*The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, including the notes thereto, as set out in the Accountants' Report included as Appendix I to this Prospectus (the "Consolidated Financial Information"). Our consolidated financial statements have been prepared in accordance with IFRSs which may differ in material aspects from generally accepted accounting principles in other jurisdictions.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.*

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary financial information of (i) our consolidated statements of comprehensive income and statements of cash flows for the period from April 23, 2009 (date of the business combination of our Group under common control) to December 31, 2009, the year ended December 31, 2010 and the six months ended June 30, 2010 and 2011 and (ii) our consolidated statements of financial position as of December 31, 2009 and 2010 and June 30, 2011, as set forth below, are derived from the Accountants' Report included in Appendix I to this Prospectus, and should be read in conjunction with the Accountants' Report, including the notes thereto, and the discussions included herein.

### *Summary Consolidated Statements of Comprehensive Income*

| | Period from April 23, 2009 to December 31, 2009 | Year ended December 31, 2010 | Six months ended June 30, 2010 | Six months ended June 30, 2011 |
|---|---|---|---|---|
| | (RMB'000) | | | |
| Other income and gains | — | 5,576 | 773 | 4,439 |
| Administrative expenses | (1,939) | (11,987) | (4,328) | (16,667) |
| Recognition of equity-settled share-based payment | — | — | — | (233,000)(1) |
| Other operating expenses | — | (235) | — | (1,248) |
| **Loss before tax** | (1,939) | (6,646) | (3,555) | (246,476) |
| Income tax credit | 435 | 1,586 | 766 | 847 |
| **Loss for the year/period and total comprehensive loss for the year/period** | (1,504) | (5,060) | (2,789) | (245,629) |
| Attributable to: | | | | |
| Owners of the Company | (1,178) | (4,840) | (2,685) | (245,356) |
| Non-controlling interest | (326) | (220) | (104) | (273) |
| | (1,504) | (5,060) | (2,789) | (245,629) |

*Note:*

(1) Representing share-based compensation expense of approximately RMB233.0 million arising from shares allotted and issued to our chief executive officer, Mr. Zhu Xiaolin, in recognition for his valuable and indispensable contribution to the Group, which was a one-off non-cash expense.

***Summary Consolidated Statements of Financial Position***

| | As of December 31, | | As of June 30, |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (RMB'000) | |
| Non-current assets | 7,815 | 128,723 | 353,152 |
| Current assets | 25,550 | 75,252 | 275,235 |
| Current liabilities | 30,969 | 206,279 | 55,071 |
| Net current assets/(liabilities) | (5,419) | (131,027) | 220,164 |
| Total assets less current liabilities | 2,396 | (2,304) | 573,316 |
| Non-current liabilities | — | 351 | 73,796 |
| Net assets/(liabilities) | 2,396 | (2,655) | 499,520 |
| Total equity/(deficit) | 2,396 | (2,655) | 499,520 |

***Summary Consolidated Statements of Cash Flows***

| | Period from April 23, 2009 to December 31, | Year ended December 31, | Six months ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2010 | 2010 | 2011 |
| | | (RMB'000) | | |
| Net cash flows used in operating activities | (1,720) | (62,482) | (8,574) | (33,160) |
| Net cash flows used in investing activities | (7,382) | (106,399) | (46,511) | (179,301) |
| Net cash flows from financing activities | 34,421 | 163,986 | 165,169 | 392,799 |
| Net increase/(decrease) in cash and cash equivalents | 25,319 | (4,895) | 110,084 | 180,338 |
| Cash and cash equivalents at beginning of the year/period | — | 25,319 | 25,319 | 20,320 |
| Effect of foreign exchange rate changes | — | (104) | (28) | (762) |
| Cash and cash equivalents at end of year/period | 25,319 | 20,320 | 135,375 | 199,896 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***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 listed on the Stock Exchange. We currently own and operate a large-scale, high-grade lead-zinc-silver polymetallic mine in Yunnan Province, the Shizishan Mine, the mining permit for which 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.

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 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. Our abundant and high-grade lead, zinc and silver polymetallic resources and reserves positions us well to capitalize on any increase in the price and market demand for lead, zinc and silver.

We are currently at commercial production stage of the Shizishan Mine with a current mining capacity of 700 tpd. We are undertaking a ramp-up of its 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 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 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. According to the Dazhupeng Preliminary Survey, the Dazhupeng Mine is a lead-zinc-silver polymetallic mine in Yunnan Province located 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 located in Yunnan Province and owned by Xiangcaopo Mining, an Independent Third Party. According to our exclusive supply arrangement with Xiangcaopo Mining, Xiangcaopo Mining will supply all its polymetallic tungsten-tin raw ore to us for a period of at least 15 years, with the price for the tungsten-tin raw ore of RMB260/t for the first five years. This prefixed pricing 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.

To expand our resources and reserves in Yunnan Province, we entered into a share transfer agreement on June 9, 2011 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 such share transfer agreement, we agreed to purchase 90% equity interests 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. We currently expect to complete such acquisition in May 2012. On May 21, 2011, we also entered into an option agreement 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. The Dakuangshan Mine is a lead-zinc-silver polymetallic mine and has a mining permit covering an area of 1.56 sq. km. The Dakuangshan Mine has a current mining capacity of approximately 500 tpd and processing capacity of approximately 100 tpd. 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. See "Business — Competitive Strength — We are well-positioned to expand our resources and reserves through selective acquisitions" and "Business — Our agreement and option to acquire additional mine assets."

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 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. We expect to derive substantially all of our revenue from sales of non-ferrous metal (including silver, lead, zinc, tungsten and tin) concentrates to customers located in China.

### *Basis of Presentation*

Pursuant to the Reorganization as more fully explained in the section headed "History and Organization" in this Prospectus, our Company became the holding company of the companies now comprising the Group on June 25, 2010. The Reorganization involved companies under common control and the Group is accounted for as a continuing group. Accordingly, our financial information has been prepared by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the date when the subsidiaries first came under the common control. The consolidated statements of financial position of the Group as of December 31, 2009 and 2010 and June 30, 2011 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of Reorganization.

Equity interests in subsidiaries held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

### *Factors Affecting Our Results of Operations and Financial Condition*

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by the following factors:

#### Prices of products

The price of our concentrates is determined by factors such as the prevailing market prices of metals contained in our concentrates, *i.e.* lead, zinc, silver, tungsten and tin, the grade of lead, zinc, silver, tungsten and tin, and the treatment fee charged by customers. Actual sales prices may be further adjusted based on other factors, such as the customer's purchase volume and delivery cycle.

We sell our concentrates either directly to smelters or to concentrate traders that resell our concentrates to smelters. Smelters further process and refine the concentrates they purchase into lead, zinc, silver, tungsten and/or tin, which then can be sold based on the market prices of those metals. Following common industry practice, we sell our concentrates to smelters or traders at a price that is equal to the market prices of the metals contained in our concentrates after deducting the treatment fees charged by customers. Such treatment fees, which are negotiated between us and the smelters or traders, essentially represent the cost and profit of the smelters and traders for processing and smelting or trading the concentrate.

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 domestic benchmarks for the remaining metals in our concentrates at or about the time of sale. These benchmark prices may be influenced by numerous factors beyond our control such as supply and demand in China and internationally, other macro-economic factors such as expectations regarding inflation rates, interest rates, currency exchange rates, as well as general global economic conditions and political trends. We have limited ability to anticipate and manage metal price fluctuations and do not currently employ any financial instruments to hedge against such fluctuations. Fluctuations in metal prices, accordingly, may lead to fluctuations in our financial results. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — The market price for lead, zinc, silver, and other non-ferrous metal concentrates may fluctuate" in this Prospectus.

Historically, the market prices for the metals contained in our concentrates have fluctuated significantly. In the past five years, however, the market prices for these metals have generally followed an upward trend. Prices for most metals have been higher in 2011 than in prior years due to strong demand for raw materials in emerging economies. China, in particular, is a key driver behind the increased consumption of mineral resources. In the short- and medium-term, we expect prices to remain high relative to historic levels as supply-side pressures remain high. Yunnan Province, where many of our end customers are located, has experienced a significant supply shortfall of non-ferrous metal concentrates in recent years. See "Business — Competition" for further details on the supply-demand imbalance of non-ferrous metal concentrates in Yunnan Province. This has led to substantial price increases in non-ferrous metal concentrates in the past. We expect this to continue in the near future. Higher raw materials demand in the long run should place upward pressure on the prices of metal concentrates.

**Production volume**

Due to the significant supply shortfall in non-ferrous and precious metal concentrates in China, especially in Yunnan Province, we believe that the sales volume of our concentrate products will be primarily limited by the resources and reserves at our mines (especially the Shizishan Mine) and our production volume. As we only commenced commercial production in October 2011, we expect increases in our production volume to be the main driver of our sales volume and revenue growth in the future.

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. 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 plan to produce and sell tungsten and tin concentrates using raw ore from the Lushan Mine.

Our production volume will be affected by the scale and speed by which we exploit our mines and by our processing recovery rates. We currently have a mining capacity of 700 tpd and are ramping-up construction of the Shizishan Mine and expect to attain a mining capacity of 1,000 tpd in the second quarter of 2012 and of 2,000 tpd in the fourth quarter of 2012. We completed a lead-zinc-silver processing facility at the Shizishan Mine with a full planned processing capacity of 2,000 tpd at the end of July 2011. Besides, a new gravity-selection processing line that will be used to process the polymetallic tungsten-tin ore sourced from the Lushan Mine is expected to commence commercial production in the third quarter of 2012. Our processing recovery rate will be determined by various factors, including the efficiency of the processing technology and the grade and composition of the ore being processed. We use the flotation and the gravity-selection processes to recover minerals from the Shizishan Mine and the Lushan Mine ores, respectively. The 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. In August, September and October of 2011, we mined a total of approximately 24,800 tonnes of raw ore, and produced 1,035 tonnes and 1,769 tonnes of lead-silver concentrates and zinc-silver concentrates, respectively.

**Development, construction and mining operations**

Our future expansion and growth will be affected by our ability to meet production, timing and cost estimates for the mine development projects under construction. Technical considerations and our ability to obtain governmental approvals and financings are also important factors that will impact the outcome of any current and future projects. For the period from April 23, 2009 to December 31, 2009, we had total capital expenditures of RMB7.4 million, including primarily RMB5.7 million for the purchase of the mining right to the Shizishan Mine from Tengchao Mining Factory. In 2010, our capital expenditures increased significantly to RMB106.4 million as we purchased mining and processing equipments and incurred other capital costs in connection with the construction of our mining and ore processing facilities at the Shizishan Mine. For the six months ended June 30, 2011, our capital expenditures was RMB179.3 million, primarily relating to the construction of our mining and ore processing facilities at the Shizishan Mine, the exploration and evaluation costs incurred in applying for the new mining permit of the Shizishan Mine and payment in advance for the purchase of the exploration right to the Liziping Mine through the proposed Liziping Company acquisition. We expect to further incur significant capital expenditures for the ramp-up of our mining and processing capacities. See “Business — Ramp-Up Plans for Our Mining and Processing Capacities.” Any delay or cost overruns associated with the construction and development of our mines could materially and adversely affect our projected net profits and financial position.

**Production cost**

Our production cost includes operating cost and depreciation and amortization costs. Our operating cost mainly includes mining contracting fees, processing costs, general and administrative costs, and other cash cost items. Major components of our production cost directly relate to production volume. Variations in production volume and the costs of mining and processing are key factors that affect our production cost.

We did not incur any cost of sales during the Track Record Period since we only commenced commercial production in October 2011. We expect that we may initially incur higher operating cost at the Shizishan Mine, mainly due to a combination of the relatively low production volume and high production overheads during our initial stage of commercial production. We expect our operating cost to decrease after we complete the full ramp-up plan of our mining 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$238), respectively, per tonne of concentrate in 2013, the first year in which we will operate at our full planned mining and processing capacities. Silver is a byproduct of our processing process due to the polymetallic nature of the lead-zinc ore of the Shizishan Mine. As a result, revenue from silver can be deducted from the estimated total cash cost and production cost for the Shizishan Mine as a byproduct credit, which is consistent with common industry practice to deduct byproduct credit from cash cost and production cost of main stream products. Because of the high degree of silver contained in our concentrate products, both of the estimated total cash cost and total production cost for the Shizishan Mine are negative after deducting revenue from silver which is higher than the estimated total cash cost and total production cost at the Shizishan Mine. After deducting the value of silver contained in our concentrates based on the average spot price of silver for October 2011 on the Shanghai White Platinum & Silver Exchange, which is RMB6.89 per gram, our estimated total cash cost and total production cost will be approximately RMB-3,022 (approximately US$-475) and RMB-2,825 (approximately US$-444), respectively, per tonne of concentrate in 2013.

We believe that we will enjoy a favorable cost position due to (i) the high-grade and polymetallic nature of our lead-zinc-silver ore from the Shizishan Mine that have abundant silver content and are suitable for unified production process, (ii) our planned large scale operations, (iii) the advanced and reliable technologies and equipment we employ in our mining and processing activities, and (iv) our outsourcing of labor-intensive, low margin works to third parties.

**Demand for our products**

China has experienced a significant supply shortage for non-ferrous and precious 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. China consumed over 2.8 million tones of lead concentrate in 2010, making it the world's largest lead concentrate consumer. China was also the world's largest zinc consuming country with 43% of the world's share in 2010 and remained a net importer of zinc 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. China's total demand for silver jumped by almost threefold from 2004 to 2010, driven mostly by investment, export, and industrial needs. China is also a top consumer of tin concentrate and was the world's largest refined tin consumer in 2010. Lastly, China was the largest tungsten concentrate consumer with 85% of the world's share in 2010. The continuing economic growth of China, especially in the consumer electronics, transport and construction industries is boosting, and will continue to boost, demand for non-ferrous metals. Therefore, we anticipate domestic demand for our concentrate products to continue to increase and to exceed our planned production capacity. See the section headed "Industry Overview" in this Prospectus for further details of factors that could affect the demand for our products and thus, our revenue and profits.

**PRC government control and policies**

The PRC local, provincial and central authorities exercise a substantial degree of control over the mining industry in China. Our operations are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labor, occupational health and safety, waste treatment and environmental protection and operational management. We make every effort to comply with such regulations. However, regulatory standards and community expectations are constantly evolving, and as a result, we may be exposed to increased litigation, compliance costs and unforeseen environmental remediation expenses, all of which could negatively impact our financial results. The PRC government also has full authority to grant, renew and terminate exploration, mining and production permits. While we expect to be able to renew our mining and production permits, if for any reason we are unable to do so in time or at all, our business and results of operations would be materially and adversely affected.

### *Critical Accounting Policies*

Our financial statements have been prepared in accordance with IFRSs. Our significant accounting policies are set forth in Note 3.2 of the Accountants' Report, included as Appendix I to this Prospectus. IFRSs require that we adopt accounting policies and make estimates that our Directors believe are the most appropriate under the circumstances for the purpose of giving a true and fair view of our results and financial position. Critical accounting policies are those that require management to exercise judgment and make estimates which yield materially different results if management were to apply different assumptions or make different estimates. We believe the most complex and sensitive judgments, because of their significance to our financial information, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas may differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our financial information and that involve the most significant estimates and judgments.

#### Revenue recognition

Revenue recognition involves estimates and judgments concerning timing. Significant changes in our management's estimates and judgments may result in revenue adjustments. Revenue comprises the fair value of the consideration received or receivable for the sales of goods, net of returns and discounts, if any. As a general principle, revenue is recognized at the time when the economic benefits will most probably flow to us and when the amount of revenue can be measured reliably based on the following criteria:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, i.e., when goods are delivered and title has passed, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

See section headed "Business — Sales and Customers — Customers" for further details regarding our payment arrangement and revenue recognition practice with the customers.

#### Depreciation and amortization

The amount of depreciation and amortization expenses to be recorded on an asset is affected by a number of estimates made by our management, such as estimated useful lives, proved and probable reserves and residual values. If different judgments are used, material differences may result in the amount and timing of the depreciation or amortization charges related to the asset. We have identified below the accounting policies that we believe are critical to our financial information in connection with depreciation and amortization.

*Property, plant and equipment*

Depending on the nature of the item of property, plant and equipment, depreciation is calculated either (i) on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life or (ii) using the units of production method to write off the cost of the assets in proportion to the proved and probable mineral reserves. Our management estimates the useful lives, proved and probable reserves, residual values and related depreciation charges for property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of each item of property, plant and equipment of a similar nature and function. They could change significantly as a result of technical innovations and actions of our competitors. The assumptions used in the determination of useful lives of property, plant and equipment are reviewed periodically. Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

*Mining rights*

Mining rights are stated at cost less accumulated amortization and any impairment losses. Mining rights include (i) the cost of acquiring mining licenses; (ii) exploration and evaluation costs transferred from exploration rights and assets upon the determination that an exploration property is capable of commercial production; and (iii) the cost of acquiring interests in the mining reserves of existing mining properties.

The mining rights are amortized over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the unit of production method. Mining rights are written off to profit or loss if the mining property is abandoned.

*Exploration rights and assets*

Exploration rights are stated at cost less accumulated amortization and any impairment losses and exploration assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and deferred amortization and depreciation charges in respect of assets consumed during the exploration activities.

Exploration and evaluation costs include expenditure incurred to secure further mineralization in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalized are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortized using the unit of production method based on the proved and probable mineral reserves. Exploration and evaluation assets are written off to profit or loss if the exploration property is abandoned.

**Useful lives of property, plant and equipment**

We estimate useful lives and related depreciation charges for our items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of our competitors. Our management will increase the depreciation charge where useful lives are less than previously estimated, or we will write off or write down technically obsolete assets that have been abandoned.

**Impairment of mining and exploration assets, including property, plant and equipment**

The carrying value of mining and exploration assets, including property, plant and equipment, is reviewed for impairment, when events or changes in circumstances indicate that the carrying value may not be recoverable, in accordance with the accounting policy disclosed in Note 3.2 of the "Accountants' Report" attached as Appendix I to this Prospectus. The recoverable amount of these assets or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value-in-use. Estimating the value-in-use requires our management to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

*Current tax*

We are incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law and, accordingly, are exempted from payment of Cayman Islands Income Tax. Our PRC operating subsidiaries are subject to PRC enterprise income tax. As matters relating to PRC enterprise income tax are not usually confirmed by the relevant local tax authorities at the time when the financial statements are prepared, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision of PRC enterprise income tax to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax expenses and tax provisions in the period in which the differences realize.

*Deferred tax*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is recognized, using the liability method, on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences except (i) where the deferred tax liability arises from goodwill or from the initial recognition (other than in a business combination) of an asset or liability in a transaction that affects neither the taxable profit nor the accounting profit; and (ii) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except (i) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

**Mine reserves**

The process of estimating quantities of reserves is inherently uncertain and complex and requires significant judgments and decisions based on available geological, engineering and economic data. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and production cost change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation and amortization rates.

**Provision for 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. Our assessment of potential liabilities and estimate of the necessary reserves for rehabilitation are based on our (i) assessment of the applicable environmental policies and/or standards promulgated by the PRC governmental authorities; and (ii) calculations of the amounts and timing of future cash expenditure needed to fulfill our assessed obligations under (i). Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. We record a corresponding asset in the mining infrastructure line item in the period in which the liability is incurred. The asset is depreciated using the units of production method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate discount rate. While we believe that our environmental rehabilitation provisions are adequate based on current estimates, the amounts estimated for future liabilities may differ materially from the costs that will actually be incurred to rehabilitate our mine sites in the future. In particular, changes in environmental laws and regulations may increase the costs of environmental rehabilitation.

### *Description of Components of Results of Operations*

#### Revenue

Revenue represents income generated from the sale of our concentrates to customers, and is net of value-added tax and various types of government surcharges. Our revenue is affected by our total sales volume, which is subject to our production capacity, and the average sales price of our concentrates. We had not recognized any revenue before we commenced commercial production in October 2011.

#### Cost of sales

Our cost of sales mainly includes mining contracting fees, processing costs, staff costs, amortization of land use rights and mining rights, auxiliary materials used in the production process, power and utilities, repair and maintenance and other variable and fixed overhead costs. Mining contracting fees comprise fees paid to third-party contractors for mining activities. We had not incurred any cost of sales before we commenced commercial production in October 2011.

#### Other income and gains

During the Track Record Period, we had other income and gains, representing foreign exchange gains, bank interest income and sales of spare parts.

#### Administrative expenses

Administrative expenses mainly represent salaries and benefits of our administrative and management staff, expensed listing fees, professional consulting fees, office administrative fees costs, depreciation costs other expenses.

#### Recognition of equity-settled share-based payment

Recognition of equity-settled share-based payment represents a one-time equity-settled share-based payment arising from 6,399 shares alloted and issued to our chief executive officer, Mr. Zhu Xiaolin, in June 2011 in recognition of his valuable and indispensable contribution to the Group.

#### Other operating expenses

Other operating expenses represent costs related to sales of spare parts, donation to victims of recent earthquake in Yingjiang County and one-time government fine.

#### Income tax credit

Income tax credit represents deferred tax movements during the Track Record Period. Deferred tax is recognized in profit or loss, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in those jurisdictions. No provision for Hong Kong profits tax has been made as we had no taxable profits derived from or earned in Hong Kong during the Track Record Period.

Pursuant to the income tax rules and regulations in China, the subsidiaries located in China are liable for PRC corporate income tax at a rate of 25% on the assessable profits generated during the Track Record Period. No provision has been made for PRC corporate income tax as our PRC subsidiaries did not have assessable profits subject to the PRC corporate income tax during the Track Record Period.

We recorded an income tax credit of RMB435,000, RMB1.6 million and RMB847,000 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, respectively.

**Loss attributable to non-controlling interest**

Loss attributable to non-controlling interest represents loss for the period/year that is attributable to the non-controlling shareholder of our subsidiary.

***Results of Operations***

**Six months ended June 30, 2011 compared with six months ended June 30, 2010**

*Revenue*

For the six months ended June 30, 2010 and 2011, we did not generate revenue from our operations as we focused on mine planning, construction and infrastructure development and did not undertake any commercial production during these periods.

*Cost of sales*

For the six months ended June 30, 2010 and 2011, we did not incur any cost of sales as we did not undertake any commercial production during these periods.

*Other income and gains*

Our other income and gains increased from RMB0.8 million for the six months ended June 30, 2010 to RMB4.4 million for the six months ended June 30, 2011, primarily due to a RMB3.7 million increase in foreign exchange gains.

*Administrative expenses*

Our administrative expenses increased significantly from RMB4.3 million for the six months ended June 30, 2010 to RMB16.7 million for the six months ended June 30, 2011, primarily due to a RMB11.0 million increase in professional fees in relation to the proposed listing of our Shares on the Stock Exchange.

*Recognition of equity-settled share-based payment*

We recognized an equity-settled share-based payment of RMB233.0 million for the six months ended June 30, 2011, relating to a one-time equity-settled share-based payments relating to our issuance of 6,399 awarded shares (the "Awarded Shares") to our chief executive officer. The Awarded Shares represents 6.01% of our issued share capital immediately before the Global Offering (without taken into account the exercise of the Over-allotment Option or the Share Option Scheme). The fair value of the Awarded Shares is measured by reference to the fair value at the date at which they were granted. Based on the valuation of an independent valuer, the fair value of the Awarded Shares during the six months ended June 30, 2011 was approximately RMB233.0 million, which was determined using the discounted cash flow method model. The corresponding credit entry was recorded in equity. The significant inputs into the model were the weighted average cost of capital as discount rate and required return on equity. As the Awarded Shares were one-off and not subject to a vesting period, all expenses in connection with the Award Shares were recognized at the fair value of RMB233.0 million and no amortization was incurred regarding the Awarded Shares. Therefore, there will be no future impact on the fair value of the Awarded Shares. Whereas, the 4,000 shares allotted to Grow Brilliant, a company wholly owned by our chief executive officer. Mr. Zhu Xiaolin, by our Company on February 8, 2010 was for the purpose of the reorganization of our Company at the shareholders' level and in Mr. Zhu Xiaolin's capacity as a holder of our Company's shares when our Company was still at the green-field stage. Mr. Zhu Xiaolin had not provided services in capacity of an employee of our Company prior to the issue of the 4,000 shares. In accordance with the International Financial Reporting Standard 2, our Company shall only recognize services received as expense in a share-based payment transaction, when the services are received. Therefore, the allotment of 4,000 shares by our Company to Grow Brilliant on February 8, 2010 was not accounted for as a share-based payment transaction.

*Other operating expenses*

Our other operating expenses were nil for the six months ended June 30, 2010 and RMB1.2 million for the six months ended June 30, 2011, which consisted of our one-time donation of RMB0.6 million to the victims of the recent earthquake in Yingjiang County and a one-time government fine of RMB0.6 million in connection with occupying and using a parcel of land at the Shizishan Mine before obtaining the related land use right certificate. We have since obtained the relevant land use right certificate.

*Income tax credit*

We recorded income tax credits of RMB0.8 million and RMB0.8 million, respectively, for the six months ended June 30, 2010 and 2011, relating to deferred tax assets credited to profit or loss in the same periods.

*Loss for the period*

As a result of the foregoing factors, we incurred a loss of RMB2.8 million and RMB245.6 million for the six months ended June 30, 2010 and the six months ended June 30, 2011, respectively.

**Year ended December 31, 2010 compared with the period from April 23, 2009 to December 31, 2009**

As a result of merger accounting, the financial statements of Kunrun, our main PRC operating subsidiary, are included in our Consolidated Financial Information starting from April 23, 2009 which is the date of business combination of the Group under common control. As a result, the comparisons of our operating results for the period from April 23, 2009 to December 31, 2009 and the year ended December 31, 2010 may not be meaningful.

*Revenue*

During the period from April 23, 2009 to December 31, 2009 and the year ended December 31, 2010, we did not generate revenue from our operations as we focused on mine planning, construction and infrastructure development and did not undertake any commercial production during these periods.

*Cost of sales*

During the period from April 23, 2009 to December 31, 2009 and the year ended December 31, 2010, we did not incur any cost of sales as we did not undertake any commercial production during these periods.

*Other income and gains*

Our other income and gains were nil for the period from April 23, 2009 to December 31, 2009 and RMB5.6 million for the year ended December 31, 2010, which mainly consisted of foreign exchange gains of RMB5.2 million.

*Administrative expenses*

Our administrative expenses increased from RMB1.9 million for the period from April 23, 2009 to December 31, 2009 to RMB12.0 million for the year ended December 31, 2010, primarily due to (i) a significant increase in salaries and benefits of our administrative and management staff primarily as a result of a significant increase in the headcount of such staff as we ramped up our operations, (ii) an increase in office administrative fees as a result of our business expansion, and (iii) an increase in professional fees in relation to our proposed listing of our Shares on the Stock Exchange.

*Other operating expenses*

Our other operating expenses were nil for the period from April 23, 2009 to December 31, 2009 and RMB0.2 million for the year ended December 31, 2010, which consisted of cost of sales for spare parts.

*Income tax credit*

We recorded income tax credit of RMB0.4 million for the period from April 23, 2009 to December 31, 2009 and RMB1.6 million for the year ended December 31, 2010 due to an increase in deferred tax assets credited to profit or loss in 2010.

*Loss for the year/period*

As a result of the foregoing factors, we incurred a loss of RMB1.5 million and RMB5.1 million for the period from April 23, 2009 to December 31, 2009 and for the year ended December 31, 2010, respectively.

***Liquidity and Capital Resources***

Our primary uses of liquidity are to invest in the development of our mines, to service our indebtedness, to fund our working capital and to finance our proposed acquisitions. As of the Latest Practicable Date, we had financed our cash requirements primarily through a combination of advances from Silver Lion (substantially all of which were from proceeds of the Exchangeable Bonds investment by certain pre-IPO investors) and interest-bearing bank borrowings.

**Cash Flow**

The following table sets forth a summary of our cash flow information for the period indicated:

| | Period from April 23, 2009 to December 31, 2009 | Year ended December 31, 2010 | Six months ended June 30, 2010 | Six months ended June 30, 2011 |
|---|---|---|---|---|
| | (RMB'000) | | | |
| Net cash flows used in operating activities . . . | (1,720) | (62,482) | (8,574) | (33,160) |
| Net cash flows used in investing activities . . . | (7,382) | (106,399) | (46,511) | (179,301) |
| Net cash flows from financing activities . . . . . | 34,421 | 163,986 | 165,169 | 392,799 |
| Net increase/(decrease) in cash and cash equivalents . . . . . . . . . . . . . . . . . . . . . . . . | 25,319 | (4,895) | 110,084 | 180,338 |
| Cash and cash equivalents at beginning of the year/period . . . . . . . . . . . . . . . . . . . . . . . . | — | 25,319 | 25,319 | 20,320 |
| Effect of foreign exchange rate changes . . . . . | — | (104) | (28) | (762) |
| Cash and cash equivalents at end of year/ period . . . . . . . . . . . . . . . . . . . . . . . . . . . | 25,319 | 20,320 | 135,375 | 199,896 |

*Operating activities*

Net cash used in operating activities consists primarily of our loss before tax adjusted by non-cash adjustments, such as unrealized foreign exchange gains and recognition of equity-settled share-based payments, and changes in assets and liabilities, such as prepayments, deposits and other receivables.

Net cash used in operating activities for the six months ended June 30, 2011 was RMB33.2 million, primarily attributable to (i) loss before tax of RMB245.6 million, (ii) an increase in prepayment, deposits and other receivables of RMB19.3 million mainly in connection with interest-free loans totaling RMB15.0 million to Li Jincheng, the sole owner of Xiangcaopo Mining (which owns rights to the Lushan Mine) for use in the exploration activities at the Lushan Mine, and (iii) an add-back of certain non-cash expenses such as unrealized foreign exchange gains of RMB4.4 million. Cash used in operating activities was primarily offset by recognition of equity-settled share-based expenses of RMB233.0 million in connection with our issuance of 6,399 Awarded Shares to our chief executive officer.

Net cash used in operating activities for the year ended December 31, 2010 was RMB62.5 million, primarily attributable to (i) an increase in prepayment, deposits and other receivables of RMB54.0 million mainly in connection with a prepayment of RMB18.0 million for ore supplies from the Lushan Mine pursuant to an exclusive ore supply agreement we entered into with Xiangcaopo Mining, which owns rights to the Lushan Mine, and interest-free loans totaling RMB33.6 million to Li Jincheng, the sole owner of Xiangcaopo Mining, for use in the exploration activities at the Lushan

Mine, (ii) loss before tax of RMB6.6 million, and (iii) an add-back of certain non-cash expenses such as unrealized foreign exchange gains of RMB5.2 million. Cash used in operating activities was partially offset by an increase in other payables and accruals of RMB3.9 million mainly arising from accrued staff bonus in 2010.

Net cash used in operating activities for the period from April 23, 2009 to December 31, 2009 was RMB1.7 million, primarily attributable to loss before tax of RMB1.9 million.

*Investing activities*

Net cash used in investing activities largely reflects capital expenditures, which primarily consist of purchases of property, plant and equipment and intangible assets and payment in advance for purchase of land use rights and exploration right.

Net cash used in investing activities for the six months ended June 30, 2011 was RMB179.3 million, primarily due to (i) purchase of property, plant, and equipment of RMB73.8 million in connection with the construction of mining and lead-zinc-silver processing facilities at the Shizishan Mine, (ii) payment in advance of RMB70.0 million for the purchase of the exploration right to the Liziping Mine through the proposed Liziping Company acquisition, (iii) purchase of intangible assets of RMB29.1 million in connection with the exploration and evaluation costs of RMB28.0 million and RMB1.1 million, respectively, incurred in applying for the new mining permit of the Shizishan Mine and the exploration permit of the Dazhupeng Mine, and (iv) payment in advance of RMB6.4 million for the purchase of the land use right to a parcel of land used for the construction of our mining, processing, tailing storage and related facility at the Shizishan Mine.

Net cash used in investing activities for the year ended December 31, 2010 was RMB106.4 million, attributable to (i) purchase of property, plant and equipment of RMB62.7 million in connection with the construction of mining and processing facilities at the Shizishan Mine, (ii) purchase of intangible assets of RMB34.4 million in connection with the exploration and evaluation costs incurred in applying for the new mining permit of the Shizishan Mine, (iii) payment in advance of RMB7.2 million for the purchase of the land use right to a parcel of land used for the construction of our mining, processing, tailing storage and related facility at the Shizishan Mine and (iv) payment in advance of RMB2.1 million for the purchase of the exploration right to the Dazhupeng Mine.

Net cash used in investing activities for the period from April 23, 2009 to December 31, 2009 was RMB7.4 million, primarily attributable to (i) RMB5.7 million used to purchase the mining right to the Shizishan Mine from Tengchao Mining Factory, and (ii) RMB1.7 million used to purchase items of property, plant and equipment for the development of the Shizishan Mine.

*Financing activities*

Net cash provided by financing activities for the six months ended June 30, 2011 was RMB392.8 million, attributable to RMB337.0 million due to Silver Lion (substantially all of which were proceeds from the Exchangeable Bonds investment by certain pre-IPO investors in 2010 and 2011) and RMB62.0 million in the form of bank borrowings from the Agricultural Bank of China. This was partially offset by an acquisition of a non-controlling interest in Kunrun from Mr. Ran Xiaochuan of RMB6.2 million.

Net cash provided by financing activities for the year ended December 31, 2010 was RMB164.0 million, primarily attributable to an increase of RMB169.2 million in amounts due to Silver Lion (substantially all of which were proceeds from the Exchangeable Bonds investment by certain pre-

IPO investors) in 2010. This was partially offset by a settlement of RMB5.2 million due to Mr. Ran Xiaochuan and RMB0.4 million paid to Mr. Ran Xiaochuan as part of the Reorganization process.

Net cash provided by financing activities for the period from April 23, 2009 to December 31, 2009 was RMB34.4 million, primarily attributable to (i) an increase in amounts due to Silver Lion of RMB25.3 million for the funding of our working capital; (ii) capital contribution from Mr. Ran Xiaochuan and the non-controlling shareholder of Kunrun of RMB2.7 million and RMB1.2 million, respectively; and (iii) an increase in the amount due to Mr. Ran Xiaochuan of RMB5.2 million.

### *Working Capital Sufficiency*

Taking into account the financial resources available to us, including the cash generated from our operations following the commencement of production of the Shizishan Mine and the estimated net proceeds of approximately HK$1,005 million (equivalent to approximately RMB820.1 million, assuming the Over-allotment Option is not exercised) from the Global Offering, based on the low end of the indicative Offer Price range, and the estimated capital expenditure requirements and acquisition considerations of the Shizishan Mine, Dazhupeng Mine, Lushan Mine, Liziping Mine and Dakuangshan Mine, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for 125% of our present requirements for at least 12 months from the date of this Prospectus.

The following table sets forth our existing and estimated source of funding and estimated major working capital requirements for the Shizishan Mine for the 12 months from the date of Prospectus:

| | (RMB million) |
|---|---|
| Source of funding: | |
| Estimated net proceeds from the Global Offering | 820.1[(1)] |
| Cash and cash equivalents as at October 31, 2011 | 73.8 |
| Estimated operating cash inflow from the Shizishan Mine from December 1, 2011 to December 31, 2012 | 1,012.3[(2)] |
| Less: | |
| Estimated acquisition considerations and capital expenditure to be incurred from December 1, 2011 to December 31, 2012 | 1,094.2 |
| | 812.0 |
| Cash requirement for the Shizishan Mine from December 1, 2011 to December 31, 2012: | |
| Production costs | 57.0 |
| VAT and other business taxes and royalties | 151.0 |
| Income taxes | 107.0 |
| Staff costs | 27.0 |
| Administrative expenses and others | 79.0 |
| Total | 421.0 |

*Notes:*

(1) Approximately HK$1,005 million equivalent, based on the low end of the indicative Offer Price range and assuming the Over-allotment Option is not exercised.

(2) Estimated operating cash inflow from the Shizishan Mine for the period from December 1, 2011 to December 31, 2012 is prepared by our Directors and is unaudited and for indicative purpose only. Actual results may vary from the estimates.

For details of the capital expenditure requirements and acquisition considerations of the Shizishan Mine, Dazhupeng Mine, Lushan Mine, Liziping Mine and Dakuangshan Mine, please see section headed "Financial Information — Capital expenditures."

### *Discussion of Certain Items from the Statements of Financial Position*

#### Intangible assets

The below table sets forth the net book value of our intangible assets as at each of the dates indicated:

| | Mining rights | Exploration rights and assets | Total |
|---|---|---|---|
| | | (RMB'000) | |
| **Cost and net book amount:** | | | |
| As of April 23, 2009 | — | — | — |
| As of December 31, 2009 | — | — | — |
| As of December 31, 2010 | 9,282 | 35,597 | 44,879 |
| As of June 30, 2011 | 73,242 | 3,244 | 76,486 |

Our mining rights represent the rights for the mining of silver, lead and zinc resources at the Shizishan Mine. Our mining permit for the Shizishan Mine covers an area of 3.2 sq. km. and will expire in 2026, whereupon it can be renewed subject to certain statutory requirements and conditions. There was no amortization on our mining rights for the year ended December 31, 2010 and the six months ended June 30, 2011 as we did not commence mining operations.

As of December 31, 2010, our exploration rights and assets represented additional exploration expenses incurred in respect of the further exploration work undertaken by independent technical advisors in connection with the renewal of the mining permit for the Shizishan Mine in March 2011.

In accordance with our accounting policy, such expenses were capitalized as "exploration rights and assets" and were transferred to the cost of mining rights when we successfully renewed the Shizishan Mine's mining permit for 15 years from April 6, 2011. The mining rights (including exploration expenses for conducting further exploration of the Shizishan Mine) are amortized in accordance with the production plans and the proved and probable reserve of the Shizishan Mine using the unit-of-production method.

As of June 30, 2011, our exploration right represented the right for the exploration of the Dazhupeng 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.

**Prepayments, deposits and other receivables**

Our prepayments, deposits and other receivables represent prepayment for purchase of inventories, deposits, deferred listing fees and staff advances. The following table sets forth the details of our prepayments, deposits and other receivables as of the dates indicated:

| | As of December 31, | | As of June 30, |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (RMB'000) | |
| Prepayment in respect of: | | | |
| — the purchase of inventories | — | 18,000 | 18,000 |
| — professional fees | — | 993 | — |
| Deposits | — | 170 | 439 |
| Deferred listing fees | 47 | 624 | 4,212 |
| Staff advances | 184 | 811 | 2,239 |
| Other receivable | — | 33,589 | 48,578 |
| **Total** | 231 | 54,187 | 73,468 |

As of June 30, 2011, prepayment for the purchase of inventories represented a RMB18.0 million prepayment made to Xiangcaopo Mining, which owns the exploration right to the Lushan Mine, in 2010 for the purchase of tungsten and tin ores from the Lushan Mine. The delivery of such ores is expected to take place in 2012. In addition, we provided interest-free loans of RMB33.6 million to Li Jincheng in 2010 and increased such loans by RMB39.0 million to RMB72.6 million as of October 31, 2011, in connection with the exploration activities at the Lushan Mine. Deferred listing fees represent legal and other professional fees relating to the Global Offering, and will be deducted from equity when we complete the listing of our Shares on the Stock Exchange. The above assets are neither past due nor impaired. The financial assets included above relate to receivables for which there was no recent history of default.

**Other payables and accruals**

Our other payables and accruals primarily consist of payables related to the acquisition of property, plant and equipment, mining rights and exploration rights and assets, as well as accrued staff expenses. The following table sets forth the details of our other payables and accruals as of the dates indicated:

| | As of December 31, | | As of |
|---|---|---|---|
| | 2009 | 2010 | June 30, 2011 |
| | | (RMB'000) | |
| Payables related to: | | | |
| Mining rights | — | 489 | 489 |
| Exploration rights and assets | — | 4,296 | 4,716 |
| Property, plant and equipment | — | 7,990 | 40,194 |
| Professional fees | — | — | 8,708 |
| Tax other than income tax | 12 | (825) | 317 |
| Payroll and welfare | 99 | 185 | 33 |
| Others | 337 | 69 | 160 |
| Accruals | — | 4,884 | — |
| **Total** | 448 | 17,088 | 54,617 |

Our payables related to property, plant and equipment increased significantly from nil as of December 31, 2009 to RMB8.0 million as of December 31, 2010 due to increased purchase of fixed assets in connection with the construction of our mining and ore processing facilities at the Shizishan Mine in 2010. We also had payables related to our exploration rights and assets of RMB4.3 million as of December 31, 2010 incurred in connection with our exploration and valuation activities conducted for the purpose of applying for the new mining permit for the Shizishan Mine. Our accruals of RMB4.9 million as of December 31, 2010 consisted of accrued bonuses and salaries for our staff.

Our payables related to property, plant and equipment increased significantly from RMB8.0 million as of December 31, 2010 to RMB40.2 million as of June 30, 2011, due to increased purchase of fixed assets in connection with the ramp-up of the construction of our mining and ore processing facilities at the Shizishan Mine for the six months ended June 30, 2011. We also had payables related to exploration rights and assets of RMB4.7 million as of June 30, 2011 incurred in connection with our exploration and valuation activities conducted for the purpose of applying for the new mining permit for the Shizishan Mine. Besides, payables related to professional fees of RMB8.7 million represented legal and other professional fees in connection with the Global Offering.

**Current assets and current liabilities**

The table sets forth the breakdown of our current assets and current liabilities as of each of the dates indicated:

| | As of December 31, | | As of June 30, | As of October 31, |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 |
| | | (RMB'000) | | (Unaudited) |
| **Current assets** | | | | |
| Cash and cash equivalents: | 25,319 | 20,320 | 199,896 | 73,781 |
| Account receivables | — | — | — | 1,217 |
| Prepayments, deposits and other receivables: | 231 | 54,187 | 73,468 | 156,543 |
| Inventories: | — | 745 | 1,871 | 11,446 |
| | 25,550 | 75,252 | 275,235 | 242,987 |
| **Current liabilities** | | | | |
| Amount payables | — | — | — | 1,965 |
| Other payables and accruals: | 448 | 17,088 | 54,617 | 53,415 |
| Tax payable | — | — | 454 | 816 |
| Due to a director: | 5,190 | — | — | — |
| Due to the immediate holding company: | 25,331 | 189,191 | — | — |
| | 30,969 | 206,279 | 55,071 | 56,196 |
| **Net current assets/(liabilities)** | (5,419) | (131,027) | 220,164 | 186,791 |

During the Track Record Period, we focused our business activities on mine planning and construction and infrastructure development. Because we only commenced commercial production in October 2011, we did not generate any revenue or cash inflow from our operations during the Track Record Period. We did not have any accounts receivable, accounts payable or inventory during the Track Record Period either. In addition, we had financed our cash requirements primarily through a combination of advances from Silver Lion (substantially all of which were proceeds from the Exchangeable Bonds investment by certain pre-IPO investors) and interest-bearing bank borrowings during the Track Record Period. As a result, we recorded net current liabilities of RMB5.4 million and RMB131.0 million as of December 31, 2009 and 2010, respectively. On June 27, 2011, we capitalized the entire outstanding amount due to Silver Lion by issuing one new Share to Silver Lion. Primarily as a result of such transaction, we had net current assets of RMB220.2 million as of June 30, 2011.

***Related party transactions and balances***

We engaged in certain transactions with our Director, Mr. Ran Xiaochuan and his immediate holding company, Silver Lion, during the Track Record Period. The following table sets forth the breakdown of our balances with related parties as of the dates indicated:

| | As of December 31, | | As of |
|---|---|---|---|
| | 2009 | 2010 | June 30, 2011 |
| | | (RMB'000) | |
| **Due to a director:** | | | |
| Mr. Ran Xiaochuan | 5,190 | — | — |
| **Due to the immediate holding company:** | | | |
| Silver Lion | 25,331 | 189,191 | — |

The RMB5.2 million due to our Director, Mr. Ran Xiaochuan, as of December 31, 2009 included advances from Mr. Ran Xiaochuan that was used by us to acquire the mining right to the Shizishan Mine and as working capital. The RMB5.2 million due to Mr. Ran Xiaochuan as of December 31, 2009 was settled in 2010, and we currently do not owe any amount to Mr. Ran Xiaochuan. The RMB25.3 million and RMB189.2 million due to our immediate holding company, Silver Lion, as of December 31, 2009 and 2010, respectively, constituted a portion of the proceeds from our Exchangeable Bonds financing advanced from Silver Lion. On June 27, 2011, Silver Lion subscribed one new Share in the Company by way of a share premium in the amount of US$80,500,000, which was used to settle all the then outstanding amount due to Silver Lion from the Company as of May 31, 2011. Upon completion of such settlement, the Company does not owe any amount to Silver Lion. Balances with related parties are non-trade, interest-free, unsecured and have no fixed term of repayment. Our Directors consider that the advances from Mr. Ran Xiaochuan and the interest-free loan provided by Silver Lion were conducted based on terms more favorable than terms available from an independent third party.

Our related party transactions during the Track Record Period and balances as of December 31, 2009 and 2010 and June 30, 2011 are also set out in Notes 19 and 28 of the Accountants' Report included as Appendix I to this Prospectus.

***Commitments and Contingent Liabilities***

**Capital commitments**

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

| | As of December 31, | | As of June 30, |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (RMB'000) | |
| Contracted, but not provided for: | | | |
| — Exploration and evaluation expenditures | — | 16,635 | 175,204 |
| — Property, plant and equipment | — | 35,615 | 46,632 |
| | — | 52,250 | 221,836 |
| Authorized, but not contracted for: | | | |
| — Property, plant and equipment | — | 358,333 | 113,262 |
| **Total** | — | 410,583 | 335,098 |

Our capital commitments amounted to RMB410.6 million as of December 31, 2010, primarily arising from construction contracts in connection with the Shizishan Mine's processing facility, as well as new equipment and machinery contracts that we entered into in 2010 in connection with our ramp-up plan for the mining and processing capacities for the Shizishan Mine.

Our capital commitments decreased to RMB335.0 million as of June 30, 2011 which was in line with the construction progress of the Shizishan Mine's mining, processing and tailing storage facilities for the six months ended June 30, 2011. Capital commitment in relation to exploration and evaluation expenditure increased significantly from RMB16.6 million as of December 31, 2010 to RMB175.2 million as of June 30, 2011, primarily attributable to the commitment of RMB170 million in connection with the proposed acquisition of the Liziping Mine. The decrease in capital commitment in connection with property, plant and equipment which was authorized but not contracted for from December 31, 2010 to June 30, 2011 was partially off-set by the aforesaid factor.

**Contingent liability**

On February 8, 2010, Challenger entered into the Round 1 Bond Deed with us, Silver Lion, Gilberta, Next Horizon, Dehong Yinbang, Dehong Yinrun, Kunrun, Mr. Ran Xiaochuan and Mr. Shi Xiangdong. Pursuant to the Round 1 Bond Deed, Challenger subscribed for the Round 1 Bond issued by Silver Lion in an aggregate principal amount of US$25.0 million due in 2012. The maturity date of the Round 1 Bond Deed was extended to April 26, 2013 by a deed of amendment dated April 21, 2011. The Round 1 Bond is exchangeable into our Shares owned and held by Silver Lion immediately prior to the commencement of dealings of our Shares on the Stock Exchange on the Listing Date.

Pursuant to the Round 1 Bond Deed, we shall indemnify each of Challenger's stakeholder and their directors, officers and agents (collectively, the "Indemnified Persons of the Round 1 Bond") against any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever, including any investigative, legal and other expenses incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding (collectively, "Losses of the Round 1 Bond") that any Indemnified Persons of the Round 1 Bond may at any time become subject to or liable for in connection with claims by third parties by reason of being a stakeholder or director of our Company, as the case may be, other than Losses of the Round 1 Bond arising from the gross negligence, willful misconduct, fraud or dishonesty of such Indemnified Persons of the Round 1 Bond.

### Capital expenditures

We incurred capital expenditures for the construction and development of the Shizishan Mine and its processing facility during the Track Record Period. The table below sets forth details of our capital expenditures for the periods indicated:

| | Period from April 23 to December 31, 2009 | Year ended December 31, 2010 |
|---|---|---|
| | (RMB'000) | |
| Property, plant and equipment | 1,620 | 62,729 |
| Intangible assets | 5,728 | 36,467 |
| Land use right | — | 7,203 |
| **Total** | 7,348 | 106,399 |

We commenced commercial production and revenue generating activities at the Shizishan Mine in October 2011. As at the Latest Practicable Date, we financed the development of the Shizishan Mine primarily through a combination of advances from Silver Lion (substantially all of which were proceeds from the Exchangeable Bonds investment by certain pre-IPO investors) and interest-bearing bank borrowings.

The following table sets forth our estimated capital requirements in relation to the acquisition considerations, capital expenditure and working capital for the Shizishan Mine, Dazhupeng Mine, Lushan Mine, Liziping Mine and Dakuangshan Mine for the periods indicated:

| | Estimated maximum acquisition consideration to be paid | Estimated capital expenditure to be incurred(4) | Estimated working capital requirement |
|---|---|---|---|
| | December 1, 2011-December 31, 2012 | | |
| | (RMB million) | | |
| Shizishan Mine | N/A | 135.3 | 421.0 |
| Dazhupeng Mine | N/A | 26.9 | N/A(2) |
| Lushan Mine | N/A | 41.0 | 36.5(3) |
| Liziping Mine | 636.0(1) | 66.5 | N/A(2) |
| Dakuangshan Mine | 105.0(1) | 83.5 | N/A(2) |
| **Total** | **741.0** | **353.2** | **457.5** |

*Notes:*

(1) The estimated acquisition consideration for the Liziping Mine and the Dakuangshan Mine is based on the maximum consideration stipulated in the share transfer agreement between Song Denghong and us and the option agreement between Xi Wanli and us, respectively, and is subject to adjustment. Such amounts exclude a deposit of RMB100 million, which can be deducted from the total consideration if the acquisition is completed, and a good-faith deposit of RMB40 million we made as of October 31, 2011 for the Liziping Mine and the Dakuangshan Mine, respectively, and a further deposit of RMB20 million to be paid by the end of 2011 for the Liziping Mine.

(2) The Dazhupeng Mine, Liziping Mine and Dakuangshan Mine are currently at preliminary exploration stage, therefore, the information in relation to their working capital requirement is currently not available.

(3) The Lushan Mine's working capital requirement estimation only covers the purchase cost of the raw ore calculated based on the unit purchase cost excluding value-added tax of RMB260/t and the annual supply amount of 120 kt of raw ore in 2012 as stipulated in the exclusive raw ore supply agreement between Xiangcaopo Mining and us, excluding a prepayment of RMB18.0 million. Other working capital requirement of the Lushan Mine is not available because the Lushan Mine is still at the preliminary exploration stage. Given the market price of tungsten concentrate of approximately RMB140,400/t in October 2011 and the prefixed low-cost raw ore supply, we believe the operating cash flow generated from the processing of raw ore supplied from the Lushan Mine is sufficient to cover the related working capital requirement.

(4) Total outstanding capital expenditure to be spent from December 2011 to December 2012 for the Shizishan Mine, Dazhupeng Mine, Lushan Mine, Liziping Mine and Dakuangshan Mine is RMB135.3 million, RMB26.9 million, RMB41.0 million, RMB66.5 million and RMB83.5 million, respectively. We plan to fund these capital expenditure requirements by utilizing the net proceeds from the Global Offering which are estimated to be HK$1,005 million (equivalent to RMB820.1 million), assuming the Over-allotment Option is not exercised), based on the low end of the indicative Offer Price range.

We further plan to utilize our internal operating cash inflow and bank loans that we may receive from time to time to fund the gap between the total remaining capital expenditure to be incurred and the net proceeds from the Global Offering. For the capital expenditure incurred as of October 31, 2011 and the total remaining capital expenditure to be incurred for the Shizishan Mine, Dazhupeng Mine, Lushan Mine, Liziping Mine and Dakuangshan Mine, please refer to pages 7, 8, 11 and 13 of this Prospectus, respectively. Approximately RMB322 million and RMB195 million (totaling RMB517 million) of additional capital expenditure for the Liziping Mine and Dazhupeng Mine have not been taken into account in the above table, as they will be deployed only in 2013 and 2014 based on the respective development schedule of these two mines. It is currently planned that the Liziping Mine and the Dazhupeng Mine will only commence production by the end of 2013 and the second quarter of 2014, respectively. We intend to also fund the capital expenditures for the Liziping Mine and Dazhupeng Mine in 2013 and 2014 through operating cash inflow generated from our operating activities at the Shizishan Mine and bank loans that we may obtain from time to time in the future.

These capital requirements in relation to acquisition consideration, capital expenditure and working capital for the Shizishan Mine, the Dazhupeng Mine, the Lushan Mine, the Liziping Mine, and the Dakuangshan Mine for the periods indicated above will be satisfied by operating cash inflow, estimated net proceeds of approximately HK$1,005 million (assuming the Over-allotment Option is not exercised) from the Global Offering, based on the low end of the indicative Offer Price range, and bank loans we may receive from time to time.

**Indebtedness**

As of December 31, 2010, we did not have any short-term or long-term bank loans. As of the same date, we had an amount due to our immediate holding company, Silver Lion, of RMB189.2 million, which was non-trade, interest-free and unsecured and had no fixed term of repayment. This amount was settled on June 27, 2011, and we do not currently owe any debt to Silver Lion. For additional details on this settlement, please see "— Related party transactions and balances."

As of October 31, 2011, we had interest-bearing loans of RMB130.0 million from Agricultural Bank of China. In April 2011, we mortgaged our mining right to the Shizishan Mine to Agricultural Bank of China to secure banking facilities amounting to RMB130 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.

**Off-balance Sheet Arrangements**

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

***Qualitative and Quantitative Disclosure About Market Risk***

We are exposed to various types of market risks in the ordinary course of our business. The main risks arising from our financial instruments are credit risk, foreign currency risk and liquidity risk. We manage our exposure to these and other market risks through regular operating and financial activities. Our Directors regularly review these risks and our financial risk management policy seeks to ensure that adequate resources are available to manage the market risks summarized below and to create value for our Shareholders.

**Credit risk**

We have no significant concentration of credit risk as we only commenced commercial production in October 2011. The carrying amounts of cash and cash equivalents and other receivables represent our maximum exposure to credit risk in relation to financial assets. All of our cash and cash equivalents are held in major financial institutions located in the PRC, which we believe are of high credit quality.

During the Track Record Period, we did not make credit sales to customers as we did not undertake any commercial production during this period.

**Foreign exchange risk**

Our business is located in the PRC and most of the transactions are conducted in Renminbi. Most of our assets and liabilities are denominated in Renminbi, except for an amount due to our immediate holding company, Silver Lion, before May 31, 2011 and certain bank deposits denominated in U.S. dollars.

We have not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. Our management monitors our foreign currency exposure and will consider hedging against significant foreign currency exposure when the need arises.

The following table demonstrates the sensitivity to a 5.0% change in Renminbi against the U.S. dollar. 5.0% is the rate used when reporting currency risk internally to key management personnel and represents our management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis of our exposure to foreign currency risk at the end of each reporting period are based on the adjustment of translation of the monetary assets and liabilities at the end of each reporting period for a 5.0% of change in the Renminbi against the U.S. dollar, with all other variables held constant, of our profit before tax (due to changes in the fair value of cash and cash equivalents and an amount due to our immediate holding company, Silver Lion, before May 31, 2011, which were denominated in U.S. dollars).

| | Period from April 23 to December 31, 2009 | Year ended December 31, 2010 | Six months ended June 30, 2010 | Six months ended June 30, 2011 |
|---|---|---|---|---|
| | | (RMB'000) | | |
| **Increase/(decrease) in profit before banking facilities amounting to tax:** | | | | |
| If RMB weakens against US$ | (3) | (8,836) | (9,145) | 8,212 |
| If RMB strengthens against US$ | 3 | 8,836 | 9,415 | (8,212) |

**Liquidity risk**

In managing our liquidity risk, we monitor the level of working capital and maintain it at an adequate level and we maintain a balance between continuity of funding and flexibility through the funding from our holding company.

**Fair values**

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of our financial instruments is approximated to their fair values due to the short term to maturity at each of the statement of financial position dates.

**Capital management**

The primary objective of our capital management is to ensure that we maintain healthy capital ratios in order to support our business and maximize Shareholders' value.

We manage our capital structure and make adjustments to it in light of changes in the economic condition. During the early stages of our mine development, our Shareholders contributed capital based on our needs. For our dividend policy, please refer to the section headed "— Dividend Policy" in this Prospectus for more information.

No changes were made in the objectives, policies or processes for managing financial risk during the Track Record Period.

## LOSS FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

The loss forecast has been prepared by our Directors based on the bases and assumptions set out in Appendix III to this Prospectus.

| | |
|---|---|
| Consolidated loss forecast attributable to owners of the Company(1) . . . | RMB246.6 million (HK$302.2 million)(3) |
| Unaudited pro forma forecast loss per Share for the year ending December 31, 2011(2) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | RMB0.123 (HK$0.150) |

*Notes:*

(1) The bases and assumptions on which the consolidated loss forecast attributable to owners of the Company for the year ending December 31, 2011 has been prepared are summarized in Appendix III to this Prospectus.

(2) The calculation of unaudited pro forma forecast loss per Share is based on the consolidated loss forecast attributable to owners of the Company for the year ending December 31, 2011 of RMB246.6 million and on the assumption that the Company has been listed since January 1, 2011 and a total number of 2,000,000,000 Shares were in issue during the year ending December 31, 2011.

(3) The consolidated loss forecast attributable to owners of the Company includes a one-off equity-settled share-based expense of RMB233.0 million and the expenses in relation to the Global Offering.

We have analyzed the sensitivity of the loss forecast of the Group for the year ending December 31, 2011 with reference to the potential movements in the key bases in the loss forecast, such as the selling price of lead-silver concentrates and zinc-silver concentrates, the sales volume of lead-silver concentrates and zinc-silver concentrates and the unit cost of sales of lead-sliver concentrates and zinc-sliver concentrates for the year ending December 31, 2011.

The sensitivity of the loss forecast for the movements in average selling price of lead-silver concentrates and zinc-silver concentrates, sales volume of lead-sliver concentrates and zinc-sliver concentrates and average unit cost of sales of lead-sliver concentrates and zinc-sliver concentrates is analyzed as follows:

| | **For the year ending December 31, 2011** |
|---|---|
| | **RMB'000 Increase/(decrease) in profit attributable to the owners of the Company** |
| (A) Movement in average selling price of lead-silver concentrates and zinc-silver concentrates | |
| Increase 5% | 2,496 |
| Increase 10% | 4,991 |
| Increase 15% | 7,487 |
| Increase 20% | 9,983 |
| Increase 25% | 12,479 |
| Increase 30% | 14,974 |
| Decrease 5% | (2,496) |
| Decrease 10% | (4,991) |
| Decrease 15% | (7,487) |
| Decrease 20% | (9,983) |
| Decrease 25% | (12,479) |
| Decrease 30% | (14,974) |
| (B) Movement in sales volume of lead-silver concentrates and zinc-silver concentrates | |
| Increase 5% | 2,029 |
| Increase 10% | 4,059 |
| Decrease 5% | (2,029) |
| Decrease 10% | (4,059) |
| (C) Movement in average unit cost of sales of lead-silver concentrates and zinc-silver concentrates | |
| Increase 5% | (471) |
| Increase 10% | (941) |
| Decrease 5% | 471 |
| Decrease 10% | 941 |

## DIVIDEND POLICY

Following completion of the Global Offering, our Shareholders will be entitled to receive any dividends we declare. The payment and amount of any dividends will be at the discretion of the Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, interests of our Shareholders, taxation conditions, statutory restrictions, and other factors that our Board deems relevant. The payment of any dividends will also be subject to the Companies Law and our constitutional documents, which indicate that payment of dividends out of our Share premium account is possible on the condition that we are able to pay our debts when they fall due in the ordinary course of business at the time the proposed dividends are to be paid.

Our ability to declare future dividends will depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits, which refer to after-tax profits as determined under the PRC GAAP less any recovery of accumulated losses and required allocations to statutory funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years. In general, we will not declare dividends in a year when we do not have any distributable earnings.

We currently intend to retain most, if not all, of our available funds and any future earnings until the end of 2012 to operate and expand our business, primarily through production ramp-up and selective acquisitions. Subject to the considerations and constraints above, we currently intend to distribute as dividends to all of our Shareholders no less than 20% of our consolidated net profit after tax in respect of the year ending December 31, 2013 and each year thereafter. The Board will review the dividend policy on an annual basis. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars.

## DISTRIBUTABLE RESERVES

As of June 30, 2011, we had reserves in the amount of RMB499.5 million available for distribution to our equity holders.

## PROPERTY VALUATION

Jones Lang LaSalle Sallmanns, an independent property valuer, has valued our property interests as of September 30, 2011. The full text of the letter, summary of valuation and valuation certificates with respect to such property interests are set out in Appendix IV to this Prospectus.

The table below sets forth the reconciliation between the net book value of our property interests as of December 31, 2010 and the valuation of such property interest as of September 30, 2011:

| | **RMB'000** |
|---|---|
| Net book value of property interests as of June 30, 2011 | 16,483(1) |
| Movements for the period from June 30, 2011 to September 30, 2011 | |
| Add: Additions during the period from June 30, 2011 to September 30, 2011 | 150,174 |
| Less: Depreciation during the period from June 30, 2011 to September 30, 2011 | 227 |
| Net book value of property interests as of September 30, 2011 | 166,430 |
| Valuation surplus as of September 30, 2011 | 2,351 |
| Valuation as of September 30, 2011 as per Appendix IV to this Prospectus | 168,781(2) |

*Note:*

(1) The net book value of property interests as of June 30, 2011 represents the value of RMB16,483,000 for buildings (net book value for land use rights: Nil).

(2) The valuation as of September 30, 2011 includes the aggregate capital value of RMB163,790,000 as at September 30, 2011 plus the value of RMB4,991,000 for reference purpose as stated in page IV-8 to this Prospectus.

## DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this Prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

## FINANCIAL INFORMATION OF THE LIZIPING COMPANY AND UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

We entered into a share transfer agreement on June 9, 2011 with Song Denghong (an Independent Third Party), the owner of the Liziping Company which owns the exploration right to the Liziping Mine. Pursuant to such share transfer agreement, we conditionally agreed to purchase 90% equity interests in the Liziping Company from Song Denghong. As at the Latest Practicable Date, we have not completed the acquisition of the Liziping Company. We currently expect to complete such acquisition in May 2012. Financial information of the Liziping Company for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 has been prepared. See section III of Appendix I "Accountants' Report" to this Prospectus for details of such financial information of the Liziping Company. A summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group in connection with the proposed acquisition of 90% equity interest of the Liziping Company has been prepared, assuming that the acquisition had been completed on June 30, 2011. See Appendix II "Unaudited Pro Forma Financial Information of the Enlarged Group" to this Prospectus for details of such summary of the unaudited pro forma statement of assets and liabilities of the Enlarged Group.

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. 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. Since we have not exercised such option and there is currently no decision or obligation that such option will be exercised, as at the Latest Practicable Date, we are not required to include the three years financial information of the Dakuangshan Mine under Listing Rules 4.04(2) and 4.28. If we were to elect to exercise the option to purchase 90% equity interests in the Dakuangshan Company after listing, we will comply with the application requirements of the Listing Rules, including Rule 14.75 of the Listing Rules.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Company, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2011. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Company had the Global Offering been completed as of June 30, 2011 or any future dates.

| | Audited consolidated net tangible assets attributable to owners of our Company as of June 30, 2011[(1)] | Estimated net proceeds from issue of Offer Shares[(2)] | Unaudited pro forma adjusted net tangible assets | Unaudited pro forma adjusted net tangible assets per Share[(3)] | |
|---|---|---|---|---|---|
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB) | (HK$) |
| Based on Offer Price of HK$2.22 per Share . . . . . . . . . . . . | 421,998 | 820,080 | 1,242,078 | 0.621 | 0.761 |
| Based on Offer Price of HK$2.54 per Share . . . . . . . . . . . . | 421,998 | 944,928 | 1,366,926 | 0.683 | 0.838 |

*Notes:*

(1) The consolidated net tangible assets attributable to owners of our Company as of June 30, 2011 is extracted from the Accountants' Report as set out in Appendix I to this Prospectus, which is equal to the audited consolidated net assets attributable to owners of our Company of RMB498.5 million as of June 30, 2011 less intangible assets of RMB76.5 million as of the same date.

(2) The estimated net proceeds from the Global Offering are based on hypothetical Offer Prices of HK$2.22 and HK$2.54 respectively, per Offer Share assuming no exercise of the Over-allotment Option, after deduction of underwriting fees and estimated expenses payable by us.

(3) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 2,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option).

## DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

As of the date of this Prospectus, the Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Company since June 30, 2011, the date of the latest audited financial statements of the Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2011, and there has been no event since June 30, 2011 that would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus.