our reach to customers and reduce the transportation cost of our products. In addition, our processing facility is located on-site near the Shizishan Mine's main adit opening, which will lead to low transportation costs from the mine to the processing facility and allow for economical on-site operations. The Shizishan Mine also has easy access to abundant water and electricity supplies within close proximity, both of which are key utilities for our mining and processing operations.

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*We have a strong management team with extensive industry and management experience, and a high standard of corporate governance enhanced by a significant composition of our Board comprised of our independent non-executive Directors*

Our Executive Directors and senior management team comprise a group of industry veterans with a strong track record, including qualified geologists and engineers in the areas of exploration, mine planning and construction, mining, processing, production safety and environmental protection. Our Executive Directors and senior management team have an average mining industry experience of 20 years, with six of our Executive Directors and senior management team members each having over 25 years of mining industry experience. Our management team also has a strong track record of successful business ramp-up within a short period of time. Through the efforts of our management team, we successfully completed the geological and feasibility studies of the Shizishan Mine and obtained the approval for the construction and operation of the Shizishan Mine from the Yunnan Development and Reform Commission and other requisite regulatory approvals (including the approvals for environmental impact evaluation and design of the production safety facility). They were accomplished within 10 months after obtaining the initial mining permit of the Shizishan Mine in February 2010. We believe that our Executive Directors and senior management possess the skills, foresight and in-depth industry knowledge necessary to capture market opportunities, formulate and implement sound business strategies, assess and manage risks and improve and implement management and production schemes. We aim to leverage on their demonstrated ability to identify exploration and acquisition opportunities and exploit our mining resources efficiently, which we believe will enable us to implement our strategies to achieve profitable returns on our investment, minimize our investment risks and create shareholder value. We also believe that our management team possesses the leadership capabilities and qualifications required to sustain our business and lead us to continued success.

We also have a high standard of corporate governance enhanced by our six experienced independent non-executive Directors. Our Board consists of 13 board members, including six executive Directors, one non-executive Director, and six independent non-executive Directors. All six independent non-executive Directors possess strong experiences and stellar reputations in their respective fields of expertise in finance, accounting, investments, consulting and mining and all have long track-record of serving managerial roles and supervising corporate governance in public companies listed in the world's major stock exchanges, leading investment banks, consulting firms or accounting firms. The audit committee, remuneration committee and nomination committee of our Board consist of a majority of independent non-executives Directors and are chaired by independent non-executive Directors. We believe that our independent non-executive Directors, who comprise nearly half of the Board seats and a majority of the members of our audit, remuneration and nomination committees, will significantly enhance the standard of corporate governance of the Company and improve the transparency and soundness of the Board's decision-making process, which in turn will better serve the interests of our public investors and our Company as a whole.

### **BUSINESS STRATEGIES**

Our goal is to become a leading non-ferrous metal pure mining company in China, which we plan to accomplish through implementing the following strategies:

#### *Ramp up our mining and processing capacities*

We currently have a mining capacity of 700 tpd and intend to significantly ramp up our mining capacity at the Shizishan Mine. We are undertaking a ramp up of our mining construction which is

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expected to enable us to attain a mining capacity of 1,000 tpd in the second quarter of 2012 and 2,000 tpd (our full planned mining capacity) in the fourth quarter of 2012. We completed the construction of a large ore processing facility and attained a full planned processing capacity of 2,000 tpd at the end of July 2011. Total capital expenditure for the ramp-up of our mining and processing capacities at the Shizishan Mine by the end of 2012 is expected to be RMB403.2 million. We also plan to construct a new gravity-selection processing line at the Shizishan Mine to process tungsten and tin raw ore from the Lushan Mine. We expect the total capital expenditure for such gravity-selection processing line to be RMB41.0 million. We also intend to ramp up our mining and processing capacities at the Dazhupeng Mine after the completion of our exploration activities and upon our obtaining the related mining permit. We currently intend to start to construct the Dazhupeng Mine and the related processing facility in the second quarter of 2013. We expect that the total capital expenditure for the exploration and construction of the Dazhupeng Mine to be approximately RMB225.1 million, assuming we determine it beneficial to, and will, develop the Dazhupeng Mine upon completion of its exploration activities. We will also ramp up our mining and processing capacities for new mines that we may acquire. We believe that, as demand for non-ferrous metal continues to increase in China, the expansion of our mining and processing capacities will position us well to capture these growing market opportunities.

### *Expand our resources and reserves through selective acquisitions*

To complement our existing resources, we are actively seeking and intend to continue to actively seek selective acquisition opportunities. Our strategic location in Yunnan Province presents significant opportunities for our expansion and long-term sustainable growth through consolidation of mineral resources in the province. During the Track Record Period, we entered into a share transfer agreement and an option agreement that may enable us to acquire two additional mine assets in Yunnan Province. See “Competitive Strengths — We are well-positioned to expand our resources and reserves through selective acquisitions.” In addition, the government of Yunnan Province encourages exploration activities and the consolidation of non-ferrous metal mines by large mining companies. In this regard, we have obtained the express support of the Yingjiang County government for our efforts to consolidate local non-ferrous metal assets. We will also explore and evaluate acquisition opportunities in other regions in China. We have a dedicated team led by our chief executive officer, Mr. Zhu Xiaolin, that consists of experienced geological, finance and legal personnel to identify and evaluate high-quality mineral resources for potential acquisition. Potential acquisition targets will only include non-ferrous metal mines that satisfy our assessment criteria which include, but are not limited to, the following attributes: (i) total resources and reserves; (ii) grade and content of the reserves; (iii) mining life; (iv) investment cost; (v) estimated return on investment; (vi) location; (vii) compliance with applicable PRC laws and regulations, including valid exploration permits, mining permits and/or production safety permits; and (viii) implementation of safe operating conditions and systems and environmental standards.

### *Expand our resources and reserves through further exploration*

We believe that control of or access to high-quality non-ferrous metal resources and reserves is essential to the long-term sustainable development of our business and that increasing our resources and reserves by exploration is the most cost-efficient way to add value to our shareholders. As of October 31, 2011, our exploration cost of Shizishan Mine is RMB27 per tonne of lead equivalent resource (calculated based on the lead, zinc, and silver contained in our JORC measured and indicated resources and the prevailing market price for lead, zinc and silver as of October 31, 2011). We plan to take advantage of the significant exploration potential of the Shizishan Mine and Dazhupeng Mine to increase our resources and reserves. According to the Competent Person’s

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Report, there is excellent potential to expand the currently defined resources at the Shizishan Mine. We intend to carry out more substantial drillings and exploration at the Shizishan Mine through third-party exploration professionals. To further increase our access to resources and reserves, we plan to expand our current mining permit at the Shizishan Mine to explore the area below the 1,000 m elevation limit which is currently beyond our permitted mining area. In addition to the Shizishan Mine, we have obtained an exploration permit for the Dazhupeng Mine which covers an area of 15.19 sq. km and has a term of three years from April 2011 to April 2014. We expect to complete the exploration works for the Dazhupeng Mine in the second quarter of 2012. Upon completion of the exploration activities at the Dazhupeng Mine and if we consider it beneficial to do so, we plan to apply to the PRC governmental authorities for the relevant mining permit. Pursuant to the relevant PRC laws and regulations and as advised by our PRC legal advisor, we have a right of priority in the obtaining of any mining permit in mining areas that are covered by the exploration permit of the Dazhupeng Mine and there will not be any material legal impediment for us to obtain the mining permit if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all the competent authorities. As part of our exclusive raw ore supply agreement with Xiangcaopo Mining, we will also assist in its exploration activities at the Lushan Mine.

### ***Pursue technological innovation to improve operational efficiency, mining safety and environmental protection***

We intend to enhance our geological research and exploration capabilities and pursue technological innovation in our mining and processing activities. We also plan to utilize information technology to assist in the continuous monitoring and optimization of our operations. We plan to focus our research and development efforts on the following aspects:

- enhancing our geological research and exploration capabilities (including technologies for deep prospecting) to maximize the potential of our existing mines and assist us in identifying and exploring new mines with significant potential;
- improving our mining methods and technologies to minimize mining loss and dilution, increase efficiency, lower mining costs and enhance mining safety and environmental protection; and
- optimizing our processing technologies to improve production efficiency, lower processing cost and enhance product quality.

### ***Strengthen our customer relationships and broaden our customer base***

We sell our concentrate products to both smelter customers and concentrate traders who resell them to smelters. Our abundant high-grade polymetallic resources and close proximity to large local smelters has helped us to establish supplier relationships with three large, non-ferrous metal smelters located in Yunnan Province and two credible concentrate traders since April 2011. We intend to maintain and strengthen our relationships with smelters and concentrate traders. Although demand for non-ferrous metal concentrates in Yunnan Province generally tends to be greater than the supply, close relationships with customers provide a significant degree of stability and visibility in demand for our products, allow us to better anticipate the timing of orders and special requests and lower the cost of retaining existing customers as well as the pressure of acquiring new customers. We will also expand the geographical reach of our customer base beyond Yunnan Province.

**RAMP-UP PLANS FOR OUR MINING AND PROCESSING CAPACITIES***Overview*

We are currently at the commercial production stage of the Shizishan Mine. We started trial production at the Shizishan Mine at the end of July 2011 when we attained a full planned processing capacity of 2,000 tpd and commenced commercial production in October 2011. In August, September and October of 2011, we mined a total of approximately 24,800 tonnes of raw ore and processed a total of approximately 22,690 tonnes of raw ore, out of which we produced approximately 1,035 tonnes and 1,769 tonnes of lead-silver concentrates and zinc-silver concentrates, with an average selling price of approximately RMB9,596 and RMB3,880 per tonne, respectively. During this period, we sold a total of approximately 355 tonnes and 777 tonnes of lead-silver concentrates and zinc-silver concentrates, respectively, to our customers.

We currently have a mining capacity of 700 tpd and are ramping up the construction of the mining facility of the Shizishan Mine to increase our mining capacity to 1,000 tpd in the second quarter of 2012 and 2,000 tpd (our full planned mining capacity) in the fourth quarter of 2012. We commenced construction of the processing facility for the Shizishan Mine in December 2010 and attained its full planned processing capacity of 2,000 tpd at the end of July 2011.

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The following table highlights our key development milestones for our ramp-up plan at the Shizishan Mine:

Time	Total Mining Capacity	Total Ore Processing Capacity	Capital Expenditure for Mining Facility	Capital Expenditure for Processing Facility	Capital Expenditure for Land Use Right and Buildings	Total Capital Expenditure	Sources of Funding
	(ktpa)	(ktpa)	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)	
2009	—	—	6.0	1.3	—	7.3	shareholder's loan
2010	—	—	34.7	48.7	7.2	90.6	shareholder's loan and proceeds from pre-IPO Exchangeable Bonds
2011	48	268	68.5	91.5	20.3	180.3	shareholder's loan, proceeds from pre-IPO Exchangeable Bonds, banking facilities, net proceeds from the Global Offering and operating cash inflow
2012	419	660	120.5	4.5	—	125.0	banking facilities, proceeds from the Global Offering and operating cash inflow
2013	660	660	—	—	—	—	N/A
<b>Total Capital Expenditure</b>			<b>229.7</b>	<b>146.0</b>	<b>27.5</b>	<b>403.2</b>	

The following table illustrates our planned annual concentrates production at the Shizishan Mine from 2011 to 2015, according to the Competent Person's Report:

Products	Unit	2011	2012	2013	2014	2015
Lead-silver concentrate	kt	6.0	65.9	103.8	103.8	103.8
Zinc-silver concentrate	kt	3.7	40.3	63.6	63.6	63.6

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We expect to complete the construction of our mining facility at the Shizishan Mine in the fourth quarter of 2012. The majority of our capital expenditure will be spent in 2011 and 2012 as facilities are constructed and equipment is delivered and installed. The development schedule of our ramp-up plan is as follows:

<u>Year</u>	<u>Development Activities/Plan</u>
2010 . . . . .	Commenced preliminary mine and processing facilities construction activities
2011 . . . . .	Completed a substantial part of the mine construction at the Shizishan Mine to attain a mining capacity of 700 tpd in November 2011  Completed construction of a large ore processing facility with a processing capacity of 2,000 tpd at the end of July 2011 and a tailing storage facility
2012 . . . . .	Continue to ramp-up construction of the Shizishan Mine to attain a mining capacity of 1,000 tpd in the second quarter of 2012 and a full planned mining capacity of 2,000 tpd in the fourth quarter of 2012

### ***Mining Capacity Ramp-up Plan***

We are currently at the commercial production stage of the Shizishan Mine with a current mining capacity of 700 tpd. The ramp-up of mining capacity is expected to be completed in the fourth quarter of 2012 when we attain a full planned mining capacity of 2,000 tpd.

We expect to spend a total of RMB229.7 million for this ramp-up plan, including RMB156.8 million for mining infrastructure and RMB72.9 million for mining right and exploration. As of October 31, 2011, our capital expenditure in connection with our ramp-up plan of the mining capacity at the Shizishan Mine totaled RMB96.8 million, including RMB24.1 million for mining infrastructure and RMB72.7 million for mining right and exploration. Such capital expenditure was financed by shareholder's loan, proceeds received from the pre-IPO Exchangeable Bonds and bank borrowings. We expect to spend an additional RMB132.9 million in connection with the ramp-up plan of our mining capacity at the Shizishan Mine, and plan to fund the capital expenditure for this ramp-up of the mining capacity through net proceeds from the Global Offering, proceeds from the pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

### ***Processing Capacity Ramp-up Plan***

As part of our ramp-up plan, we have completed the construction of the processing facility at the Shizishan Mine at the end of July 2011 when we attained its full planned processing capacity of 2,000 tpd. We are in the process of expanding the live capacity of Shizishan Mine's tailing storage facility.

We expect to spend a total of RMB146.0 million in connection with our ramp-up plan of the processing capacity for the Shizishan Mine, including RMB118.1 million for processing factory and equipment and RMB27.9 million for the tailing storage facility. As of October 31, 2011, our capital expenditure in connection with our ramp-up plan of the processing capacity for the Shizishan Mine totaled RMB137.6 million, including RMB115.2 million for processing factory and equipment and RMB22.4 million for the tailing storage facility. Such capital expenditures were financed by shareholder's loan, proceeds received from the pre-IPO Exchangeable Bonds financing and bank



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borrowings. We expect to spend an additional RMB8.4 million in connection with our ramp-up plan of the processing capacity and the tailing storage facility for the Shizishan Mine.

In addition, we also plan to construct a new gravity-selection processing line at the Shizishan Mine ore processing plant to tap into the potentially abundant and stable polymetallic tungsten-tin raw ore supply from the Lushan Mine, which is only approximately 30 km away from the Shizishan Mine. Such processing line is separate from our lead-zinc-silver processing facility at the Shizishan Mine ore processing plant and utilizes the crushing equipment, storage facilities, land, buildings and other supporting facilities of the Shizishan lead-zinc-silver ore processing facility. The gravity-selection processing line is expected to commence commercial production in the third quarter of 2012. For this gravity-selection processing line, we expect to spend a total of RMB41.0 million.

We plan to fund future capital expenditure on the ore processing facility through net proceeds from the Global Offering, proceeds from our pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

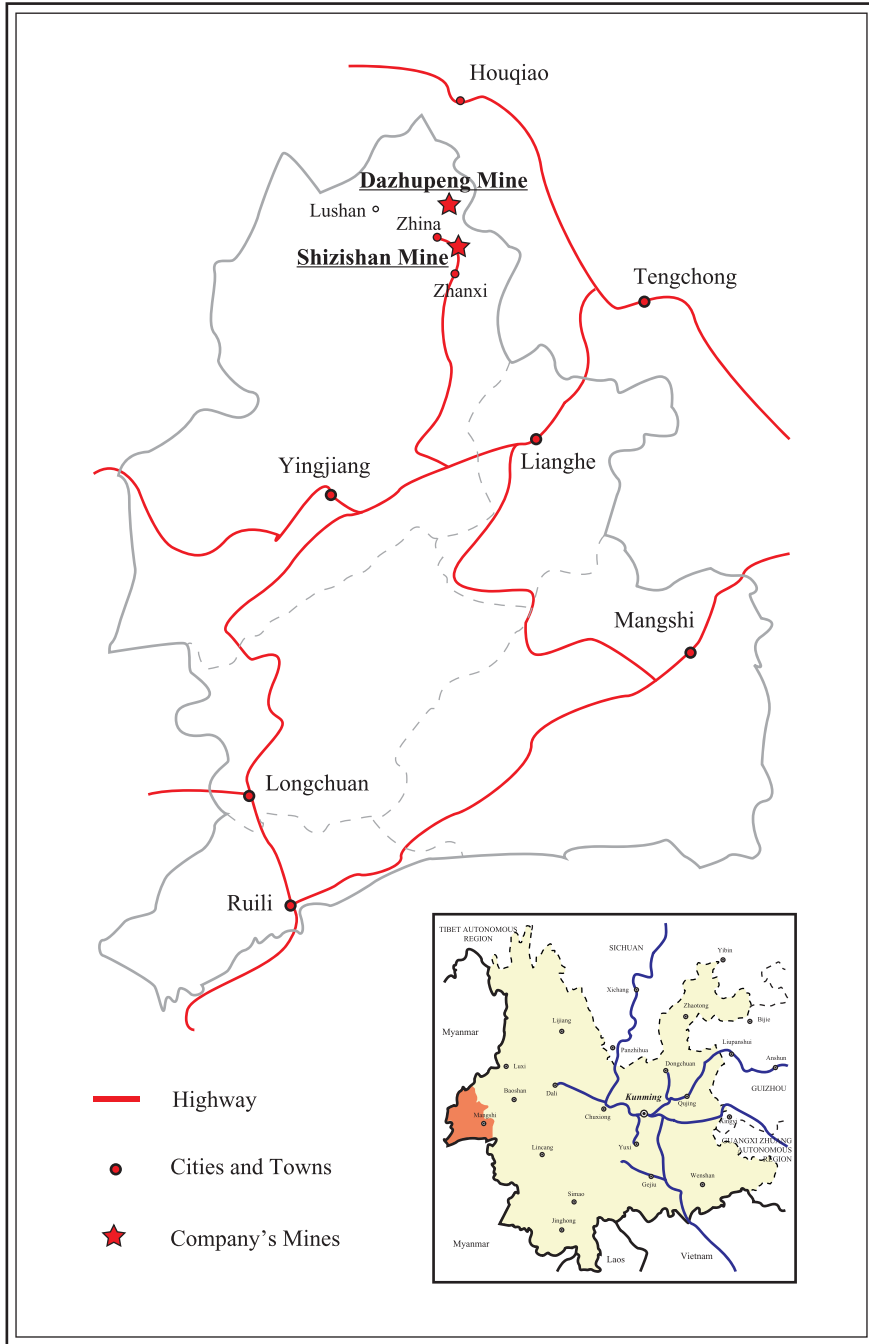
### *Land Use Right and Buildings*

In connection with our ramp-up plan for the Shizishan Mine, we have procured the land use right to three parcels of land with a total area of 115,671 sq.m. used for the construction of the mining, processing, tailing storage and related facilities as well as buildings for general use at the Shizishan Mine. We expect to spend a total of RMB27.5 million for obtaining the land use right and the construction of the buildings, including RMB17.5 million for the land use right and RMB10.0 million for the construction of the buildings. As of October 31, 2011, we spent a total of RMB18.7 million for the land use right and the construction of buildings. We expect to spend an additional RMB8.8 million to fund the capital expenditure for the land use right and the construction of buildings at the Shizishan Mine, and plan to fund these capital expenditure requirements through proceeds from the Global Offering, proceeds received from the pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

OUR MINERAL RESOURCES

Overview

We currently own one operating mine in Yingjiang County, Yunnan Province, the Shizishan Mine. We have also obtained an exploration permit for the Dazhupeng Mine which covers an area of 15.19 sq. km, and has a term of three years from April 2011 to April 2014. The Dazhupeng Mine is located only approximately 20 km away from the Shizishan Mine in Yingjiang County, Yunnan Province. The map below illustrates the geographical locations of the Shizishan Mine and the Dazhupeng Mine in Yingjiang County, Yunnan Province:



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We have commissioned the Competent Person to undertake an independent technical review and assessment of the Shizishan Mine and the associated ore processing facility. Please refer to the Competent Person's Report for the details of the findings, reporting standards and scope of work conducted by the Competent Person.

### *Shizishan Mine*

The Shizishan Mine is an underground lead-zinc-silver polymetallic mine located in Yingjiang County of Yunnan Province, China. The Shizishan Mine is only approximately 300 m away from a county road that is approximately 45 km away from Yingjiang County. The Shizishan Mine is only approximately 50 km away from Houqiao railway station, which is located along the planned Kunming-Southeast Asia International Railroad, the construction of which is expected to be completed in 2016. For details of the location of the Shizishan Mine and the surrounding transportation infrastructure, see the map under “— Overview” above. The mining permit for the Shizishan Mine covers an aggregate area of approximately 3.20 sq. km and has a term of 15 years ending in April 2026. We are currently at the commercial production stage of the Shizishan Mine, having commenced construction of the processing facility and the underground mine site of the Shizishan Mine in December 2010 and March 2011, respectively. We commenced trial production at the end of July 2011 when we attained a full planned processing capacity of 2,000 tpd and commenced commercial production in October 2011.

The location of the Shizishan Mine provides us with an optimal mining environment. The favorable geological, weather and mining conditions of the region can allow for the operation of our facilities for most of the year. We source water, a key component in our mining and processing activities, from the Zhina River which is located approximately 1.2 km away from the Shizishan Mine. Our electricity power supply is provided by China Southern Power Grid through its main electric power transmission-line system located approximately 4.5 km away from the processing facility of the Shizishan Mine.

According to the Competent Person's Report, which focused on a limited portion of the permitted mining area of the Shizishan Mine, four main lodes have been identified, with one of which being beyond the elevation limit of our current mining permit. In addition, there are several smaller pods within the permitted mining area of the Shizishan Mine. According to the Competent Person's Report, as of October 25, 2011, the Shizishan Mine had an aggregate of 8,829,000 tonnes of measured and indicated resources, containing 839,000 tonnes of lead metal, 538,500 tonnes of zinc metal and 2,300 tonnes of silver metal (73.9 million ounces), respectively, and an aggregate of 8,024,000 tonnes of proved and probable reserves, containing 745,900 tonnes of lead metal, 477,300 tonnes of zinc metal and 2,000 tonnes (64.3 million ounces) of silver metal in JORC reserves, respectively. The permitted mining area covered by our mining permit for the Shizishan Mine has an elevation limit from 1,000 m to 1,498 m above sea level. A total of 108,800 tonnes of indicated and inferred mineral resources containing 4.67% of lead, 4.43% of zinc and 170.70 g/t of silver are below the 1,000 m elevation limit of our current mining permit. We plan to apply for an extension of the elevation limit of our current mining permit of the Shizishan Mine from the relevant government authority in order to capture the resources below the 1,000 m elevation limit. Our PRC legal advisor has advised us that there is no material legal impediment in obtaining such an extension from the relevant government authority if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all the competent authorities. Based on the JORC ore reserves of 8,024,000 tonnes at the Shizishan Mine and our current estimated production level of 48 ktpa (350 tpd) in 2011, 419 ktpa (1,270 tpd) in 2012, and 660 ktpa (2,000 tpd) from 2013 and onwards, the ore reserves at the Shizishan Mine are estimated to support approximately 12.5 years of mine operation.

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The following table, which is based on Table 2.4-1 in the Competent Person's Report, provides information on the lead-zinc-silver polymetallic resources and the average grade of lead, zinc and silver at the Shizishan Mine as of October 25, 2011:

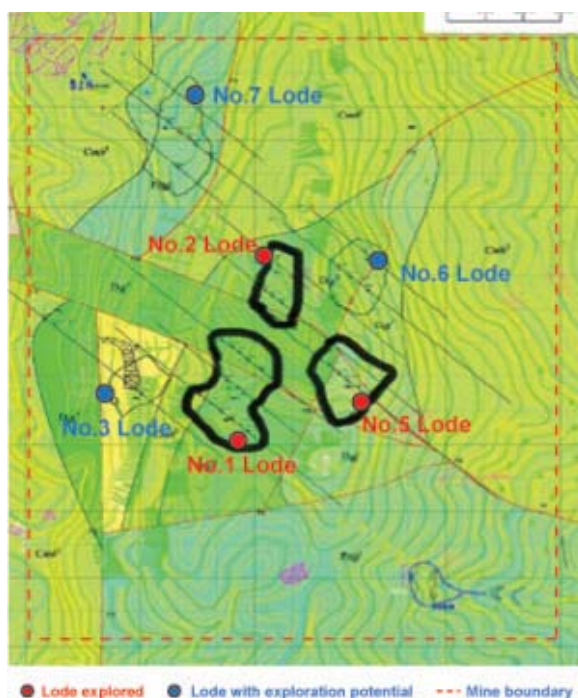
<u>JORC Classification</u>	<u>Quantity(t)</u>	<u>Pb (%)</u>	<u>Zn (%)</u>	<u>Ag (g/t)</u>	<u>Pb metal (t)</u>	<u>Zn metal (t)</u>	<u>Ag metal (t)</u>
Measured . . . . .	2,431,000	10.9	6.6	271	263,800	160,000	700
Indicated . . . . .	6,398,000	9.0	5.9	250	575,200	378,500	1,600
Inferred . . . . .	516,000	7.7	4.8	247	39,600	24,500	100
<b>Total . . . . .</b>	<b><u>9,345,000</u></b>	<b><u>9.4</u></b>	<b><u>6.0</u></b>	<b><u>256</u></b>	<b><u>878,500</u></b>	<b><u>563,000</u></b>	<b><u>2,400</u></b>

*Note:* The above indicated and inferred resource data for the Shizishan Mine includes a total of 108,800 tonnes of indicated and inferred mineral resources containing 4.7% of lead, 4.4% of zinc and 171 g/t of silver that are below the 1,000 m elevation limit of our current mining permit.

The following table, which is based on Table 2.5-1 in the Competent Person's Report, provides information on the lead-zinc-silver polymetallic reserves and the average grade of lead, zinc and silver at the Shizishan Mine as of October 25, 2011:

<u>JORC Ore Reserve Classification</u>	<u>Quantity(t)</u>	<u>Pb (%)</u>	<u>Zn (%)</u>	<u>Ag (g/t)</u>	<u>Pb metal (t)</u>	<u>Zn metal (t)</u>	<u>Ag metal (t)</u>
Proved . . . . .	2,311,000	10.0	6.1	251	231,400	140,400	600
Probable . . . . .	5,713,000	9.0	5.9	250	514,500	336,900	1,400
<b>Total . . . . .</b>	<b><u>8,024,000</u></b>	<b><u>9.3</u></b>	<b><u>6.0</u></b>	<b><u>250</u></b>	<b><u>745,900</u></b>	<b><u>477,300</u></b>	<b><u>2,000</u></b>

According to the Shizishan Detailed Exploration Report, six lead-zinc-silver polymetallic lodes have been discovered in the permitted mining area of the Shizishan Mine. For details of the outline of the permitted mining area of the Shizishan Mine and the locations of the six lodes, see the map below:



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According to the Shizishan Detailed Exploration Report, three of these six lodes (being lodes No. 1, No. 2 and No. 5) contain approximately 89% of the total resources at the Shizishan Mine. We have focused our exploration activities on these three lodes, and the Competent Person estimates that these three lodes contain abundant and high-grade lead, zinc and silver resources and reserves. See “— The Shizishan Mine has abundant and high-grade polymetallic resources and reserves.” As a result, we believe that, with further exploration at the Shizishan Mine (especially for the remaining three lodes identified in the Shizishan Detailed Exploration Report), there is significant potential to define more lead, zinc and silver resources within our permitted mining area. In addition, according to the Competent Person’s Report, mineralization within the Shizishan Mine is open along the strike at both the north and south ends of the current drilling limits. By the date of the Competent Person’s Report, only a small portion of the permitted mining area of the Shizishan Mine had been drilled and four main lodes (one of which is beyond the elevation limit of our current mining permit) have been successfully identified as a result of the drillings. Based on these, the Competent Person confirms that there is excellent potential to expand the currently defined resources at the Shizishan Mine with further drilling within the remainder of the permitted mining area.

As of the Latest Practicable Date, no material changes have occurred in the resources and reserves of the Shizishan Mine since the date of the Competent Person’s Report included in Appendix V to this Prospectus.

### *Dazhupeng Mine*

Dazhupeng Mine is also located in the Yingjiang County of Yunnan Province and is approximately 20 km away from the Shizishan Mine. We obtained an exploration permit for the Dazhupeng Mine which is valid for three years from April 2011 to April 2014 and covers an area of 15.19 sq. km. According to the Dazhupeng Preliminary Survey, the Dazhupeng Mine is a lead-zinc-silver polymetallic mine and has significant exploration potential for identifying lead, zinc, gold and silver resources. The Dazhupeng Preliminary Survey does not contain estimated resources and reserves amounts. Pursuant to the relevant PRC laws and regulations and as advised by our PRC legal advisor, we have a right of priority in the obtaining of the mining permit for the mining areas covered by the exploration permit of the Dazhupeng Mine and there will not be any material legal impediment for us to obtain the mining permit if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all competent authorities.

We are currently conducting exploration activities at the Dazhupeng Mine and expect to complete such activities in the second quarter of 2012. We did not conduct any exploration activities at the Dazhupeng Mine before we obtained its exploration permit in April 2011. Upon completion of the exploration activities at the Dazhupeng Mine and if we consider it beneficial to do so, we plan to apply to the PRC governmental authorities for the relevant mining permit. If we were to apply for the related mining permit and decide to develop the Dazhupeng Mine, we plan to commence the construction of the Dazhupeng Mine and its related processing facility in the second quarter of 2013 and begin its trial production in the second quarter of 2014. We will prepare a competent person’s report for the Dazhupeng Mine and make an announcement on the resources and reserves identified once the exploration and feasibility studies are completed at the Dazhupeng Mine.

On a preliminary basis, we estimate that we may spend a total of RMB225.1 million for the development of the Dazhupeng Mine. We incurred RMB3.2 million of capital expenditure primarily in connection with obtaining the exploration right as of October 31, 2011. Such capital expenditure were financed by shareholder’s loan from the Controlling Shareholders, proceeds received from the

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pre-IPO Exchangeable Bonds financing and bank borrowings. We also anticipate to spend an additional RMB221.9 million of capital expenditure in connection with our exploration and ramp-up plan for the Dazhupeng Mine. We plan to fund such capital expenditure through net proceeds from the Global Offering, proceeds from the pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

### LUSHAN MINE AND EXCLUSIVE ORE SUPPLY AGREEMENT

#### *Lushan Mine*

The Lushan Mine is a tungsten-tin polymetallic mine. Xiangcaopo Mining, an Independent Third Party, obtained a three-year exploration permit on January 1, 2010 to conduct exploration activities at the Lushan Mine. The Lushan Mine is located in Yingjiang County of Yunnan Province and is only approximately 30 km away from the Shizishan Mine. The exploration area designated in the exploration permit of the Lushan Mine covers an aggregate area of approximately 81.55 sq. km. Xiangcaopo Mining expects to complete its first phase exploration activities at the Lushan Mine in the first quarter of 2012. It will continue to conduct exploration activities for the remaining areas of the Lushan Mine covered by its exploration right certificate in 2012. It expects to commence its polymetallic raw ore supply to us from the third quarter of 2012 and expects to complete the entire exploration activities for the Lushan Mine in the first quarter of 2013.

Xiangcaopo Mining will apply to the PRC governmental authorities for a mining permit upon the completion of exploration activities at the Lushan Mine in 2012. Pursuant to PRC laws and regulations and as advised by our PRC legal advisor, Xiangcaopo Mining has a right of priority in the grant of the relevant mining permit for the areas covered by the exploration permit and there will not be any material legal impediment for it to obtain the mining permit if it meets all relevant conditions and requirements required by relevant PRC laws, regulations and all competent authorities, such as preparing for the mineral resources development and utilizing plan, going through the mineral reserve review and submitting the application and other documents. Xiangcaopo Mining does not anticipate any difficulty in meeting such conditions and requirements. Xiangcaopo Mining may also apply to the PRC governmental authorities for renewal of the existing exploration permit if such exploration permit expires before it completes the entire exploration activities for the Lushan Mine. Pursuant to the relevant PRC laws and regulations and as advised by our PRC legal advisor, there will not be any material legal impediment for it to renew the exploration permit if it meets all relevant conditions and requirements required by relevant PRC laws, regulations and all competent authorities, such as submitting the renewal application, the implementation plan on the mineral resources exploration and other documents.

Under the exclusive supply agreement, Xiangcaopo Mining undertakes to supply us an annual amount of no less than 120 kt, 240 kt, and 330 kt, respectively, in 2012, 2013 and 2014, based on its currently estimated level of ore output. According to the Lushan Preliminary Exploration Report, which focused on an aggregate area of approximately 1.73 sq. km, nine mineral veins of tungsten, two mineral veins of tin and 0.3 sq. km of stream tin have been discovered at the Lushan Mine as of January 1, 2011, and there is significant exploration potential for identifying other metal resources such as bismuth, lead and cadmium. As part of our technical due diligence to verify the exploration potential of the Lushan Mine, we have conducted geological survey and preliminary exploration at the Lushan Mine. To date, a total of 16 channel samples have been collected from the old workings and a total of 37 drill holes for approximately 8,035 m of drilling has been completed. The following

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table shows the sampling results from historical working and the assaying results of the recent drilling:

### Lushan Mine — Sampling Results from Historical Workings (>0.5% WO<sub>3</sub>)

Sample ID	Northing	Easting	Elevation	Vein Width (m)	WO <sub>3</sub> (%)
LD01-H1	2,790,534	33,404,538	2,271	0.45	1.47
LD02-H1	2,790,640	33,404,545	2,323	0.65	0.76
LD02-H3	2,790,654	33,404,548	2,323	0.75	0.54
LD02-H4	2,790,664	33,404,551	2,323	0.40	0.58
LD02-H6	2,790,693	33,404,557	2,323	0.50	0.76
LD09-H1	2,791,282	33,404,851	2,343	0.15	2.65
LD12-H2	2,790,913	33,404,738	2,328	0.10	0.68
LD16-H1	2,790,496	33,404,286	2,213	0.25	3.32

### Lushan Mine — Drilling Assaying Results (20.5% WO<sub>3</sub>)

Hole ID	Depth From (m)	Depth To (m)	Down hole Length (m)	WO <sub>3</sub> (%)
ZK1001-1	20.7	23.1	2.4	0.85
ZK1001-1	44.1	44.4	0.3	0.70
ZK1001-1	45.6	45.9	1.3	0.54
ZK1101-1	100.6	101.1	0.5	0.90
ZK1101-1	139.9	140.1	0.2	0.63
ZK1201-2	213.3	216.4	3.2	0.64
ZK1202-1	84	85.1	1.1	0.50
ZK1202-2	119.1	119.4	0.3	0.50
ZK1302	122.5	123.45	0.95	1.34
ZK1301	101.15	101.35	0.2	1.84
ZK1303	40.8	43.0	2.2	0.56
ZK1303	132.4	133.4	1.0	0.79
ZK1304-1	73.5	74.2	0.7	0.65
ZK1304-1	142.7	143.7	1.0	0.67
ZK1401-1	73.2	73.9	0.7	0.43
ZK1401-1	108.3	110.6	2.3	0.54
ZK1401-1	175.6	176.3	0.7	0.60
ZK1401-1	187.6	188.2	0.7	0.91
ZK1401-2	11.8	14.8	3.0	0.84
ZK1401-3	29	33.5	4.5	2.98
		including		
ZK1401-3	29.7	30.7	1.0	4.79
ZK1401-3	31.7	32.7	1.0	7.30
ZK1401-3	66	66.6	0.6	0.60
ZK1401-3	68.8	70.8	2.0	0.75
ZK1501	36.5	37.1	0.6	0.74
ZK1601-1	27	28.0	1.1	0.60
ZK1601-1	51.2	52.0	0.8	0.70
ZK1601-1	145	145.7	1.0	0.70
ZK1601-2	53.3	65.8	0.7	0.90
ZK1601-2	65.1	65.8	0.8	1.10
ZK1601-2	83.2	85.4	2.2	0.93
ZK1601-3	32.8	35.0	2.2	0.75
ZK1601-3	53.9	54.9	1.0	0.90
ZK1601-3	125.1	126.3	1.2	0.96
ZK1601-3	136.3	137.3	1.0	0.50

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As part of our technical due diligence, we engaged Minarco to conduct an independent technical review on the exploration results of the Lushan Mine and issue the Lushan Geological Report. According to the Lushan Geological Report, the results of the drill holes, geological logging and underground sampling of the Lushan Mine have been highly encouraging to date, and clearly highlight the exploration potential within the exploration permit. Although the data to date is yet to meet the recommendations of the JORC Code for drilling and sampling methodology, with successful completion of the exploration, it is highly likely a significant mineral resource will be defined within the exploration limits of the Lushan Mine. The drilling and sampling will also likely result in further identification of mineralization along strike of the known mineralization.

We believe that, with further exploration at the Lushan Mine (especially for the remaining area of approximately 80.15 sq. km), there is significant potential to define more polymetallic resources within the scope of the Lushan Mine's exploration permit.

### *Exclusive Ore Supply Agreement*

We currently do not hold any equity interests in the Lushan Mine. In line with our vision to be a leading non-ferrous metal pure mining company in China and in order to leverage on our transferable experience and skills of processing lead-zinc-silver ore, we entered into an exclusive ore supply agreement on December 31, 2010 (as amended) with Xiangcaopo Mining and Li Jincheng. Pursuant to such exclusive ore supply agreement, Xiangcaopo Mining agreed to supply all its polymetallic tungsten-tin raw ore mined from the Lushan Mine to us on an exclusive basis. Unless we request for an earlier termination, the exclusive ore supply agreement will expire upon the later of (a) the 15th anniversary of the effective date of the agreement or (b) the expiration of Lushan Mine's exploration permit and mining permit (which may be renewed upon expiration). In addition, we have the sole discretion to extend the term of the exclusive ore supply agreement, if we so request, before the expiration of its term. We believe that our exclusive supply agreement with the Lushan Mine offers us a stable long-term supply of raw polymetallic ore. The prefixed pricing of such exclusive tungsten-tin raw ore supply also enables us to capitalize on any potential increase in the market price of tungsten and tin.

Pursuant to the exclusive ore supply agreement, Xiangcaopo Mining agrees to supply all its raw ore to us in accordance with purchase orders to be issued by us from time to time. Xiangcaopo Mining to supply us an annual amount of at least 120 kt, 240 kt and 330 kt of tungsten-tin raw ore with an average grade of no less than 0.6% for tungsten and an average grade of no less than 0.4% for tin in 2012, 2013 and 2014. The purchase price during the first five years for tungsten-tin raw ore is RMB260/t. Such prefixed price was determined based on arms-length negotiations among the parties after taking into account the prevailing market price of tungsten concentrate which is usually 65% grade and tin concentrate which is usually 45%-55% grade according to the Hatch Report and the estimated normal costs for processing tungsten-tin raw ore with 0.6% tungsten grade and 0.4% tin grade, according to the minimum grade undertaken in the Lushan Mine exclusive supply agreement, into concentrate. As of December 2010, when the raw ore supply agreement was executed, the prevailing market price of tungsten concentrate and tin concentrate was RMB108,500/t and RMB80,582/t (calculated based on tin metal price of RMB161,163/t and concentrate grade of 50%), respectively. After the end of the fifth year, we will negotiate with Xiangcaopo Mining for a new purchase price taking into account the impact of inflation.

Pursuant to the exclusive ore supply agreement, we made a prepayment of RMB18 million in December 2010 to Xiangcaopo Mining for the purchase of the raw ore and agreed to pay any remaining purchase price within 10 days upon receipt of the raw ore. The prepayment amount



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represented approximately 49% of the purchase price for the total raw ore to be supplied by Xiangcaopo Mining by the end of 2012 pursuant to the delivery schedule under the exclusive ore supply agreement. We may adjust the order amount or delivery schedule for the raw ore procured from Xiangcaopo Mining and purchase ore for tungsten, tin or any another minerals from any other third parties at our sole discretion. Given the long-term nature of our exclusive raw ore supply arrangement with Xiangcaopo Mining and to support the exploration and development of the Lushan Mine, and secure from it raw ore supply in a timely manner, we agreed, pursuant to a loan agreement (as amended) entered into between Li Jincheng and us, to provide up to a total amount of RMB80.0 million interest-free loans to Li Jincheng. Pursuant to the aforementioned arrangement, as of October 31, 2011, we had provided interest-free loans of RMB72.6 million to Li Jincheng. As of October 31, 2011, the total prepayment, interest-free loans and other receivables we made to the Xiangcaopo Mining and Li Jincheng was RMB90.6 million. We have conducted the necessary due diligence and market analysis before entering into the exclusive raw ore supply arrangement and interest-free loan arrangement with Xiangcaopo Mining. Based on our knowledge and discussions with other industry players, technical experts and private tungsten-tin mine owners in Yunnan Province, we believe such prepayment and interest-free loan arrangement under the exclusive raw ore supply agreement are on normal commercial terms and consistent with industry norm. As advised by our PRC legal advisor, the provision of such loan by us to Li Jincheng does not violate the PRC laws and regulations, including the General Lending Provisions (“*貸款通則*”) as the provision of the loans among companies are prohibited under the PRC laws and regulations, since Li Jincheng is an individual, the provision of the interest-free loan by the Company to Li Jincheng is not prohibited under the PRC laws and regulations. We may elect to provide additional financing and technical support to the exploration and mining activities of the Lushan Mine. For risks relating to our exclusive ore supply arrangement with Xiangcaopo Mining and the prepayment, interest-free loans and other receivables made by us to Xiangcaopo Mining and Li Jincheng, please see “Risk Factors — Risks Relating to Our Business and Industry — Our business, financial condition and results of operations may be adversely affected if Xiangcaopo Mining fails or refuses to perform the agreed upon transaction with us or if our exclusive supply agreement with Xiangcaopo Mining fails to yield anticipated benefits.”

Xiangcaopo Mining also undertakes to us in the exclusive supply agreement, among others, that (i) it will not supply raw ore for tungsten, tin or any another minerals that may be mined from the Lushan Mine to any other parties without our prior consent; (ii) it will unconditionally make adjustments and bear any losses arising therefrom to accommodate any order amount or delivery schedule adjustments made by us; (iii) upon our request, it will enter into similar exclusive supply agreements with us for any other minerals that may be extracted from the Lushan Mine in the future; (iv) it will not sell, transfer, pledge or dispose of its assets, business or interests of the Lushan Mine, without our prior consent, and we have a preemptive right to purchase such assets, business or interest; (v) it will not enter into any contract with contract price of RMB1.0 million or more which is not in the ordinary course of business without our prior consent, (vi) it will pledge its exploration permit (or mining permit after it obtains in the future) for the Lushan Mine to us to secure the performance of its obligations under the exclusive supply agreement and (vii) the tungsten and tin resources that are category 332 and above are no less than 100 kt (in terms of metal contained).

In connection with the exclusive supply agreement, Li Jincheng pledged 100% of his equity interests in Xiangcaopo Mining to us in May 2011. Li Jincheng also entered into a guarantee agreement with us on July 7, 2011. Pursuant to such guarantee agreement, Li Jincheng agrees to guarantee Xiangcaopo Mining’s performance of its duties under the exclusive ore supply agreement, including Xiangcaopo Mining’s refund of any prepayment amount advanced by us if Xiangcaopo Mining defaults in its raw ore supply to us. Based on the exploration potential of the Lushan Mine indicated in the Lushan Geological Report and the tungsten and tin resources amount of not less than

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100 kt (in terms of metal contained) contained in the Lushan Mine that Xiangcaopo Mining undertakes to us in the exclusive supply agreement, with reference to the prevailing market price of tungsten concentrate and tin concentrate of approximately RMB140,400 and RMB91,584/tonne (calculated based on tin metal price of RMB183,167 and concentrate grade of 50%), respectively, in October 2011, we believe the estimated value of pledged equity interests in Xiangcaopo Mining exceeds the total sum of RMB90.6 million of prepayment, interest-free loans and other receivables made by us to Xiangcaopo Mining and Li Jincheng as of October 31, 2011.

### *Gravity-selection Processing Line*

In line with our vision to be a leading non-ferrous metal pure mining company in China and in order to leverage on our transferable experience and skills of processing lead-zinc-silver ore, we plan to construct a new gravity-selection processing line at the Shizishan Mine ore processing plant to process the tungsten-tin raw ore supply from the Lushan Mine. Such processing line is separate from our lead-zinc-silver ore processing facility at the Shizishan Mine ore processing plant and utilizes the crushing equipment, storage facilities, land, buildings and other supporting facilities of the Shizishan lead-zinc-silver ore processing facility. We expect to commence the construction of the gravity-selection processing line in the first quarter of 2012. The gravity-selection processing line is expected to commence commercial production in the third quarter of 2012. We expect to spend a total of RMB41.0 million for the construction of this gravity-selection processing line.

## OUR AGREEMENT AND OPTION TO ACQUIRE ADDITIONAL MINE ASSETS

### *Liziping Mine*

We entered into a share transfer agreement on June 9, 2011 (as amended) with Song Denghong (an Independent Third Party), the owner of the Liziping Company which owns the exploration right to the Liziping Mine, a lead-zinc-silver polymetallic mine located approximately 700 km away from the Shizishan Mine in Yunnan Province. Liziping Mine's exploration permit covers an area of 18.29 sq.km. and has a validity term from December 29, 2010 to December 29, 2012. Pursuant to such agreement, we conditionally agreed to purchase 90% equity interests in the Liziping Company from Song Denghong. As of the date of this Prospectus, the acquisition of the Liziping Mine have not been completed, and we currently expect to complete such acquisition in May 2012 upon fulfillment of the relevant conditions. The consideration payable for the 90% equity interests of the Liziping Company will be determined based on the estimated amount of lead and zinc resources of the Liziping Mine, and will in any event be no less than RMB216 million and no more than RMB756 million. Such price range was determined based on arms-length negotiations between the parties by reference to both parties' estimation of Liziping Mine's potential resources and a unit price range of RMB400 to RMB560 per ton of lead and zinc metal. The unit price range was determined as a result of arms-length business negotiation between Song Denghong and us after taking into account the outcome of our internal assessment procedure (including the estimated return on investment) for the Liziping Mine and was not referenced to any specific prevailing market price or benchmark. According to the share transfer agreement, an Independent Third Party exploration entity should be engaged to issue an exploration report, and a professional resources appraisal entity to be jointly designated by Song Denghong and us will review such exploration report. The amount of lead and zinc resources stated in the final reviewed exploration report will be used to determine the final consideration for the 90% equity interests of the Liziping Company.

Under the share transfer agreement, Song Denghong undertakes to us that the lead and zinc resources of the Liziping Mine are not less than 1,000 kt in terms of metal contained. According to

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the Competent Person's Report, the Competent Person considers the likelihood of the definition of resources in the area of the Liziping Mine that will be drilled to be high and the mineralization tenor and geometry observed likely to be continuous. The Competent Person also considers the potential identification of the mineralized structures at depth to be encouraging for future exploration and the likelihood for discovery of significant mineralization at depth to be likely.

In order to secure the performance of the share purchase agreement, Song Denghong pledged his entire interest in the Liziping Company to us. We had paid RMB100.0 million as of October 31, 2011 primarily in connection with the deposit of partial purchase price to acquire the Liziping Mine and will make a further deposit of RMB20 million by the end of 2011. The remainder of the total consideration will be paid within five business days upon both parties' determination of the total consideration amount based on the final reviewed exploration report. Based on the exploration potential of the Liziping Mine indicated in the Competent Person's Report and the lead and zinc resources of not less than 1,000 kt (in terms of metals contained) contained in the Liziping Mine that the Liziping Company undertakes to us in the share transfer agreement, with reference to the market price of lead and zinc of approximately RMB14,938 and RMB16,219, respectively, in October 2011, we believe that the estimated value of pledged equity interests in the Liziping Company exceeds RMB100.0 million of the total sum of deposit made by us for the acquisition of the Liziping Mine as of October 31, 2011.

Pursuant to the share transfer agreement, if (i) the lead and zinc resources of the Liziping Mine are less than 300 kt (in terms of metal contained) according to the final reviewed exploration report or (ii) we are not satisfied with the results of our legal due diligence or audit on the Liziping Company and/or the Liziping Mine, we have the right to unilaterally terminate the share purchase agreement and Song Denghong shall refund all the deposit and payments made and all the exploration expenses incurred by us.

Pursuant to the share transfer agreement, Liziping Company engaged Regional Geological Survey Team, Sichuan Bureau of Geological Exploration and Exploration of Mineral Resources (四川省地質礦產勘查開發局川西北地質隊), an Independent Third Party exploration entity, to conduct exploration activities at the Liziping Mine in July 2011. Upon completion of the portion of the exploration activities at the Liziping Mine agreed to between the parties when the final reviewed exploration report for the purpose of acquisition can be prepared, if the lead and zinc resources are no less than 300kt (in terms of metal contained) according to the final reviewed exploration report and other conditions set forth in the share transfer agreement are satisfied, we will complete the acquisition and apply to the PRC governmental authorities for the relevant mining permit for the Liziping Mine. Such acquisition is currently expected to be completed in May 2012. The remaining exploration activities are currently expected to be completed in the third quarter of 2012. If we were to complete the acquisition of the Liziping Mine, we plan to commence the construction of the Liziping Mine and its related processing facility in the second quarter of 2013 and begin its trial production in the fourth quarter of 2013.

We currently expect to spend a total of RMB900.0 million for the acquisition and development of the Liziping Mine. We had paid RMB100.0 million primarily in connection with the deposit of partial purchase price to acquire the Liziping Mine as of October 31, 2011. Such deposit was financed by shareholder's loan from the Controlling Shareholders, proceeds received from the pre-IPO Exchangeable Bonds financing and bank borrowings. We expect to spend an additional RMB790.3 million in connection with our acquisition, exploration and development plan for the Liziping Mine. We plan to fund the capital expenditure for the development of the Liziping Mine and its related mining and processing capacity through proceeds from the Global Offering, proceeds from the pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

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Given that the Liziping Mine is only at the preliminary exploration stage and we have not yet completed our acquisition of the Liziping Mine, our development and capital expenditure plan for the Liziping Mine is only a preliminary plan based on our current estimation of the exploration potential at the Liziping Mine, and may be substantially adjusted after the exploration activities at the Liziping Mine is completed in the third quarter of 2012. Such plan is subject to the final reviewed exploration report and conclusions from the Liziping Mine's feasibility study, and is further subject to the satisfaction of all the conditions to close the acquisition as stipulated in the share transfer agreement. The transaction under the share transfer agreement will only be completed subject to satisfactory result of due diligence and exploration activities. The final consideration has not yet been fixed and may vary between RMB216 million and RMB756 million depending on the amount of resources. We will prepare and issue to shareholders a competent person's report on the resources information of the Liziping Mine upon completion of the acquisition of, and exploration at, the Liziping Mine. We will comply with all requirements under the Listing Rules (including Chapter 14) for the completion of the acquisition of the Liziping Mine.

### *Dakuangshan Mine*

We entered into an option agreement on May 21, 2011 (as amended) with Xi Wanli (an Independent Third Party), a shareholder of the Dakuangshan Company which owns the mining right to the Dakuangshan Mine. Such option agreement allows us to purchase 90% equity interests in the Dakuangshan Company from Xi Wanli at our sole discretion, within a period of 18 months starting from May 2011. This option agreement provides us with an important opportunity to quickly expand our polymetallic resources in the future.

The Dakuangshan Mine is located approximately 100 km from the Shizishan Mine. The mining permit for the Dakuangshan Mine covers an area of 1.56 sq. km. Such mining permit is currently in the process of being renewed. The Dakuangshan Company has been conducting small-scale mining operation since 2001 when it obtained the initial mining permit for the Dakuangshan Mine for an initial term of four years, and has a current mining capacity of approximately 500 tpd and processing capacity of approximately 100 tpd. It later successfully renewed such mining permit in 2007 for a term of four years. As advised by our PRC legal advisor, there will not be any material legal impediment to renew the mining permit if the Dakuangshan Company meets all relevant conditions and requirements required by relevant PRC laws, regulations and all the competent authorities, such as proof of residual resources at the Dakuangshan Mine, and submission of illustration of mine development status and other required documents.

We have engaged an Independent Third Party exploration company to conduct exploration of the Dakuangshan Mine before we decide to exercise the option. The resources estimate of such Independent Third Party exploration company will be used to determine the consideration for the acquisition of the Dakuangshan Mine. The consideration for the 90% equity interests in the Dakuangshan Company will be determined based on the lead and zinc metals contained in the estimated resources of the Dakuangshan Mine that are category 332 and above at a price not less than RMB500/t and not more than RMB700/t and will not exceed RMB145.0 million. Such purchase price was determined as a result of arms-length negotiation between Xi Wanli and us after taking into account the outcome of our internal assessment procedure (including the estimated return on investment) for the Dakuangshan Mine.

Xi Wanli has made certain undertakings, warranties and covenants to us, including but not limited to: (i) with respect to metals contained, the estimated aggregate resources for lead and zinc of the Dakuangshan Mine are no less than 400 kt, and the grades for lead, zinc and silver of the Dakuangshan Mine are no less than 3%, 7% and 50 g/t, respectively; (ii) the Dakuangshan Company is the legitimate holder of a valid mining permit for the Dakuangshan Mine, and the mining right is

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free and clear from any encumbrance or third-party claims; (iii) within the option period, he will not enter into any agreement to transfer his equity interest in the Dakuangshan Company or the mining permit for the Dakuangshan Mine to any third party, or initiate any negotiation, consultation, or discussion in connection with such transfer with any third party; and (iv) if he proposes to transfer the 90% equity interests in the Dakuangshan Company to any third party after the expiration of the option period, we have a right of first refusal with respect to the proposed transfer on the same terms and conditions. As advised by our PRC legal advisor, the terms of this option agreement are legal, valid and enforceable in accordance with the relevant PRC laws and regulations.

Xi Wanli pledged 50% of his equity interests in the Dakuangshan Company that owns the Dakuangshan Mine to us on July 29, 2011 to secure the performance of the option agreement. We did not pay any consideration for the option. We made a fully refundable good-faith deposit of RMB40.0 million to the Dakuangshan Company as of October 31, 2011. Pursuant to the option agreement, if the option is not exercised, such good-faith deposit shall be refunded to us in full. Based on the lead and zinc resources of not less than 400 kt (in terms of metals contained) contained in the Dakuangshan Mine that the Dakuangshan Company undertakes to us in the option agreement, with reference to the market price of lead and zinc of approximately RMB14,938 and RMB16,219, respectively, in October 2011, we believe that the estimated value of pledged equity interests in the Dakuangshan Company exceeds RMB40.0 million of the total sum of good-faith deposit made by us as of October 31, 2011.

We commenced exploration activities at the Dakuangshan Mine in September 2011, which are expected to be completed in the first quarter of 2012. We undertake such exploration activities as part of our due diligence for the purpose of determining whether we will exercise our option to acquire the Dakuangshan Mine under the option agreement. Upon completion of the exploration activities at the Dakuangshan Mine, if we are satisfied with the amount of resources in the Dakuangshan Mine and the other conditions set forth in the option agreement are met, we may elect at our discretion to exercise the option to acquire the Dakuangshan Mine. The Dakuangshan Mine has a current mining capacity of approximately 500 tpd and a current processing capacity of approximately 100 tpd. If we were to elect to exercise the option, we plan to renovate and upgrade the existing mining and processing facilities of the Dakuangshan Mine to increase its processing capacity.

Based on preliminary estimates, if we were to elect to exercise the option, we expect to spend a total of RMB241.0 million for the acquisition and development of the Dakuangshan Mine. We incurred RMB12.6 million of capital expenditure relating to the Dakuangshan Mine and made a good-faith deposit of RMB40.0 million as of October 31, 2011. Such capital expenditure and good-faith deposit were financed by shareholder's loan from the Controlling Shareholders, proceeds received from the pre-IPO Exchangeable Bonds financing and bank borrowings. We expect to spend an additional RMB188.4 million in connection with our acquisition, exploration and development plan for the Dakuangshan Mine, if we decide to exercise such option. We plan to fund the capital expenditure for the possible acquisition and ramp-up of the mining and processing capacity of the Dakuangshan Mine through proceeds from the Global Offering, proceeds from the pre-IPO Exchangeable Bonds financing, bank borrowings and our operating cash inflow.

Given that we have not exercised our option to acquire the Dakuangshan Mine, the foregoing development and capital expenditure plan for the Dakuangshan Mine is only a preliminary plan based on our current estimation of the exploration potential at the Dakuangshan Mine, is subject to our final decision to exercise the option to acquire the Dakuangshan Mine, and may be substantially adjusted after the exploration activities and feasibility study of the Dakuangshan Mine are completed. In addition, if we decide to exercise our option, the terms of purchase would be subject

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to further negotiations with Xi Wanli and such purchase will comply with the applicable requirements of the Listing Rules. In particular, upon completion of the exercise of the option to acquire the Dakuangshan Mine, we will comply with applicable laws and approval requirements stipulated under the Listing Rules at the time of the exercise of the option and the relevant size tests will be applied pursuant to the Listing Rules accordingly. We will prepare and issue to shareholder a competent person's report on the resources information of the Dakuangshan Mine upon completion of the acquisition of, and exploration at, the Dakuangshan Mine. We will also comply with all requirements under the Listing Rules (including Chapter 14) for the exercise of the option.

### MINING RIGHTS, EXPLORATION PERMIT AND PRODUCTION SAFETY PERMIT

Under PRC laws and regulations, mining companies must obtain, among other things, a mining permit and a production safety permit for a mining site prior to commercial production. The production safety permit can be obtained only after the mining permit is granted. Mining companies must also obtain an exploration permit prior to obtaining a mining permit in order to conduct exploration activities to determine if a potential mining area is commercially feasible. For additional information about the related PRC laws and regulations, see the section entitled "PRC Laws and Regulations" in this Prospectus.

We obtained an initial mining permit for the Shizishan Mine in February 2010 and a renewed mining permit in April 2011. We obtained an exploration permit for the Dazhupeng Mine which is valid for three years from April 2011 to April 2014 and covers an area of 15.19 sq. km. The following table summarizes the information related to our mining permit and production safety permit for the Shizishan Mine and our exploration permit for the Dazhupeng Mine:

<u>Name of Mine</u>	<u>Type of Permit</u>	<u>Type of Mine</u>	<u>Mining Method</u>	<u>Production Scale (tpa)</u>	<u>Area (sq. km)</u>	<u>Permit Holder</u>	<u>Validity Period</u>
<b>Shizishan</b>							
<b>Mine . . . .</b>	Mining	lead, zinc, silver	Underground mining	450,000	3.20	Kunrun	From April 6, 2011 to April 5, 2026
	Production safety permit for mining activities	lead, zinc, silver	Underground mining	—	—	Kunrun	From May 10, 2011 to May 10, 2014
	Production safety permit for tailing storage facility	—	—	—	—	Kunrun	From October 14, 2011 to October 14, 2014
<b>Dazhupeng</b>							
<b>Mine . . . .</b>	Exploration	lead, zinc, silver	—	—	15.19	Kunrun	From April 26, 2011 to April 26, 2014

#### *Mining Permit*

In May 2009, we entered into an agreement with Tengchao Mining Factory, an Independent Third Party, to acquire the mining rights for the Shizishan Mine for a total consideration of RMB9.0 million. Such consideration was arrived at after arms-length negotiations between us and Tengchao Mining Factory based on the then estimated lead and zinc metal resources at the Shizishan Mine indicated in a resource report prepared by an Independent Third Party exploration entity in October

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2004 and after taking into account the potential of the Shizishan Mine that may be discovered after further detailed exploration is carried out by us after the acquisition. Both parties decided to use the October 2004 resource report as the basis for determination of the consideration because they considered the report to be reliable at that time. The transfer of the mining rights for the Shizishan Mine was approved by the Yunnan Land and Resources Department in January 2010. We obtained a mining permit under our name for the Shizishan Mine in February 2010 which covers the mining of lead and zinc, has an approved production scale of 300 ktpa and a valid period of 14 months that ended on April 5, 2011 (i.e. the balance valid period of the original mining permit held by Tengchao Mining Factory). Prior to the expiration of the mining permit in April 2011, we successfully renewed our mining permit in March 2011 for a term of 15 years ending in April 2026. The renewed mining permit expands the mineral coverage to the mining of silver and expands the approved production scale of the Shizishan Mine to 450 ktpa. Our renewed mining permit for the Shizishan Mine covers an area of 3.20 sq. km with an elevation limit from 1,000 m to 1,498 m above sea level.

According to the Competent Person's Report, there is a total of 108,800 tonnes of indicated and inferred mineral resources containing 4.67% of lead, 4.43% of zinc and 170.70 g/t of silver below the 1,000 m elevation limit of our current mining permit. We plan to apply for an extension of the elevation limit of our current mining permit of Shizishan Mine from the relevant government authority in order to capture the resources below the 1,000 m elevation limit. Our PRC legal advisor advised us that there will not be any material legal impediment to obtaining such extension from the relevant government authority if we meet all relevant conditions and requirements required by the relevant PRC laws, regulations and all the competent authorities. We also plan to apply for an updated mining permit for the Shizishan Mine to expand the approved production scale of the Shizishan Mine from the currently approved 450 ktpa to 660 ktpa. Our PRC legal advisor advised us that, there will not be any material legal impediment in obtaining an updated mining permit from the relevant government authority if we meet all relevant conditions and requirements, required by relevant PRC laws, regulations and all the competent authorities. Such conditions and requirements include but are not limited to preparing for the mineral resources development and utilizing plan, issuance of required opinions by the environmental protection authorities and safety production authorities and submission of the required application.

In addition, under PRC laws and as advised by our PRC legal advisor, if residual resources remain after the expiration of the mining permit, the holders of such mining permit are entitled to apply for extensions for an additional term. As advised by our PRC legal advisor, as long as the Shizishan Mine has residual resources upon expiration of the mining permit, we are permitted to apply for renewal of our mining permit. We plan to continue to renew our mining permit for the Shizishan Mine. Our PRC legal advisor also advised that there will not be any material legal impediment to renewing our mining permit in the future if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all the competent authorities, such as proof of residual resources, submission of an the application, the illustration of mine development status and other documents. We do not anticipate any difficulty in meeting such conditions and requirements.

In April 2011, we mortgaged our mining right to the Shizishan Mine to Agricultural Bank of China to secure banking facilities amounting to RMB130.0 million, which has been completely drawn down as of September 30, 2011. Such mining right mortgage will be released upon repayment of all borrowings under the banking facilities.

***Exploration Permit***

We won the public bid for the exploration right to the Dazhupeng Mine organized by the Yunnan Land and Resources Department on July 1, 2010. We signed a Mine Exploration Right Grant Agreement with respect to the exploration right for the Dazhupeng Mine with the Yunnan Land and Resources Department on July 12, 2010 and paid the exploration right fee of RMB2.02 million (which was the highest bid price determined through the public bid process) pursuant to the agreement. We consider such bid price to be attractive because (a) the Dazhupeng Mine is adjacent to the Shizishan Mine and has a larger area of 15.19 sq. km, and we believe the Dazhupeng Mine contains sizable polymetallic ore resources; (b) we conducted our own due diligence including assignment of our geological experts to the Dazhupeng Mine prior to the bid who identified signs of polymetallic resources in the area; and (c) the bid price of RMB2.02 million was relatively low, and as a result we considered the potential loss for any failure of the exploration at the Dazhupeng Mine as relatively low. We obtained an exploration permit for the Dazhupeng Mine which is valid for three years from April 2011 to April 2014 and covers an area of 15.19 sq. km.

Upon completion of exploration activities in the Dazhupeng Mine and if we obtain satisfactory exploration results and consider it beneficial to do so, we plan to apply to the PRC governmental authorities for a mining permit for the Dazhupeng Mine. Pursuant to PRC laws and regulations and as advised by our PRC legal advisor, we have a right of priority in the obtaining of the relevant mining permit for the areas covered by the exploration permit and there will not be any material legal impediment for us to obtain the mining permit if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all competent authorities, such as preparing for the mineral resources development and utilizing plan, going through the mineral reserve review and submitting the application and other documents. We do not anticipate any difficulty in meeting such conditions and requirements.

***Production Safety Permits***

As advised by our PRC legal advisor, we have obtained the requisite production safety permit for the Shizishan Mine as required by the applicable PRC laws and regulations. The production safety permit for our mining activities at the Shizishan Mine was issued for our mining operation on May 10, 2011 for a term of three years. The production safety permit for the tailing storage facility at the Shizishan Mine was issued on October 14, 2011 for a term of three years. We plan to renew the production safety permits upon their expiration. Our PRC legal advisor has advised that there will not be any material legal impediment in renewing the production safety permits required for our mine operations at the Shizishan Mine in the future if we meet all relevant conditions and requirements required by relevant PRC laws, regulations and all the competent authorities, such as complying with related safety production requirement for safety related investment, safety qualifications for persons in charge of safety production and submission of the original production safety permit and other documents. We believe there is no difficulty for us to meet these legal conditions and requirements.



### OUR EXISTING OPERATIONS AND FACILITIES

#### *Overview*

We are a pure mining company focusing on operating non-ferrous metal mines and producing and selling concentrate products. We are primarily engaged in the following key activities with respect to our mineral resources:

- *Overall Management* — Although we outsource substantially all of our exploration, mine construction and mining works to third-party contractors, our staff manage and supervise the overall development of our mineral resources and the mineral quality in order to ensure that third-party contractors meet our quality, production safety and environmental protection standards. Our third-party contractors receive payments for performing specific tasks that they undertake and do not have any economic interest in our mineral resources. Please refer to the subsection headed “— Third-Party Contractors” below for more information;
- *Exploration* — Our exploration activities are focused on expanding the exploration and drilling of our existing mines to optimize their output potential and actively seeking new exploration opportunities with high potential. We have a specialized and dedicated exploration team, comprising of experienced geologists and engineers to identify exploration and to assess the prospect, scale, nature and timing of the exploration activities for each specific exploration target. After we identify the exploration opportunities and obtain the requisite exploration rights, we engage a professional third-party exploration company with the requisite experience and qualifications to carry out the actual exploration work. Our exploration team actively supervises and monitors the third-party exploration company to ensure that the exploration work is carried out on time, on budget and to specification;
- *Mining* — We engage third-party contractors to extract ore from our mines and to transport them to our ore processing facility. Please refer to the subsection headed “—Mining” below for more information;
- *Processing* — We process the extracted ore at our ore processing facility to produce saleable mineral concentrates. Please refer to the subsection headed “— Ore Processing” below for more information; and
- *Concentrate sales* — We mainly sell our concentrate products to customers in the Yunnan Province and other surrounding areas in China. Please refer to the subsection headed “— Sale and Customers” below for more information.

#### *Mining*

The Shizishan Mine is an underground operation. Our mining process consists of planning and development of stopes, construction of adits and panel ramps to create access to the lodes, division of the lodes into minable divisions, extraction of the ore mine and transportation of the raw ore to the processing facility. We use a cut-and-fill stoping mining method at the Shizishan Mine, which is a mining method suited for high-value resources where high ore recovery and reduced dilutions are desired. In this method, the lodes are retrieved in horizontal slices from the top downwards and, once a slice is completely mined out, the empty space is backfilled using dewatered tailings mixed with cement and waste rocks to keep the mine walls stable and to serve as the floor for mining the next

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slice. Mining continues until the lodes are depleted. The initial mining at the Shizishan Mine takes place at both the 1,200 m and 1,250 m elevation sections and, as our mining progresses, we plan to extract at both upper and lower elevations to meet the production targets.

The underground mining and transportation systems for the Shizishan Mine mainly consist of adits, panel ramps, ventilation rises and ore passes. The ore slices and waste rocks are transported through adits and panel ramps. The opening for panel ramps is set at the 1,220 m elevation on the north side of the Shizishan Mine. Every adit between the altitudes of 1,200 m to 1,250 m also has adit opening connecting to panel ramps that connect to the mine surface. Miners, materials and rail-less equipment have access to production sections via adit openings located between the 1,200 m and 1,250 m elevation. All the stopes within the mine body are linked through the adits and panel ramps. The ore slices are drilled by miners using a jumbo and then blasted by charging the drill holes with explosives. After the ore slice is extracted, it is then loaded into a 15-ton mine car and transported out of the mine to our ore processing facility via the panel ramp that are connected to the mine surface, while waste rocks are transported to the waste rocks storage area.

We outsource all of the mining work of the Shizishan Mine to third-party contractors. The mining work at the Shizishan Mine is conducted by two Independent Third Party mining contractors in China, who are engaged to extract ore, haul the extracted ore to the processing facility, and move the waste rock from our mining activities to the waste rocks storage area. The contractors are under the supervision and management of our onsite engineers. The contractors are required to carry out work according to the project design and production plan and in accordance with the applicable safety and environmental protection requirements under the PRC laws and regulations. See “— Third-Party Contractors.”

### *Ore Processing*

We have one ore processing facility located approximately 200 m westward of the Shizishan Mine’s panel ramp exit at the 1,220 m elevation. The construction of the processing facility was completed at the end of July 2011 when it attained a full planned processing capacity of 2,000 tpd. During the initial three months, our processing facility underwent a stage of plant and equipment tuning and optimization before achieving its optimal processing capabilities.

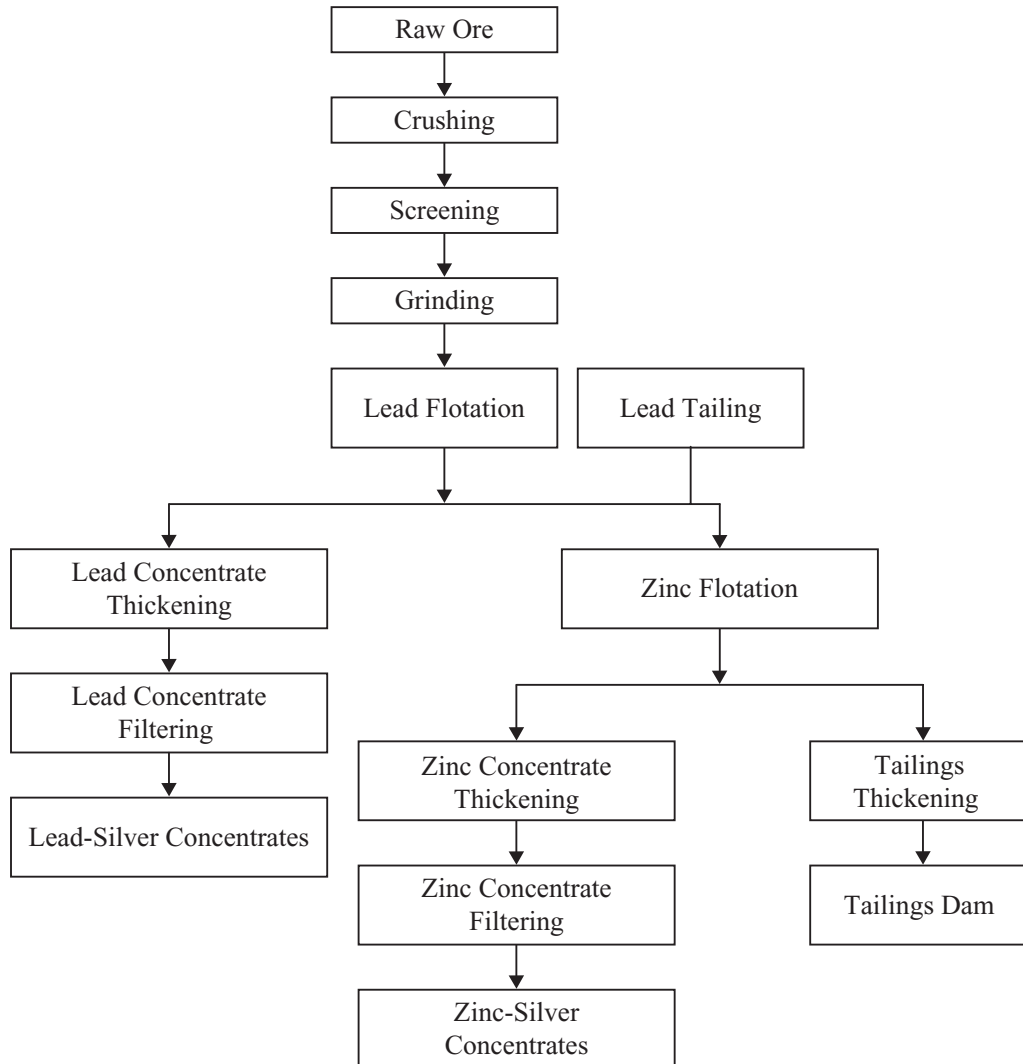
According to the Competent Person’s Report, the average recovery rate at our ore processing facility for lead, zinc, silver in lead-silver concentrate and silver in zinc-silver concentrate is expected to be approximately 93.0%, 89.0%, 89.0% and 7.4%, respectively, from 2012 onwards. Silver at the Shizishan Mine is contained in both silver-bearing lead and zinc ores. As a result, the overall recovery rate for silver at the Shizishan Mine is 96.4%, being the sum of the recovery rates for silver in lead-silver concentrate (89.0%) and in zinc-silver concentrate (7.4%).

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We use the flotation method for ore processing for the Shizishan Mine, which is a conventional method to separate lead and zinc concentrates from the lead-zinc ore. We produce lead-silver and zinc-silver concentrates through a relatively simple, low-cost and environmentally safe process as illustrated by the following chart.



The main phases of our processing operations are described as follows:

- *Crushing.* After extraction, raw ore with a size of less than 500 mm is crushed in a three-stage crushing process into ore particles with a fineness of less than 12 mm.
- *Screening.* The crushed ore particles are then screened on an elliptical vibrational screen with 12 mm apertures. The oversized particles with 12 mm apertures or more from the screening process are sent back to the crushing machines for further crushing. The undersized particles with 12 mm apertures or less from the screening process are sent to a fine ore storage bin.
- *Grinding.* The crushed ore particles recovered from the storage bin are ground using two parallel ball mills, which work in a closed circuit with two sets of hydrocyclones. The hydrocyclone overflow generated from the grinding process is sent to flotation while the hydrocyclone underflow is returned to the ball mills for further grinding.

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- *Lead flotation.* After conditioning with conventional reagents, the hydrocyclone overflow is sent to a stirring tank where it is stirred twice. It then enters the lead flotation circuit where lead minerals containing silver are separated from the gangue and zinc minerals. The lead flotation circuit is conventional, consisting of a rougher stage and two scavengers stages with the rougher concentrate upgraded in three stages of cleaning. During the lead flotation stage, zinc sulphate and sodium sulphite are added to inhibit the flotation of any activated zinc minerals. Lead-silver concentrate is extracted from the lead flotation circuit. The tailings generated from the scavenger stage of the lead flotation process is then dewatered in a thickener, where most of the reagents are removed prior to zinc flotation.
- *Zinc flotation.* The zinc flotation circuit is the same as the lead flotation circuit; however, copper sulphate is added to activate zinc minerals for flotation. Zinc-silver concentrate is extracted from the zinc flotation circuit.
- *Concentrates dehydration.* The lead-silver and zinc-silver concentrates are dewatered in dedicated dewatering circuits, consisting of two thickeners followed by two ceramic disc filters, to produce final marketable lead-silver and zinc-silver concentrate products. The dewatered lead-silver and zinc-silver concentrates are sent to our concentrate storage facility for storage.
- *Tailings.* The zinc tailings generated from the zinc flotation process are dewatered in a 40 m diameter thickener before flowing to the tailing dam for storage or the mining areas for stope backfills.

### ***Tailing storage facility***

Our tailing storage facility is located adjacent to our Shizishan lead-zinc-silver ore processing facility with a transportation distance of approximately 500 m. Our tailing storage facility includes a tailing dam, tailing storage area, water drainage system and tailing flow transportation system. We strive to implement environmentally responsible processes at our facilities to recycle and reuse the water from the tailings pond. Our tailing storage facility achieved an initial live capacity of 356.8 thousand m<sup>3</sup> in July 2011. We plan to expand the live capacity of our tailing storage facility to 1,280.0 thousand m<sup>3</sup> by May 2013. We estimate to spend approximately RMB26.4 million in total on the tailing storage facility. Tailings from the Shizishan lead-zinc-silver ore processing facility and the gravity-selection processing line that is used to process tungsten-tin raw ore sourced from the Lushan Mine both may be stored at such tailing facility.

### ***Products***

The products of the Shizishan Mine include lead-silver concentrate and zinc-silver concentrate. When our concentrates are sold to customers, lead, zinc and silver contained in the concentrates will be analyzed and priced separately. According to the Competent Person's Report, the concentrate grades of lead, zinc, silver in lead-silver concentrate and silver in zinc-silver concentrate are expected to be approximately 55%, 55%, 1,414 g/t and 192 g/t, respectively.

### ***Operating and Production Costs***

The estimated total production cost for the Shizishan Mine includes total cash cost and depreciation and amortization cost. The estimated total cash cost includes total operating cash cost

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and taxes and royalties. The estimated total operating cash cost includes mining cost, processing cost, and general and administration (“G&A”) costs. According to the Competent Person’s Report, the estimated total cash cost and total production cost for the Shizishan Mine will be approximately RMB1,313 (approximately US\$207) and RMB1,511 (approximately US\$238), respectively, per tonne of concentrate in 2013, the first year in which we will operate at our full planned mining and processing capacities. Silver is a byproduct of our processing process due to the polymetallic nature of the lead-zinc ore of the Shizishan Mine. As a result, revenue from silver can be deducted from the estimated total cash cost and production cost for the Shizishan Mine as a byproduct credit, which is consistent with common industry practice to deduct byproduct credit from cash cost and production cost of main stream products. Because of the high degree of silver contained in our concentrate products, both of the estimated total cash cost and total production cost for the Shizishan Mine are negative after deducting revenue from silver which is higher than the estimated total cash cost and total production cost at the Shizishan Mine. After deducting the value of silver contained in our concentrates based on the average spot price of silver for October 2011 on the Shanghai White Platinum & Silver Exchange, which was RMB6.89 per gram, our estimated total cash cost and total production cost will be approximately RMB-3,022 (approximately US\$-475) and RMB-2,825 (approximately US\$-444), respectively, per tonne of concentrate in 2013. This indicates the significant potential for profitability for the Shizishan Mine operations.

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The table below sets forth a summary of the total operating cost and total production cost for the Shizishan Mine for the periods indicated, as set forth on Table 2.8-1 in the Competent Person's Report:

Cost Item	Unit	Aug 2011	Sep 2011	Oct 2011	2011	2012	2013	2014	2015
		(Actual)	(Actual)	(Actual)					
<b>Mining cost</b> . . . .	RMB/t ore mined	<b>62</b>	<b>58</b>	<b>58</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>
Subcontracting fee . . . . .	RMB/t ore mined	<b>62</b>	<b>58</b>	<b>58</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>	<b>62</b>
<b>Processing cost</b> . . . . .	RMB/t ore processed	<b>153</b>	<b>129</b>	<b>146</b>	<b>121</b>	<b>89</b>	<b>82</b>	<b>82</b>	<b>82</b>
Materials cost . . .	RMB/t ore processed	51	53	60	40	38	38	38	38
Labor . . . . .	RMB/t ore processed	49	35	32	41	13	8	8	8
Electricity and Water . . . . .	RMB/t ore processed	39	37	46	23	23	23	23	23
Maintenance and Others . . . . .	RMB/t ore processed	14	4	8	17	15	13	13	13
<b>G&amp;A and Other Costs</b> . . . . .	RMB/t ore processed	<b>84</b>	<b>113</b>	<b>103</b>	<b>270</b>	<b>55</b>	<b>39</b>	<b>40</b>	<b>42</b>
<b>Total Operating Cash Cost*</b> . . .	RMB/t ore processed	<b>299</b>	<b>300</b>	<b>307</b>	<b>453</b>	<b>206</b>	<b>183</b>	<b>184</b>	<b>186</b>
<b>Total Operating Cash Cost*</b> . . .	RMB/t concentrate	<b>2,633</b>	<b>2,366</b>	<b>2,419</b>	<b>2,232</b>	<b>812</b>	<b>722</b>	<b>726</b>	<b>734</b>
Total Taxes and Royalties . . . . .	RMB/t ore processed	55	63	79	176	154	150	150	150
<b>Total Cash Cost<sup>+</sup></b> . . . . .	RMB/t ore processed	<b>354</b>	<b>363</b>	<b>386</b>	<b>629</b>	<b>360</b>	<b>333</b>	<b>334</b>	<b>336</b>
<b>Total Cash Cost<sup>+</sup></b> . . . . .	RMB/t concentrate	<b>3,117</b>	<b>2,863</b>	<b>3,041</b>	<b>3,100</b>	<b>1,420</b>	<b>1,313</b>	<b>1,317</b>	<b>1,325</b>
Total Depreciation and Amortization . .	RMB/t ore processed	38	28	123	110	52	50	50	50
<b>Total Production Cost</b> . . . . .	RMB/t ore processed	<b>392</b>	<b>391</b>	<b>509</b>	<b>739</b>	<b>412</b>	<b>383</b>	<b>384</b>	<b>386</b>
<b>Total Production Cost</b> . . . . .	RMB/t concentrate	<b>3,452</b>	<b>3,083</b>	<b>4,010</b>	<b>3,642</b>	<b>1,625</b>	<b>1,511</b>	<b>1,515</b>	<b>1,522</b>

Source: Feasibility Study update provided by the Company and reviewed by the Competent Person

Note: \* "Total Operating Cash Costs" includes all mining, processing, G&A and other costs, which are inclusive of administrative and sales costs.

+ "Total Cash Costs" includes Total Operating Cash Costs as well as Taxes and Royalties

### **Third-Party Contractors**

In line with common industry practice, we outsource substantially all of our mine construction and mining works to qualified third-party contractors. We believe that these outsourcing arrangements, if managed properly, can lower our operating costs and reduce our capital expenditures for equipment and machinery. For the period from our inception on April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011, we paid aggregate fees of nil, RMB24.1 million and RMB23.6 million to these third-party contractors, respectively. See "Risk Factors — Risks Related to Our Business and Industry — We plan to engage third-party contractors for our mining operations and are subject to risks inherent in such arrangements."

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The following table set forth a brief introduction of the third-party contractors that we had engaged by the Latest Practicable Date:

Major contractors	Type of Contractor	Status and Prior Experience	Roles and Activities Performed	Work Commencement Date
Contractor A	Independent Third Party mine site construction contractor	<ul style="list-style-type: none"> <li>• state-owned enterprise;</li> <li>• holding qualifications in geographic prospecting, construction implementation, geographic drilling and geographic tunnel;</li> <li>• has about 1,000 employees, with rich industry projects experience</li> </ul>	construct the underground mine site at the Shizishan Mine, including adits and panel ramps to create access to ore body	May 2011
Contractor B	Independent Third Party processing facility construction contractor	—	construct the ore processing facility at the Shizishan Mine	December 2010
Contractor C	Independent Third Party tailing storage facility construction contractor	—	construct the tailing storage facility at the Shizishan Mine, including a tailing dam, the tailing storage area, water drainage system and tailing flow transportation system	December 2010
Contractor D	Independent Third Party mining contractor	<ul style="list-style-type: none"> <li>• private enterprise;</li> <li>• holding class-three qualification in overall contracting of mining projects;</li> <li>• has over 274 technical staff, with rich industry projects experience</li> </ul>	extract ore, haul the extracted ore to the processing facility, remove the waste rocks from our mining activities to the waste rocks storage place	August 2011

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Major contractors	Type of Contractor	Status and Prior Experience	Roles and Activities Performed	Work Commencement Date
Contractor E	Independent Third Party mining contractor	<ul style="list-style-type: none"> <li>• state-owned enterprise;</li> <li>• holding class-two qualifications in mining construction, tunnel drilling, foundation construction and water tunnel drilling, and class-three qualifications in blasting and demolition</li> <li>• has about 20,000 employees, with rich industry projects experience</li> </ul>	extract ore, haul the extracted ore to the processing facility, remove the waste rocks from our mining activities to the waste rocks storage place	September 2011

We select third-party contractors through a tender process based on prices as well as the contractors' skills and experience. All of our contractors must possess the requisite qualifications, production safety permits as well as technical and financial capabilities for the work for which they are commissioned to do. Such third-party contractors are required to carry out their work in accordance with the design and schedule of the relevant assignments as well as with our quality, safety and environmental standards, which are defined in the contracts we sign with them. We generally retain control over project design, production planning and on-site work monitoring. Our specialized technical and management personnel supervise the work performed by our third-party contractors and regularly inspect their work quality and safety management.

Pursuant to the agreements we entered into with our third-party contractors, third-party contractors shall maintain insurance to cover the safety and casualty of their own employees that perform work for us. We are not responsible for and do not carry any insurance for the employees of third-party contractors. During the Track Record Period, we did not have any disputes with our third-party contractors that would have resulted in a material adverse effect on our business, financial condition or results of operations. In addition, we did not experience any suspensions or delays as a result of any improper act of the independent third-party contractors during the Track Record Period.

### ***Competent Person's Recommendations***

To ensure the successful implementation and optimization of the mining plans for the Shizishan Mine, the Competent Person provided us the following recommendations:

- *Evaluation and design program for tailings and backfill products:* The Competent Person recommended us to complete an evaluation and design program for the tailings and backfill products upon commencement of trial processing and develop a quality assurance/quality control program to measure achieved performance and variance to design once the backfill product design is optimized. We started the evaluation and design program since we commenced trial production at the end of July 2011 and expect to complete such program by the end of 2011. We will also develop a quality assurance/quality control



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program to measure achieved performance and variance to design once the backfill product design is optimized;

- *Ground control management plan:* The Competent Person recommended us to progressively conduct a geotechnical review of ore and waste rock properties and develop a ground control management plan as further development is undertaken. We are developing a detailed ground control management plan (including geotechnical review of ore and waste rock properties) and expect to finalize and implement such plan at the Shizishan Mine by the end of 2011;
- *Operating risks of cut-and-fill mining method:* The cut-and-fill mining method adopted by the Shizishan Mine requires mining workers to operate in active stope areas, which exposes the workers to the risk of rock falls. Such risk will potentially increase as mining progresses, but can be mitigated through effective mine management and implementation of a ground control management plan. As set forth above, we are developing a detailed ground control management plan that will be implemented at the Shizishan Mine. We are committed to undertake high-standard operational safety measures and effective mine management to mitigate safety and productivity risks; and
- *Cut-off grade study:* Variable cut-off grades present an opportunity to maximize the Shizishan Mine's value. As a result, although it is not essential, the Competent Person recommended us to complete a cut-off grade study to determine the optimum cut-off grade at relevant stages of the mine life of the Shizishan Mine. The optimum cut-off grade for the Shizishan Mine will vary at the different stages of its mine life, depending on our mining cost and the prevailing market price of lead, zinc and silver. We will conduct a cut-off grade study on a constant basis and adjust the optimum cut-off grade for the Shizishan Mine from time to time after taking into account our mining cost and the prevailing market prices of lead, zinc and silver.

Please see "Appendix V — Competent Person's Report — Mining — Comments and Recommendations" for further details relating to the Competent Person's recommendations for the implementation and optimization of the mine plans of the Shizishan Mine.

## SALES AND CUSTOMERS

We commenced commercial production in October 2011. Our current products are lead-silver concentrates and zinc-silver concentrates, which are produced at the Shizishan Mine and sold at the prevailing market prices to our customers. We price our concentrates based on the prevailing prices of metals on the Shanghai Metals Market in the case of lead and zinc, the Shanghai White Platinum & Silver Exchange in the case of silver and other international and other applicable domestic benchmarks for the remaining metals in our concentrates at or about the time of sale. Our initial sales and marketing strategy is focused primarily on the PRC domestic market and, in particular, the non-ferrous metal smelters in our surrounding regions in Yunnan Province. In August, September and October of 2011, we sold a total of approximately 355 tonnes and 777 tonnes of lead-silver concentrates and zinc-silver concentrates, respectively, to our customers.

### *Customers*

We sell our concentrate products to both smelter customers and concentrate traders, who resell them to smelters. We are in close proximity to potential smelter customers with strong demand for

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our concentrate products. Yunnan Province is the second largest non-ferrous metal producing province (in terms of metal production from mines) in China, according to the Hatch Report. There are 14 non-ferrous metal smelters in Yunnan Province (including Xiangyun Feilong Non-ferrous Metal (祥雲飛龍), Jinding Zinc (金鼎鋅業), Yunxi Group (雲錫集團) and Chihong Zinc & Germanium (馳宏鋅鎔)) with a combined smelting capacity of more than 530 kt of lead concentrate, 850 kt of zinc concentrate and 616 tonnes of silver concentrate per annum in 2007. The large lead and zinc concentrate demand of these local smelters potentially provides us with a significant degree of visibility and stability in demand for our concentrate products.

Our abundant high-grade polymetallic resources and reserves and our proximity to major non-ferrous metal smelters in Yunnan Province have helped us to establish supplier relationships with five Independent Third Party customers since April 2011, including two of Yunnan Province's key lead smelters, according to CNIA. See "Industry Overview — Lead — Yunnan's Key Lead Smelters in 2007." The following table summarizes key information regarding these five customers:

Customers <sup>(1)</sup>	Type of Customer	Contracted Purchase Volume in Terms of Metal Contained		Price
		2011	2012	
Customer A . . . .	smelter	minimum of 1,000 tonnes of zinc contained in the concentrates	minimum of 12,000 tonnes of zinc contained in the concentrates	determined by reference to the prevailing spot price of the related metal
Customer B . . . .	smelter	minimum of 1,500 tonnes of lead and 500 tonnes of zinc contained in the concentrates	minimum of 15,000 tonnes of lead and 15,000 tonnes of zinc contained in the concentrates	determined by reference to the prevailing spot price of the related metal
Customer C . . . .	smelter	900 tonnes of lead and 600 tonnes of zinc contained in the concentrates	N/A	determined by reference to the prevailing spot price of the related metal
Customer D . . . .	trader	minimum of 1,000 tonnes of lead and 500 tonnes of zinc contained in the concentrates	minimum of 14,000 tonnes of lead and 10,000 tonnes of zinc contained in the concentrates	determined by reference to the prevailing spot price of the related metal
Customer E . . . .	trader	1,000 tonnes of lead and 700 tonnes of zinc contained in the concentrates	14,500 tonnes of lead and 7,500 tonnes of zinc contained in the concentrates	determined by reference to the prevailing spot price of the related metal

*Note:*

- (1) We do not disclose the names of such customers since we have not been able to obtain their consents for such disclosure due to the sensitivity of such information.

We intend to maintain and strengthen these relationships in order to stabilize our customers' orders and grow our revenue. As of the Latest Practicable Date, none of our Directors or their respective associates or our shareholders holding more than 5% of our issued capital, to the best knowledge of our Directors, had any interest in any of our five largest customers.

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### *Contracts*

We have entered into offtake agreements with our four existing customers as of the Latest Practicable Date. We are in the process of negotiating an offtake agreement with another existing customer with whom we have entered into lead-silver and zinc-silver concentrates supply agreements to supply 900 tonnes of lead and 600 tonnes of zinc contained in the concentrates by the end of 2011. Based on the terms of the offtake agreements and concentrates supply agreements with our five existing customers, we agreed to supply to these customers, and these customers agreed to purchase from us, lead-silver concentrate and/or zinc-silver concentrate which would enable us to sell concentrates containing, in the aggregate, at least 47,900 tonnes of lead metal and 47,800 tonnes of zinc metal, respectively, in 2011 and 2012. As we only commenced commercial production at the Shizishan Mine in October 2011, we did not supply any amount of concentrate products to these five customers during the Track Record Period. We began supplying concentrate products to our customers since the commencement of trial production at the Shizishan Mine at the end of July 2011. Based on estimated production schedule at the Shizishan Mine according to the Competent Person's Report, we expect that sales of our concentrate products to these five customers will be enough to cover 100% of the total estimated concentrate products output from the Shizishan Mine in 2011 and 2012. The purchases of lead-silver concentrate and zinc-silver concentrate under the offtake agreements and concentrate supply agreements are priced by reference to the prevailing market prices of the lead, zinc and silver metals contained in the concentrates. As advised by our PRC legal advisor, the offtake agreements and concentrate supply agreements we entered into with our five existing customers constitute valid contracts, and are legally binding and enforceable.

Under the four offtake agreements, our customers will send us a monthly purchase plan at the end of each month specifying the amount of concentrate products ordered for the next month. We will confirm the amount within three business days after receiving the order. Under three of our four offtake agreements, we are not subject to any liability to our customers if we fail to meet the annual supply volume as stipulated in the offtake agreements and have the right to supply more concentrate products than the stipulated annual supply volume. We are entitled to adjust monthly sales price to reflect changes in the market price of the metals contained in our concentrates.

Pursuant to the offtake agreements and concentrate supply agreements with our five existing customers, after the purchase order for each month is made by our customers and confirmed by us, we require our customers to make payments of 75% of the estimated purchase price of the concentrate products pursuant to the purchase order. Such 75% payments are generally made by our customers one or two days before the date of delivery. The estimated purchase price is based on the most recent prevailing market prices of the metals and the delivery volume. We generally provide invoice to the customers within 30 days of the receipt of the 75% payments. The remaining 25% of the purchase price is generally made within two weeks upon the customers' receipt of invoice from us, which usually takes place at the beginning of the following month, when the final purchase price for the purchase order has been determined based on the actual prevailing market prices of the metals at the time of delivery.

Prior to delivery of the concentrate products, the customers and us will inspect the samples of the concentrate products to be delivered and agree on the product quality. Therefore, there is no sales return policy or order cancellation policy to the customers. Once the customers have inspected the samples and agreed on the product quality of the concentrate products and we have made the delivery, the sales revenue is recognized, regardless of whether the customers have received the concentrate products or the sales invoice.

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### *Delivery of products*

Under the offtake agreements with our four existing customers, we are not responsible for the transport of our concentrate products. The delivery of our concentrates takes place at our processing facility, and customers bear all transportation and other relevant costs. Under the concentrate supply agreements with the remaining existing customer, we agreed to, during the interim period of time before we enter into offtake agreement with it, transport our concentrate products to its warehouse and bear the relevant transportation costs.

## INFRASTRUCTURE, SUPPLIES AND EQUIPMENT

### *Electricity and Water*

Our operations require electricity and water. The regional grid network from the China Southern Power Grid has been connected to the Shizishan Mine through an interim electric power transmission line since December 2010 when we commenced construction of the processing facility at the Shizishan Mine. In July 2011, we entered into an electricity supply contract with the China Southern Power Grid for the supply of electricity to the Shizishan Mine at market rates through a dedicated electric power transmission line. Pursuant to such electricity supply contract, electricity required for the Shizishan Mine is supplied by the China Southern Power Grid through a dedicated main electric power transmission-line system located approximately 4.5 km away from the Shizishan Mine. Prior to our entering into such electricity supply contract, electricity required for the construction at the Shizishan Mine had been supplied at the market rates through the aforementioned interim electric power transmission line. Apart from China Southern Power Grid, there are several other electricity power plants in the area that can be used as backup in case of any disruptions to electricity supply due to temporary shutdowns by China Southern Power Grid. During the Track Record Period, we did not experience any interruptions arising from sudden shortages or suspensions of electricity supply that caused a material adverse effect to our business, financial condition or results of operations.

We source water, a key component in our mining and processing activities, from the Zhina River which is located approximately 1.2 km away from the Shizishan Mine. We have received a water harvesting permit for taking water from the Zhina River with a permitted quota of harvesting 807.6 thousand m<sup>3</sup> of water annually with a validity period from May 20, 2011 to May 20, 2016. We will renew such water harvesting permit upon its expiration. In addition, we recycle and reuse the water used in our ore processing and tailings storage facility for use in ore processing or dust suppression. We have also built a 800 m<sup>3</sup> water storage pond, two 600 m<sup>3</sup> water recycling ponds and two tube wells as additional water sources. There were no material water supply interruption or shortages at the Shizishan Mine during the Track Record Period.

We believe that we will not have any difficulties in securing the supply of electricity and water to meet our construction, production and expansion plans. We did not receive any government subsidies on electricity or water during the Track Record Period.

### *Raw materials and auxiliary materials*

The ore extracted from the Shizishan Mine are our principal raw material. During the Track Record Period, we only purchased a limited amount of ore from third parties in connection with our trial production. The production process at our mines requires many types of auxiliary materials, including forged steel grinding balls, chemical products, explosives, lubricating oil, electric wires

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and cables, rubber, steel, plastic products and fuel. Because we only commenced commercial production in October 2011, we only purchased a limited amount of processing materials, such as kerosene, from our suppliers during the Track Record Period. We generally make payments to our suppliers within 30 days after we receive the supplied goods. During the Track Record Period, we did not have any trade payables.

### *Machinery and equipment*

The mining and processing facilities at the Shizishan Mine require the purchase of many types of machinery and equipment, including but not limited to drilling machines, air compressors, ore crushers, screening equipments, ball mills, flotator, thickeners and ceramic filters. All of our machinery and equipment for mining and production are sourced from local third-party suppliers in China. For the period from our inception on April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011 our total purchases of machinery and equipment amounted to nil, RMB27.5 million and RMB6.7 million, respectively.

### *Major suppliers*

During the Track Record Period, our five largest suppliers were suppliers for machinery and equipment. For the period from our inception on April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011, purchases from our five largest suppliers collectively accounted for 0.0%, 57.8% and 76.2% of our total purchases, respectively. For the year ended December 31, 2010 and the six months ended June 30, 2011, purchases from the largest supplier accounted for 21.4% and 37.4% of our total supply purchases, respectively. Since we only commenced commercial production in October 2011, the abovementioned supply purchase information may not be indicative of our future supply purchases. To the best knowledge of our Directors, none of our Directors, their respective associates or any of our shareholders holding more than 5% of our issued capital is related to or owns any interest in any of our five largest suppliers.

All of our suppliers are Independent Third Parties and are primarily based in China. We have not signed any fixed or long-term contracts with any of our suppliers other than the exclusive supply agreement with respect to the Lushan Mine. We maintain good relationships with our suppliers and did not have disputes with any of them during the Track Record Period.

## INVENTORY AND QUALITY CONTROL

Our inventory include ore extracted from our mines, concentrates and auxiliary materials consumed during the production process such as steel balls and medicament. We take measurements of our raw ore and concentrate products at four points during the production process, including at the mining sites, at the processing facility and upon the sale of our concentrates to a customer. We also utilize information technology to assist our inventory management and use a computer based inventory management system to keep real-time records of the inflow and outflow of various materials. We also keep detailed inventory records at different stages such as procurement, production, usage and sales, including real-time inventory records of concentrates processed, stored, and sold at the ore processing facility. As a result of our systematic inventory recording system, we are able to closely monitor our inventory level to keep it at a reasonable level.

Our products are lead-silver concentrate and zinc-silver concentrate. They are not subject to any environmental protection standards. We believe maintaining high product quality is key to our success. We have established a quality control department consisting of highly trained technicians to

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ensure that all of our products meet the relevant quality control standards prior to the commencement of our commercial production. Our quality control department monitors our products through on-site inspections of our mining site as well as regular sample checking of our products. We have established a quality management system and compiled a quality control manual. We maintain production records to facilitate the improvement of our quality control system. In addition, as part of our quality control system, we require that all of our third-party contractors possess the requisite qualifications for undertaking their respective works in mining, exploration or construction. Under the signed contracts with the third-party contractors, third-party contractors shall comply with our quality, production safety and environmental protection requirements. As advised by our PRC legal advisor, if we are penalized or requested to compensate the losses suffered by any third parties for the non-compliance caused by the third-party contractors, we can request the third-party contractors to compensate us for the consequential loss. We were not penalized or requested to compensate for any third-party losses due to non-compliance of our third-party contractors during the Track Record Period and as at the Latest Practicable Date.

### COMPETITION

China's non-ferrous metal concentrate industry, including the lead, zinc, silver, tungsten and tin concentrate industry, is fragmented with a large number of small-to-medium size concentrate suppliers and no single dominant nationwide supplier. According to the Hatch Report, the majority of lead and zinc mines in China have an annual production capacity of below 10,000 tonnes of concentrates. Yunnan Province's non-ferrous metal market is also comprised of numerous small-to-medium size companies without a high degree of market power concentration. We are the largest lead and zinc pure mining company in Yunnan Province in terms of resources with abundant and high-grade silver reserves, according to the Hatch Report. For more information relating to the suppliers of the lead, zinc, silver, tungsten and tin concentrates in China and Yunnan Province, please see the section entitled "Industry Overview" in this Prospectus. China has experienced significant supply shortage for non-ferrous metal concentrates, including lead, zinc and silver concentrates in the past few years. According to the Hatch Report, China has been a net importer of lead and zinc concentrates in recent years and had a supply shortfall in lead and zinc concentrates of 985 kt and 1,464 kt, respectively, in 2010. According to the Hatch Report, China has been a net importer of silver concentrate since 2007 and its silver concentrate imports reached a historical high of 191,406 tonnes in 2010, which makes China the largest importer of silver concentrate in the world. Although Yunnan Province has the second largest lead reserves, the second largest zinc reserves and the third largest silver resources in China, it has also experienced significant supply shortages for lead and zinc concentrates in recent years. According to the Hatch Report, Yunnan Province produced 106 kt of lead concentrate in 2010, which was less than a fifth of Yunnan Province's refined lead production capacity of 565 kt in 2010. Similarly, Yunnan Province's zinc concentrate output was 547 tonnes in 2010 while its refined zinc production was 870 tonnes in 2010, which meant that almost 40% Yunnan Province's zinc concentrate demand was met by imports in 2010. As a result, we currently do not view competition from other suppliers as presenting a substantial challenge to the market demand for our products.

Competition for dominance in the PRC non-ferrous metal concentrates market is based on factors such as amount of non-ferrous metal resources and reserves owned, scale of operations, grade and quality of concentrate products, cost-efficiency, as well as the level of experience of the management and technical team. We have abundant and high-grade lead, zinc and silver resources. We will also enjoy a favorable cost position upon completion of the full ramp-up plan for our mining and processing capacities, and benefit from our mine's close proximity to local smelters. Assuming that the Shizishan Mine reaches its full mining and process capacities by the end of 2012, we expect

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to produce 103.8 kt of lead-silver concentrate and 63.6 kt of zinc-silver concentrate annually from 2013, which will make us a large-scale lead, zinc and silver concentrate producer and a major player in China's fragmented lead, zinc and silver concentrates industry. See "— Competitive Strengths." As a result, although most non-ferrous metal concentrates producers in Yunnan Province are in a position to benefit from the significant shortfall in the supply of non-ferrous metal concentrates in the region, to the extent that we compete with other local non-ferrous metal concentrate producers, we believe that we are competitive.

### OCCUPATIONAL HEALTH AND SAFETY

We are committed to operating in a responsible manner to ensure the health and safety of our employees, contractors and the communities in which we operate. We are also committed to meeting applicable legal requirements and where possible seek to implement leading international industry standards in our operations. We have established a dedicated production safety department that is responsible for the occupational health and safety of our mines and operations.

We are subject to various PRC laws and regulations with respect to the prevention and treatment of occupational diseases, the prevention of worksite accidents and the handling of industrial injuries. For additional information, please refer to the section entitled "PRC Laws and Regulations — PRC Laws Relating to Production Safety" and "PRC Laws and Regulations — PRC Laws Relating to Prevention and Control of Occupational Diseases" in this Prospectus. The Shizishan Mine conducts its operations in accordance with specific national laws and regulations covering labor, occupational health and safety in mining, production, blasting and explosives handling, mineral processing, tailings storage facility design, environmental noise, construction, fire protection and fire extinguishment, and power maintenance. We have obtained production safety permits for Shizishan Mine's mining operation and tailing storage facility. Since our acquisition of the Shizishan Mine in May 2009, the Shizishan Mine has not been subject to any government agency investigation with regard to work safety practices, nor have we been cited for any non-compliance.

We have adopted a comprehensive set of internal occupational health and safety policies for the Shizishan Mine. The production safety department at the Shizishan Mine conducts staff training, reviews internal safety procedures, carries out regular on-site safety inspections and continuously monitors the implementation of safety policies. We have adopted an internal handbook containing guidelines with respect to occupational safety, safety production measures, procedures for handling dangerous and hazardous materials and emergency plans.

We conduct occupational safety training for our new hires as well as existing staff. All of our equipment operators and safety management staff must hold requisite licenses. We also require that our contractors to possess requisite production safety licenses and relevant qualifications for the work they contract from us and to undertake appropriate safety measures.

No accidents involving any personal injury or property damage were reported to our management and we were not subject to any claims arising from any material accidents involving personal injury or property damage during the Track Record Period and as at the Latest Practicable Date that had a material adverse effect on our business, financial condition or results of operation. We complied with all relevant PRC laws and regulations regarding occupational health and safety in all material respects during the Track Record Period and as at the Latest Practicable Date.

## **ENVIRONMENTAL PROTECTION AND LAND REHABILITATION**

### ***Environmental Protection***

Our operations are subject to various PRC laws and regulations with respect to environmental protection and rehabilitation. These laws and regulations govern a broad range of environmental matters, such as mining control, land rehabilitation, noise control, discharge of wastewater and pollutants as well as waste disposal. For additional information, please refer to the section entitled “PRC Laws and Regulations — PRC Laws Relating to Environmental Protection.” We are committed to following environmentally responsible practices and have adopted measures to minimize the impact and risk of our operations on the environment.

The major environmental issues in the non-ferrous metal mining industry are management of wastewater, tailings, dust and noise. To address these environmental issues, we are implementing, or plan to implement, various measures, including, but not limited to, the following:

- *Recycling and Reuse of Water.* The Shizishan Mine is being developed as a zero discharge operation for mining process and most waste water from the processing and tailings storage facility are to be recycled. Under our water reuse and recycling system, top-up water is drawn from bores and any water pumped out from the mine is recycled and reused for processing and dust suppression in the mine. Water quality is monitored regularly to ensure the pH level and other measures are acceptable. This system not only saves water and protects the environment but also lowers our production costs.
- *Waste Rock and Tailings.* Waste rock from underground development is and will continue to be used for stope backfills and construction purposes, in particular for the construction of the tailing dam. All tailings produced from processing is stored in the tailing dam or the waste rocks storage area. At the Shizishan Mine, pressure filtration and dry heaping of tailings are employed whereby the tailings are pressed and filtered into dry tailings and the water is recycled and reused. This technology reduces the size of the tailings and reduces the demand for fresh water. The tailing dam at the Shizishan Mine is a class-3 dam and is designed to accommodate the mine’s requirements during its lifetime and seismic and flooding risks.
- *Dust Mitigation.* The ore processing facility at the Shizishan Mine is designed to be environmentally friendly. Dust collectors and exhaust fans fitted with filters have been, or will be, installed at the processing facility, and water is regularly sprayed to reduce dust. PPE, such as face masks, that provide additional personal protection from dust is provided, and their use is strongly encouraged.
- *Noise.* We have adopted various measures to reduce noise generated from the mining and processing processes. For example, we purchased less noisy mining and processing equipment, have built sound-proof operation units to protect the operators from noises, and require workers to wear ear muffs and other noise insulators.

We believe that we were in compliance with all relevant PRC laws and regulations regarding environmental protection in all material respects during the Track Record Period and as at the Latest Practicable Date. During the Track Record Period and as of the Latest Practicable Date, we were not subject to any environmental claims, lawsuits, penalties or administrative sanctions. We received a letter from the local environmental protection authority of the Yingjiang County confirming that we were in compliance with the relevant environmental laws and regulations with respect to the



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Shizishan Mine as of May 10, 2011. Since we only commenced commercial production in October 2011, we incurred no environmental protection costs during the Track Record Period. We expect to spend approximately RMB1.2 million annually in environment protection cost in year 2011, 2012 and 2013. We intend to allocate operating and financial resources to ensure environment protection compliance as required by applicable PRC laws and regulations.


### *Land Rehabilitation*


We are required by the relevant PRC laws and regulations to rehabilitate and restore mining sites to their prior condition after completing our mining operations. Land rehabilitation typically involves the removal of buildings, equipment, machinery and other physical remnants of mining, the restoration of land features in mined areas and dumping sites, and contouring, covering and revegetation of waste rock piles and other disturbed areas. In accordance with the relevant PRC laws and regulations, we have developed a rehabilitation and re-planting program for the mined and disturbed areas of the Shizishan Mine, pursuant to which we will rehabilitate our tailings storage facility and waste rock storage area upon mine closure and plant vegetation to stabilize the ground and to prevent erosion. Such program is in compliance with PRC legislative requirements and incorporates recognized international industry practices.

## RESEARCH AND DEVELOPMENT

We are currently not engaged in any research and development projects. As a fairly new mining company, we purchase and employ the latest technology in ore selection and processing from Independent Third Parties. In addition, we employ an experienced in-house geology research team consisting of seven members, including four geological engineers led by Mr. Huang Wei, who has been engaged in geological survey and mining exploration for more than 29 years, an ore mining research team consisting of five members, including three engineers led by Mr. Wang Fahai, who has been engaged in mining and production safety for more than 28 years. and an ore processing team consisting of five members, all of whom are engineers and led by Mr. Zhao Shaohua, who has been engaged in ore processing and production for more than 25 years. With the expertise drawn from our specialized in-house research and development teams, we plan to enhance our geological research and exploration capabilities and pursue technological innovation in our mining and processing activities to maximize the potential of our existing mines, identify and explore new mines with significant potential, minimize mining loss and dilution, enhance mining safety and environmental protection, improve our production efficiency and enhance our product quality and recovery rate.

## INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we have filed application for our trademark  “中国多金属矿业” with the Trade Marks Registry of the Intellectual Property Department in Hong Kong and our

trademark  with the Trademark Office of State Administration for Industry and Commerce of the PRC. Details concerning our trademark applications, domain names and other registered intellectual property rights are set out in “Statutory and General Information — Further Information about Our Business.” We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights.

As of the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims, either pending or threatened.

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### CUSTODY OF ASSETS AND ACCESS CONTROL

Metal concentrates are kept in secure storage at the Shizishan Mine with access restricted to authorized personnel. Each storage facility is equipped with stringent security systems, including electric security and alarm systems.

### INSURANCE

We have taken out insurance on certain of our assets (including certain buildings, equipment, and motor vehicles) which are subject to certain operating risks. We have also maintained motor vehicle accident insurance and mandatory social security insurance and housing funds for our employees. Pursuant to the agreements we entered into with the third-party contractors for our construction, exploration and mining works, all legal liabilities arising from safety accidents and construction project quality caused by such third-party contractors in the course of operations at our mines are borne by our third-party contractors.

According to the “Work-Related Injury Insurance Regulations” (工傷保險條例), employers of all types of enterprises and sole traders shall participate in work-related injury insurance and pay work-related injury insurance premiums for all employees in their work unit in accordance with the regulations. We maintain such work-related injury insurance for our relevant employees and collective accidental injury insurance for our employees in change of safety production. Pursuant to the agreements we entered into with the third-party contractors, the third-party contractors are responsible for insuring their employees and properties at construction site and we are not responsible for insuring the workers of the third-party contractors. We are also in compliance with the relevant PRC laws and regulations relating to work-related injury insurance in all material aspects.

Save as disclosed above, we have not maintained any other insurance coverage with respect to our assets and operations. We believe that the insurance coverage on our assets and operations is consistent with the industry practice in China.

### EMPLOYEES

As of the Latest Practicable Date, we had 249 full-time employees. The following table shows a breakdown of our employees by department:

<b>Functions</b>	<b>Number of Employees</b>
Administration Department . . . . .	29
Financial Department . . . . .	23
Legal Department . . . . .	2
Sale & Procumbent Department . . . . .	4
Production Department . . . . .	157
Construction Department . . . . .	10
Geological Engineering Department . . . . .	12
Safety & Environmental Protection Department . . . . .	12
<b>Total</b> . . . . .	<b>249</b>

Our success depends on our ability to attract, retain and motivate qualified personnel. We believe that we offer our employees competitive compensation packages, and as a result, we have

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generally been able to maintain a stable management team. For the period from our inception on April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011, our labor costs (including Directors' and senior management's emoluments) were RMB0.2 million, RMB10.2 million and RMB247.6 million (including equity-settled share-based payment of RMB233.0 million, further details of which are given in Note 23 of the Accountants' Report included as Appendix I of this Prospectus), respectively. We are committed to our employees' continuing education and development and regularly provide training for our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

We make contributions to mandatory social security insurance and housing fund for our employees to provide for retirement, housing, medical, work-related injury, maternity and unemployment benefits. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government. For the period from our inception on April 23, 2009 to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2011, our employee benefit contributions were approximately nil, RMB0.2 million and RMB0.3 million, respectively.

We believe that we have a good working relationship with our employees and have not experienced any significant labor disputes since our inception.

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### PROPERTIES

The following table sets forth a summary of our properties and land use rights:

<u>Type of Property Right</u>	<u>Location</u>	<u>Area (in sq.m.)</u>
Owned Property . . . . .	office building	1,058.81
	20th Floor, No. 1 Building, No. 145 Tiantai Road, Chengdu Hi-tech Industrial Development Zone, Sichuan Province  (四川省成都市高新區天泰路145號1棟20層)	
Leased Property . . . . .	12 buildings and various structures	14,038.55
	Lanniqing and Tuanpo Villages, Zhanxi Town, Yingjiang County, Dehong Dai & Jingpo Autonomous Prefecture, Yunnan Province  (雲南省德宏傣族景頗族自治州盈江縣盞西鎮濫泥箐村和團坡村)	
	No. 2 Building, Line 8, Zone A, Huangfeng Community, Mang City.  (芒市華豐小區一A區8排2棟)	320.80
Land Use Right . . . . .	No.205, Meng La Street, Yingjiang County (second floor)  (盈江縣勐臘路205號) (房屋第二層)	190.00
	No.205, Meng La Street, Yingjiang County (third floor)  (盈江縣勐臘路205號) (房屋第三層)	190.00
	Unit 4712, 47/F, the Center, 99 Queen's Road Central, Hong Kong	94.76
Land Use Right . . . . .	Shizishan Mine	115,671.00

#### *Land Use Rights*

On November 18, 2010, we received an approval in principle from the Yunnan Land and Resources Department for the use of three parcels of land with a total area of 115,671 sq.m. used for the construction of our mining, processing, tailing storage and related facilities at the Shizishan Mine. In September 2011, we obtained their official land use right certificates. As advised by our PRC legal advisor, it is not necessary for us to obtain the land use right for all the mining areas covered by the mining permit at the Shizishan Mine, and it is lawful for us to obtain the land use right for the surface entrance to the Shizishan Mine underground mine site given that we are an

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## BUSINESS

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underground mining operator and that our underground mining operation will not damage the surface land at the Shizishan Mine. In addition to the surface entrance to the underground mine site, the ground site for the processing facilities and tailing storage and related facilities also require land use right. The land use right certificates that we have obtained cover the above mentioned areas. Other than the three parcels of land mentioned above, we do not hold long-term land use rights to other land parcels covered by our mining right for the Shizishan Mine.

### *Owned Properties*

As of September 30, 2011, we had four building ownership certificates with an aggregate gross floor area of approximately 1,058.81 m<sup>2</sup> for our office in Chengdu, China. As mentioned above, we also had three parcels of land with a total area of approximately 115,671.00 sq.m. and 12 buildings with a total gross floor area of approximately 14,038.55 sq.m. erected thereon which are occupied by us for production and ancillary purposes at the Shizishan Mine. We have obtained the land use rights certificates and building ownership certificates for such three parcels of land and 12 buildings, respectively.

### *Leased Properties*

As of September 30, 2011, we leased three office units with a total gross floor area of approximately 700.80 sq.m. that support our business activities and operations in Yunnan Province.

Jones Lang LaSalle Sallmanns Limited, an independent property valuation firm, has valued our property interests as of September 30, 2011. Details of Jones Lang LaSalle Sallmanns Limited's property valuation together with its valuation summary and valuation certificates are set out in Appendix IV to this Prospectus.

## LEGAL PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, we were not a party to any legal or administrative proceedings. In addition, our Directors are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business.

We are subject to a wide variety of laws and regulations in the ordinary course of our business operations and other activities. See section entitled "PRC Laws and Regulations" in this Prospectus for more information. We have established a legal department to supervise our overall legal compliance. We also provide training on regulatory requirements to our employees from time to time, and remain in close contact with the relevant regulatory authorities in order to keep abreast of regulatory developments that may have a significant impact on our business and operations. As advised by our PRC legal advisor, we are in compliance with the relevant laws, regulations in all material aspects and have obtained the necessary licenses, approvals and permits which are material for our current operations in China. As also advised by our PRC legal advisor, we have obtained all the licenses, permits and approvals required for the commencement of our commercial production at the Shizishan Mine in October 2011.