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### OVERVIEW

Our Group is principally engaged in the business of mining, ore processing and sale of the concentrates products in the PRC. Copper concentrates and iron concentrates are our core commodities which, in aggregate, contributed approximately 75.0%, 77.7% and 69.6% of our total concentrates sales for the three years ended 31 December 2011, respectively.

Currently, we, through our wholly-owned subsidiaries, own the entire equity interest in Yifeng Wanguo which in turn owns the Xinzhuang Mine that has a production system separated into a mining system and a processing system. Our Group does not conduct any open pit mining and only conducts underground mining. Mining capacity refers to the capability of the mining system to produce ore under normal operation conditions while processing capacity refers to the capability of the processing system to treat the ore produced from the mining system under normal operation conditions. Currently, the Xinzhuang Mine is covered by a mining licence issued by the Department of Land and Resources of Jiangxi Province valid until April 2032 covering an aggregate area of 3.7692 km<sup>2</sup> pursuant to which we can conduct underground mining for copper, lead, zinc and iron ores at a rate of 600,000 tpa. As advised by our PRC Legal Advisers, if residual resources remain after the expiration of the mining licence, we may apply for the extension of the mining licence, and there will not be any material legal impediment for us to extend the mining licence upon its expiry in 2032 if we meet all relevant conditions and requirements pursuant to the relevant PRC laws and regulations as required by the competent authorities, such as proof of residual resources, submission of the application, and the illustration of mine development status and other documents. The Xinzhuang Mine was under construction during the period between 2003 and 2006 with an initial designed mining capacity and an initial designed processing capacity of both 200,000 tpa. Xinzhuang Mine and its processing plants began trial production in January 2007 and commercial production in August 2007. It reached the initial designed mining capacity and the initial designed processing capacity of both 200,000 tpa in 2008. Since then, we have continued our expansion and, as at 31 December 2011, we had a mining capacity of approximately 300,000 tpa and a processing capacity of approximately 400,000 tpa.

We have engaged Behre Dolbear Asia, Inc., an internationally reputable mining consultant and an Independent Third Party, to evaluate the resources and reserves at the Xinzhuang Mine in accordance with the JORC Code and prepare the Independent Technical Expert's Report. According to the Independent Technical Expert's Report, the Xinzhuang Mine had mineral resources of 32,514,000 tonnes as at 31 December 2011 comprising 11,008,000 tonnes measured, 19,929,000 tonnes indicated and 1,577,000 tonnes inferred mineral resources under the JORC Code. For a description of the categories of measured, indicated and inferred mineral resources under the JORC Code and the level of confidence attributable to each category, please refer to the section headed "The JORC Code" in this prospectus. The Independent Technical Expert confirms that defined mineral resources and ore reserves reviewed in the Independent Technical Expert's Report are contained within the limits of our mining licence.

We plan to undergo an expansion plan for our mining and ore processing facilities as designed by Nerin and, when completed, are expected to have a mining capacity and a processing capacity of both 600,000 tpa since 2014. According to the Independent Technical Expert's Report, as at 31 December 2011, the reserves at the Xinzhuang Mine were estimated to be sufficient for production at the planned long-term production rate of 600,000 tpa for approximately 31 years. The ore reserve mine life based on the production rate of 300,000 tpa, as of 31 December 2011, is estimated to be

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approximately 61.9 years. The planned reserve depletion rate is equivalent to our planned production rate. It is estimated that the annual production of copper and iron contained in the concentrates we produce annually at the Xinzhuang Mine in 2014 will reach 1,820 and 78,100 tonnes, respectively, upon completion of our expansion plan. We plan to focus on the production of copper concentrates and iron concentrates as our core commodities by expanding our production at the Xinzhuang Mine under the expansion plan. Our expansion plan is among other things subject to the approvals from the relevant government authorities for our operations pursuant to our expansion plan and to increase the mining and ore processing capacity.

As to mining, we outsource substantially all our underground mining works to a third-party contractor and our own staff mainly perform technical and support work. We believe such outsourcing arrangements have resulted in savings in investment in machinery and reductions in mining expenditure, salaries and other staff-related expenses as to the labour intensive underground mining works.

Our revenue, gross profit and profit attributable to owners of our Company were approximately RMB296.7 million, RMB151.6 million and RMB73.3 million, respectively, for the year ended 31 December 2011.

Although we intend to apply a portion of the net proceeds from the Share Offer for capital expenditure in relation to our expansion of exploration activities, commercialisation of newly discovered mineral resources as a result of exploration and mine development, our current operations do not depend on the discovery and commercialisation of new resources.

### **OUR COMPETITIVE ADVANTAGES**

We believe that we possess the following competitive advantages.

#### **Abundant and significant mineral reserves to support strong organic growth**

As at 31 December 2011, according to the Independent Technical Expert's Report, the Xinzhuang Mine had mineral resources of 32,514,000 tonnes comprising 11,008,000 tonnes measured, 19,929,000 tonnes indicated and 1,577,000 tonnes inferred mineral resources under Code. Based on the mine life analysis conducted by the Independent Technical Expert, as at 31 December 2011, we had ore reserves at the Xinzhuang Mine that was estimated to be sufficient for production at our planned long-term production rate at 600,000 tpa for approximately 31 years. The ore reserve mine life based on the production rate of 300,000 tpa, as of 31 December 2011, is estimated to be approximately 61.9 years. We believe we have abundant and significant mineral resources to support strong organic growth.

#### **Clear medium-term growth profile**

As mining and production at the Xinzhuang Mine will be escalated over the next few years, we expect our medium-term growth profile to be strong. As forecasted by the Independent Technical Expert, the mining capacity and processing capacity of the Xinzhuang Mine will reach 600,000 tpa both since January 2014 upon completion of our expansion plan by the end of 2013.

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In respect of the expansion of our mining capacity, it is planned to adopt in the Xinzhuang Mine a more mechanised approach with diesel equipment and decline access to stopes. Present rail haulage of ore on each level is planned to be kept whilst the equipment capacity would be increased. As to mine development, the upgrade will include the sinking of three new shafts: a main shaft for hoisting ore, a service shaft to hoist personnel and materials with mine dewatering and compressed air pipes and a ventilation shaft for exhaust air. Further details of our mine expansion plan are set out in the sections headed “8.3 Planned Mine Expansion” and “8.4 Mine Production Plan” in the Independent Technical Expert’s Report. For details, please refer to Appendix V to this prospectus.

The expansion of our processing plants will be achieved by the construction of a new concentrator with a processing capacity of 200,000 tpa in close proximity to our two existing concentrators (Concentrator No. 1 and Concentrator No. 2), each with a processing capacity of 200,000 tpa. The new concentrator will basically process Cu-Fe ore and produce individual copper, sulfur and iron concentrates. The new concentrator, being Concentrator No. 3, will not have its own crushing and screening plant but will use the excess crushing capacity at Concentrator No. 1. Further details of our expansion plan for the ore processing facilities are set out in the section headed “9.3 Processing Plant Expansion” in the Independent Technical Expert’s Report. For details, please refer to Appendix V to this prospectus. Compared with the production level of 356,340 tonnes of ore we processed in 2011, our expansion plan to reach a level mining and processing 600,000 tonnes of ore since 2014 would represent an implied CAGR of 19.0%. Further details of our forecasted ore and concentrates production amount of the Xinzhuang Mine are set out in section headed “10.0 Production” in the Independent Technical Expert’s Report. For details, please refer to Appendix V to this prospectus.

### **Future potential to find additional mineral resources at our mine**

We believe that there is potential to find additional mineral resources at the Xinzhuang Mine. According to the Independent Technical Report, there are significant additional defined mineral resources outside the planned mining area in the Xinzhuang Mine along strike in both the eastern and the western directions within the boundary covered by our current mining licence. These areas are less-well drilled than the planned mining area. Additional drilling may increase the resource confidence level and may also increase the total mineral resources in these areas. Further technical study will be needed to see if the planned mining can be safely carried out into these areas at a reasonable cost. For further details, please refer to the section headed “7.0 Potential for Defining Additional Mineral Resources” in Appendix V to this prospectus.

In addition, the copper-polymetallic mineralisation continues beyond the horizontal and vertical boundaries of the current mining licence of the Xinzhuang Mine. Further exploration along the strike and down dip directions of the mineralisation zone could also increase the mineral resources of the Xinzhuang deposit. A new exploration licence will need to be obtained by us before carrying out the exploration work in the area outside our current mining licence. Our Directors confirm that our Group is in the process of obtaining such exploration licence. Investors should be aware that we cannot assure you that we will be able to obtain such exploration licence.

### **Well positioned to capitalise on opportunities in Jiangxi Province**

Jiangxi Province has been recognised as a region rich in mineral resources. Pursuant to the statistics published by the National Bureau of Statistics of China (中華人民共和國國家統計局), as at 2010, Jiangxi Provinces ranked the highest among all provinces in terms of basic reserve of copper under the PRC national standard.

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Our presence in Jiangxi Province could be traced back to 2003 when Yifeng Wanguo was established, and Mr. Gao, our Controlling Shareholder and an executive Director, and Ms. Gao, an executive Director had participated in the management and operation of Yifeng Wanguo since its early stage of development. We believe that the long presence of Yifeng Wanguo, our Controlling Shareholder and management in Jiangxi Province provides us with strong leverage to take advantage of numerous growth opportunities such as obtaining the rights to exploit new areas and to consolidate with existing mines in the region. In addition, our executive Directors and senior management have established an experienced track record of mining and ore processing activities which could be traced back before the establishment of our operating subsidiary, Yifeng Wanguo. Accordingly, we believe that there are significant opportunities in mining available in Jiangxi Province and we believe that we are one of the well positioned companies to be able to take advantage of these opportunities and that our team of experienced professional will enable us to carefully evaluate and identify acquisition opportunities of mineral resources and ore reserve for our future growth and development.

### **Effective management structure with a strong senior management team**

Our executive Directors and senior management possess a strong exploration and mining track record, and an extensive industry expertise in the areas of exploration, mining, mine construction, processing, production safety and mine management. We believe that our executive Directors and senior management possess the skills, foresight and in-depth industry knowledge necessary to capture market opportunities, formulate sound business strategies, assess and manage risks and implement management and production schemes. For the biographical details of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

## **BUSINESS STRATEGIES**

We intend to continue to grow our business into a leading copper and iron mining company in the PRC through the following strategies.

### **Growing production at our mine and outsourcing our mining works**

The scale of our production operation in the Xinzhuang Mine will increase in the near future when the expansion plan has been completed by the end of 2013 and we will operate with the mining capacity and processing capacity of 600,000 tpa both in 2014. For further details in relation to our expansion plan, please refer to the section headed “– Our Expansion Plan” below.

To minimise costs, our business operating model is to outsource our underground mining works to third-party contractors. For further details in relation to our arrangement with our third-party contractors, please refer to the section headed “– Third-party Contractors” below.

### **Exploring additional mineral resources in our mine**

As disclosed in the section headed “– Future potential to find additional mineral resources at our mine” above, according to the Independent Technical Expert’s Report, there is potential to find additional mineral resources at the Xinzhuang Mine. We plan to conduct exploration activities in the surrounding areas of the Xinzhuang Mine and to commercialise any mineral resources discovered as a result of our exploration activities. Our Directors confirm that our Company intends to apply for an exploration licence which is in the surrounding area of Xinzhuang Mine of approximately 4 km<sup>2</sup> after the Listing. Pursuant to the applicable rules and regulations in the PRC, the material administrative costs for obtaining and maintaining such exploration licence are (i) the consideration

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of the exploration right (探礦權價款) which will be determined by the relevant authorities according to the valuation of the exploration right to be acquired; and (ii) the exploration right usage fee (探礦權使用費) payable annually upon obtaining the exploration right, at the annual rate of RMB100/km<sup>2</sup> per year for the first three years upon obtaining the exploration right with an annual increment of RMB100/km<sup>2</sup> per year from the fourth year onwards, limited to a maximum of RMB500/km<sup>2</sup> per year. Upon obtaining the exploration licence, we will engage qualified contractors to conduct the exploration activities. As advised by our PRC Legal Advisers, there is no material legal impediment for our Group to obtain such exploration licence if our Group meets all relevant conditions and requirements pursuant to the relevant PRC laws and regulations and requirements imposed by the competent authorities in the PRC by submitting to the competent land and resource authorities the required documents, such as (i) an application for registration and a map showing the scope of the blocks applied for; (ii) a copy of the qualification certificate of the exploration unit; (iii) an exploration working plan, an exploration contract or a document evidencing the authorisation for the exploration; (iv) an implementation programme for exploration and its annexes; and (v) documents evidencing the source of the funds for the exploration project. Our Directors believe that our Group can meet all the aforesaid conditions and requirements and it is currently expected that the exploration licence can be obtained by December 2013.

### **Horizontal expansion through future acquisitions of new mines**

Part of our growth strategies is to expand our mineral resources and ore reserves through the acquisitions of new mines. We will carefully consider and balance assessment criteria, including but not limited to the following attributes, in order to pursue acquisitions prudently with a view to further growing our business and maximising returns to our Shareholders:

- compliance with applicable PRC laws and regulations, including having respective valid licences, permits and approvals;
- stringent implementation of safety operating measures and high level of environmental protection standards;
- location of deposits;
- expected mining life;
- the volume and average grade, content and separability of proved and probable reserves;
- estimated return on investment; and
- our ability to finance such acquisition.

As at the Latest Practicable Date, we had not identified any specific target for acquisition and had not entered into any agreement or memorandum of understanding for an acquisition.

### **Strengthening our customer relationships**

With a view of developing stable relationship with our customers, our policy is to enter into sale agreements with our customers, which are generally entered into in the first quarter of a year, in respect of our sales to them for a certain period during the year. The agreements set out the pricing policy for our products and the monthly delivery mechanism. We intend to develop and strengthen these relationships to stabilise and grow our revenue. For further details, please refer to the section headed “– Sale of Products – Sale strategy” below.

OUR MINERAL RESOURCES

The map below illustrates the geographical location of the Xinzhuang Mine, Jiangxi Province, the PRC:



Source: Independent Technical Expert’s Report

Geographic Location

The Xinzhuang Mine is located approximately 37 km by road east-northeast of the Yifeng County and 33 km by road west of Gaoan City, in the northwestern section of the Jiangxi Province in China. The western portion of the property falls within the Xinzhuang Township of Yifeng County and the eastern portion of the property falls within the Cunqian Township of Gaoan City. However, the current underground mining area and surface mine facilities are all located within the Yifeng County boundary.

Access to the Xinzhuang Mine is convenient. Provincial highway S318 passes through the Xinzhuang Mine area and connects the mine with the Yifeng County in the west and the State Highway G320 in the south. The road distance from the Xinzhuang Mine to Nanchang, the capital city of Jiangxi Province located in the east-northeast direction, via S318 then G320, is approximately 99 km. There are two nearby rail stations in the area. The Shanggao station on the Xinyu-Shanggao branch railroad is located in the southwest area of the Xinzhuang Mine with a road distance of approximately 45 km. The Xietang station on the Zhangjiashan-Jianshan branch railroad is located in the southeast area of the Xinzhuang Mine with a road distance of approximately 59 km. Concentrates produced from the Xinzhuang Mine can be trucked to either the Shanggao Station or the Xietang station then be shipped by rail to the smelter customers in various areas in China.

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The geographic location of the Xinzhuang Mine covered by our current mining licence is defined by longitudes from 115°06'54"E to 115°08'14"E and latitudes from 28°27'23"N to 28°28'15"N. For details of our mining areas, please refer to the section headed "4.1 Location, Access and Infrastructure" in Appendix V to this prospectus.

### Mineral Resources and Reserves

The following table, which appears as Table 6.2 as contained in the Independent Technical Expert's Report, the text of which has been set out in Appendix V to this prospectus, provides information on the resources at the Xinzhuang Mine as at 31 December 2011 under the JORC Code. For definitions of the technical terms used in the tables, please refer to the section headed "Glossary of Technical Terms" in this prospectus.

**The Xinzhuang Mine Mineral Resource Summary – as at 31 December 2011**

Mineralisation Type	JORC Mineral Resource Category	Tonnage <i>kt</i>	Grades					Contained Metals				
			Cu %	Pb %	Zn %	TFe %	mFe %	Cu <i>kt</i>	Pb <i>kt</i>	Zn <i>kt</i>	TFe <i>kt</i>	mFe <i>kt</i>
Cu-Fe	Measured	6,218	0.80	-	-	-	-	49.66	-	-	-	-
	Indicated	12,989	0.69	-	-	-	-	89.99	-	-	-	-
	<b>Subtotal</b>	<b>19,206</b>	<b>0.73</b>	-	-	-	-	<b>139.65</b>	-	-	-	-
	Inferred	900	0.46	-	-	-	-	4.16	-	-	-	-
	<b>Total</b>	<b>20,106</b>	<b>0.72</b>	-	-	-	-	<b>143.81</b>	-	-	-	-
Fe-Cu	Measured	2,521	0.23	-	-	43.47	31.36	5.91	-	-	1,096	790
	Indicated	4,192	0.35	-	-	40.21	26.63	14.75	-	-	1,686	1,116
	<b>Subtotal</b>	<b>6,713</b>	<b>0.31</b>	-	-	<b>41.44</b>	<b>28.40</b>	<b>20.65</b>	-	-	<b>2,782</b>	<b>1,907</b>
	Inferred	319	0.52	-	-	44.16	31.05	1.66	-	-	141	99
	<b>Total</b>	<b>7,032</b>	<b>0.32</b>	-	-	<b>41.56</b>	<b>28.52</b>	<b>22.31</b>	-	-	<b>2,922</b>	<b>2,006</b>
Cu-Pb-Zn	Measured	2,269	0.15	0.95	4.93	-	-	3.51	21.51	111.88	-	-
	Indicated	2,748	0.11	1.73	3.78	-	-	2.99	47.60	103.74	-	-
	<b>Subtotal</b>	<b>5,017</b>	<b>0.13</b>	<b>1.38</b>	<b>4.30</b>	-	-	<b>6.50</b>	<b>69.12</b>	<b>215.62</b>	-	-
	Inferred	358	0.15	0.39	4.33	-	-	0.52	1.41	15.52	-	-
	<b>Total</b>	<b>5,376</b>	<b>0.13</b>	<b>1.31</b>	<b>4.30</b>	-	-	<b>7.03</b>	<b>70.52</b>	<b>231.14</b>	-	-
<b>Total</b>	Measured	11,008	-	-	-	-	-	59.08	21.51	111.88	1,096	790
	Indicated	19,929	-	-	-	-	-	107.73	47.60	103.74	1,686	1,116
	<b>Subtotal</b>	<b>30,937</b>	-	-	-	-	-	<b>166.81</b>	<b>69.12</b>	<b>215.62</b>	<b>2,782</b>	<b>1,907</b>
	Inferred	1,577	-	-	-	-	-	6.34	1.41	15.52	141	99
	<b>Total</b>	<b>32,514</b>	-	-	-	-	-	<b>173.14</b>	<b>70.52</b>	<b>231.14</b>	<b>2,922</b>	<b>2,006</b>

*Note:* The mineral resources also contain meaningful amounts of gold and silver. Based on limited composite sample analysis, the average grade is 0.19 g/t for gold and 13.1 g/t for silver in the Cu-Fe resource, 0.17 g/t for gold and 5.7 g/t for silver in the Fe-Cu resource, and 0.61 g/t for gold and 56.7 g/t for silver for the Cu-Pb-Zn resource.

*Source:* Table 6.2, Independent Technical Expert's Report

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The following table, which appears as Table 6.4 in the Independent Technical Expert's Report, provides information on the reserves of the Xinzhuang Mine as at 31 December 2011 under the JORC Code. Pursuant to the Independent Technical Expert's Report, the aggregate proved ore reserves and probable ore reserves, under the JORC Code, of the Xinzhuang Mine are 18,584 Mt.

### The Xinzhuang Mine Ore Reserve Summary – 31 December 2011

Mineralisation Type	JORC Ore Reserve		Grades					Contained Metals				
	Category	Tonnage <i>kt</i>	Cu %	Pb %	Zn %	TFe %	mFe %	Cu <i>kt</i>	Pb <i>kt</i>	Zn <i>kt</i>	TFe <i>kt</i>	mFe <i>kt</i>
Cu-Fe	Proved	4,777	0.77					36.74				
	Probable	5,539	0.70					38.55				
	<b>Total</b>	<b>10,316</b>	<b>0.73</b>					<b>75.29</b>				
Fe-Cu	Proved	2,621	0.25			38.35	32.88	6.56			1,005	862
	Probable	2,621	0.35			30.41	25.30	9.06			797	663
	<b>Total</b>	<b>5,241</b>	<b>0.30</b>			<b>34.38</b>	<b>29.09</b>	<b>15.62</b>			<b>1,802</b>	<b>1,525</b>
Cu-Pb-Zn	Proved	1,706	0.14	0.89	4.62			2.41	15.12	78.80		
	Probable	1,320	0.08	1.29	3.36			1.07	17.02	44.37		
	<b>Total</b>	<b>3,026</b>	<b>0.12</b>	<b>1.06</b>	<b>4.07</b>			<b>3.48</b>	<b>32.14</b>	<b>123.17</b>		
<b>Total</b>	Proved	9,104	–	–	–	–	–	45.71	15.12	78.80	1,005	862
	Probable	9,480	–	–	–	–	–	48.68	17.02	44.37	797	663
	<b>Total</b>	<b>18,584</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>94.39</b>	<b>32.14</b>	<b>123.17</b>	<b>1,802</b>	<b>1,525</b>

*Note:* The ore reserves also contain meaningful amounts of gold and silver. Based on limited composite sample analysis, the average grade is 0.19 g/t for gold and 13.1 g/t for silver in the Cu-Fe resource, 0.17 g/t for gold and 5.7 g/t for silver in the Fe-Cu resource, and 0.61 g/t for gold and 56.7 g/t for silver for the Cu-Pb-Zn resource.

*Source:* Table 6.4, Independent Technical Expert's Report



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The following tables, which appear as Tables 10.1, 10.2 and 10.3 in the Independent Technical Expert's Report, provide information on the historical figures from 2009 to 2011 and forecast figures from 2012 to 2014 in respect of processed ore, processing recoveries and concentrate production for the Xinzhuang Mine.

### Historical and Forecast Concentrator Processed Ore for the Xinzhuang Mine, 2009-2014

Item	Historical			Forecast		
	2009	2010	2011	2012	2013	2014
<b>Cu-Fe Ore (t)</b>	92,190	99,980	118,470	50,000	100,000	150,000
Cu Grade (%)	1.50	1.40	1.28	0.76	0.76	0.76
TFe Grade (%)	N/A	N/A	N/A	N/A	N/A	N/A
Au Grade (g/t)	0.25	0.23	0.18	0.18	0.18	0.18
Ag Grade (g/t)	12.27	14.20	12.27	12.3	12.3	12.3
Cu Metal (t)	1,387	1,396	1,516	380	760	1,140
TFe Metal (t)	N/A	N/A	N/A	N/A	N/A	N/A
Au Metal (kg)	23.05	23.17	21.32	9.0	18.0	27.0
Ag Metal (kg)	1,131	1,420	1,454	610	1,230	1,840
<b>Fe-Cu Ore (t)</b>	146,190	167,130	154,020	300,000	300,000	300,000
TFe Grade (%)	36.50	34.82	35.50	37.7	37.7	37.7
Cu Grade (%)	0.43	0.33	0.52	0.31	0.31	0.31
Au Grade (g/t)	0.27	0.24	0.17	0.17	0.17	0.17
Ag Grade (g/t)	8.84	14.20	8.18	8.2	8.2	8.2
TFe Metal (t)	53,358	58,188	54,675	113,200	113,200	113,200
Cu Metal (t)	629	558	807	930	930	930
Au Metal (kg)	39.47	40.11	26.18	51.0	51.0	51.0
Ag Metal (kg)	1,292	2,373	1,260	2,450	2,450	2,450
<b>Cu-Pb-Zn Ore (t)</b>	49,110	36,850	83,850	100,000	100,000	150,000
Cu Grade (%)	0.19	0.20	0.57	0.16	0.16	0.16
Pb Grade (%)	0.88	0.50	0.55	0.87	0.87	0.87
Zn Grade (%)	4.81	4.70	3.63	4.59	4.59	4.59
Au Grade (g/t)	0.57	0.57	0.57	0.57	0.57	0.57
Ag Grade (g/t)	51.53	51.52	51.52	52.8	52.8	52.8
Cu Metal (t)	93	74	478	160	160	240
Pb Metal (t)	432	184	461	870	870	1,310
Zn Metal (t)	2,362	1,733	3,044	4,590	4,590	6,890
Au Metal (kg)	27.99	21.00	47.79	57.0	57.0	85.5
Ag Metal (kg)	2,531	1,899	4,320	5,280	5,280	7,920
<b>Total Processed Ore (t)</b>	<b>287,490</b>	<b>303,960</b>	<b>356,340</b>	<b>450,000</b>	<b>500,000</b>	<b>600,000</b>

*Note:* The historical as well as forecast gold and silver grades for different ore types in the table were estimated based on limited composite assays, and may have a relatively large margin of error.

*Source:* Table 10.1, Independent Technical Expert's Report

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### Historical and Forecast Concentrator Processing Recoveries for the Xinzhuang Mine, 2009-2014

Item	Historical		2011	2012	Forecast	
	2009	2010			2013	2014
<b>Cu-Fe Ore</b>						
Cu to Cu Concentrate (%)	87.10	86.10	89.19	86.0	86.0	86.0
TFe to Iron Concentrate (%)	N/A	N/A	N/A	N/A	N/A	N/A
<b>Fe-Cu Ore</b>						
TFe to Iron Concentrate (%)	69.00	69.20	88.28	69.0	69.0	69.0
Cu to Cu Concentrate (%)	84.00	82.19	89.19	82.0	82.0	82.0
<b>Cu-Pb-Zn Ore</b>						
Cu to Cu Concentrate (%)	30.00	30.30	52.01	30.0	30.0	30.0
Pb to Pb Concentrate (%)	–	–	–	65.0	65.0	65.0
Zn to Zn Concentrate (%)	84.00	85.20	89.17	85.0	85.0	85.0

*Source:* Table 10.2, Independent Technical Expert's Report

### Historical and Forecast Concentrate Production for the Xinzhuang Mine, 2009-2014

Item	Historical		2011	2012	Forecast	
	2009	2010			2013	2014
<b>Cu Concentrate (t)</b>	8,142	7,457	11,066	6,020	7,510	9,140
Cu Grade (%)	21.67	22.57	20.97	18.9	19.5	19.9
Au Grade (g/t)	4.27	2.36	4.28	2.3	2.3	2.4
Ag Grade (g/t)	503	458	336	380	360	360
Cu Metal (t)	1,764	1,683	2,321	1,140	1,460	1,820
Au Metal (kg)	34.77	36.99	47.41	13.5	17.1	21.9
Ag Metal (kg)	4,092	3,412	3,719	2,290	2,690	3,270
<b>Fe Concentrate (t)</b>	58,255	63,915	77,889	123,900	123,900	123,900
TFe Grade (%)	63.20	63.00	61.97	63.0	63.0	63.0
TFe Metal (t)	36,817	40,266	48,268	78,100	78,100	78,100
<b>Pb Concentrate (t)</b>	–	–	–	1,410	1,410	2,120
Pb Grade (%)	–	–	–	40.0	40.0	40.0
Au Grade (g/t)	–	–	–	1.6	1.6	1.6
Ag Grade (g/t)	–	–	–	670	670	670
Pb Metal (t)	–	–	–	570	700	850
Au Metal (kg)	–	–	–	2.3	2.8	3.4
Ag Metal (kg)	–	–	–	950	950	1,430
<b>Zn Concentrate (t)</b>	4,159	3,145	5,746	7,800	7,800	11,700
Zn Grade (%)	47.70	46.93	47.23	50.0	50.0	50.0
Zn Metal (t)	1,984	1,476	2,714	3,900	3,900	5,850
<b>S Concentrate (t)</b>	11,153	23,168	64,617	36,300	50,500	69,900
S Grade (%)	39.48	38.00	38.90	40.6	41.5	41.5

*Source:* Table 10.3, Independent Technical Expert's Report

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No material changes had occurred in our mineral resources and reserves since the effective date of the Independent Technical Expert's Report set forth in Appendix V to this prospectus and up to the Latest Practicable Date.

### MINING RIGHT

We currently hold one mining licence in respect of the Xinzhuang Mine, for an area of 3.7692 km<sup>2</sup> pursuant to which we can conduct underground mining for copper, lead, zinc and iron ores at a rate of 600,000 tpa, granted in April 2012 and valid until 20 April 2032. As advised by our PRC Legal Advisers, if there are residual resources remaining after the expiration of the mining licence, we may apply for the extension of the mining licence, and there will not be any material legal impediment for us to extend the mining licence upon its expiry in 2032 and obtain the new mining licence if we meet all relevant conditions and requirements pursuant to the relevant PRC laws and regulations and requirements imposed by the competent authorities, such as proof of residual resources, submission of the application, the illustration of mine development status and other documents. Our mining right to the Xinzhuang Mine are subject to verification on an annual basis by the competent department of land and resources. For details, please refer to the section headed "Risk Factors – Risks relating to our business – We may be unable to pass the annual verification of our mining right of the Xinzhuang Mine". We have passed the annual verifications in the past. For the purposes of our current mining and ore processing operations, the exploration work for the Xinzhuang Mine has been completed, as such, no exploration licence is needed. For further details on the risks relating to obtaining new licences or renewing existing licences, please see the section headed "Risk Factors – Risks Relating to our Business – There is no assurance that we can obtain or renew approvals, permits and licences necessary for the exploration, mining or ore processing at the Xinzhuang Mine or in respect of any mines we acquire in the future" in this prospectus.

Our PRC Legal Advisers advised that Yifeng Wanguo is required to obtain land use right for the mining areas falling within the mining licence of the Xinzhuang Mine where ore processing and mining activities take place above the ground level but it is not required to obtain land use right for the mining areas which have not been and will not be damaged and/or used by Yifeng Wanguo.

Our Directors confirm that Yifeng Wanguo has obtained the necessary land use rights in respect of the land where its current ore processing and mining activities take place above the ground level.

For further details in relation to the applicable PRC laws and regulations, please refer to Appendix IV to this prospectus. Further details of our mining licence are set out in Appendix V to this prospectus.

Our PRC Legal Advisers have confirmed that we have obtained permits and licences which are material for the current operations of the Xinzhuang Mine. The Independent Technical Expert has confirmed that all defined mineral resources and ore reserves reviewed in the Independent Technical Expert's Report are contained within the limits of our mining licence.

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### OUR KEY ACTIVITIES

We are engaged in the business of mining and processing ore. As to mining, we outsource substantially all of our underground mining works to a third-party contractor, and our own staff mainly perform technical and support work. Pursuant to our policy, prior to engaging any third-party contractors, we assess their skills, expertise and experience and they are required to satisfy the technical parameters regarding their works stipulated in the outsourcing contracts.

We are engaged in the following key activities with respect to our mineral resources:

- **overall management** – despite outsourcing substantially all of our underground mining works to a third-party contractor, our staff manage and supervise the overall development of the Xinzhuang Mine’s mineral resources and the mineral quality in order to ensure that the third-party contractor meets our quality standards. Although our third-party contractor receives payments for performing specific tasks that it undertakes, it does not have any economic interest in our mineral resources. Please refer to the section headed “– Mining – Third-party Contractors” below;
- **mining** – we engage a third-party contractor on annual basis to extract our ore. Please refer to the section headed “– Mining” below;
- **processing** – we process the extracted ore at our ore processing plant and facilities to produce saleable mineral concentrates. Please refer to the section headed “– Ore Processing” below; and
- **concentrates sales** – we mainly sell our products to mineral trading and brokerage enterprises in the PRC. Please refer to the section headed “– Sale of Products” below.

### MINING

Operations of the Xinzhuang Mine are underground operations using the cut-and-fill mining method. The Independent Technical Expert considers that this mining method is appropriate for the orebodies to which the Xinzhuang Mine relates and provides flexibility to adjust the mining width to the size of the orebody. The “Integrated Technology for Complicated Hard-to-mine Heavy Water Deposits Safety Mining of the Xinzhuang Mine” (新莊銅鋅礦複雜難採大水礦床安全開採綜合技術) developed by us together with Changsha Mine Research Institute Co., Ltd. (長沙礦山研究院有限責任公司) (“**Changsha Mine Research Institute**”) has been recognised by the China Nonferrous Metals Industry Association (中國有色金屬工業協會) and the Nonferrous Metals Society of China (中國有色金屬學會) and awarded with the second class China Nonferrous Metals Industry Science and Technology Award (中國有色金屬工業科學技術獎) in January 2012.

Further details of the mining system are set out in the section headed “8.1 Current Mining System” in Appendix V to this prospectus.

As to our expansion plan to enhance our current mining system, please refer to the section headed “– Our Expansion Plan” below.

### Third-party Contractors

To minimise costs, our business operating model is to outsource substantially all of our underground mining works to third-party contractors and our own staff mainly perform technical and support work.

Since 2008, Wenzhou No.2, an Independent Third Party contractor holding a Grade II Construction Qualification for Mining (礦山工程施工總承包貳級證書) issued by the Department of Construction of Zhejiang Province, has been engaged as our third-party contractor for our underground mining works. We have selected Wenzhou No.2 through a selective tendering process when it was firstly engaged in 2008. Prior to the engagement, we have assessed the bidders' skills, expertise and experience. Wenzhou No.2 has been required to satisfy the technical parameters regarding their works stipulated in the outsourcing contracts. Wenzhou No.2 has worked under the supervision of our management and technical teams. Each of our relevant departments is responsible for supervising such works ranging from reviewing engineering quality, quantifying losses and depletion of minerals to supervising and managing the progress and completion of its works and its safety management and operation quality. Our Directors confirm that we were satisfied with their performance and hence renewed the annual engagement without conducting a tender in 2009, 2010 and 2011. A tender was conducted in 2012 under the aforesaid selection procedures and Wenzhou No. 2 was retained. These measures are adopted by us to ensure they are in full compliance with the relevant government rules and regulations and detect any non-compliance with the relevant rules and regulations. Yifeng Wanguo has a formal policy to conduct the tender under the above selection procedures and will conduct a tender each year in selecting the third-party contractor for underground mining works in the future, and that other third-party contractors are readily available in the market in the event that the Company is required to replace Wenzhou No.2 for the underground mining work. Our Directors are of the view that the basis of the Group's contracting fees paid to the contractor was in line with the market practice.

Contracting out our underground mining works has reduced our costs mainly in the following ways:

- **management costs** – outsourcing substantially all of our underground mining works has significantly reduced our management costs. Such management costs include administrative costs which are associated with overseeing a larger number of employees. The dual-management in production and safety has also ensured smoother operations of our mine.
- **increase in efficiency** – engagement of third-party contractors that possess the requisite experience and expertise ensures that the underground mining works are carried out efficiently, which has resulted in an increase in our working efficiency and a reduction in our unit production costs.

We pay the third-party contractor a fee proportional to its performance, including the volume of ore extracted, the length of tunnel excavated and the size of chambers constructed by them. The fees payable are settled on a monthly basis, subject to the type of engineering projects and performance of the contracted works.

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The contracting fees payable to Wenzhou No. 2 for mining works recorded in our consolidated statements of comprehensive income for the three years ended 31 December 2011 were approximately RMB39.3 million, RMB32.6 million and RMB36.8 million, respectively.

Our outsourcing contracts provide that Wenzhou No. 2 must comply with the applicable laws and our own guidelines regarding production safety. We also conduct periodic inspections of the underground mining premises. If there is any non-compliance detected during the inspection, we will request it to adopt necessary remedial measures at its own cost. As of the Latest Practicable Date, we were not aware of any material non-compliance with the applicable laws and our own guidelines by Wenzhou No. 2 during the Track Record Period with respect to the underground mining works at the Xinzhuang Mine, and we have not been liable for any non-compliance committed by the third-party contractor.

We did not experience any major disputes with Wenzhou No. 2 that would have resulted in a material adverse effect on our business, financial condition or results of operations during the Track Record Period. In addition, we have not experienced any suspensions or delays as a result of any improper act of the third-party contractor during the Track Record Period. As advised by our PRC Legal Advisers, our outsourcing contracts remained valid and effective in accordance with terms therein as of the Latest Practicable Date.

Under the outsourcing contracts, the third-party contractor shall comply with our safety standard as well as the applicable laws and regulations and safety requirements imposed by the relevant government authorities and that all losses caused by or incurred pursuant to the underground mining works of Wenzhou No. 2 as a result of its failure to maintain proper safety standard shall be borne by it. Therefore, if a third party suffering from such loss makes claims against our Company and our Company has paid for such sum, our Company has the right to ask the third-party contractor to compensate us. Our PRC Legal Advisers have advised us that, under the applicable PRC law and regulations, generally we are not responsible for any loss, including but not limited to any injury or casualty suffered by any third party or employee of our third-party contractor, caused by or incurred pursuant to the outsourced activities unless we are at fault regarding our order or instruction, or selection of our third-party contractor. The third-party contractor is liable for its non-compliance under the PRC laws and regulations and under the outsourcing agreements. However, we cannot assure you that no claim in respect of the outsourced works will be made against us in future. Please refer to the section headed “Risk Factors – Risks Relating to our Business – We rely on a third-party contractor to provide mining service in respect of the Xinzhuang Mine” for further information.

As advised by our PRC Legal Advisers, we are not required to purchase social insurance for the employees of the third-party contractor we engage because they are not considered our employees under applicable PRC laws and regulations. We do not maintain any insurance policy to cover possible losses, damage or costs resulting from accidents, fault or omission of the third-party contractor and/or its employees. Our Directors are of the view that this is a common practice in the mining industry in the PRC. In the event of an injury or loss of life during a project, the incident shall be reported to the relevant PRC administrative department according to applicable regulations.

### ORE PROCESSING

Our current ore processing facilities located at the Xinzhuang Mine consist of two concentrators: Concentrator No.1 and Concentrator No.2. Each has a capacity to treat ore at the rate of 200,000 tpa.

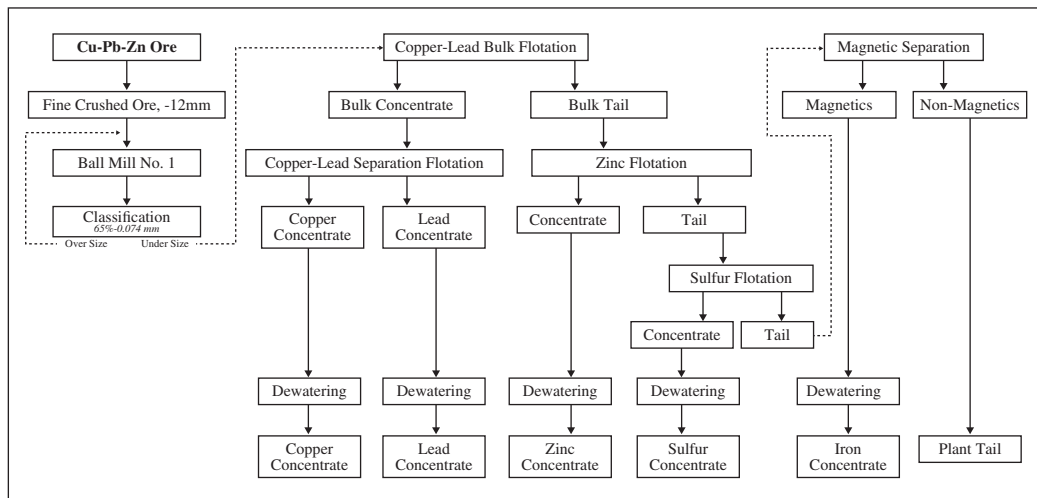
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Concentrator No.1 has two sections. The first section has a processing capacity 100,000 tpa and treats Cu-Pb-Zn ore by flotation and magnetic separation, producing copper, lead, zinc, sulfur and iron concentrates. The second section, at a processing capacity 100,000 tpa and treats Cu-Fe ore by flotation and magnetic separation, producing copper, sulfur and iron concentrates.

Concentrator No.2 has a processing capacity of 200,000 tpa. It was designed to treat Fe-Cu ore by flotation and magnetic separation. Copper, sulfur and iron concentrates are produced in this plant. The plant also has the capability to produce zinc concentrate should the zinc quantity in the feed warrants it.

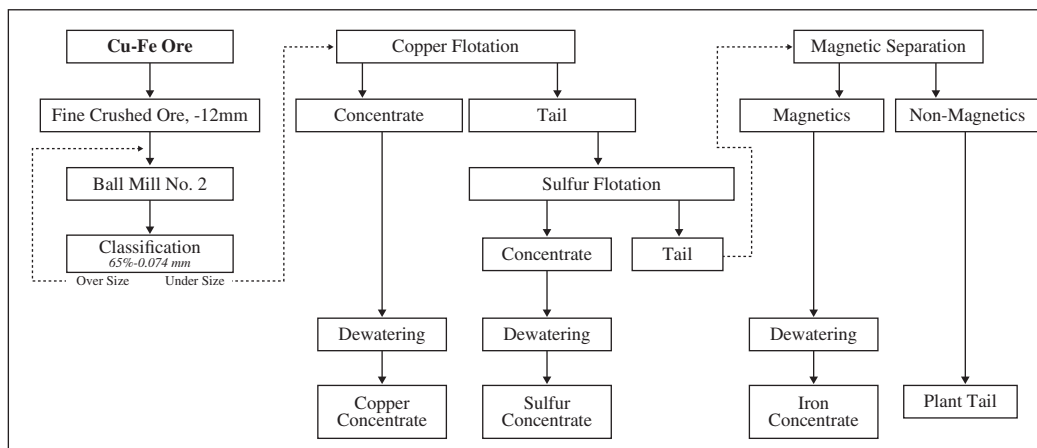
The flowsheets below, which appear as Figures 9.1 and 9.2 in the Independent Technical Expert's Report, illustrate the major steps of the ore processing procedures employed by Concentrator No.1.

### Simplified processing flowsheet for section 1 of Concentrator No.1



Source: Figure 9.1, Independent Technical Expert's Report

### Simplified processing flowsheet for section 2 of Concentrator No.1

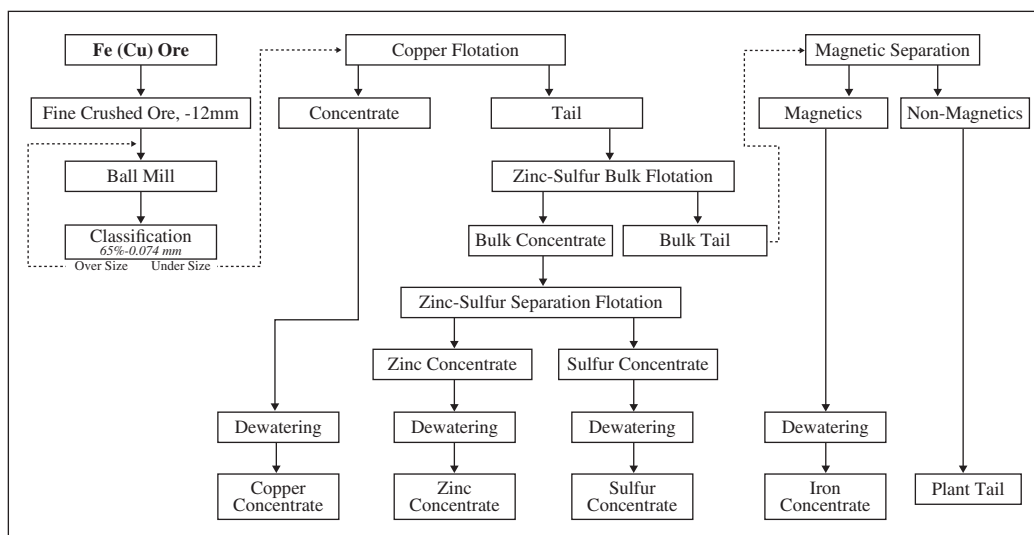


Source: Figure 9.2, Independent Technical Expert's Report

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The flowsheet below, which appears as Figure 9.3 in the Independent Technical Expert's Report, illustrates the major steps of the ore processing procedures employed by Concentrator No.2.

### Simplified processing flowsheet for Concentrator No.2



Source: Figure 9.3, Independent Technical Expert's Report

Further details of the processing of ore into concentrates at the ore processing facility are set out in the section headed "9.2 Current Processing Plants" in Appendix V to this prospectus.

The designed processing capacity, actual processed amount of ore and utilisation rate of Concentrator No. 1 and Concentrator No. 2 for each of the three years ended 31 December 2011 are set out below:

	For the year ended 31 December		
	2009	2010	2011
<b>Concentrator No. 1</b>			
– Designed processing capacity (tpa)	200,000	200,000	200,000
– Actual processed amount (t)	287,490	190,570	192,070
– Utilisation rate (%)	144 <i>(note 1)</i>	95	96
<b>Concentrator No. 2</b>			
– Designed processing capacity (tpa)	N/A <i>(note 2)</i>	200,000	200,000
– Actual processed amount (t)	N/A	113,390	164,270
– Utilisation rate (%)	N/A	57	82

Notes:

- As set out in the Independent Technical Expert's Report, the designed processing capacity of 200,000 tpa for each of Concentrator No.1 and Concentrator No. 2 is relatively conservative, which is the main reason why we were able to reach an utilisation rate of over 100% for Concentrator No. 1 in 2009.
- Concentrator No. 2 was not yet in operation in the year ended 31 December 2009.



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Processed volume during the year = Unprocessed ore brought forward from the previous year  
– Unprocessed balance left at year end + volume of mined ore during the year

The processed volume during the year could be greater than the volume of ore mined during the year when our Group managed to process all the mined ore during the year and the unprocessed balance brought forward from the previous year.

The volume of ore mined in 2009 and 2010 for the sum of approximately 300,570 tonnes and approximately 306,580 tonnes was respectively higher than the volume of ore processed of approximately 287,490 tonnes and approximately 303,960 tonnes because of our limited processing capacity prior to the completion of construction of Concentrator No. 2 in the second half of 2010. In 2011, we began to process the previously mined ore with both Concentrator No. 1 and Concentrator No. 2 and hence the processed volume of approximately 356,340 tonnes was higher than the mined volume of approximately 300,070 tonnes.

As set out in Table 10.3 of the Independent Technical Expert's Report, we only produced copper concentrates, iron concentrates, zinc concentrates and sulfur concentrates during the Track Record Period. Our Directors have confirmed that we did not activate the process to produce lead concentrates during the Track Record Period as it was not cost-effective to do so.

### OUR EXPANSION PLAN

The Xinzhuang Mine was constructed in the period from 2003 to 2006 with an initial designed mining capacity and processing capacity of 200,000 tpa both and its trial production commenced in January 2007. Commercial production of the processing plants and the mine started in August 2007. It reached the initial designed mining capacity and processing capacity in 2008. Since then, we have continued our expansion and, as of 31 December 2011, we had a mining capacity of approximately 300,000 tpa and processing capacity of approximately 400,000 tpa. At present, our mining and ore processing facilities are under expansion and, according to the Independent Technical Expert's Report, as a result of our expansion plan, the ore to be mined and processed at the Xinzhuang Mine is forecasted to increase to 450,000, 500,000 and 600,000 tonnes both for each of the three years ending 31 December 2014.

The material outstanding approvals that we shall obtain for our expansion project include:

- (i) the approvals for the examination and acceptance of the completion of environmental protection facilities; and
- (ii) the approvals for the examination and acceptance of the completion of production safety facilities.

Our Directors confirm that we will apply for the respective approvals from the relevant government authorities after the completion of construction of the relevant environmental protection facilities and safety facilities, respectively.

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The total budgeted capital expenditures for the expansion plan would be approximately RMB354 million and the actual incurred capital expenditure as at 31 December 2011 amounted to approximately RMB68.8 million. We have completed the engineering drilling for the three planned shaft sites, and are in the process of preparing the ground for shaft sinking. The table below highlights the key milestones for our expansion plan at the Xinzhuang Mine:

Year in which the relevant development activities took/will take place	Major development activities/plan	Tonnage of ore to be mined during the relevant year	Tonnage of ore to be processed during the relevant year	Actual capital expenditure (for the year ended 31 December 2011)/ Planned capital expenditure (for the two years ended 31 December 2013) <i>(RMB in millions)</i>	Source of funding
2011	<p><b>Mine</b> Sinking and construction of shafts; acquisition of mining equipment; development of underground tunnels;</p> <p><b>Land</b> Acquisition of land for construction of shafts and tailings storage facilities;</p> <p><b>Administration</b> Construction of buildings on the surface for operation and administrative use in anticipation of the needs under the expanded capacity</p>	300,070 (actual)	350,340 (actual)	68.8	Internally generated cash and bank borrowings
2012	<p><b>Mine</b> Sinking and construction of shafts;</p> <p><b>Land</b> Acquisition of land for construction of shafts and tailings storage facilities;</p> <p><b>Administration</b> Construction consultant and management fee; construction design fee; staff training fee</p>	450,000 (forecast)	450,000 (forecast)	128.4	In 2012, the capital costs for our expansion in respect of the mine for the sum of RMB108,600,000 will be financed by the net proceeds from the Share Offer (less the sum already financed by our internally generated cash prior to the Listing). The capital costs for other categories of development for the total sum of RMB19,800,000 will be financed by our internally generated cash and/or bank borrowings.

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Year in which the relevant development activities took/will take place	Major development activities/plan	Tonnage of ore to be mined during the relevant year	Tonnage of ore to be processed during the relevant year	Actual capital expenditure (for the year ended 31 December 2011)/ Planned capital expenditure (for the two years ended 31 December 2013) <i>(RMB in millions)</i>	Source of funding
2013	<p><b>Mine</b> Development of underground mining at each level and mining facilities for the purpose of increase in mining capacity;</p> <p><b>Concentrator</b> construction of ore processing facilities</p> <p><b>Property acquisition</b> Acquisition and installation of machineries relevant to mining operations</p>	500,000 (forecast)	500,000 (forecast)	157.0	In 2013, the capital costs for our expansion in respect of the mine for the sum of RMB88,800,000 will be financed by the net proceeds from the Share Offer, supplemented by our internally generated cash and/or bank borrowings. The capital costs for other categories of development for the total sum of RMB68,200,000 will be financed by our internally generated cash and/or bank borrowings.
2014	Development activities in relation to the expansion plan of the Group are expected to complete by the end of 2013 and the mining and ore processing facilities will operate at their designed expanded capacities of 600,000 tpa since 2014 onwards.	600,000 (forecast)	600,000 (forecast)	-	N/A

For further details in relation to the capital expenditure for each category of our development activities, please refer to the section headed “Financial Information – Capital Expenditure” in this prospectus.

For details of our expansion plan, please refer to sections headed “8.3 Planned Mine Expansion”, “8.4 Mine Production Plan” and “9.3 Processing Plant Expansion” in Appendix V to this prospectus.

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### SALE OF PRODUCTS

#### Overview

The following table sets forth the sales of concentrates and other ore commodities by product categories for the year ended 31 December 2009, 2010 and 2011.

	Year ended 31 December					
	2009		2010		2011	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of concentrates:						
Copper concentrates <sup>(Note 1)</sup>	36,379	42.0	88,490	43.3	114,937	38.7
Iron concentrates	28,532	33.0	52,197	25.5	68,453	23.1
Zinc concentrates <sup>(Note 2)</sup>	9,502	11.0	10,773	5.3	21,307	7.2
Sulfur concentrates	1,177	1.4	8,166	4.0	28,897	9.7
Gold in copper concentrates <sup>(Note 1)</sup>	4,663	5.4	9,609	4.7	12,503	4.2
Silver in copper and zinc concentrates <sup>(Note 1 and 2)</sup>	6,262	7.2	11,943	5.8	17,311	5.9
Sub-total	86,515	100.0	181,178	88.6	263,408	88.8
Sales of other ore commodities <sup>(Note 3)</sup>	–	–	23,250	11.4	33,329	11.2
<b>TOTAL</b>	<b>86,515</b>	<b>100.0</b>	<b>204,428</b>	<b>100.0</b>	<b>296,737</b>	<b>100.0</b>

#### Notes:

- Revenue attributable to copper represents the revenue of our copper concentrates sale. Gold and silver contained in copper concentrates were sold as by-products together with the copper concentrates to the customers and additional fees were charged for the amount of gold and silver contained in the concentrates.
- Revenue attributable to zinc represents the revenue of our zinc concentrates sale. Silver in zinc concentrates was sold as a by-product together with the zinc concentrates to the customers and additional fees were charged for the amount of silver contained in the concentrates.
- Trading of other ore commodities represents trading of ingots of lead, zinc and aluminium. Since 2010, Yifeng Wanguo has engaged in the metal ingots trading business in which it purchased metal ingots (including ingots of lead, zinc and aluminium) from trading enterprises and subsequently resold them. For details, please refer to the section headed “– Other Business” below.

For details of our pricing policy, please refer to the section headed “– Pricing Policy” below. The concentrates are generally transported by truck to smelters or to either the Shanggao Station or the Xietang Station then transported by rail to smelters under the instruction of our customers, or collected by our customers at the Xin Zhuang Mine. The terms vary from customers to customers. During the Track Record Period, in respect of products collected by our customers, the transportation cost and risk of loss of the goods were borne by the customers once they collected the goods at the Xin Zhuang Mine. In respect of products transported by us to smelters, the

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transportation cost was borne by us. We had entered into delivery agreements with a transportation company which was an Independent Third Party for the delivery of our products from the Xinzhuang Mine to the rail station by trucks and the fees paid to the transportation company for the delivery by trucks amounted to approximately RMB440,000, RMB791,000 and RMB719,000 for the three years ended 31 December 2011, respectively. Pursuant to the delivery agreements, the transportation company should be liable for our loss as a result of late delivery or damage to our products whilst in transit from the Xinzhuang Mine to the rail stations by trucks. In respect of the arrangement and liaison with the railway, we have entered into a logistics agreement with a logistics agent which is an Independent Third Party for the Nanchang Railway Bureau for the delivery of our products by way of railway to the smelters for the year ending 31 December 2012. Railway charges and other disbursements such as loading charges will be settled by the logistics agent on our behalf and then charged to us by the logistics agent on a full disbursement basis. The above transportation costs (inclusive of the fees for transportation company for delivery by trucks, railway charges and the agency fee for the logistics agent for arranging railway delivery plus relevant disbursements) were approximately RMB1.1 million, RMB2.3 million and RMB2.9 million respectively for the three years ended 31 December 2011, and were accounted for under our selling and distribution expenses. For each of the three years ended 31 December 2011, the logistics agency fee for arranging railway delivery amounted to approximately RMB54,000, RMB92,000 and RMB97,000. For the three years ended 31 December 2011, our revenue attributable to sale of concentrates for which the transportation costs were borne by us accounted for approximately 65.7%, 66.7% and 63.0% of our total concentrates sales, and the unit transportation cost (inclusive of the fees for transportation company for delivery by trucks, railway charges and the agency fee for the logistics agent for arranging railway delivery plus relevant disbursements) for each tonne of concentrates transported by us to the customers was approximately RMB97.3, RMB124.2 and RMB150.5 per tonne, respectively. To ensure the railway would have reserve sufficient capacity for the delivery of our products, by the end of each month, our sale department would estimate the quantity of products to be delivered by railway in the next month and inform the logistics agent to reserve sufficient capacity for us. Our Directors confirm that we had been able to reserve sufficient capacity for delivery of our products during Track Record Period.

### **Sale strategy**

*Sale stability* – With a view to developing stable relationship with our customers, during the Track Record Period and in 2012, our strategy was to enter into sale agreements with our customers. We target to enter into sale agreements with longer term with our existing customers to maintain long term customer relationship and stability and enter into sale agreements with shorter term with new customers to avoid uncertainty and maintain flexibility. We generally enter into sale agreements with our customers in the first quarter of a year. The term of those sale agreements entered into during the Track Record Period ranged from one month to 15 months. In addition, in 2012, we further entered into the Three-year Agreements with some of our major customers to secure our sale stability. Since the beginning of 2012 and up to the Latest Practicable Date, we had entered into 12 sale agreements, 10 of which will continue after Listing. As advised by our PRC Legal Advisers, the sale agreements above are legally binding on the relevant parties. The major terms set out under the above sale agreements include the pricing policy for our concentrates products and the delivery mechanism. Under the above sale agreements, the quantity of products to be sold by us to our customers (i) is unspecified and to be agreed with our customers separately at each transaction; or (ii) has been fixed for each month of the year, or specified but can be adjusted appropriately; or (iii) has been pre-determined with a specific annual minimum purchase volume. Under the sale agreements as referred to under (ii) above, both of us and the customers have the right to request for an adjustment and the parties will negotiate on the adjustment on a case-by-case

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basis or with reference to our actual production volume. Our Directors confirm that, in the event that the volume of our products could not meet the volume set out in the agreements in a particular monthly transaction, we would negotiate with our customers to adjust the sale volume accordingly. Our Directors confirm that, during the Track Record Period, there was no dispute between us and our customers during the negotiation of the above adjustment.

In order to further secure our sale stability and to maintain long term relationship with our customers, in 2012, we began to enter into the Three-year Agreements with some of our major customers such that the sale quantity to them has been pre-determined with a specific annual minimum purchase volume for the period between 2012 and 2014 (these agreements fall into the category (iii) above) while the actual sale quantity of each sale transaction is subject to negotiation by the parties. As advised by our PRC Legal Advisers, under the agreements, our customers are under an obligation to purchase a minimum quantity of products from us annually (which may be further increased by us upon notification in writing), failing which would result in a breach of the agreement by the customer, while there is no liability on us if we supply at a lower level upon notification in advance. If the customers request to purchase a quantity of products exceeding the annual minimum purchase volume, it would be subject to further negotiation by the parties. Given the commodity market is highly volatile and in line with common industry practice, the actual unit sale price of our products at each sale transaction is subject to negotiation and adjustment based on factors including the then market price of the respective metals in the concentrates quoted on the domestic public domains or the then market price of the concentrates, the grade of concentrates and the complexity in extracting the relevant minerals contained in the concentrates as discussed in the section headed “Business – Sale of Products – Pricing policy” in this prospectus. In December of each year, the parties will negotiate on the terms such as pricing mechanism, quality standard, delivery mechanism and payment method for the subsequent year. During the first half of 2012, we had entered into the Three-year Agreements with customers including our five largest customers for the year ended 31 December 2011. Our PRC Legal Advisers confirm that all terms of the Three-year Agreements such as annual minimum sale quantity, pricing mechanism, agreement period, quality standard, delivery mechanism and payment method are legally binding while the actual unit sale price and sale quantity at each transaction are subject to negotiation and adjustment as discussed above.

Based on our unaudited management accounts, for the four months ended 30 April 2012, we recorded an aggregate revenue of approximately RMB98.1 million from the above three types of sale agreements and approximately RMB84.4 million of which was attributable to agreements as referred to under (iii) above. For further details, please refer to the section headed “– Sale of Products – Our customers” below.

If the quantity of products to be sold by us has been specified in the above sale agreements under the terms as set out in categories (ii) and (iii) above, our Group can claim damages from the relevant customers by commencing legal actions at courts if they eventually do not purchase the specified quantity of products (subject to adjustment in (ii) above) from us, such damages should include the loss of our Group actually caused by such customers’ breach of contract and the specific compensation amount (if any) set out in the sale agreements. However, if the quantity of products to be sold by us to our customers is unspecified under the sale agreements, our Group cannot claim damages from the relevant customers if they eventually do not purchase any products from us after entering into the sale agreements with us. Our Directors are of the view that the salient terms of the above sale agreements including pricing mechanism are in line with industry standard.

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The table below summarises the breakdown of our revenue from sale of concentrates for the three years ended 31 December 2011 in respect of sale quantity determination method:

	<b>Year ended 31 December</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<u>Sale quantity determination method</u>			
Quantity of products is unspecified and to be agreed separately at each transaction	38,965 (45.0%)	85,250 (47.1%)	124,358 (47.2%)
Quantity of products has been fixed for each month of the year or specified but can be adjusted appropriately	44,856 (51.8%)	95,928 (52.9%)	139,050 (52.8%)
Quantity of products has been pre-determined with a specific annual minimum purchase amount <sup>(Note)</sup>	–	–	–
One-off ad-hoc sale	2,694 (3.2%)	–	–
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>86,515</b> <b>(100%)</b>	<b>181,178</b> <b>(100%)</b>	<b>263,408</b> <b>(100%)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*Note:* We did not enter into sale agreements with a pre-determined specific minimum purchase volume for our products during the Track Record Period. We began to enter into such agreements with our customers in 2012.

*Optimum pricing* – Pricing terms are aimed to maximise our profit. A flexible pricing mechanism has been adopted as set out in the section headed “– Pricing Policy” below.

*Reducing credit and performance risk* – Our Directors are of the view that our Company has relatively strong bargaining power as the supply of metal has been tight and hence our Company has requested the customers to make prepayment to minimise our credit risk exposure. In respect of customers who have entered into the sale agreements as discussed above with us, they are in general required to make a down payment being 70% to 100% of the initial purchase price for the respective order. The initial purchase price payable before completion of the delivery of our products to the agreed destination or collection by the customers is determined with reference to the unit price we charge in the previous order and the volume of our products assessed by us prior to delivery of that order, or otherwise agreed among the parties. Final purchase price will be determined upon completion of inspection of the quality of our products and the price fixing mechanism, if applicable, set out in the section headed “– Pricing Policy” below. Credit period may be granted in practice in respect of the remaining balance between the final purchase price and the down payment as discussed above. During the Track Record Period, there has not been any material difference between the aforesaid initial purchase price and the final purchase price. For detail, please refer to the section headed “Risk Factors – Risks Relating to our Business – We grant credit period to our customers to make payments, but any delay in payments from or non-payment by our customers may affect our working capital and cash flow” in this prospectus. As confirmed by our Directors, we had not incurred any bad debts due to payment default by customers during the Track Record Period.

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### **Our customers**

As a result of our policy of entering into the sale agreements as discussed above for a significant portion of our production, we generally made our sales to a limited number of customers during the Track Record Period. Our top five customers are mineral trading and brokerage enterprises which direct us to deliver our products to smelters directly or generally resell our products for further processing. For the three years ended 31 December 2011, revenue attributable to our top five customers together accounted for approximately 97.3%, 81.5% and 80.3% of our total revenue, respectively, while the largest customer accounted for approximately 55.1%, 41.6% and 37.9% of our total revenue, respectively. Until 31 December 2011, we have developed three years of relationship with our largest customer during the Track Record Period. We have developed an average of approximately 2, 2 and 3 years of relationship with our top five customers ranging from 1 to 2, 1 to 3, and 1 to 4 years of relationship for the three years ended 31 December 2011 as at the end of the respective period, respectively. As at the Latest Practicable Date, none of our Directors, their respective associates or any Shareholders (who to the knowledge of our Directors owned more than 5% of our issued share capital) had any interest in any of our five largest customers during the Track Record Period. Our Directors have confirmed that our top five customers were and are all Independent Third Parties.

With reference to information available to the public of various companies engaged in the mining industry and listed on the Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange, our Directors are of the view that it is not an uncommon industry practice to rely on a few major customers. We strive to enhance our customer relationship by maintaining regular contact with our customers in respect of the quality of our products and our customers' satisfaction. We would request our clients to complete questionnaire in relation to our products and services regularly so that we could receive regular feedback from them in order to maintain our quality standard and monitor our customers' satisfactory level in general. During the Track Record Period, our mining capacity and processing capacity were occupied by the orders placed by our major customers to a substantial extent as these purchase orders were usually quite large. Our Directors are of the view that maintaining a close and stable relationship with our major customers together with the fact that a substantial quantity of our products being sold to them would enhance our bargaining power during price negotiation with them. In order to further expand our customer network and diversify our customer base, our plan is to expand our existing mining capacity and processing capacity to accommodate orders from new customers.



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The table below summarises the details of our sale to our five largest customers for the year ended 31 December 2011, which are domestic enterprises engaged in mineral trading business, and the details of the sale agreements we entered into with them in 2012.

Customers ranking (in terms of sales amount)	For the year ended 31 December 2011			2012 to 2014	
	Revenue <i>RMB'000</i>	Percentage of our total revenue %	Years of relationship	Product type	Annual minimum quantity to be purchased by customer
1	112,560	37.9	Three	Copper concentrates	2,000t of copper in copper concentrates (actual sale quantity in 2011: 1,846t)
2	53,498	18.0	One	Copper concentrates and zinc concentrates	2,000t of zinc in zinc concentrates (actual sale quantity in 2011: 2,330t)
3	29,934	10.1	Four	Iron concentrates	20,000t of iron concentrates (actual sale quantity in 2011: 35,455t)
4	27,222	9.2	Two	Iron concentrates	20,000t of iron concentrates (actual sale quantity in 2011: 30,597t)
5	15,063	5.1	Four	Sulfur concentrates	30,000t of sulfur concentrates (actual sale quantity in 2011: 36,685t)

Our sale personnel are exploring business opportunities with customers which may offer favourable terms and we may, accordingly, develop business relationship with other new customers from time to time if our Company considers appropriate. Further, we would also target to expand our potential customers network by attending industry functions and activities, such as customers gatherings organised by state-owned mining and refinery enterprises, which would provide us with the opportunities to meet potential customers and to diversify customer base, and through participation of functions and commitments in the industry by our senior officer to further extend our networking and potential customer exposure and attract the attention of potential customers.

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To further enhance our effort to explore new business opportunities, we have entered into five non-binding memoranda of understanding separately with various companies engaged in smelting and mineral trading business, pursuant to which we may further negotiate and develop business relationship with them for our concentrates sales. These potential customers include companies within the group of reputable state-owned enterprises engaged in smelting and mineral trading business and companies listed on the stock exchanges in the PRC. We would review our progress of negotiation with them based on our business needs. In particular, in the event that we lose any of our major customers, we would proceed to engage in more substantive negotiation with the above potential customers pursuant to the memorandum of understanding in order to minimise such impact. Based on the AME Report, although year-on-year growth in China recently does appear to be slowing down, the demand by China for concentrates remains strong, especially for iron ore and copper. Further, according to AME Report, it is expected that China, as the world's largest refined copper consuming nation, is likely to consume both domestically produced copper and imported copper concentrate, and given the demand in China for copper, an increase in domestic production through the commissioning of new operations may be absorbed domestically. According to AME Report, it is expected that it is likely the supply side will continue to be relatively tight in the short term and that shortage of mined copper supply is the bottleneck in the supply chain and any additional supply of mined production may be absorbed by the smelting industry. In addition, various types of metal content in our concentrates are commodity products having readily available markets and can be sold on public markets at transparent market prices. Based on the above, our Directors believe that our Group can procure customers without material problems.

### **Pricing Policy**

We sell our metal concentrates to mineral trading and brokerage enterprises. Our metal concentrates will, in general, be ultimately purchased and used by smelters which would further process and refine the concentrates into metal products which then can be sold based on market prices of those metals or for other industrial uses. In line with common industry practice, we, in general, sell our copper concentrates and zinc concentrates at a price that is equal to market prices of the metals contained in our concentrates products quoted on domestic public domain from time to time after deducting a discount which essentially represents the treatment fees being (i) the profit and cost of our customers, being mineral trading and brokerage enterprises for trading the concentrates, plus (ii) the profit and cost of the downstream enterprises for further processing the concentrates into the respective mineral as end products. In respect of iron and sulfur concentrates, as there are no such domestic public domains available for reference, we sell these concentrates at prices that are determined after an arm's length negotiation and taking into account the local benchmarks such as domestic concentrate prices provided by research companies, selling prices quoted by other third-party domestic mines in the near-by region as well as the purchase prices of the smelters obtained through our communications with them and the grade of concentrates sold at the time. The current pricing mechanism under the Three-year Agreements and sale agreements entered into during the Track Record Period in general is set out below.

### ***In respect of copper concentrates and zinc concentrates***

Since domestic public domains and exchanges providing transparent market price as reference for copper, zinc, silver and gold are available in the PRC, each of our Three-year Agreements (and sale agreements entered into during the Track Record Period in general) would set out the basis of calculation for the unit sale price for each sale transaction by making reference to the market price quoted on the public domains and exchanges (i.e. copper prices quoted on the Shanghai Future Exchange, zinc prices quoted on the SMM and the Shanghai Future Exchange, gold prices quoted on the Shanghai Gold Exchange and silver prices quoted on the Shanghai White Platinum & Silver Exchange) at the time of the transaction.

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Under the Three-year Agreements (and sale agreements entered into during the Track Record Period in general), the unit sale price for each sale transaction would be set at the then market price of the respective mineral quoted on the above public domain at the time of each sale transaction, after deducting a certain discount. The extent of discount applied will depend on, among others, the particular type of concentrate and the grade of the concentrates and in cases of gold and silver, the amount of gold or silver contained in the concentrates, the then market price of the respective metal content quoted on the public domain, and the complexity in extracting the relevant minerals contained in the concentrates. The discount essentially represents the treatment fee being (i) the profit and cost of our customers, being mineral trading and brokerage enterprises for trading the concentrates, plus (ii) the profit and cost of downstream enterprises for further processing the concentrates into the respective metal as end products. During the Track Record Period, the discount ranged from 11.3% to 23.2% of the market prices for copper, 31.3% to 46.2% of the market prices for zinc, 13.9% to 25.2% of the market prices for gold, and 22.9% to 30.1% of the market prices for silver contained in copper concentrates. Due to the complexity for extracting silver from zinc concentrates by the smelters, instead of offering a discount to the market price quoted on the public domain at the time of each sale transaction which is similar to the pricing mechanism of the above metals, silver contained in zinc concentrates was sold at a fixed unit price which was significantly lower than the prices of the silver contained in copper concentrates determined pursuant to our sale agreements in general during the Track Record Period. Sales generated from silver contained in zinc concentrates were attributable to approximately 0.17%, 0.05% and 0.07% of our total revenue for each of the three years ended 31 December 2011.

### *In respect of iron concentrates and sulfur concentrates*

Unlike copper concentrates and zinc concentrates where market price references in public domains are available in the PRC for the respective mineral content therein as tradable end products after processing, there is no similar domestic public domain as transparent market price reference in respect of iron concentrates and sulfur concentrates.

Under the Three-year Agreements (and those sale agreements entered into during the Track Record Period in general), the parties will agree on the unit sale price for the concentrates at each transaction separately for iron concentrates and sulfur concentrates with reference to the then market price of the respective concentrates. The parties will negotiate under an arm's length basis for the sale of the concentrates. Our Directors confirm that our Group will make reference to local benchmarks such as domestic concentrate prices provided by research companies, selling prices quoted by other third-party domestic mines in the near-by region as well as the purchase prices of certain smelters obtained through our communications with them and the concentrate grade sold at the time.

Pursuant to the sale agreements for copper concentrates and zinc concentrates, on any day within a specific quoting period, we may notify such customer and fix the closing price or mid-point price in respect of various metal content in the concentrates quoted on the aforesaid public domain on that day as the reference price for the relevant content in our concentrates for the respective transaction. The reference price (less the discount as discussed above) will be adopted as the price of the relevant metal content. Only we, as the seller, may conduct such reference price fixing and our customers are bound to accept the reference price we quote. Our Directors believe that this flexible pricing mechanism would allow us to maximise our profit.

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### Quality standard

In terms of quality standard, samples will be randomly extracted at the place of delivery by the smelters (if the products are delivered to the smelters directly) or at the Xinzhuang Mine by us (if the products are to be collected by the customers at the Xinzhuang Mine). At each transaction, depending on the terms of our sale agreements, either we, or the smelters being the end customers, will inspect a sample in which the mineral content will be adopted for the calculation of purchase price.

As confirmed by our Directors, since our establishment, we have not received any material complaints due to quantity or quality problems of our products.

Our Directors confirm that the grade of our concentrates products can generally meet our customers' requirement and we do not conduct any further processing to further improve the grade of our concentrates products before sale to the customers.

### Marketing plans

We believe that the best way to promote our products is to enhance and maintain good quality of our product. Our plans are as follows:

- to enhance our efficiency by focusing on management of our production, marketing and financial control procedures and to ensure that our products are of a consistently high quality; and
- we have put into place certain quality control procedures including a system of accurately weighing of our concentrates (to determine tonnage), and sampling the mineral grade of our concentrates to determine the quantity of metals contained and measuring water content. Our Directors confirm that we have not received any material complaint from our customers in relation to our product quality since commencement of business.

### UTILITIES

Electricity for our mining operations is supplied by the local power grid through a 35-kilovolt transmission line and we have entered into electricity supply contracts with the local electricity supplier under State Grid Corporation of China for the supply of electricity at market rates to the Xinzhuang Mine. The Independent Technical Expert considers that electricity supplied by the transmission line is sufficient for our current production. In addition, the Xinzhuang Mine is equipped with a backup power generator. We have not, during the Track Record Period, experienced material interruptions to our operations due to a shortage or suspension of our power supply.

For the three years ended 31 December 2011, our electricity costs amounted to approximately RMB8.7 million, RMB13.8 million and RMB15.6 million, respectively. The current electricity supply agreement which we have entered into with the local electricity supplier will enable us to meet the potential increased electricity demand based on the feasibility study for our expansion plan.

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Water for production usage of the Xinzhuang Mine is derived from mine water and water from the Shishui River, which is approximately 400 to 450 m from the mine shafts. Water from the tailings storage facility is also partially recycled for production. According to the Independent Technical Expert, water supply is sufficient to meet our current production requirement. We have also entered into a water supply agreement with local water supplier to support the potential increase of needs for water supply following the expansion plan. During the Track Record Period, we did not experience any material water supply interruptions or shortages.

Our Directors believe that we should not have any difficulties in securing the supply of electricity and water to meet our expansion plan set out under the section headed “– Our Expansion Plan” above.

### **RAW MATERIALS, AUXILIARY MATERIALS AND MACHINERY AND EQUIPMENT**

The ore extracted from the Xinzhuang Mine is our principal raw material for producing our concentrates products. We do not purchase ores from third parties.

Ore processing at the Xinzhuang Mine consumes many types of auxiliary materials including forged steel grinding balls, chemical products, explosives, diesel oil and other production related materials. All our explosives, machinery and equipment, spare parts and auxiliary materials are sourced from local third-party suppliers in the PRC.

### **SUPPLIERS**

For the three years ended 31 December 2011, purchases from our five largest suppliers including Wenzhou No. 2, our third-party contractor for underground mining works, a supplier of electricity, trading enterprises which sold metal ingots to us and suppliers of explosives, machinery and equipment, spare parts and auxiliary materials together accounted for approximately 73.0%, 53.5% and 53.3% of our total supply purchases, respectively, while Wenzhou No. 2, our largest supplier, accounted for approximately 49.0%, 19.8% and 27.6% of our total supply purchases, respectively. To the best knowledge of our Directors, none of our Directors, their respective associates or any of our Shareholders holding more than 5% of our issued capital, is related to or owns any interest in any of our five largest suppliers. All of our suppliers are Independent Third Parties and are primarily based in the PRC. We have not signed any long-term contract with any of our suppliers. We maintain a good relationship with our suppliers and did not have any material disputes with any of them during the Track Record Period.

See also “Risk Factors – Risks relating to our business – We may not be able to maintain the provision of adequate and uninterrupted supplies of electricity, water, necessary raw materials, auxiliary materials, equipment and spare parts at favourable prices or at all” in this prospectus.

### **COMPETITION**

#### **Competition with Concentrate Producers**

Copper concentrates and iron concentrates are our core commodities which, in aggregate, contributed approximately 75.0%, 77.7% and 69.6% of our total concentrates sales for the three years ended 31 December 2011, respectively.

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According to AME Report, as to copper, it is expected that it is likely the supply side will continue to be relatively tight in the short term, and the shortage of mined copper supply is the bottleneck in the supply chain and any additional supply of mined production may be absorbed by the smelting industry. According to AME Report, in 2010, it is estimated that refined copper demand reached 19.4 Mt, and it is forecasted that copper demand to increase by approximately 3% in 2012 and around 4% in 2013. According to AME Report, though the market for refined copper may see robust growth rates in the consecutive years, it is forecasted that similar growth rates in the copper concentrate market as in the refined market; consequently, it is anticipated that a market in equilibrium over the medium-term. According to AME Report, between 2007 and 2013, it is estimated that Chinese refined copper demand may increase from around 5 Mt to over 8 Mt, or a Compound Annual Growth Rate (CAGR) of approximately 9%. According to AME Report, as to iron ore demand, it is estimated that global iron ore consumption will grow from around 1.6 Bt to approximately 2.0 Bt from 2007 to 2013, and in 2013, China is estimated to account for approximately 55% of total iron ore demand.

According to AME, we face competition from both domestic and international concentrates producers. However, we believe we possess the competitive advantages as discussed in the section headed “– Our Competitive Advantages” above as compared with our competitors.

### **Competition for Future Acquisitions**

We may face competition in acquiring existing mines and exploration rights from other foreign or domestic mining companies. We compete on the basis of our ability to identify valuable resources and effectively negotiate with the targets located in the PRC or otherwise. Increased competition may result in us having to pay more to acquire such mining resources. There is no assurance that competition for acquisitions in the PRC or foreign mining and ore processing industry will not adversely affect our profitability or sustained development.

### **Industry Entry Barriers**

Pursuant to the Mineral Resource Law of the PRC (中華人民共和國礦產資源法), the Procedures for Registering Mineral Exploration Through Blocking System (礦產資源勘查區塊登記管理辦法), and the Procedures for the Registration of Mining of Mineral Resources Mining (礦產資源開採登記管理辦法), an enterprise entering this industry is required to obtain the exploration licence or mining licence issued by the competent department of land and resources.

With the current intense market competition, financial capability, mining resources, technology and equipment, and seasoned production management experience are major barriers in entering this industry.

### **HYDROLOGICAL ISSUES**

As highlighted in the Independent Technical Expert’s Report, we are facing certain hydrological issues at the Xinzhuang Mine.

The abundant surface water and groundwater present in the area have brought a hydrological challenge for the mining operation at the Xinzhuang Mine. In order to solve the groundwater problem for mine production, the mine has been constructing a subsurface curtain grouting wall at

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the eastern side (along Exploration Line 23) of the deposit. This curtain grouting wall, together with the Cunqian granite intrusive complex in the south and southwest and a main apophysis from the intrusive complex in the north, has isolated the mining area from the ground water system, making underground mining operation feasible in the Xinzhuang Mine. The Independent Technical Expert opines that this groundwater plugging technique has been utilised successfully at the Xinzhuang Mine. The Independent Technical Expert further opines that this hydrological challenge is not common in the mining industry. The Independent Technical Expert advised that Yifeng Wanguo has taken sufficient rectification actions for this technical challenge, including constructing a curtain grouting wall, closely monitoring the groundwater level, installing excessive underground pumping capacity, starting mining the deposit 115-120 m below the surface and using a cut-and-fill method for mining. Therefore, the mining operation at the Xinzhuang Mine is being conducted normally. If these rectification actions were not taken, the underground mine could be flooded and the mining operation would have to stop. These rectification actions have increased the mining operating costs and mining capital costs. However, the Independent Technical Expert believes that the issue of water still brings a low to moderate risk for the underground mining operation and special attention should be paid to this issue at all times of the underground mining operation. For details, please refer to the sections headed “8.2.2 Hydrological Issues” on page V-39 and V-40 and “15.0 Risk Analysis” on pages V-65 to V-68 in the Independent Technical Expert’s Report set forth in Appendix V to this prospectus.

As advised by our PRC Legal Advisers, such situation does not violate the relevant PRC laws and regulations.

### QUALITY CONTROL

We have a quality control policy in place to ensure that the quality of our concentrates meets the standard for acceptance by our customers. Our quality control department is responsible for ensuring our product quality. We closely monitor our various production processes by conducting on-site inspection and taking samples during each shift and examining them at our laboratory. Regular trainings are also provided to our employees to enhance the quality standard.

During the Track Record Period, we have not received any material complaints due to quality problems of our products.

### INVENTORY

As of 31 December 2009, 2010 and 2011, we had inventories of RMB26.0 million, RMB60.2 million and RMB48.8 million, respectively. Our inventory comprises primarily our concentrates products and ingots we purchased. We keep daily inventory records and carry out full annual inventory assessments to closely monitor our inventory level and condition.

### OCCUPATIONAL HEALTH AND SAFETY

We are subject to various PRC laws and regulations with respect to the prevention and treatment of occupational diseases, the prevention of worksite accidents and the handling of industrial injuries. For details, please refer to Appendix IV to this prospectus. The Xinzhuang Mine has been operating since December 2006, and strives to conduct its operations in accordance with specific national laws and regulations covering occupational health and safety in mining,

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production blasting and explosives handling, mineral processing, TSF design, hazardous wastes, environmental noise, fire protection and fire extinguishment, sanitary provisions, power provision, lightning and seismic protection, labour and supervision.

In anticipation of the delay in the completion of the design of the systems which adjourned the commencement of the construction coupled with the delay in the progress of the relevant construction work, we had made an application for extension for completion of the construction of the relevant systems before the deadline on 30 July 2008 but it was not approved. Due to our failure to complete the construction of our backfill system and ventilation system before the said deadline as a result of the delay, on 30 July 2008, we were ordered by the Administration of Work Safety of Jiangxi Province (江西省安全生產監督管理局) to suspend and rectify our mining activities, but we were allowed to continue to move the already-mined ore from underground to ground level and continue with our processing operations. Our Directors confirm that the suspension ceased at the end of March 2009 and we were able to resume our mining activities in April 2009. Our Directors are of the view that the impact on our revenue for January to March 2009 as a result of the suspension of our mining operation was minimal because (i) the impact of such suspension would have been lowered as it covered the Chinese New Year holiday in early 2009 during which our operation level would have been low regardless of the suspension, (ii) we were allowed to continue with our processing activities and we could process the already-mined but unprocessed ore brought forward from the end of 2008, and (iii) the volume of ore mined in 2009 was approximately 300,570 tonnes and reached our then designed mining capacity of 300,000 tpa, which demonstrated that the impact of the suspension in the first quarter of 2009 on our mining activities for the year as a whole was minimal. We responded actively to the instructions of the authorities and conducted relevant rectification procedures, and we were allowed to resume our mining operations in April 2009. The authorities have not imposed any other penalties on Yifeng Wanguo nor its directors, senior management and staff as a result of such failure. On 18 May 2012, the Administration of Work Safety of Jiangxi Province confirmed in writing that, save as disclosed above, there had not been any other material non-compliances in relation to the design, construction and operations of the Xinzhuang Mine in respect of the PRC safety laws since the establishment of Yifeng Wanguo, and our expansion plan complied with the relevant PRC safety laws. On 16 December 2011, the local branch of the administration of work safety of Yifeng County confirmed that we complied with the relevant rules and regulations regarding production safety. Production safety permits have been obtained for the Xinzhuang Mine. Our Company has set up internal control measures to prevent future occurrence of similar incidents. A safety task group, headed by the mine manager and the vice manager, was set up to monitor the various safety systems, including backfill system and ventilation system, adopted in the mine and compliance with the relevant requirements. The task group also reviews existing safety policies and updates our Company with the latest safety regulations, carries out regular safety inspections and provides recommendations for ensuring compliance with the relevant safety requirements.

Taking occupational health and safety as one of our prime responsibilities, we have implemented and enforced a number of measures to ensure compliance of the regulatory requirements and our production safety and environmental protection department is responsible for handling matters related to occupational health and safety. Our safety production operational manual specifies certain procedures such as our safety production procedures in respect of different posts and departments, our accident prevention procedures and accident reporting procedures. Regular safety drills are carried out to ensure that the awareness of safety production measures and emergency handling. The roles and responsibilities of each of the supervising staff and workers are clearly defined and each supervising staff is accountable for their respective areas of responsibility.



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Our mine manager will supervise the implementation of regular on-site examination and continuously monitor the safety policies. Our safety supervisor will inspect the implementation of safety procedures on a daily basis. We have implemented a set of guidelines and rules regarding the handling of such dangerous articles which comply with existing PRC laws, regulations and policies. Please see also the details of the procedures and measures adopted by us under the section headed “– Environmental Protection” below.

We implement a mandatory safety training programme for all our employees in strict accordance with requirements under the Production Safety Law of the PRC (中華人民共和國安全生產法) and the Law of the PRC on Safety in Mines (中華人民共和國礦山安全法). For details, please see Appendix IV to this prospectus. All new employees must participate in a three level safety education programme before they start their work. Employees with specialised technical duties will be required to receive training pursuant to the respective regulations and requirements. We also conduct regular training to our existing staff to enhance their awareness of safety issues, and improve their knowledge in working safety techniques in order to reduce and eliminate the occurrence of accidents.

Our Directors confirm that no material accidents involving personal injury or property damage occurred during the Track Record Period and up to the Latest Practicable Date, and we have not been subject to any claims arising from any material accidents involving personal injury or property damage during the Track Record Period and up to the Latest Practicable Date that have a material adverse effect on our business, financial condition or results of operations.

Our Directors believe that the adoption of the above measures will help us to minimise the risk of occurrence of accidents. Our Directors confirm that, save as disclosed above, since the commencement of operation of the Xinzhuang Mine, we have not been subject to any investigation with regard to work safety practices by any government authority and no non-compliance incident has been recorded. However, like other companies that operate in our industry, we are subject to random inspections by government authorities.

Pursuant to the Assessment Report on the Effect of Occupational Hazards Control (職業病危害控制效果評價報告書) prepared by Jiangxi Research Institute on Occupational Disease Prevention (江西省職業病防治研究院) in June 2011 and filed at the Department of Health of Jiangxi Province, it was identified that the following major toxic materials were produced in the course of our operation: (i) toxic gases including carbon monoxide, carbon dioxide and nitrogen oxide produced in the course of our underground explosion activities, and (ii) toxic carbon disulfide and turpentine produced during flotation in the course of processing. We have implemented relevant procedures such as installation of relevant ventilation system and emergency electricity supply system separate the flotation process in a separate unit and comply with the relevant standards.

As advised by our PRC Legal Advisers, our Group has obtained the approvals and permits in respect of the occupational health and safety which are material for our current operation of Xinzhuang Mine. In addition, we received confirmation from the Department of Health of Yifeng County on 21 December 2011 that we have operated in compliance with the relevant PRC occupational health and safety laws and regulations and have never been penalised due to any non-compliance.

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Yifeng Wanguo has reserved a safety measure fee per annum in accordance with Clause 42 of the Implementation Regulations of the Law of the PRC on Safety in Mines (礦山安全法實施條例). The fee will be used for (1) safety technical measures to prevent mining incidents; (2) labour hygienic technical measures to prevent occupational hazards; (3) staff safety training; (4) improving other technical measures of mine production safety conditions and ensuring accident insurance coverage for staff under the PRC Labour Law (中華人民共和國勞動法).

In addition, pursuant to the Measures on the Withholding and Usage of Safety Production Fees of Enterprises (企業安全生產費用提取和使用管理辦法), effective as of 14 February 2012, safety production fees mean the funds specifically used for the improvement in production conditions of the enterprise in accordance with the required standard. Enterprises engaging in mining business in the PRC should provide for safety production fees. The standard provision for metal mines is RMB5 per tonne (surface mine) and RMB10 per tonne (underground mine). The standard provision can be raised properly. For the year ended 31 December 2011, the safety production fees provided by us were approximately RMB8.0 million. As our processing capacity continue to expand and with our level of production reaching these facilities' designed capacities, we anticipate that the amounts of safety production fees payable will substantially increase in the near future.

## ENVIRONMENTAL PROTECTION

Our operations are subject to various PRC laws and regulations with respect to environmental protection and environmental rehabilitation. For details, please see Appendix IV to this prospectus. We have adopted various measures within our operations with regard to environmental protection.

The Xinzhuang Mine has a valid pollutant discharge permit from the relevant local environmental protection department to undertake mining and processing activities at their respective mining site. Major environmental issues in the mining industry are management of wastewater and management of tailings. Wastewater, dust and tailings can contain substances that are potentially harmful to human beings and the environment, especially in large quantities. For further details, please refer to the section headed "Risk Factors – Risks Relating to our Business" in this prospectus. Details of the environmental measures that are being implemented, or are planned to be implemented, at the Xinzhuang Mine are set out in the section headed "13.0 Environmental and Social Management" of Appendix V to this prospectus. Some of the environmental measures are set out below:

- **Water management:** the site has been developed with an emphasis on recycling used process and TSF drainage water, which is recycled to the concentrator for reuse. A recycling rate of up to 75% is obtained. The Xinzhuang Mine obtains top-up water from the underground mine workings, while any surplus waste water from the site (including treated sewage) will be discharged to the nearby Shishui River following treatment in accordance with the regulatory standards in the PRC.
- **Solid waste:** underground waste is either left underground or used for construction purposes (as a good quality construction material it is also sold locally). An engineered waste rock dump will be constructed if necessary in the future. A TSF has been constructed. In addition, approximately 67% of the tailings (coarse fraction) are mixed with cement and sent underground for use as stope fill.

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- Dust and air quality mitigation: water sprays will be used for the crushing and screening plant (with wet scrubbers to also be installed in conjunction with the project expansion). However, the ore and concentrates are either wet or damp, thereby requiring minimal dust mitigation measures. Other mitigation measures include enclosure of any potentially dusty activities, paving of surface roads, revegetation and availability of personal protection devices to workers to provide additional personal protection from dust, as required.
- Noise control: methods of noise control include use of silencers, noise and vibration dampening, enclosure of noisy equipment, use of insulation and ongoing equipment maintenance.
- Ground subsidence: potential subsidence of the karst rock overlying the underground workings is being mitigated by backfilling cemented tailings (the coarse fraction) in abandoned stopes.
- Environmental monitoring: a mine site environmental monitoring plan is in place in which analytical results are expected to comply with the regulatory standards in the PRC. The regular company monitoring programme is supplemented by random monitoring tests conducted by the Bureau of Environmental Protection of Jiangxi Province.
- Rehabilitation: a conceptual mine closure plan comprises part of the site's soil and water conservation plan.

Our expenditures with regard to environmental protection, health and safety matters amounted to approximately RMB5.5 million, RMB1.2 million, RMB1.6 million for the three years ended 31 December 2011, respectively. It is expected that such costs of compliance for the two years ending 31 December 2013 will be approximately RMB2.7 million and RMB2.2 million, respectively.

Through the use of our environmental initiatives, we aim to mitigate the environmental risk of operating in our industry. The relevant PRC environmental authorities conduct regular inspections of our facilities. Our Directors confirmed that we had not received any negative comments from such PRC environmental authorities during the Track Record Period. As advised by our PRC Legal Advisers, our Group has obtained the approvals and permits in respect of the environmental protection which are material for our current operation of Xinzhuang Mine. In addition, we received confirmation from the local branch of environmental protection department on 16 December 2011 that we have operated in compliance with the relevant environmental laws and regulations and pollution discharge control standards with respect to the Xinzhuang Mine and that they have not received any complaints against the Xinzhuang Mine in this regard.

### **Land Rehabilitation**

We are required by the PRC laws to reclaim and restore mining sites to their prior condition after completion of mining operations. Rehabilitation activity typically involves the removal of buildings, equipment, machinery and other physical remnants of mining, restoration of land features in mined-out areas, dumping sites and other mining areas and contouring, covering and revegetation of waste rock piles and other disturbed areas. Our current mining operations at the Xinzhuang Mine employ underground mining and, as a result, our rehabilitation and revegetation obligations in relation to the Xinzhuang Mine will be more limited than if we conducted open pit mining operations.

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We are also required to compile a restoration scheme for the comprehensive treatment of the mine's geological environment, which has to be filed to the respective government authorities for approval, and make a security deposit in a duly appointed bank account to guarantee the performance of the above rehabilitation plan. We received confirmation from the local branch of the department of land and resources on 16 December 2011 that we have complied with all the relevant land rehabilitation and reforestation laws and regulations with respect to Xinzhuang Mine and they have no dispute with us in this regard.

### RESEARCH AND DEVELOPMENT

Our research and development activities are primarily directed towards providing technical support to our mining and ore processing operations. We entered into various agreements in relation to technology development with Changsha Mine Research Institute pursuant to which Changsha Mine Research Institute was commissioned to conduct research and analysis for developing underground mining technology at the Xinzhuang Mine jointly with us. Pursuant to the said agreements, the developed technology should be jointly owned by us and Changsha Mine Research Institute and that each of us and Changsha Mine Research Institute (i) has the right to use the developed technology; (ii) is entitled to the revenue derived from each of our own use of the developed technology; (iii) has the right to authorise any third party to use the developed technology and such authorising party is entitled to revenue derived from such authorisation; and (iv) should not transfer the ownership of the developed technology to any third party without written consent of the other party. The "Integrated Technology for Complicated Hard-to-mine Heavy Water Deposits Safety Mining of the Xinzhuang Mine" (新莊銅鋅礦複雜難採大水礦床安全開採綜合技術) developed by us together with Changsha Mine Research Institute pursuant to one of the above agreements has been recognised by the China Nonferrous Metals Industry Association (中國有色金屬工業協會) and the Nonferrous Metals Society of China (中國有色金屬學會) and awarded with the second class China Nonferrous Metals Industry Science and Technology Award (中國有色金屬工業科學技術獎) in January 2012. We have not applied for a patent for such technology as it does not possess novelty which is one of the patent application requirements. We plan to continue to look for co-operation opportunities with academic and research institutes to further enhance and develop technologies for mining and ore processing.

### INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we held 1 trademark registered with the Trade Marks Registry of the Intellectual Property Department in Hong Kong. See the paragraph headed "B. Further Information about our Business – 2. Intellectual property rights – (A) Trademarks" in Appendix VII to this prospectus.

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

### INSURANCE

During the Track Record Period, we did not experience any business interruptions or losses or damage to our facilities that had a material adverse effect on our business, financial condition or results of operations. We do not maintain any fire, earthquake, liability or other property

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insurance with respect to our properties, equipment or inventories, with the exception of insurance coverage for our vehicles. We also do not maintain any business interruption insurance or third-party liability insurance against claims for property damage, personal injury and environmental liabilities other than third-party liability insurance for our vehicles. Our Directors are of the view that the insurance coverage on our assets is consistent with the industry practice in the PRC.

According to the Work-Related Injury Insurance Regulations (工傷保險條例), employers of all types of enterprises and sole traders shall participate in work-related injury insurance and pay work-related injury insurance premiums for all employees in their work unit in accordance with the regulations. Our Group has maintained personal injury insurance and we are in compliance with the relevant PRC laws and regulations relating to work-related injury insurance. Pursuant to the agreements we entered into with the third-party contractor, it is responsible for maintaining work-related injury insurance for its employees. Our Directors confirm that we have not made any material claims under our insurance policies. Please also refer to the section headed “Risk Factors – Risks relating to our business – We may not be adequately insured against losses and liabilities arising from our operations” in this prospectus. We will continue to review and assess our risks and make necessary adjustments to our insurance practice to meet our needs and comply with industry practices in the PRC.

### EMPLOYEES

As at 31 December 2011, we had a total of 263 full-time employees, excluding approximately 250 mining workers employed by Wenzhou No. 2, the third-party contractor which is responsible for underground mining work. The following table shows a breakdown of our employees by function as at 31 December 2011 (excluding employees of the third-party contractor).

	<b>Number</b>
Underground technical and supporting mine workers	
– Safety supervision	15
– Mining and geological technical staff	13
– Mining record and surveying staff	9
– Geological drilling operators	16
– Ventilation and hauling facilities and water-pump operators and maintenance staff	35
– Backfilling team	25
Processing plant workers	90
Mine management and supporting staff	60
	<hr/>
	263
	<hr/> <hr/>

Our PRC operating subsidiary, namely, Yifeng Wanguo, is required to make social insurances contributions and housing fund contribution for the benefit of its own employees under the PRC laws and regulations. Due to the differences in local regulations, inconsistent implementation of the PRC laws and regulations by local authorities and different levels of acceptance of the social insurances and housing fund systems by employees, Yifeng Wanguo has not made social insurances contributions and housing fund contribution in full for all of its employees before April 2011.

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According to the relevant PRC laws and regulations, enterprises which have not paid the social insurances contributions or have not contributed to social insurances payments on behalf of employees according to the relevant rules will be required to pay such amounts by the relevant labour insurance administrative departments within a required period and a late charge calculated at 0.05% per day of the outstanding amount will be charged from the date of the default payment. Enterprises which do not make requisite registration or complete procedures to open relevant accounts to make housing fund contributions for their employees will be ordered by the housing fund management centre to make such payment or complete such procedures within a required period. If the necessary procedures are not completed within the required period, such enterprises will be subject to a penalty of not less than RMB10,000 and not more than RMB50,000.

Up to the Latest Practicable Date, Yifeng Wanguo has not received any complaint from its employees for lack of contributions for social insurances and housing fund nor any notice or legal documents from the regulatory authorities of social insurances and housing fund requesting contributions for the relevant insurances or fund. Yifeng Wanguo completed the registration process as to social insurances with the relevant social insurances authorities in April 2009 and has made contributions in respect of all of its eligible employees since April 2011. Yifeng Wanguo also completed the requisite registration and opened the requisite housing fund accounts with the relevant housing authorities in accordance with the relevant laws and regulations in April 2011, and has commenced payments of housing fund contributions for all eligible employees since April 2011. As at the Latest Practicable Date, the aggregate outstanding amount of social insurances contribution and housing fund contribution was approximately RMB3.4 million and RMB0.6 million, respectively.

We have received a letter of confirmation from each of the Yifeng Human Resources and Social Security Bureau and the Yifeng office of Yichun Housing Fund Management Center which are the competent authorities in charge of the contribution of the social insurance and housing fund respectively, dated 16 December 2011 that we will not be requested by them to make the outstanding contributions and will not be subject to any penalties for previous non-contributions. We did not make any provision for the outstanding contributions payable prior to 1 April 2011. We intend to repay all outstanding social insurances and housing fund contributions, if we are required by the relevant authorities to do so. Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us against all losses suffered or incurred by us as a result of or in connection with the social insurances, housing fund and work-related injury contributions due or payable for employees of our Group that any member of our Group has failed to make prior to Listing.

For further details, please refer to the section headed “Risk Factors – Risks Relating to our Business – Non-compliance with the social insurances and housing fund contribution regulations in the PRC by us could lead to imposition of penalties or other liabilities on us” in this prospectus. For the three years ended 31 December 2011, our contributions to the state-managed defined contribution retirement scheme were approximately RMB38,000, RMB132,000 and RMB1,182,000, respectively.

During the Track Record Period, we had not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. We believe that we have a good working relationship with our employees.

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### PROPERTIES

#### Land

As at the Latest Practicable Date, we owned the land use rights of five parcels of land with a total site area of approximately 206,096 sq.m. The total gross floor area of the completed buildings or structures is approximately 18,900 sq.m. As confirmed by our PRC Legal Advisers, Yifeng Wanguo has legally held the land use right of such land. As confirmed by our Directors, saved as disclosed in the section headed “– Properties – Land – Leased land in the PRC for our expansion plan” below, the Xinzhuang Mine and related area which Yifeng Wanguo has operations are covered under the relevant land use rights.

#### Leased land in the PRC for our expansion plan

We have leased three parcels of land for our expansion plan which are collectively-owned land within the coverage of our mining licence, at an annual rent of RMB50 per mu, for mining, tailings storage and ancillary purposes. Pursuant to our expansion plan, it is expected that three new shafts, new tailings storage facilities and certain related ancillary structures will be located in these areas. Details of the land and the lease agreements are as follows:

Location	Total site area/mu (畝)	Term
Longxi Village, Yichun Municipal, Jiangxi Province	334	March 2012 to December 2031
Kouxi Village, Yichun Municipal, Jiangxi Province	29.746	March 2012 to December 2031
Zhangjia Village, Yichun Municipal, Jiangxi Province	1.2	March 2012 to March 2032

With a view to ensuring the stability of our long term operation, we have begun the process to obtain the relevant state-owned land use rights certificate for the above land and agreed to pay the total relocation compensations of about RMB32 million, of which approximately RMB29 million was paid as of 31 December 2011. However, pursuant to the relevant laws and regulations, given the three parcels of land are collectively-owned land, we may only obtain the state-owned land use right certificates for the three parcels of land from the authorities after (i) they have been converted into state-owned land from collectively-owned land, (ii) the authorities have entered into the state-owned land use right agreement with us, and (iii) we have paid the relevant land premium to the authorities.

As the conversion of the land into state-owned land is subject to the local authorities' administrative procedures and policies, for the purpose of our current and upcoming use of the above areas, we have entered into the above lease agreements and obtained the necessary approvals for our use of such areas for the three new shafts, the new tailings storage facilities and the related ancillary structures. As advised by our PRC Legal Advisers, the lease agreements do not violate the PRC laws and the lessors of such leases have the legal rights to lease such properties to us.

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We have already obtained relevant temporary approvals for our use of the above collectively-owned land for the aforesaid purposes for the term of two years until March or April 2014 from the relevant department of land and resources. As advised by our PRC Legal Advisers, our use of the land covered by the relevant temporary approvals for the purpose of constructing the three new shafts, tailings storage facilities and ancillary structures does not violate the relevant PRC laws and regulations. On 28 March 2012, the Department of Land and Resources of Yifeng County confirmed in writing that it will renew the relevant temporary approval for our use of the land covered by our mining licence upon our application pursuant to the relevant PRC laws and regulations within the term of our mining licence.

As advised by our PRC Legal Advisers, (i) the Department of Land and Resources of Yifeng County is the competent authority to issue such temporary approvals and provide the above confirmation; and (ii) we are entitled to use the above leased areas in accordance with valid term, regulation and usage stipulated by the relevant temporary approvals and relevant lease agreements. Accordingly, our Directors believe we will be able to renew and obtain the relevant temporary approvals upon expiry or such relevant rights to occupy and use such land for the aforesaid purposes if any area has been converted into state-owned land in the future.

We started the construction of the three new shafts and certain auxiliary structures on the parcel of land located at Kouxi Village before we obtained the relevant temporary approval. As advised by our PRC Legal Advisers, pursuant to relevant PRC laws and regulations, we may be subject to an order to suspend construction and confiscate the constructed structure and a maximum fine of approximately RMB30 per square metre as a result of our use of the land without obtaining the necessary approvals prior to commencement of our construction.

Our Directors are of the view that the above-mentioned three new shafts and the auxiliary structures on the parcel of land located at Kouxi Village are not crucial for our current operation because they are specifically constructed for our expansion. The construction of them is targeted to be completed by the end of 2012 and they will be in use from 2013. We can continue our current operation and reach the expanded level of mining 450,000 tonnes of ore in 2012 without using these facilities. However, if they are ordered to be demolished or confiscated, our target to reach the mining capacity of 600,000 tpa will be affected. In the event that the authorities make such an order, we will instruct professional advisers to review and formulate a new plan to construct the facilities in other areas within the land covered by our land use rights in order to fulfil our expansion plan.

We have obtained a written confirmation from the Department of Land and Resources of Yifeng County, which is the competent authority to provide such confirmation as advised by our PRC Legal Advisers, that it will not impose any sanction against us, including but not limited to, confiscating or ordering us to demolish the constructed structures, or imposing any fine on us, for the use of the above land by us before the grant of such approvals. Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us against all losses suffered or incurred by us as a result of or in connection with the above non-compliance in relation to the properties mentioned above.

### **Owned buildings**

As at the Latest Practicable Date, we had obtained 55 building ownership certificates for the Xinzhuang Mine.



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### Leased properties

As at the Latest Practicable Date, we leased one office unit in Hong Kong with a total gross floor area of approximately 1,186 sq.ft.

Details of the property valuations together with the summary of valuations and valuation certificates from our property valuer are set out in Appendix III to this prospectus.

### Construction-in-progress

As at the Latest Practicable Date, we are constructing various buildings with a total planned gross floor area of approximately 18,416 sq.m and certain other fixed structures all situate at the Xinzhuang Mine and covered under our land use rights. As confirmed by our PRC Legal Advisers, we have obtained the relevant approvals and permits for the constructions of such properties.

### OTHER BUSINESS

In 2010, Yifeng Wanguo started to engage in the metal ingots trading business in which it purchased metal ingots (including ingots of lead, zinc and aluminium) from trading enterprises and subsequently resold them. The Group entered into the metal ingots trading business in 2010 because it had idle cash at that time and intended to explore new business opportunities. For each of the three years ended 31 December 2011, the revenue, gross loss and gross loss margin derived from metal ingots trading and its contribution to our Company's total revenue are set out below:

	Year ended 31 December		
	2009 <sup>(note)</sup>	2010	2011
Revenue (RMB'000)	N/A	23,250	33,329
Gross loss (RMB'000)	N/A	(37)	(2,200)
Gross loss margin (%)	N/A	(0.2)	(6.6)
Contribution to total revenue (%)	N/A	11.4	11.2

*Note:* Yifeng Wanguo had not yet begun to engage in metal ingots trading business in the year ended 31 December 2009.

As at the 31 December 2011, our metal ingots inventories for trading purposes amounted to approximately RMB36 million.

For details, please refer to the section headed "Financial Information" in this prospectus. We purchased and sold metal ingots on an one-off basis and have not entered into any long term purchase or sale agreement with any trading enterprise. Our Directors confirmed that our final purchase of metal ingots was conducted in September 2011 and we have not purchased additional ingots since then and will cease the metal ingots trading business once our existing metal ingots inventories are sold as our Directors consider that it would be more favourable for our Group to focus in our business of mining and ore processing given the low profit margin in the metal ingots trading business.

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### LITIGATION AND REGULATORY MATTERS

#### PRC

We are required by the laws and regulations of the PRC to obtain a number of licences, permits and approvals from the relevant authorities in the PRC to conduct mining activities in the PRC. The following table shows the material licences, permits and certificates we currently hold and their respective validity periods.

Business licence	Mining licence	Production safety permit for Xinzhuang Mine	Production safety permit for tailings storage facility	Pollutant discharge permit	Certificate of explosives operation unit	Social insurance registration certificate
26 November 2003 to 16 October 2053	20 April 2012 to 20 April 2032	30 August 2010 to 29 August 2013	31 August 2010 to 30 August 2013	6 June 2010 to 5 June 2015	10 December 2010 to 30 December 2013	long-term

These licences and approvals will expire from time to time and we will apply to the authorities for renewal or extension upon expiry.

Our PRC Legal Advisers have confirmed that we have the relevant licences and permits which are material for the current operation of the Xinzhuang Mine.

During the Track Record Period, we could conduct underground mining of ore at a rate of 300,000 tpa, pursuant to our then mining licence for the Xinzhuang Mine. In the three years ended 31 December 2011, the ore production volume at the Xinzhuang Mine was approximately 300,570 tonnes, 306,580 tonnes and 300,070 tonnes, respectively, and exceeded the limit set out in our then mining licence. Our Directors confirmed that the excessive production volumes were caused as a result of a lack of comprehensive system controlling production volume at the early stage of development at the Xinzhuang Mine given that we firstly commenced trial production in January 2007 with an initial designed mining capacity and processing capacity of 200,000 tpa and we reached our expanded mining capacity of approximately 300,000 tpa only in 2009. As advised by our PRC Legal Advisers, according to PRC laws, the mining right owner may be ordered to rectify such excessive activities within a time limit. If the mining right owner cannot meet the relevant requirements after the rectification, it will be ordered to close its mine. For details, please refer to the section headed “Risk Factors – Risks relating to our business – There is no assurance that we can obtain or renew approvals, permits and licences necessary for the exploration, mining or ore processing at the Xinzhuang Mine or in respect of any mines we acquire in the future”. As at the Latest Practicable Date, our Group had not been given such an order to rectify the non-compliance. On 25 July 2011 and 8 March 2012, the Department of Land and Resources of Yichun Municipal confirmed that it will not impose any sanction against us. The Department of Land and Resources of Yichun Municipal is the authority that supervises the annual examination of the mining licence of Yifeng Wanguo and has the right to issue the above confirmation. We have obtained the mining licence with a maximum level of 600,000 tpa in April 2012 and it will cover our planned long term mining level after completion of our expansion plan.

We will adopt the following internal control measures so as to ensure that our production volume will not exceed the level under the mining licence in the future:

- (i) yearly and monthly budgeted mining plans will be prepared with reference to the permitted level under the mining licence;

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- (ii) a deputy manager will be assigned to monitor the actual mining level against the budgeted mining level at least once every month; and
- (iii) if there is any over-mining or sign of over-mining, the deputy manager will notify the mine manager, who will then adjust the level of mining activities so as to keep the actual level within the budgeted level.

Our personnel in charge of safety and production currently hold the relevant valid safety licences with the expiry date falling within the period from June 2013 to January 2015. Our Directors confirm that our personnel will not perform any duties which require the relevant safety licences when such licences have expired and are in the course of renewal and that our Group will ensure its personnel currently in charge of safety and production holds the valid requisite licences at all times.

As confirmed by our Directors, as at the Latest Practicable Date, we were not aware of any claims in relation to our mining right made or notified either by third parties against us or vice versa. To the best knowledge of our PRC Legal Advisers and based on our Directors' confirmation, our PRC Legal Advisers and our Group are not aware of claims in relation to our Company's mining right made or notified either by third parties against our Company or vice versa which will have material adverse effect on our Company.

As advised by our PRC Legal Advisers, saved as the failure to fully pay social insurances and housing fund contributions as disclosed in the sections headed "Risk Factors – Risks Relating to our Business – Non-compliance with the social insurances and housing fund contribution regulations in the PRC by us could lead to imposition of penalties or other liabilities on us" and "– Employees" above and that the quantity of ore mined at the Xinzhuang Mine had exceeded the annual mining level under our mining licence for each of the three years ended 31 December 2011 as disclosed above, Yifeng Wanguo has complied with the relevant PRC laws and regulations in material respects and obtained the relevant permits and approvals which are material for its current operation of Xinzhuang Mine in the PRC. Our PRC Legal Advisers advise that there is no material legal impediment for our Group to renew such licences if our Group meets all relevant conditions and requirements pursuant to the relevant PRC laws and regulations and requirements imposed by the competent authorities which our Directors confirm that our Group is able to fulfil.

### **Hong Kong**

Pursuant to section 111 of the Hong Kong Companies Ordinance, a company incorporated in Hong Kong shall hold its first annual general meeting within 18 months of its incorporation and, thereafter, an annual general meeting in each year with not more than 15 months between two annual general meetings. Pursuant to section 122 of the Hong Kong Companies Ordinance, the directors of a company incorporated in Hong Kong must cause the profit and loss account and balance sheet of the company to be made up and laid before its shareholders at each of its annual general meeting. HK Taylor was acquired for the purpose of investment holding and has not carried out any business in Hong Kong since its incorporation in August 2006. The first annual general meeting of HK Taylor was held on 14 August 2008, more than 18 months after its incorporation. No accounts for each of the four years ended 31 March 2010 were prepared and laid before the shareholders of HK Taylor in its annual general meetings. Mr. Li Kwok Ping and Mr. Gao, the then and current director of HK Taylor, respectively, have delegated the company secretarial matters of

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HK Taylor to a company secretarial firm and were not aware of the specific requirements under sections 111 and 122 of the Hong Kong Companies Ordinance. After being advised of these requirements under the Hong Kong Companies Ordinance when preparing for the Listing, a local accounting firm was engaged by HK Taylor to prepare its audited accounts since its incorporation. The audited accounts of HK Taylor for the four years ended 31 March 2010 were subsequently prepared and tabled at its annual general meeting on 25 November 2011.

On 15 December 2011, Mr. Gao and MIH, as the director and the shareholder of HK Taylor respectively, applied to the High Court of Hong Kong for an order that, among other things, (i) the annual general meeting of HK Taylor held on 14 August 2008 be deemed to be the general meeting of HK Taylor for 2007 and 2008; and (ii) the time for having the accounts of HK Taylor for the four years ended 31 March 2010 laid before its shareholders in its annual general meeting be extended to 25 November 2011. On 18 January 2012, the requested orders were granted by the High Court of Hong Kong.

The maximum penalty which may be imposed on our Company and each officer of a Hong Kong company for the non-compliance with section 111 of the Hong Kong Companies Ordinance in respect of the holding of annual general meetings is a fine of HK\$50,000 and the maximum penalty which may be imposed on the director of a Hong Kong company for failure to comply with the relevant requirements of preparing audited accounts under section 122 of the Hong Kong Companies Ordinance is imprisonment of 12 months and a fine of HK\$300,000. As at the Latest Practicable Date, there has not been any prosecution initiated against our Company and Mr. Gao and Mr. Li, who were the then and current directors of HK Taylor, nor has any of them been subject to any fine relating to the above disclosed non-compliance. The grant of the court orders in relation to sections 111 and 122 of the Hong Kong Companies Ordinance may not by themselves bar criminal enforcement of Companies Registry of possible offences arising from past default. However, the Directors believe that the likelihood of such criminal enforcement by the Companies Registry is low in view of the fact that the High Court of Hong Kong has granted the orders based on its acceptance of the evidence submitted to the court in support of the order applications.

To avoid future occurrences of such non-compliance, our chief financial officer and company secretary, Mr. Wong Chi Wah, who is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants with extensive accounting and auditing experience, will assist us to ensure compliance with section 122 of the Hong Kong Companies Ordinance by HK Taylor. Further, our audit committee will oversee the financial reporting and internal control procedures of our Company. We will also seek outside counsel advice to prevent any recurrence of any similar events.

Our Controlling Shareholders have provided an indemnity under the Deed of Indemnity in favour of us against any expenses and/or losses incurred by us as a result of any historical breach or non-compliance with any regulatory requirements relevant to the business of our Group.

Saved as disclosed above and at the Latest Practicable Date, we were not a party to any legal or administrative proceedings, and none of our Directors are aware of any proceedings contemplated by government authorities or third parties, which, if adversely determined, would materially and adversely affect us. Our Directors further confirm that we have complied with all relevant laws, regulations and obtained all the necessary licences, approvals and permits for conducting our business activities.