You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, set forth in "Appendix I — Accountants' Report of Lumena Resources Corp." to this prospectus. The financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current condition and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of factors over which we have no control. You should review the section headed "Risk Factors" in this prospectus for discussion of important factors that could cause our actual results to differ materially from the results described in or implied by forward-looking statements.

OVERVIEW

We are engaged in the mining, processing and manufacturing of natural thenardite products. According to the information provided by Behre Dolbear, we believe we have the largest single line thenardite production facility in terms of production capacity as of December 31, 2008. We are also the second largest thenardite producer in the world in terms of production capacity as of December 31, 2008, according to Behre Dolbear. Over 60% of our production capacity is dedicated to the production of specialty thenardite. As at the Latest Practicable Date, our production facility in the Dahongshan Mining Area was the only production facility in China with the GMP Certificate and the Pharmaceutical Production Permit for medical thenardite, effectively making us the only approved and certified medical thenardite producer in China. Based on the information provided by Behre Dolbear, as at December 31, 2008, we had a domestic thenardite market share of approximately 23.2% and a global thenardite market share of approximately 11.3%.

We are in a period of significant production growth. We have completed construction of and commenced commercial production at our 1.0 million tpa mining and production facility in the Guangji Mining Area, which increased our total combined production capacity from 0.6 million tpa to 1.6 million tpa as of November 1, 2008. We intend to complete the construction of and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa mining and production facility of powder and specialty thenardite in the Muma Mining Area in the third quarter of 2010. See "Future Plans and Use of Proceeds".

BASIS OF PRESENTATION

Our Company was incorporated on April 12, 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands in preparation for a listing of our Shares. As a result of the Reorganization, our Company became the holding company of all our subsidiaries. See "History, Reorganization and Corporate Structure".

As our Company and Subsidiaries were under continuous common control by Mr. Suolang Duoji for the Track Record Period, the financial information was prepared on the basis as if the Company had been the holding company of the Group from the beginning of the Track Record Period. The financial information presents the consolidated results, cash flow and financial position of the Group as if the Company had been in existence throughout the Track Record Period and the current Group structure had been in place as of the earliest period presented, or since the effective date of incorporation of the companies had they not been in existence at the beginning of the Track Record Period.

Our consolidated income statements, cash flow statements and statements of changes in equity for the years ended December 31, 2006, 2007 and 2008 include the financial information of our Company and subsidiaries as if our Company had been in existence throughout the Track Record Period and as if the current organizational structure had been in place as of the earliest period presented, or since the effective date of incorporation of the companies if they were not in existence as of those dates. Our consolidated balance sheets as at December 31, 2006, 2007 and 2008 have been prepared to present the assets and liabilities of our Company and subsidiaries at these dates, as if the current organizational structure had been in existence as at these dates.

The following table sets out our income statement and other selected financial information for the periods indicated, as derived from the Accountants' Report in Appendix I to this prospectus:

	Year ended December 31,		
	2006	**2007**	**2008**
	(RMB'000, except per Share data)		
Revenue	204,755	371,530	1,140,354
Cost of sales	(112,430)	(151,295)	(343,794)
Gross profit	92,325	220,235	796,560
Other revenue and gains	4,618	5,324	3,128
Selling and distribution expenses	(24,565)	(6,912)	(11,147)
Other operating expenses	(14,429)	(69,223)	(67,878)
Repair expenses arising from earthquake	—	—	(8,280)
Operating profit	57,949	149,424	712,383
Finance costs	(7,079)	(34,521)	(98,800)
Profit before income tax	50,870	114,903	613,583
Income tax expense	(1,616)	(25,901)	(171,503)
Profit for the year	49,254	89,002	442,080
Attributable to:			
Equity holders of our Company	44,029	78,950	429,739
Minority interests	5,225	10,052	12,341
	49,254	89,002	442,080
Earnings per Share — Basic(1)	2.90 cents	5.19 cents	28.27 cents

Note:

(1) *The calculation of basic earnings per Share attributable to the equity holders of our Company is calculated based on consolidated profit attributable to the equity holders of our Company in each of the years ended December 31, 2006, 2007 and 2008 and the 1,520,000,000 Shares which have been determined after taking into consideration of the share sub-division on April 25, 2008 and the capitalization issue as described in Section A Note 2(e) in Appendix VII of this prospectus as if the Shares were outstanding throughout the Track Record Period.*

There were no dilutive potential Shares presented as its inclusion, for the purpose of this prospectus, is not considered meaningful.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business and historical financial condition and results of operations have been, and will continue to be, affected by a number of important factors, including the following:

Growth in traditional downstream markets in China. The traditional downstream markets for thenardite in China are detergents, textiles and glass accounting for over 75% of thenardite consumption in the year ended December 31, 2007, according to Behre Dolbear. Behre Dolbear also anticipates that these industries will remain the main source of demand in China for thenardite in the near future. According to Behre Dolbear, domestic thenardite consumption has expanded at an average annual rate of approximately 16% for the past seven years as China's economy has rapidly and steadily developed. With the current worldwide economic downturn, however, growth in domestic thenardite consumption has been slowing down in the key traditional downstream markets as well as in various new application areas. See "Industry Overview". In the year ended December 31, 2007 and 2008, 98.7% and 99.1% of our total revenue was derived from domestic sales, respectively.

Increased production capacity. Our revenue is dependent upon our production volume and capacity. The production volume of our thenardite products is constrained by the capacity of our thenardite mining and processing operations. We have completed construction of and commenced commercial production at our 1.0 million tpa production facility in the Guangji Mining Area, which increased our total combined production capacity to 1.6 million tpa as of November 1, 2008. This new production facility commenced pilot production in November 2007. We intend to complete construction and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa production facility of powder and specialty thenardite in Muma Mining Area in the third quarter of 2010. Our total thenardite production capacity as of and production volume for the years ended December 31, 2006, 2007 and 2008 are set out below:

	Year ended December 31,		
	2006	2007	2008
		(in tonnes)	
Thenardite mining and production capacity (tpa) as of(1)	500,000	1,600,000(2)	1,600,000(2)
Thenardite produced for the year ended(3)	504,199	694,708(4)	1,516,076

Notes:

(1) Mining and production capacity represents designed capacity based on standard industry practice.

(2) In the year ended December 31, 2007 we increased the mining and production capacity from 0.5 million tpa to 1.6 million tpa. This figure includes both our production facility in the Dahongshan Mining Area with an annual production capacity of 0.6 million tpa and our production facility in the Guangji Mining Area which commenced operations in November 2007 with an annual production capacity of 1.0 million tpa.

(3) Includes powder thenardite, specialty thenardite and medical thenardite.

(4) Our production facility located in the Guangji Mining Area commenced pilot production in November 2007 and produced 90,869 tonnes in the year ended December 31, 2007.

We were able to produce more than our designed production capacity in the year ended December 31, 2006 as we operated more days than the industry standard of 300 days.

The year ended December 31, 2008 was the first full period presented where we operated at the combined production capacity of 1.6 million tpa which resulted in the production of approximately 1.5 million tonnes of thenardite. As our production facility in the Guangji Mining Area commenced pilot production in November 2007, the figure for the year ended December 31, 2007 does not include a full period of operations at a production capacity of 1.6 million tpa.

Average selling prices. The average selling prices of our powder thenardite and medical thenardite have not been subject to significant fluctuation during the Track Record Period. The average selling prices of our products for the years ended December 31, 2006, 2007 and 2008 are set out below:

	Year ended December 31,		
	2006	**2007**	**2008**
Average Sales Price (RMB/tonne)			
Powder thenardite — domestic[(1)]	300	278	313
Powder thenardite — exports	454	379	568
Medical thenardite	1,899	1,934	1,939
Specialty thenardite	—	858	856

Note:

(1) This includes sales to distributors who then export our products.

The domestic average selling price for our powder thenardite product has decreased 7.3% from the year ended December 31, 2006 to December 31, 2007, respectively. As we included transportation costs for delivering our products to our customers in our domestic average selling prices, increased sales to customers who collected our thenardite products from our storage facilities resulted in decrease of our domestic selling prices. The domestic average selling price for our powder thenardite increased 12.6% from the year ended December 31, 2007 to the year ended December 31, 2008. This was primarily due to an increase in our coal costs and transportation costs which we were able to pass on to our customers. See "— Cost of coal". This additional amount we charge our domestic powder thenardite customers reflects the transportation costs associated with transporting our powder thenardite from our production facility to our storage facility located near the Meishan train station. The export average selling price for our powder thenardite has decreased by 16.5% from the year ended December 31, 2006 to December 31, 2007. This decrease was primarily due to decreased transportation costs as we included transportation costs from our storage facility to export customs in our export selling price. The decrease of such transportation cost was principally a result of increased customs clearance for our exports through customs located closer to our storage facility. The export average selling price for our powder thenardite increased 49.9% from the year ended December 31, 2007 to the year ended December 31, 2008 due to an overall increase in our cost of sales and our sales to additional overseas customers at favorable average selling prices. The average selling price of our medical thenardite increased from RMB1,899 in the year ended December 31, 2006 to RMB1,939 in the year December 31, 2008. We believe that the increases of such prices were primarily due to increased attention by the State FDA to the quality of and production processes for medical thenardite in pharmaceutical products in the year ended December 31, 2006. This provided us an opportunity to increase the average selling price of our medical thenardite. As we only began sales of our specialty thenardite in November 2007, the selling prices of this product have thus far been determined on a contract by contract basis. With numerous thenardite producers expanding their production capacities, it is unlikely that prices will rise significantly, if at all, in the near future. Given the large number of high volume producers in China and the recent slowdown in China's economic growth, there is a risk of price-cutting by thenardite producers to secure market share.

Thenardite demand. Our sales volume is dependent upon the demand for our products and our ability to meet such demand. We have increased our thenardite production capacity to 1.6 million tpa and have plans to further increase our production capacity in the future. The sales volume of our thenardite products have steadily increased as we have increased our production capacity. The sales volumes of our products for the years ended December 31, 2006, 2007 and 2008 are set out below:

	Year Ended December 31,					
	2006		2007		2008	
	(in tonnes, except percentages)					
Sales Volume						
Powder thenardite — domestic	424,094	83.8%	519,481	74.5%	459,346	30.6%
Powder thenardite — exports	54,041	10.7%	12,912	1.9%	18,469	1.2%
Total powder thenardite	478,135	94.5%	532,393	76.4%	477,815	31.8%
Medical thenardite	27,971	5.5%	75,281	10.8%	99,080	6.6%
Specialty thenardite	—	—	89,270	12.8%	926,830	61.6%
Total thenardite sales	506,106	100.0%	696,944	100.0%	1,503,725	100.0%

The year ended December 31, 2008 was the first full period presented where the production facility at the Guangji Mining Area was operational. We sold 926,830 tonnes of specialty thenardite in the year ended December 31, 2008 which represented 61.6% of the total thenardite we sold in such period. We expect specialty thenardite sales revenue to continue to represent a significant portion of our revenues in the future. We sold 10.3% less powder thenardite in terms of volume in the year ended December 31, 2008 than in the year ended December 31, 2007 primarily as a result of allocating more production capacity to produce medical thenardite at our production facility in the Dahongshan Mining Area. Due to the recent global economic crisis, however, the growth of demand for detergent, textiles and glass are expected to slow down in China, the rest of Asia and South America in the next two years which may result in only a modest growth of thenardite consumption in these regions.

Cost of coal. The cost of coal comprised 36.3%, 37.6%, and 45.9% of our total cost of sales for the years ended December 31, 2006, 2007 and 2008, respectively. We use coal in our onsite coal fired power plants for our mining operations and production facilities and expect the cost of coal to continue to be the largest component of our cost of sales in the future. The main factors affecting the price of the coal we purchase are the supply and demand for coal in China and the caloric content of coal we purchase. Our average purchase price of coal per tonne for the three years ended December 31, 2006, 2007 and 2008 were RMB185, RMB192, and RMB270, respectively. In the second half of 2008, although the average price for coal decreased worldwide, the purchase prices of our coal increased as we increased our coal consumption and continued to purchase coal based on caloric content. We seek to manage our energy costs by purchasing higher caloric content coal in order for us to optimize our coal utilization efficiency.

In the three years ended December 31, 2008, we purchased coal based on caloric content or projected coal consumption volumes. As a result of our increased production capacity, we expect to increase the total coal consumption but lower the coal consumption per tonne of thenardite produced.

Packaging costs. We incurred RMB15.5 million, RMB33.2 million and RMB58.1 million in packaging costs for the years ended December 31, 2006, 2007 and 2008, respectively, which represented 13.8%, 22.0% and 16.9% of our total cost of sales for the same periods. Our packaging costs are principally related to our sales of medical thenardite. Medical thenardite requires additional packaging costs as the packaging is more expensive and our customers demand such product to be delivered in smaller sized bags as compared to deliveries of powder or specialty thenardite. Packaging costs increased from the year ended December 31, 2006 to December 31, 2008 primarily due to a significant increase in the sales of medical thenardite.

Transportation costs. We incurred RMB23.0 million, RMB6.0 million and RMB10.1 million in transportation costs for the years ended December 31, 2006, 2007 and 2008, respectively. Our transportation costs decreased from December 31, 2006 to December 31, 2008 as a result of decreased export sales and a significant increase in our sales to customers who collected our thenardite products from our storage facilities. Our transportation costs in the year ended December 31, 2008 increased as compared to that in the year ended December 31, 2007 as a result of our payment of transportation costs associated with transporting our powder thenardite to the storage facility located near the Meishan train station.

Product mix and margins. In the three years ended December 31, 2008, we increased sales of medical thenardite and began sales of specialty thenardite in November 2007. The margins on medical thenardite and specialty thenardite are significantly higher than powder thenardite. As a result, our gross margins were 45.1%, 59.3% and 69.9% for the years ended December 31, 2006, 2007 and 2008, respectively. We incorporate transportation costs in our selling prices with reference to the distance between the delivery location and our storage facilities. In the three years ended December 31, 2008, our customers' collection of our products from our storage facilities resulted in decreased margins on our powder thenardite products.

Export sales. Our export sales have decreased as a percentage of our total sales primarily as a result of the cancellation of tax refunds on our export sales and the depreciation of the U.S. dollar against the RMB. Tax refunds on export sales were entirely cancelled in the year ended December 31, 2007. The U.S. dollar has continually depreciated against the RMB. As a result of the depreciation of the U.S. dollar in which our export sales were primarily denominated and the cancellation of tax refunds on our exports, we decided to focus more on domestic sales during the three years ended December 31, 2008. Our export sales in the year ended December 31, 2008 increased slightly as a result of several additional export customers.

Global supply and production capacity. The demand for and pricing of our thenardite products are affected by the global supply of thenardite. Global supply is in turn dependent upon the capacity of our competitors' mining operations and production capabilities. See "Risk Factors — Risks Relating to Our Business and Our Industry — We operate in a highly competitive environment and we may not be able to sustain our current market position if we fail to compete successfully".

Impact of the Sichuan Province Earthquake. As a result of the earthquake that occurred on May 12, 2008 and the resulting aftershocks, we incurred repair expenses of RMB8.3 million and wrote off of inventory of RMB0.9 million in the year ended December 31, 2008. See "Risk Factors — Risks Relating to our Business and our Industry — Our mining and production activities are subject to operational risks and hazards".

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. Our significant accounting policies are set forth in note 3 to our financial statements included in Appendix I to this prospectus. The preparation of our financial statements pursuant to IFRS requires our management to adopt accounting policies and make estimates and assumptions that affect the amount reported in our financial statements. These estimates and assumptions are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and assumptions. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations.

Impairment of non-financial assets

Intangible assets with indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the carrying amount of an asset/a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/cash-generating unit. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognized impairment loss on non-financial assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset/cash-generating unit, provided the increased amount of the asset/cash-generating unit does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset/cash-generating unit in prior years. Such reversal is credited to the income statement in the period in which it arises.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the financial assets expire or when financial assets are transferred together with substantially all the risks and rewards associated with the ownership of such financial assets. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in the income statement.

Financial liabilities are derecognized when the obligations specified in the relevant contract is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the income statements.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognized as follows:

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognized in the income statement of the period in which the impairment occurs. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognized when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in the income statement of the period in which the reversal occurs.

Useful lives of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Any surplus arising on revaluation of property, plant and equipment is credited to equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss. To the extent that any decrease has been recognized in the income statement, a revaluation increase is credited to the income statement with the remaining part of the increase dealt with in the revaluation reserve. A decrease in net carrying amount of property, plant and equipment arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same asset and the remaining decrease recognized in income statement.

Depreciation on property, plant and equipment, other than construction in progress is provided to write off the cost or revalued amounts over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings and mining structure	1 to 38 years
Computer equipment	2 years
Furniture, fixtures and equipment	5 years
Leasehold improvements	4 years
Machinery and equipment	5 to 22 years
Motor vehicles	5 to 20 years

The assets' useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognized upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on derecognizing the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognized.

Mining rights

Mining rights are stated at cost less accumulated amortization and are amortized on a straight line basis over the their estimated useful life, which is the shorter of the contractual period and the estimated period of extraction (based on the total proven and probable reserves of the mines), from the date when such mine is available for use.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity. Current tax assets and liabilities for the current year and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the unused tax credits and the unused tax losses can be utilized.

Deferred tax assets and liabilities are not recognized if temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with an investment in subsidiaries are not recognized where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions and contingent liability

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within our control, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the financial statements of the Company. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case.

The Group is dependent upon its ability to generate profit and cash inflows from operations and the ability of the Group to continue to obtain bank financing to finance its continuing operation to meet the Group's future working capital and financing requirements. Management believes the Group is able to continue as a going concern after taking into account projections of the Group's future profits and cash inflows from operations and the ability of the Group to continue to obtain bank financing to finance its continuing operations. Accordingly, management has prepared the financial statements of the Company on a going concern basis. An adverse change in any of the above conditions may require the financial statements of the Company to be prepared on an alternative basis and such basis, together with the fact that the financial statements of the Company is not prepared on a going concern basis, would need to be disclosed. If the Group were unable to continue as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

We generate all our revenue from the sale of thenardite products. Revenue represents the net amounts received and receivable for the thenardite we sell, less value-added tax and returns. Our revenues are based on the average selling prices and sales volumes of our thenardite products. We also include transportation costs in our average selling prices. The table below presents, for the periods indicated, our revenue in terms of amount and as a percentage of our total revenue:

	Year Ended December 31,					
	2006		2007		2008	
	RMB	%	RMB	%	RMB	%
	(RMB'000, except for percentages)					
Powder thenardite — domestic	127,097	62.1%	144,510	38.9%	143,995	12.6%
Powder thenardite — export	24,536	12.0%	4,895	1.3%	10,491	0.9%
Medical thenardite	53,122	25.9%	145,567	39.2%	192,163	16.9%
Specialty thenardite	—	—	76,558	20.6%	793,705	69.6%
Total	204,755	100.0%	371,530	100.0%	1,140,354	100.0%

We have historically focused on the production and sale of powder thenardite. We have recently focused on the sales of medical thenardite and specialty thenardite as we have expanded our production capacity for both products. We only began the production and sale of specialty thenardite in November 2007. The year ended December 31, 2008 was the first full period presented where we operated at the combined capacity of 1.6 million tpa.

Cost of sales

Cost of sales represents the direct costs of production, which includes primarily raw materials costs, labor costs, electricity costs, depreciation expenses and repair and maintenance expenses. The cost of sales is recognized in inventories and then as cost of sales when the revenue from sale of goods is recognized. The primary raw material costs include coal and packaging. The cost of delivering products to our customers, storage facilities and export customs is included in our selling and distribution expenses and not included in our cost of sales. The following table presents, for the periods indicated, our cost of sales in terms of amount and as a percentage of our total cost of sales:

	For the year ended December 31,					
	2006		2007		2008	
	RMB	%	RMB	%	RMB	%
	(RMB'000, except for percentages)					
Cost of Sales						
Raw materials						
Coal	40,843	36.3%	56,877	37.6%	157,663	45.9%
Packaging(1)	15,482	13.8%	33,236	22.0%	58,103	16.9%
Others(2)	15,024	13.4%	17,759	11.7%	37,170	10.8%
Total	71,349	63.5%	107,872	71.3%	252,936	73.6%
Labor	15,468	13.7%	17,375	11.5%	27,183	7.9%
Electricity	8,814	7.8%	9,845	6.5%	15,897	4.6%
Depreciation	8,724	7.8%	10,247	6.8%	37,930	11.0%
Exports tax	3,712	3.3%	1,003	0.7%	—	—%
Others(3)	1,562	1.4%	1,542	1.0%	5,948	1.7%
Finished goods movement	1,037	0.9%	680	0.4%	(2,812)	(0.8)%
Resource tax(4)	1,764	1.6%	2,731	1.8%	6,712	2.0%
Total	112,430	100.0%	151,295	100.0%	343,794	100.0%

Notes:

(1) Includes packaging for powder, specialty and medical thenardite. Medical thenardite packaging is more costly.

(2) Other raw materials include primarily spare parts, chemicals used in the production process and explosives activities.

(3) Others include primarily maintenance and repair expenses and mining and production overhead.

(4) Resource taxes for the Guangji Mine were included in the years ended December 31, 2007 and 2008 as we only commenced pilot production in November 2007.

Raw material costs are the main component of our cost of sales, representing 63.5%, 71.3%, and 73.6% of our total cost of sales for the years ended December 31, 2006, 2007 and 2008, respectively. The majority of our raw material costs consists of coal and packaging costs.

In the three years ended December 31, 2008, we purchased coal based on caloric content or coal consumption volumes. The coal costs for the years ended December 31, 2006 and 2007 were primarily incurred to operate our coal fired power plant located at our production facility in the Dahongshan Mining Area. The coal costs for the year ended December 31, 2008 were incurred to operate our coal fired power plant at both the Dahongshan Mining Area and Guangji Mining Area. As we expand our production capacity, we expect to consume more coal in the future.

Our packaging costs have been increasing primarily as a result of the increased sales of thenardite. The increase in our packaging costs was principally related to our sales of medical thenardite. Medical thenardite accounts for higher packaging costs as such product is delivered in smaller sized bags as compared to deliveries of powder or specialty thenardite. Packaging costs increased from December 31, 2006 to December 31, 2008 primarily due to a significant increase in the sales of medical thenardite and an overall increase in sales volumes due to our significantly increased production capacity.

Depreciation expenses increased in the year ended December 31, 2008 as the assets of our production facility located in the Guangji Mining Area began to depreciate in November 2007. We expect depreciation expenses to further increase once we complete construction and begin production at our production facility to be constructed in the Muma Mining Area.

Gross profit and gross margin

Gross profit is equal to revenue less cost of sales. Gross margin is equal to gross profit divided by revenue. In the years ended December 31, 2006, 2007 and 2008, our gross profit was RMB92.3 million, RMB220.2 million, and RMB796.6 million, respectively, and our gross margin was 45.1%, 59.3%, and 69.9%, respectively. Our gross margins are primarily affected by whether our customers collect our products from our storage facilities and our product mix. We incorporate transportation costs in our selling prices with reference to the distance between the delivery location and our storage facilities. In the three years ended December 31, 2008, our customers' collection of our thenardite products from our storage facilities resulted in decreased margins on our powder thenardite products. Our powder thenardite margins decreased from 32.0% in the year ended December 31, 2007 to 28.2% in the year ended December 31, 2008 primarily due to increased coal costs. Medical thenardite and specialty thenardite are higher margin products compared with powder thenardite. Our gross margin for specialty thenardite decreased from 81.9% in the year ended December 31, 2007 to 77.8% in the year ended December 31, 2008 primarily due to increased costs of coal and other raw materials and depreciation. Our gross margin for medical thenardite decreased from 75.4% in the year ended December 31, 2007 to 70.7% in the year ended December 31, 2008 primarily due to increased costs of coal, packaging costs and other raw materials. Our overall gross margin increased for the three years ended December 31, 2008 primarily due to increased sales of such higher margin products. The table below sets forth the gross profit margins for our powder, medical and specialty thenardite for the periods indicated:

Gross profit margin	Year ended December 31,		
	2006	2007	2008
Powder thenardite	35.4%	32.0%	28.2%
Medical thenardite	72.7%	75.4%	70.7%
Specialty thenardite	—	81.9%	77.8%

Other revenue and gains

Other revenue and gains consist primarily of interest income on bank deposits, government grants received, gains on the disposal of scrap materials and obsolete fixed assets.

Selling and distribution expenses

Selling and distribution expenses consist primarily of transportation costs.

The following table presents, for the periods indicated, our selling and distribution expenses in terms of amount and as a percentage of our total selling and distribution expenses:

	Year ended December 31,					
	2006		2007		2008	
	RMB	%	RMB	%	RMB	%
	(RMB'000, except for percentages)					
Selling and distribution expenses						
Transportation	23,031	93.7%	5,978	86.5%	10,068	90.3%
Entertainment	46	0.2%	83	1.2%	107	1.0%
Office	173	0.7%	76	1.1%	89	0.8%
Travel	399	1.6%	58	0.8%	58	0.5%
Export packaging(1)	238	1.0%	—	—%	12	0.1%
Others(2)	678	2.8%	717	10.4%	813	7.3%
Total	24,565	100.0%	6,912	100.0%	11,147	100.0%

Notes:

(1) *Export packaging consists of additional packaging expenses associated with export sales to ensure such packaging survives sea transport.*

(2) *Others include miscellaneous expenses such as depreciation and staff costs.*

The selling and distribution expenses for the years ended December 31, 2006, 2007 and 2008 were RMB24.6 million, RMB6.9 million and RMB11.1 million, respectively. Due to increased sales to customers who collected our thenardite products from our storage facilities, the selling and distribution expenses for domestic sales decreased significantly from the year ended December 31, 2006 to the year ended December 31, 2007. Our selling and distribution expenses increased from the year ended December 31, 2007 to the year ended December 31, 2008 as a result of our payment of transportation costs associated with transporting our powder thenardite to our storage facility located near the Meishan train station.

Other operating expenses

Other operating expenses consist primarily of staff costs (including directors' remuneration), and exchange loss, depreciation and amortization, legal and professional fees, impairment on receivables, mineral resource compensation fees and mining usage fees. In the year ended December 31, 2008, it also included expenses related to our share option plan, the Global Offering, the write off of inventory damaged in the Sichuan Province earthquake and a donation to disaster relief efforts in the Sichuan Province. Mineral resource compensation fees and mining usage fees were not payable for the Guangji Mine in the year ended December 31, 2007 as we only commenced pilot production in November 2007 and commercial production on November 1, 2008.

Operating profit and operating margin

Operating profit is equal to our gross profit less selling and distribution expenses and other operating expenses, after taking into account other revenue and gains. Operating margin is equal to operating profit divided by revenue. For the years ended December 31, 2006, 2007 and 2008 our operating profit was RMB57.9 million, RMB149.4 million and RMB712.4 million, respectively, and our operating margin was 28.3%, 40.2% and 62.5%, respectively. Our operating margins increased from the year ended December 31, 2006 to the year ended December 31, 2008 primarily due to increased sales of medical thenardite and specialty thenardite, which are higher margin products compared to powder thenardite.

Finance costs

Finance costs primarily consist of interest paid on borrowings less capitalized interest. Finance costs included in the cost of qualifying assets have been capitalized at a rate of approximately 19.5% for the years ended December 31, 2007 and 2008. The capitalized amounts represent borrowing costs directly attributable to the acquisition, construction or production of related assets.

The qualifying assets represented the mining rights in the Muma Mining Area, certain machinery and equipment and certain buildings and mining structures of the Guangji Mining Area.

As advised by the Reporting Accountants, the amount of borrowing costs eligible for capitalization shall be determined in accordance with IAS 23 "Borrowing Costs". Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. Such borrowing costs are capitalized as part of the cost of the qualifying assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably.

The US$100 million term loan under the Facility Agreement was borrowed in June 2007 to finance our capital injection into Chuanmei Glauber Salt and our acquisition of the Guangji Mine and Muma Mine as well as our construction of buildings and mining structures in the Guangji Mining Area (i.e. the qualifying assets). In addition, the borrowing costs can also be readily identified. As a result, the borrowing costs incurred for the qualifying assets are eligible for capitalization during the years ended December 31, 2007 and 2008.

Income tax expenses

All of our income tax expenses in the year ended December 31, 2006 were related to PRC income tax incurred by our onshore operating subsidiary Chuanmei Mirabilite as Chuanmei Glauber Salt only began generating income in November 2007. Our income tax expenses for the years ended December 31, 2007 and 2008 include the PRC income taxes incurred by both Chuanmei Mirabilite and Chuanmei Glauber Salt. Each of our subsidiaries incorporated in China were subject to enterprise income tax on its taxable income as reported in its statutory financial statements prepared under the PRC GAAP and adjusted in accordance with the relevant tax laws and regulations in China. Pursuant to such laws and regulations, until 2008, foreign-invested enterprises incorporated in China are subject to enterprise income tax at a statutory rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax. In connection with our approval to become a foreign invested enterprise in 2005, Chuanmei Mirabilite was entitled to a two-year income tax exemption from its first profitable year and 50% reduction of its applicable income tax rate for the subsequent three years. The year ended December 31, 2005 was Chuanmei Mirabilite's first profitable year. For the year ended December 31, 2006, the local tax bureau imposed a 3.0% local income tax on Chuanmei Mirabilite. Based on the above, the applicable tax rate of Chuanmei Mirabilite in effect was 3.0%, 18.0% and 12.5% for the years ended December 31, 2006, 2007 and 2008, respectively. We expect the tax rate applicable to Chuanmei Mirabilite to be 12.5% for the year ending December 31, 2009.

As of January 1, 2008, we became subject to the PRC EIT Law, which imposed a tax rate of 25.0% on all enterprises incorporated in China, including foreign-invested enterprises, and eliminated many tax exemptions, reductions and preferential treatments available under current tax laws and regulations. However, under the PRC EIT Law, existing preferential tax treatments could be grandfathered for enterprises that were established before March 16, 2007. In the year ended December 31, 2007, Chuanmei Glauber Salt was subject only to a local tax of 3.0% as it was exempt from state taxes. Commencing January 1, 2008, Chuanmei Glauber Salt was subject to the PRC EIT tax rate of 25.0%.

We expect to have minimal taxable income in jurisdictions other than China. Our subsidiary in Hong Kong is subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations. Under current laws of the Cayman Islands, we are not subject to any Cayman Islands income or capital gains tax.

RESULTS OF OPERATIONS

Year ended December 31, 2008 compared to the year ended December 31, 2007

Revenue

Our revenue increased 206.9% from RMB371.5 million in the year ended December 31, 2007 to RMB1,140.4 million in the year ended December 31, 2008. This increase was primarily due to sales of 926,830 tonnes of specialty thenardite which generated sales revenues of RMB793.7 million in the year ended December 31, 2008 and increased sales of medical thenardite. Sales revenues contributed by medical thenardite increased 32.0% from RMB145.6 million in the year ended December 31, 2007 to RMB192.2 million in the year ended December 31, 2008 primarily due to increased market demand for medical thenardite.

Cost of sales

Our cost of sales increased 127.2% from RMB151.3 million in the year ended December 31, 2007 to RMB343.8 million in the year ended December 31, 2008. This increase was primarily due to an increase in production volumes which increased our raw material costs and labor costs primarily as a result of the operation of our Guangji Mining Area production facility in the year ended December 31, 2008. Raw material costs increased 134.5% from RMB107.9 million in the year ended December 31, 2007 to RMB252.9 million in the year ended December 31, 2008 primarily due to increased coal costs and packaging costs. Coal costs increased 177.2% from RMB56.9 million in the year ended December 31, 2007 to RMB157.7 million in the year ended December 31, 2008 primarily due to increased coal prices and consumption volume at the new production facility in the Guangji Mining Area in the year ended December 31, 2008. Packaging costs increased 74.8% from RMB33.2 million in the year ended December 31, 2007 to RMB58.1 million in the year ended December 31, 2008. This increase was primarily due to an increase in the sales of medical thenardite which requires higher packaging costs and our overall increase in sales volume due to our significantly increased production capacity.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased 261.7% from RMB220.2 million in the year ended December 31, 2007 to RMB796.6 million in the year ended December 31, 2008, which represented a gross margin increase from 59.3% in the year ended December 31, 2007 to 69.9% in the year ended December 31, 2008. This gross margin increase was primarily due to the increase in sales of specialty thenardite and increased sales of medical thenardite, both of which are significantly higher margin products compared to powder thenardite.

Other revenue and gains

Other revenue and gains decreased 41.2% from RMB5.3 million in the year ended December 31, 2007 to RMB3.1 million in the year ended December 31, 2008. The other revenue and gains in the year ended December 31, 2008 were primarily due to interest income of RMB1.3 million from cash deposited in offshore banking accounts in connection with the Facility Agreement and a gain on disposal of scrap materials/obsolete fixed assets of RMB1.5 million. The other revenue and gains in the year ended December 31, 2007 was primarily due to interest income of RMB4.0 million from cash deposited in offshore banking accounts in connection with the Facility Agreement.

Selling and distribution expenses

Selling and distribution expenses increased 61.3% from RMB6.9 million in the year ended December 31, 2007 to RMB11.1 million in the year ended December 31, 2008. This increase was primarily due to a 68.4% increase in transportation expenses from RMB6.0 million in the year ended December 31, 2007 to RMB10.1 million in the year ended December 31, 2008 primarily as a result of the transportation costs incurred by transporting our powder thenardite to our storage facility located near the Meishan train station.

Other operating expenses and repair expenses arising from earthquake

Other operating expenses decreased from RMB69.2 million in the year ended December 31, 2007 to RMB67.9 million in the year ended December 31, 2008. Other operating expenses in the year ended December 31, 2008 primarily included equity-settled share-based payments of RMB13.8 million, staff salaries and wages of RMB8.6 million, professional fees in connection with the Global Offering of RMB10.1 million, director salaries of RMB5.9 million, social insurance costs of RMB3.6 million, depreciation and amortization expenses of RMB8.6 million and a stock write off of RMB0.9 million caused by the earthquake. Other operating expenses in the year ended December 31, 2007 primarily included professional fees incurred for arrangements of bank borrowings of RMB33.4 million, an impairment on receivables of RMB9.9 million, directors salaries of RMB4.0 million, staff salaries and wages of RMB4.2 million, social insurance costs of RMB3.0 million and depreciation and amortization expenses of RMB3.4 million.

As a result of the Sichuan Province earthquake and the resulting aftershocks, we incurred a repair expense of RMB8.3 million in the year ended December 31, 2008.

Operating profit and operating margins

As a result of the foregoing, operating profit increased 376.8% from RMB149.4 million in the year ended December 31, 2007 to RMB712.4 million in the year ended December 31, 2008, representing operating margins of 40.2% and 62.5% in the year ended December 31, 2007 and 2008, respectively.

Finance costs

Finance costs increased 186.2% from RMB34.5 million in the year ended December 31, 2007 to RMB98.8 million in the year ended December 31, 2008. This was primarily due to costs associated with the Facility Arrangements used to finance our operations, including the construction and development of our production facility in the Guangji Mining Area and the Muma Mining Area. The recorded expense was less than the cost of such interest because a portion of such interest payments were capitalized as cost of qualifying assets.

Income tax expense

Income tax expense increased from RMB25.9 million in the year ended December 31, 2007 to RMB171.5 million in the year ended December 31, 2008. For the year ended December 31, 2008, Chuanmei Mirabilite and Chuanmei Glauber Salt were subject to a tax rate of 12.5% and 25.0%, respectively. Our effective tax rate increased from 22.5% for the year ended December 31, 2007 to 28.0% for the year ended December 31, 2008 primarily due to the increased income tax paid for profit made by Chuanmei Glauber Salt and the increased tax effect not deductible. The increase in tax effect not deductible during the year ended December 31, 2008 as compared to the year ended December 31, 2007 was primarily due to the increased losses incurred by Lumena and Top Promise during the same periods, which were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite and Chuanmei Glauber Salt in the PRC.

Profit for the year

As a result of the foregoing, profit for the year increased from RMB89.0 million in the year ended December 31, 2007 to RMB442.1 million in the year ended December 31, 2008, representing net profit margins of 24.0% and 38.8% in the years ended December 31, 2007 and 2008, respectively.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Revenue

Our revenue increased 81.5% from RMB204.8 million in the year ended December 31, 2006 to RMB371.5 million in the year ended December 31, 2007. This increase was primarily due to a 37.7% increase in total sales volumes of our thenardite products from 506,106 tonnes in the year ended December 31, 2006 to 696,944 tonnes in the year ended December 31, 2007. This increase in sales volumes was due to the commencement of sales of specialty thenardite, an increase in sales of medical thenardite and an increase in domestic sales of powder thenardite, which was partially offset by a decrease in export sales of powder thenardite. We commenced sales of specialty thenardite produced in our production facilities in the Guangji Mining Area in November 2007 and sold 89,270 tonnes at an average selling price of RMB858 per tonne in the year ended December 31, 2007. Sales volumes of medical thenardite increased 169.1% from 27,971 tonnes in the year ended December 31, 2006 to 75,281 tonnes in the year ended December 31, 2007 primarily due to increased market demand for medical thenardite. Domestic sales volumes increased 22.5% from 424,094 tonnes in the year ended December 31, 2006 to 519,481 tonnes in the year ended December 31, 2007 primarily due to an increase in demand which was met by our increase in production volumes. Export sales volumes decreased 76.1% from 54,041 tonnes in the year ended December 31, 2006 to 12,912 tonnes in the year ended December 31, 2007 primarily due to our policy to focus more on domestic sales as a result of the cancellation of tax refunds on our export sales and the continued depreciation of the U.S. dollar against the RMB.

Cost of sales

Our cost of sales increased 34.6% from RMB112.4 million in the year ended December 31, 2006 to RMB151.3 million in the year ended December 31, 2007. This increase was primarily due to an increase in production volumes which increased our raw material costs and direct labor costs. Raw material costs increased 51.2% from RMB71.3 million in the year ended December 31, 2006 to RMB107.9 million in the year ended December 31, 2007 primarily due to increased packaging costs and coal costs. Packaging costs increased 114.7% from RMB15.5 million in the year ended December 31, 2006 to RMB33.2 million in the year ended December 31, 2007 primarily due to an increase in the sales of medical thenardite which requires higher packaging costs. Coal costs increased 39.3% from RMB40.8 million in the year ended December 31, 2006 to RMB56.9 million in the year ended December 31, 2007 primarily due to increased coal consumption volume due to the commencement of operations at our coal-fired power plant in the Guangji Mining Area. Labor costs increased 12.3% from RMB15.5 million in the year ended December 31, 2006 to RMB17.4 million in the year ended December 31, 2007 primarily due to increased costs associated with the commencement of production at our production facility in the Guangji Mining Area.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased 138.5% from RMB92.3 million in the year ended December 31, 2006 to RMB220.2 million in the year ended December 31, 2007, which represented a gross margin increase from 45.1% in the year ended December 31, 2006 to 59.3% in the year ended December 31, 2007. This gross margin increase was primarily due to increased sales of medical thenardite and sales of specialty thenardite which are both significantly higher margin products. This increase was marginally offset by decreased export sales and sales to customers located further away from our storage facilities.

Other revenues and gains

Other revenue and gains increased 15.3% from RMB4.6 million in the year ended December 31, 2006 to RMB5.3 million in the year ended December 31, 2007. The increase was primarily due to an increase in interest income attributable to offshore loan proceeds of US$100 million under the Facility Agreement, which was placed as bank deposits before being utilized, partially offset by a decrease in gain on disposal of scrap material and obsolete fixed assets in the year ended December 31, 2007. The larger gain on disposal of scrap materials and obsolete fixed assets in the year ended December 31, 2006 was primarily a result of the proceeds of RMB1.8 million from the sale of a shop unit in Meishan, Sichuan Province. No similar sale was made in the year ended December 31, 2007.

Selling and distribution expenses

Selling and distribution expenses decreased 71.9% from RMB24.6 million in the year ended December 31, 2006 to RMB6.9 million in the year ended December 31, 2007. This decrease was primarily due to a 74.0% decrease in transportation costs from RMB23.0 million in the year ended December 31, 2006 to RMB6.0 million in the year ended December 31, 2007. Our transportation costs decreased as a result of decreased export sales and a significant increase in our sales to customers who collected our thenardite products from our storage facilities.

Other operating expenses

Other operating expenses increased from RMB14.4 million in the year ended December 2006 to RMB69.2 million in the year ended December 31, 2007 primarily due to the increase of salary for the managerial and administrative staff, and cost associated with setting up an offshore office. Our employee headcount of management, administration and human resources department and financing & accounting department increased from approximately 90 in the year ended December 31, 2006 to approximately 120 in the year ended December 31, 2007. Our average annual employee salary increased 89.2% from approximately RMB37,000 in the year ended December 31, 2006 to approximately RMB70,000 in the year ended December 31, 2007. The increase of average employee salary was primarily attributable to the additions of employees in our Hong Kong office in the year ended December 31, 2007 which have higher average salary as compared with that of our PRC employees and significant increase in salary of executive Directors and non-executive Directors from RMB0.5 million in the year ended December 31, 2006 to RMB4.0 million in the year ended December 31, 2007 due to the addition of two non-executive Directors in the year ended December 31, 2007 and the discretionary bonus paid to two executive Directors.

Other operating expenses in the year ended December 31, 2007 also included professional fees incurred for arrangements of bank borrowings of approximately RMB33.4 million, an impairment on receivables of RMB9.9 million, a donation of approximately RMB147,000, loss incurred on disposal of fixed assets of approximately RMB113,000 and design fee of approximately RMB170,000. The donation was made to an overseas organization. The loss on disposal of fixed assets was associated with the termination of the lease for our former office in Hong Kong. The design fee was paid for the overall packaging of our corporate identity, including the design of our company logo, signature format and stationery symbols.

Operating profit and operating margins

As a result of the foregoing, operating profit increased 157.9% from RMB57.9 million in the year ended December 31, 2006 to RMB149.4 million in the year ended December 31, 2007, which represented an increase of operating margin from 28.3% in the year ended December 31, 2006 to 40.2% in the year ended December 31, 2007.

Finance costs

Finance costs increased from RMB7.1 million in the year ended December 31, 2006 to RMB34.5 million in the year ended December 31, 2007. This was primarily due to costs associated with the Facility Arrangements used to finance our onshore operations, including payment for the acquisition of the mining right of Muma Mining Area, the construction and development of our production facility in the Guangji Mining Area and Muma Mining Area. The recorded expense was less than the cost of such interest because a portion of such interest payments were capitalized as cost of qualifying assets.

Income tax expense

Income tax expense increased from RMB1.6 million in the year ended December 31, 2006 to RMB25.9 million in the year ended December 31, 2007 and primarily as a result of the step-up of our income tax rate for Chuanmei Mirabilite in accordance with our tax holiday from 3.0% in the year ended December 31, 2006 to 18.0% in the year ended December 31, 2007 and the increased tax effect of expenses not deductible. The tax effect of non-deductible expenses increased primarily due to increased losses incurred by Lumena and Top Promise during the year ended December 31, 2007 which were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite in the PRC. For the year ended December 31, 2007, the effective tax rate of Chuanmei Glauber Salt was 3.0%. Our income tax expenses and effective tax rate increased accordingly.

Profit for the year

As a result of the foregoing, profit for the year increased 80.7% from RMB49.3 million in the year ended December 31, 2006 to RMB89.0 million in the year ended December 31, 2007, and our net profit margin for the year decreased 0.1% from 24.1% in the year ended December 31, 2006 to 24.0% in the year ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our cash needs have historically related primarily to purchases in property, plant and equipment, acquisition of mining rights, costs and expenses relating to our mining and thenardite production activities, and repayment of bank loans. We have secured our cash resources from operating activities and onshore and offshore bank loans. We intend to obtain short-term borrowings in order to finance our cash needs not met by our operating cashflows and other capital resources. Our policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. The Directors are of the view that our internally generated cash flows, together with the available banking facilities, are sufficient to meet our financial obligations when they fall due. See “Risk Factors — Risks Relating to Our Business and Our Industry”. We intend to use outstanding bank borrowings, but we may not be able to comply with the covenants under these loans or arrange adequate financing when they mature. We recorded a net outflow of cash of RMB1.4 million in the year ended December 31, 2006, a net cash inflow of RMB69.4 million in the year ended December 31, 2007 and a net cash outflow of RMB70.3 million in the year ended December 31, 2008.

We plan to fund capital expenditures and related expenses and our working capital needs described in this prospectus with cash from operating activities, net proceeds from the Global Offering and short-term and long-term borrowings. We intend to obtain a RMB130 million short-term bank loan to partially finance the 0.2 million tpa medical thenardite production facility in the Muma Mining Area before the Listing. We also intend to obtain a RMB170 million short-term bank loan to partially finance the 1.0 million tpa specialty thenardite production facility in the Muma Mining Area in the first half of 2010. We intend to invest RMB406.1 million for our 0.2 million tpa medical thenardite production facility, of which RMB125.4 million had been paid in 2008. Approximately RMB241.4 million will be used for the purchase of property, plant and equipment for the

0.2 million tpa medical thenardite production facility in the Muma Mining Area and RMB164.7 million will be used for the construction of buildings and mining structures in the Muma Mining Area. In addition, we intend to invest RMB72.3 million for the development of mining structures in the Guangji Mining Area in 2009.

The Agricultural Bank of China, Chengdu Economic and Technology Development Zone Branch (中國農業銀行成都經濟技術開發區支行) issued us two commitment letters with a validity period from May 2009 to May 2011 offering us a RMB300.0 million loan facility, the availability of which is subject to certain conditions. Our PRC Legal counsel, Grandall Legal Group (Shanghai) has advised us that these commitment letters are legal and valid.

Part of the proceeds from the Global Offering will be used to repay a portion of our US$100 million offshore bank loan owed to the Facility Lenders under the Facility Arrangements. The remaining amounts will be converted into a one-year term loan bearing an interest rate of 13.5% per annum repayable in full at maturity. See "History, Reorganization and Corporate Structure — Facility Arrangements — Amendment upon Listing".

For more details related to risks associated with our liquidity and capital resources, see "Risk Factors — Risks Relating to Our Business and Our Industry — We need additional capital to fund our operations and growth which we may not be able to obtain on acceptable terms, or at all".

CASH FLOW DATA

The following table sets below certain information regarding our consolidated cash flows for the periods indicated:

	Year ended December 31,		
	2006	2007	2008
		(RMB'000)	
Net cash (used in)/ generated from operating activities	(10,128)	147,925	751,510
Net cash generated from/(used in) investing activities	23,515	(707,386)	(799,855)
Net cash (used in)/generated from financing activities	(14,752)	628,843	(21,900)
Net (decrease)/increase in cash and cash equivalents	(1,365)	69,382	(70,245)
Cash and cash equivalents at beginning of year	3,008	1,663	71,057
Effect on foreign exchange rate changes	20	12	15
Cash and cash equivalents at end of year	1,663	71,057	827

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash (used in) generated from operating activities in the years ended December 31, 2006, 2007 and 2008 was RMB(10.1) million, RMB147.9 million and RMB751.5 million, respectively. The large increase in net cash generated from operations in the year ended December 31, 2007 was principally due to the commencement of operation in our Guangji Mining Area and a significant increase in our profit generated from thenardite production in the year ended December 31, 2007 compared to the previous year. The increase in net cash generated from operating activities in the year ended December 31, 2008 was principally due to the revenue generated from sales of specialty thenardite.

Net cash generated from operating activities in the year ended December 31, 2008 was primarily due to operating profit before working capital changes of RMB775.2 million plus working capital changes of RMB123.9 million. The operating profit before working capital changes for the year ended December 31, 2008 was a result of profit before income tax of RMB613.6 million and non-cash expenses of RMB161.6 million. The non-cash expenses were primarily due to interest expenses of RMB98.8 million, depreciation of property, plant and equipment of RMB41.2 million and expenses related to our share option scheme of RMB13.8 million. The interest expenses were primarily related to interest payments pursuant to the Facility Agreement and onshore borrowings. The working capital in the year ended December 31, 2008 increased by RMB123.9 million primarily as a result of an increase in trade and other payables of RMB134.7 million partially offset by an increase in trade and other receivable, deposits and prepayments of RMB9.6 million and an increase in inventories of RMB1.3 million.

Net cash generated from operating activities in the year ended December 31, 2007 was primarily due to operating profit before working capital changes of RMB191.8 million less working capital changes of RMB27.5 million. The operating profit before working capital changes was a result of profit before income tax of RMB114.9 million and non-cash expenses of RMB76.9 million. The working capital in the year ended December 31, 2007 was decreased by RMB27.5 million, principally a result of an increase in trade and other receivables, deposits and prepayments of RMB102.3 million and an increase in inventories of RMB2.5 million which were partially offset by an increase in trade and other payables of RMB77.3 million.

Net cash used in operating activities in the year ended December 31, 2006 was primarily due to the profit before working capital changes of RMB71.7 million less changes in working capital of RMB81.8 million. The profit before working capital changes in the year ended December 31, 2006 was principally composed of profit before income tax of RMB50.9 million and non-cash expenses of RMB20.9 million. The decrease of working capital in the year ended December 31, 2006 was principally a result of a large increase in trade and other receivables, deposits and prepayments of RMB84.6 million, primarily composed of advancement of RMB45.7 million made to Mr. Suolang Duoji for purposes unrelated to our business and operations, other receivables of RMB8.2 million and prepayments and deposits of RMB18.3 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash generated from (used in) investing activities in the years ended December 31, 2006, 2007 and 2008 was RMB23.5 million, RMB(707.4) million and RMB(799.9) million, respectively. The large increase in net cash used in investing activities in 2007 was primarily due to the investment of amounts borrowed under the Facility Agreement in property, plant and equipment and amount paid for the acquisition of mining rights in the Muma Mining Area. The net cash used in investing activities in the year ended December 31, 2008 was primarily due to payment for the acquisition of mining rights, deposits paid for the acquisition of property, plant and equipment, the payment of the purchase of land use rights and purchases of property, plant and equipment, all of which were associated with the development of our production facilities in the Guangji Mining Areas.

Net cash used in investing activities for the year ended December 31, 2008 was primarily due to deposits paid for the acquisition of property, plant and equipment of RMB309.7 million at the Muma Mining Area, payment of RMB249.4 million for mining rights in all of our three mining areas, payment for the purchase of land use rights of RMB31.6 million for the Guangji Mining Area and purchases of property, plant and equipment of RMB225.9 million primarily for the Guangji Mining Area.

Net cash used in investing activities in the year ended December 31, 2007 was primarily due to an increase in the purchase of property, plant and equipment of RMB502.2 million, amount paid for acquisition of mining rights of RMB159.2 million and an increase in the pledged bank deposits of RMB47.0 million.

Net cash generated from investing activities in the year ended December 31, 2006 was primarily due to a decrease in pledge of bank deposit of RMB30.0 million. This was partially offset by purchase of property, plant and equipment of RMB6.8 million.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash (used in) generated from financing activities in the years ended December 31, 2006, 2007 and 2008 was RMB(14.8) million, RMB628.8 million and RMB(21.9) million. The large increase in cash generated from financing activities in the year ended December 31, 2007 was primarily due to loan proceeds of RMB734.6 million received under the Facility Agreement entered into in June 2007, which was much larger than historical amount borrowed under other previous loan agreements.

Net cash used in financing activities for the year ended December 31, 2008 was primarily due to the repayment of bank loans of RMB29.5 million and interest paid of RMB98.8 million, which was partially offset by new bank loans of RMB106.4 million.

Net cash generated from financing activities in the year ended December 31, 2007 was primarily due to loan proceeds of RMB734.6 million received under the Facility Arrangements and other new bank loans of RMB32.6 million, which was partially offset by repayment of bank loans of RMB103.9 million and interest paid of RMB34.5 million.

Net cash used in financing activities in the year ended December 31, 2006 was primarily due to repayment of bank loans of RMB96.4 million and interest paid of RMB7.1 million, which was partially offset by new bank loans received of RMB88.7 million.

WORKING CAPITAL

The following table sets out our current assets, current liabilities and net current liabilities as at December 31, 2008 and March 31, 2009:

	As at December 31, 2008	As at March 31, 2009 (unaudited)
	(RMB'000)	
Current assets		
Inventories	8,270	7,606
Trade and other receivables	258,298	256,661
Pledged bank deposits	32,394	32,354
Cash and cash equivalents	827	80,640
Total	299,789	377,261
Current liabilities		
Trade and other payables	360,795	429,958
Bank borrowings — due within one year	258,947	292,547
Provision for tax	34,995	34,918
Total	654,737	757,423
Net current liabilities	(354,948)	(380,162)

Our current liabilities increased 15.7% from RMB654.7 million as of December 31, 2008 to RMB757.4 million as of March 31, 2009. This increase was primarily due to a 13.0% increase of bank borrowings from RMB258.9 million as of December 31, 2008 to RMB292.5 million as of March 31, 2009 and a 19.2% increase of trade and other payables from RMB360.8 million as of December 31, 2008 to RMB430.0 million as of March 31, 2009. Our bank borrowings increased to RMB292.5 million primarily as a result of additional onshore borrowings in the three months ended March 31, 2009. These additional onshore borrowings were used to finance our onshore operations as well as fund our expansion plans. Trade and other payables increased primarily as a result of the increase in the value added tax payable of approximately RMB17.3 million and interest payable on the loan under the Facility Agreement of approximately RMB36.3 million in the three months ended March 31, 2009.

Our current liabilities increased 84.9% from RMB354.1 million in the year ended December 31, 2007 to RMB654.7 million in the year ended December 31, 2008. This increase was primarily due to an increase of bank borrowings from RMB12.6 million in the year ended December 31, 2007 to RMB258.9 million in the year ended December 31, 2008 and a 9.2% increase of trade and other payables from RMB330.5 million in the year ended December 31, 2007 to RMB360.8 million in the year ended December 31, 2008. Our bank borrowings increased to RMB258.9 million primarily as a result of additional onshore borrowings and the fact that a portion of the loan under the Facility Agreement became current liabilities in the year ended December 31, 2008. These additional onshore borrowings were used to finance our onshore operations as well as fund our expansion plans. Trade and other payables increased primarily as a result of additional amounts due to Mr. Suolang Duoji as he extended additional loans to the Company which was partially offset by the repayment of certain loans we extended to Mr. Suolang Duoji in the year ended December 31, 2008.

Our current liabilities increased 108.5% from RMB169.9 million in the year ended December 31, 2006 to RMB354.1 million in the year ended December 31, 2007. This increase was primarily due to a 291.4% increase in trade and other payables from RMB84.4 million in the year ended December 31, 2006 to RMB330.5 million in the year ended December 31, 2007 which was partially offset by a 85.0% decrease in bank borrowings from RMB83.9 million in the year ended December 31, 2006 to RMB12.6 million in the year ended December 31, 2007. The increase in trade and other payables was primarily due to payables associated with the construction of our production facility in the Guangji Mining Area of RMB53.1 million, acquisition of land use right in the Guangji Mining Area of RMB29.0 million, acquisition of mining rights in Muma Mining Area of RMB85.8 million and the interest payable on the loan under the Facility Arrangement of RMB29.4 million. Bank borrowings decreased primarily due to the repayment of onshore short-term borrowings in the year ended December 31, 2006. We also borrowed RMB29.7 million from Mr. Suolang Duoji in the year ended December 31, 2007.

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations, our Directors confirm that we have sufficient working capital for our operations for at least the next 12 months from the date of this prospectus. See "Financial Information — Capital Expenditure".

Inventory analysis

The following table shows a summary of our inventory balance as at the respective balance sheet dates below, as well as the average inventory turnover days:

	Year ended December 31,		
	2006[(1)]	2007[(1)]	2008[(1)]
	(RMB'000)		
Raw materials	3,751	6,954	5,394
Finished goods	1,655	975	2,876
Total	5,406	7,929	8,270
Turnover of average inventory (days)	19.4	16.1	8.6

Note:

(1) *Average inventory is the inventory at the beginning of each period plus the inventory at the end of each period with the sum divided by two. Turnover of average inventory, in days, is the average inventory divided by cost of sales multiplied by 365.*

Our turnover of average inventory days decreased in the three years ended December 31, 2007 primarily due to increased demand for our products and increased sales to customers who collected our products from our storage facilities directly. As at December 31, 2007, the ageing of both raw materials and finished products are within one year. Up to December 31, 2008, all of the raw materials and finished goods at December 31, 2007 were fully utilized and sold respectively. In the year ended December 31, 2008, our turnover of average inventory days decreased to 8.6 days due to low levels of inventory at the Guangji Mining Area as a result of high levels of demand from our customers.

Trade receivables

Our trade receivables represent receivables from the sales of our products. The following table sets out the our average trade receivables turnover days for the periods indicated:

	Year ended December 31,		
	2006(1)	2007(1)	2008(1)
		(days)	
Turnover of average trade receivables	106.0	85.2	37.8

Note:

(1) Average trade receivables equals trade receivables at the beginning of the period plus trade receivables at the end of the period divided by two. Turnover of average trade receivables in days equals average trade receivables divided by revenue for the relevant period multiplied by 365.

Our average trade receivables turnover days decreased from 106.0 days in the year ended December 31, 2006 to 85.2 days in the year ended December 31, 2007, primarily due to increased demand for our products and an increase in the number of our customers paying for our thenardite products upon collection from our storage facilities. In the year ended December 31, 2008, our turnover of average trade receivables decreased to 37.8 days as the actual turnover days for specialty thenardite were approximately 40 days for the same period and sales of specialty thenardite contributed 69.6% of our revenues in such period.

The table below sets out an ageing analysis of our trade receivables, as at the balance sheet dates indicated:

	At December 31,		
	2006	2007	2008
		(RMB'000)	
Outstanding balances with ages:			
— 90 days or below	61,477	103,477	115,465
— 91 – 180 days	45	429	8,675
— 181 – 365 days	4,048	3,583	3,789
— Over 365 days	6	473	403
	65,576	107,962	128,332

During the Track Record Period, we granted credit terms to customers of up to 90 days, depending on the customer's relationship with our Company, its creditworthiness and its settlement record. Trade and trade receivables are interest-free and unsecured. The Directors considered that the carrying amount of the trade receivables approximates their fair values.

Trade payables

Our trade payables represent the purchase of raw materials from various suppliers. The following table sets out the turnover of our average trade payables for the periods indicated:

	Year ended December 31,		
	2006[(1)]	2007[(1)]	2008[(1)]
		(days)	
Turnover of average trade payables	115.0	87.4	45.1

Note:

(1) Average trade payables equals trade payables at the beginning of the period plus trade payables at the end of the period divided by two. Turnover of average trade payables in days equals average trade payables divided by cost of sales for the relevant period multiplied by 365.

During the Track Record Period, credit terms granted by our suppliers were in a range of no more than 180 days, depending on our relationship with the particular supplier. Our turnover of average trade payables decreased in the Track Record Period primarily due to negotiated pricing discounts with our suppliers in exchange for shortened payment terms during the Track Record Period. It is common practice in China to settle the trade payables within 90 to 180 days, and we believe our turnover of trade payables is in line with the market practice in China. As of the Latest Practicable Date, we have not experienced any dispute with our suppliers. In the year ended December 31, 2008, our turnover of average trade payables decreased to 45.1 days primarily due to the fact that Chuanmei Glauber Salt agreed to shorter credit terms with the suppliers in its first full year of operations to strengthen supplier relationships.

The table below sets out an ageing analysis of our trade payables, as at the balance sheet dates indicated:

	At December 31,		
	2006	2007	2008
		(RMB'000)	
Outstanding balances with ages:			
— 90 days or below	25,031	28,134	26,638
— 91 – 180 days	349	2,358	5,064
— 181 – 365 days	355	283	2,921
— Over 365 days	7,351	8,580	10,920
	33,086	39,355	45,543

TAXATION

Our income tax rate for Chuanmei Mirabilite for the years ended December 31, 2006, 2007 and 2008 was 3.0%, 18.0%, and 12.5%, respectively. Our income tax rate for Chuanmei Glauber Salt for the year ended December 31, 2007 and the year ended December 31, 2008 was 3% and 25%, respectively. Our income tax rate during the three years ended December 31, 2008 was generally lower than the domestic enterprise income tax rate of 33% and 25% before and after 2007, respectively, because of tax deductions discussed above.

The year ended December 31, 2005 was the first year of tax holiday for Chuanmei Mirabilite. Income tax expense increased to RMB1.6 million for the year ended December 31, 2006, which was mainly attributable to the 3% local income tax on Chuanmei Mirabilite imposed by the tax bureau of the Sichuan Province, even though it continued to enjoy the exemption of enterprise income tax for the year ended December 31, 2006. Tax effect of expenses not deductible mainly represented the losses incurred by Top Promise during the year ended December 31, 2006.

The income tax expenses increased from RMB1.6 million for the year ended December 31, 2006 to RMB25.9 million for the year ended December 31, 2007. This increase was due to the increase of the applicable tax rate of Chuanmei Mirabilite from 3.0% in the year ended December 31, 2006 to 18.0% in the year ended December 31, 2007 and the imposition of a 3.0% local tax on Chuanmei Glauber Salt in the year ended December 31, 2007. Tax expenses not deductible mainly represented impairment provision for long outstanding trade receivables and other receivables in the PRC amounting to RMB7.8 million and RMB1.2 million, respectively, as well as the losses incurred by Lumena and Top Promise for the year ended December 31, 2007. Tax effect of income not taxable mainly represented the interest income earned by Lumena from offshore bank deposits which were not subject to income tax.

Income tax expenses were RMB171.5 million for the year ended December 31, 2008 primarily due to profits from Chuanmei Glauber Salt in the year ended December 31, 2008. Chuanmei Mirabilite is continued to be entitled to 50% tax reduction for the year ended December 31, 2008. Tax expenses not deductible mainly represented the losses incurred by Lumena and Top Promise for the year ended December 31, 2008.

Taxation for the three years ended December 31, 2008 can be reconciled to profit before income tax as follows:

	Year ended December 31,		
	2006	2007	2008
		(RMB'000)	
Profit before income tax	50,870	114,903	613,583
Tax at the domestic income tax rate	17,570	49,343	164,848
Effect of tax holidays of the PRC subsidiaries	(16,144)	(38,718)	(17,799)
Tax effect of expenses not deductible	190	15,970	24,658
Tax effect of income not taxable	—	(694)	(204)
Income tax expense	1,616	25,901	171,503

RELATED PARTY TRANSACTIONS

All amounts due from and to certain Shareholders and related parties, which are non-trade in nature as shown in "Appendix I — Accountants' Report of Lumena Resources Corp. — Notes 33(iii) and 33(iv)", have been settled on or before May 13, 2009.

ADVANCE TO THIRD PARTIES

We provided advances to third parties in the aggregate amounts of RMB15.0 million in the year ended December 31, 2006. We provided a loan of RMB10.0 million to Chengdu Huichen Investment Co., Ltd. in 2005 and another loan of RMB5.0 million to Chengdu Guihua Technology Development Co., Ltd. in 2006. Both loans were interest free and repaid in 2007. Chengdu Huichen Investment Co., Ltd. and Chengdu Guihua Technology Development Co., Ltd. are both Independent Third Parties. We also provided advances of RMB9.6 million to entities in which Mr. Suolang has equity interest in the year ended December 31, 2007.

Pursuant to the PRC General Clauses of Loan Facilities, no PRC corporation is allowed to make any advancement of loan to another PRC corporation without relevant authorization. Failure to comply with the PRC General Clauses of Loan Facilities may subject the lender to a fine exceeding twice but not more than 5 times of the revenue (such as, interest) gained as a result of the breach of the relevant regulations. The People's Bank of China may also ban any unauthorized loan advancement. Since we obtained no revenue from these loans to Chengdu Huicheng Investment Co., Ltd. and Chengdu Guihua Technology Development Co., Ltd. as they were interest-free, and the loans were repaid in full, our PRC Legal Counsel, Grandall Legal Group (Shanghai), has advised us that we will not be subject to any fine or penalty in connection with our provision of these loans contrary to the PRC General Clauses of Loan Facilities and our financial position will thus not be adversely affected. The advances of RMB9.6 million were made from Top Promise to offshore entities in which Mr. Suolang has equity interests and are therefore not subject to the PRC General Clauses of Loan Facilities.

After the Listing, we will not provide financing to any third parties.

INDEBTEDNESS

Bank borrowings

The table below sets out our bank borrowings as at the dates indicated and the maturity profile of such borrowings:

	As at December 31,			As at March 31, (unaudited)
	2006	2007	2008	2009
	(RMB'000)			
Bank borrowings:				
Group:				
Secured	41,900	643,649	682,565	716,165
Unsecured	42,000	—	—	—
Total	83,900	643,649	682,565	716,165
Company:				
Secured	—	631,049	593,065	593,065
Maturity Profile:				
Due within one year	83,900	12,600	258,947	292,547
More than one year, but within two years	—	180,300	169,447	169,447
More than two years, but within five years	—	450,749	254,171	254,171
Total	83,900	643,649	682,565	716,165

For the year ended December 31, 2006, there was no notable seasonality of borrowing requirements. For the years ended December 31, 2007 and 2008, additional funds were required for the expansion of our mining operations and production facilities in the Guangji and Muma Mining Areas.

Our debt primarily consists of bank loans. All of our onshore borrowings are short-term to take advantage of the lower annual interest applicable to short-term borrowings. Those short-term bank loans are collateralized by a pledge of certain of our buildings, machinery and equipment and other assets with an aggregate carrying value as at December 31, 2006, 2007 and 2008 of approximately RMB64.2 million, RMB89.0 million and RMB158.1 million. As at December 31, 2008, the effective interest rates for our onshore short-term bank loans ranged from 5.6% to 7.5% per annum. The renewal of our short-term loans is subject to approval by the lending banks. During the Track Record Period, we have not encountered any difficulties in renewing our short-term loans. On June 23, 2007, we entered into the Facility Agreement with Credit Suisse, Singapore Branch. A portion of the loan under the Facility Agreement will be repaid with proceeds from the Global Offering, and the remaining balance will be converted into a one-year term loan bearing an effective interest rate of 13.5% per annum repayable in full at maturity. See "History, Reorganization and Corporate Structure — Facility Arrangements".

Bank borrowings increased by 667.2% from approximately RMB83.9 million as at December 31, 2006 to approximately RMB643.6 million as at December 31, 2007 primarily due to the borrowing of RMB631.0 million under the Facility Agreement, partially offset by the decrease in onshore borrowings of approximately RMB71.3 million. Bank borrowings increased by 6.0% from RMB643.6 million as of December 31, 2007 to approximately RMB682.6 million as at December 31, 2008, primarily due to the increase of onshore bank borrowings of RMB76.9 million partially offset by the appreciation of Renminbi against US dollar which resulted in the decrease of value of the US dollar denominated loan of RMB37.9 million.

As at March 31, 2009, bank borrowings increased by 5% from approximately RMB682.6 million as at December 31, 2008 to approximately RMB716.2 million as at March 31, 2009. The additional funds were used for the construction of 0.2 million tpa medical thenardite production facility in the Muma Mining Area.

Under the terms of the Facility Agreement, we are required to comply with various financial covenants, including consolidated total debt to consolidated EBITDA, consolidated EBITDA to consolidated interest expense and consolidated total debt to consolidated total capitalization ratios. The chart below sets forth for the details of the covenants and our financial ratios as at June 30, 2007, September 30, 2007, December 31, 2007, March 31, 2008, June 30, 2008, September 30, 2008 and December 31, 2008.

	Requirements under the Facility Agreement for periods			Our financial ratios as of						
Relevant Financial Ratios	**on or prior to December 31, 2007**	**after December 31, 2007 but on or prior to June 30, 2008**	**after June 30, 2008**	**June 30, 2007**	**September 30, 2007**	**December 31, 2007**	**March 31, 2008**	**June 30, 2008**	**September 30, 2008**	**December 31, 2008**
Consolidated total debt to consolidated EBITDA	≤ 4.75:1	≤ 4.25:1	≤ 3.25:1	7.36:1	5.3:1	3.92:1	2.1:1	1.39:1	1.11:1	0.90:1
Consolidated EBITDA to consolidated interest expenses	≥ 3.0:1	≥ 3.0:1	≥ 3.5:1	15.2:1	3.6:1	5.1:1	6.68:1	7.5:1	10.4:1	12.85:1
Consolidated total debt to total capitalization .	≤ 0.80:1	≤ 0.80:1	≤ 0.70:1	0.88:1	0.84:1	0.7:1	0.67:1	0.6:1	0.53:1	0.49:1

We financed the recent expansion of our mining operations and production facilities with the proceeds received under the Facility Arrangements. The Facility Arrangements were originally entered into to finance the acquisition of several mines and existing production facilities in our Guangji and Muma Mining Areas. In October 2007, we approached the Facility Lenders and revised our use of proceeds for the loan so that we could construct our 1.0 million tpa production facility in the Guangji Mining Area instead of acquiring existing production facilities. As a result of this change, the revenue stream we anticipated when entering into the Facility Arrangements did not materialize until November 2007, resulting in our breach of the consolidated total debt to consolidated EBITDA ratio and consolidated total debt to total capitalization ratio as at June 30, 2007 and September 30, 2007. We were able to obtain waivers from the relevant lenders on October 9, 2007 and May 9, 2008 for such covenant breaches and were in full compliance with these financial covenants since the period starting December 31, 2007. Our Directors have confirmed that the breaches of financial covenants on June 30, 2007 and September 30, 2007 will not result in any change in the control and of beneficial and registered ownership of the Shares in our Company and the equity interest in Chuanmei Mirabilite and Chuanmei Glauber Salt, respectively. See "Risk Factors — Risks Relating to Our Business and Industry — We intend to use outstanding bank borrowings, but may not be able to comply with the covenant under these loans or arrange adequate financing when they mature". We believe these breaches were one-times occurrences and that we will be in compliance with such financial ratios in the foreseeable future.

We expect to repay a portion of the loans under the Facility Agreement upon Listing. Our Directors believe this repayment will not have a material adverse impact on our liquidity.

As at December 31, 2008, our total bank borrowings amounted to RMB682.6 million. Our Directors confirm that there have been no material changes in our indebtedness since December 31, 2008, except for: an RMB30 million loan facility obtained from Evergrowing Bank (恒豐銀行) which was fully drawn down in January 2009, a loan by China Sun Fund extended to Top Promise on May 7, 2009 to repay the indebtedness it owned to Mr. Suolang Duoji and a RMB3.6 million onshore loan facility with ICBC, Meishan Branch. See "History, Reorganization and Corporate Structure — Facility Arrangements — Security and Guarantee". Other than as disclosed in this section, we do not have any additional committed borrowing facilities.

Contingent liabilities

As at December 31, 2006, 2007 and 2008, we had no significant contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, we had no significant contingent liabilities.

Disclaimer

Except as described above, as of March 31, 2009, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL COMMITMENTS

The following table presents our capital commitments as at the dates indicated:

	As at December 31,			As at March 31, 2009
	2006	2007	2008	(unaudited)
		(RMB'000)		
Contracted, but not provided for:				
— additions to property, plant and equipment	1,467	11,894	304,817	327,344
— acquisition of land use rights	—	4,786	4,786	4,786
Total	1,467	16,680	309,603	332,130

As of December 31, 2008, our capital commitments related directly to the construction and development of our mining and production facility to be located in the Muma Mining Area.

CAPITAL EXPENDITURE

Our capital expenditure generally comprises expansion expenses and the acquisition of mining rights. Expansion expenses include: construction in progress, buildings and mining structure, machinery and equipment and motor vehicles expenses. The following table shows our historical capital expenditure indicated:

	Year ended December 31,		
	2006	2007	2008
		(RMB'000)	
Expansion			
Construction in progress	—	38,200	167,771
Buildings and mining structure	129	112,256	53,267
Machinery and equipment	5,562	403,862	15,101
Motor vehicles	1,119	1,830	152
Payment for mining rights	—	159,196	249,411
Deposit paid for property, plant and equipment	—	—	309,741
Purchase price paid for land use rights	—	3,000	29,000
Total	6,810	718,344	824,443

For the year ended December 31, 2006, our capital expenditure was mainly in relation to our machinery and equipment and motor vehicles. For the years ended December 31, 2007 and 2008, our capital expenditure was mainly in relation to our buildings and mining structure, machinery and equipment and mining rights.

We intend to fund our planned capital expenditure through a combination of the proceeds of the Global Offering, bank loans, and cash flow from operating activities. See "Future Plans and Use of Proceeds".

For the year ending December 31, 2009, our major planned capital expenditure totals RMB379.7 million of which approximately RMB83.5 million is expected to be funded by the proceeds of the Global Offering. Our Directors expect that the remaining capital expenditure will be funded by our operating cash flow and our internal cash resources. Our major planned capital expenditure is expected to include:

- Approximately RMB247.5 million for the construction of a medical thenardite production facility at the Muma Mining Area;

- Approximately RMB59.9 million for the construction of a specialty thenardite production facility at the Muma Mining Area; and

- Approximately RMB72.3 million for the development of our mining structure in the Guangji Mining Area.

We must obtain PRC Government approvals for any projects involving significant capital investments in our operations. All of our projects as mentioned above have been approved by the relevant PRC authorities.

Our anticipated capital expenditure beyond 2009 is subject to change based upon the evolution of our business plan, including the progress of our capital projects, market conditions, domestic regulatory environment and our outlook on future business conditions.

MARKET RISKS

We are, in the normal course of business, exposed to market risks relating primarily to foreign exchange risks and interest rate risks.

Interest rates

Our exposure to interest rate risk relates primarily to our short-term and long-term bank borrowings, which totalled RMB643.6 million as at December 31, 2007 and RMB682.6 million as at December 31, 2008, respectively. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowing when such debt is rolled over. To date, we have not entered into any type of interest rate agreements or derivatives, which are generally not available in the PRC, to hedge against interest rate fluctuations. To the extent that we do so in the future, we cannot assure you that any future hedging activities will protect us from fluctuations in interest rates.

Foreign exchange

We conduct operations primarily in China and sell our products to customers primarily in China. Our exposure to exchange rate fluctuations is derived from the receipt of our export revenue in U.S. dollars and our loan under the Facility Agreement. We do not currently have a formal hedging policy in place and have not entered into any foreign currency exchange contracts or derivatives transactions to hedge our currency risk. To the extent that we decide to do so in the future, we cannot assure you that any such hedging activities will protect us from fluctuations in exchange rates.

Inflation

In recent years, China has not experienced significant inflation, and therefore inflation has not had a significant effect on our business during the Track Record Period. According to the National Bureau of Statistics of China, the overall national inflation rate of China, as represented by the general consumer price index, was approximately 1.5%, 4.8% and 5.9% in the years ended December 31, 2006, 2007 and 2008, respectively.

SUMMARY OF KEY FINANCIAL RATIOS DURING THE TRACK RECORD PERIOD

Return on equity

The table below sets forth the return on equity ratios of our Company for the periods indicated:

	For the year ended December 31,		
	2006	2007	2008
Return on equity[(1)]	56.0%	40.2%	76.6%
Return on total assets[(2)]	18.9%	11.1%	27.5%

Notes:

(1) Return on equity is calculated by net profit divided by average shareholders' equity expressed as a percentage.

(2) Return on total assets is calculated by net profit divided by average total assets expressed as a percentage.

Our return on equity ratio decreased from 56.0% in the year ended December 31, 2006 to 40.2% in the year ended December 31, 2007, primarily due to a large increase in average shareholders' equity in the year ended December 31, 2007 coupled with a relatively smaller increase in net profit after tax during the same period. The increase in shareholders' equity in 2007 was primarily a result of the increased net profit and the recognition of the capital contribution from certain Shareholders in respect of the fair value of the warrants issued by Nice Ace and the guarantee provided by the shareholders of our Company to secure loans under the Facility Agreement, in accordance with applicable accounting standards.

Our return on equity ratio increased from 40.2% as at December 31, 2007 to 76.6% as at December 31, 2008, primarily due to significantly increased net profits in the year ended December 31, 2008.

Our return on total assets ratio decreased from 18.9% in the year ended December 31, 2006 to 11.1% in the year ended December 31, 2007, primarily due to a large increase in average total assets coupled with a relatively smaller increase in net profit. The increase of average total assets in the year ended December 31, 2007 was a result of significant capital expenditure during the same period in connection with the development of new production facilities in the Guangji Mining Area. As the production facilities in Guangji Mining Area only commenced pilot production in November 2007, the net profit contributed by these new facilities was not correspondingly significant in the year ended December 31, 2007 and hence resulted in a decline in the return on assets ratio for the same period.

Our return on total assets increased from 11.1% as at December 31, 2007 to 27.5% as at December 31, 2008, primarily due to significantly increased net profits in the year ended December 31, 2008 coupled with a smaller increase in average total assets. Total assets for this period also increased as we made significant acquisitions of mining rights, production facilities and property, plant and equipment.

Liquidity Ratios

The table below sets forth the liquidity ratios of our Company for the periods indicated:

	As at December 31,		
Liquidity ratios	**2006**	**2007**	**2008**
Current ratio(1)	1.0	1.1	0.5
Quick ratio(2)	0.9	1.0	0.4

Notes:

(1) *Current ratio is calculated by current assets divided by current liabilities.*

(2) *Quick ratio is calculated by current assets less inventories divided by current liabilities.*

Our current ratio increased by 10% from 1.0 as of December 31, 2006 to 1.1 as at December 31, 2007 and our quick ratio increased by 11.1% from 0.9 as at December 31, 2006 to 1.0 as at December 31, 2007. The increase of current assets in the year ended December 31, 2007 was principally a result of a partial payment of RMB109 million made to Sichuan Tengzhong pursuant to a contract in connection with the Company's planned construction in the Muma Mining Area, and an increase of cash and cash equivalents due to the loan proceeds received under the Facility Agreement during the same period. The increase of current liabilities in the year ended December 31, 2007 was primarily due to payables associated with the construction of our production facility in Guangji Mining Area of RMB53.1 million and acquisition of mining rights in Muma Mining Area of RMB85.8 million.

Our current ratio decreased from 1.1 as at December 31, 2007 to 0.5 as at December 31, 2008 and our quick ratio decreased from 1.0 as at December 31, 2007 to 0.4 as at December 31, 2008. These changes were primarily due to a significant increase in current liabilities, our large investments in our mining and production facilities and the repayment schedule of the Facility Agreement.

Gearing Ratio

The table below sets forth the gearing ratio of our Company for the periods indicated:

	As at December 31,		
	2006	**2007**	**2008**
Gearing ratio(1)	30.3%	51.4%	41.8%

Note:

(1) Gearing ratio is calculated by total debt (including the amount due to a director and the amount due to minority shareholders) divided by total assets expressed as a percentage.

Our gearing ratio increased from 30.3% as at December 31, 2006 to 51.4% as at December 31, 2007, primarily due to a large increase in total debt coupled with a relatively smaller increase in total assets. The increase of total debt in the year ended December 31, 2007 was principally a result of the loans borrowed under the Facility Agreement for the funding of our expansion plans in the Guangii and Muma Mining Areas.

Our gearing ratio decreased from 51.4% as at December 31, 2007 to 41.8% as at December 31, 2008 primarily due to a large increase in total assets coupled with a smaller increase in total debt. Total assets increased as we made significant acquisitions of mining rights, production facilities and property, plant and equipment.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, we confirm that there are no circumstances that will give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

Our Directors forecast that, in the absence of unforeseen circumstances, and based on the bases and assumptions set forth in Appendix III to this prospectus, the consolidated profit attributable to equity holders of our Company for the year ending December 31, 2009 will amount to not less than RMB500.0 million (equivalent to approximately HK$567.3 million).

On the basis of the above profit forecast and on the assumption that our Company had been listed since January 1, 2009 and a total of 1,924,000,000 Shares were issued on January 1, 2009, the unaudited pro forma forecast earnings per Share will be not less than RMB0.26 (equivalent to approximately HK$0.29), representing a pro forma price/earnings multiple of approximately 5.9 times and 8.8 times if the Offer Price is HK$1.72 and HK$2.56 per Share, respectively.

On a weighted average basis based on the above profit forecast and assuming that (i) our Company had been established and 1,520,000,000 Shares were issued and outstanding as at January 1, 2009, (ii) 404,000,000 Shares to be issued pursuant to the Global Offering, (iii) no exercise of Over-allotment Option and (iv) no options are granted under the Share Option Scheme and the Pre-IPO Share Option Scheme, the forecast earnings per Share on a weighted average basis will be not less than RMB0.29 (equivalent to approximately HK$0.33), representing a weighted average price/earnings multiple of approximately 5.2 times and 7.8 times if the Offer Price is HK$1.72 and HK$2.56 per Share, respectively.

The profit forecast for the year ending December 31, 2009 has not taken into account potential revenue, if any, that may be generated from our intended 0.2 million tpa medical thenardite production facility in the Muma Mining Area for our financial year ended December 31, 2009. See "Business — Our Products — Medical

Thenardite" and "Business — Sales and Marketing — Pricing". Please also see "Risk Factors — Risks Relating to our Business and our Industry — We may not be able to continue our production of medical thenardite or maintain our current competitive position in the sales of medical thenardite, and we may not be able to obtain a GMP Certification and Pharmaceutical Production Permit for our intended 0.2 million tpa medical thenardite production facility in the Muma Mining Area".

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following illustrative statement of our unaudited pro forma adjusted net tangible assets is based on our audited consolidated net tangible assets as at December 31, 2008 as set out in the Accountants' Report in Appendix I to this prospectus and is adjusted as described below:

	Consolidated net tangible assets attributable to the equity holders of our Company as at December 31, 2008[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Shares[(3)]	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$1.72 for each Offer Share	354,856	475,192	830,048	0.43	0.49
Based on the Offer Price of HK$2.56 for each Offer Share	354,856	760,812	1,115,668	0.58	0.66

Notes:

(1) *The consolidated net tangible assets attributable to the equity holders of our Company as at December 31, 2008 has been extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, after adjusting for the mining rights, goodwill and other intangible asset of approximately RMB404,470,000, RMB8,386,000 and RMB17,588,000 respectively.*

(2) *The estimated net proceeds from the Global Offering are based on the Offer price of HK$1.72 and HK$2.56 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.*

(3) *The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 1,924,000,000 Shares (being the aggregate of the number of shares of 404,000,000 expected to be in issue immediately after completion of the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and takes no account of the options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme and the 1,520,000,000 Shares in issue as at December 31, 2008).*

(4) *Our property interests were valued by Jones Lang LaSalle Sallmanns Limited and the valuation in respect of which was set out in Appendix IV to this prospectus. Pursuant to the valuation performed by Jones Lang LaSalle Sallmanns Limited, our property interest as at March 31, 2009 amounted to approximately RMB230,066,000. Comparing the valuation amount as at March 31, 2009 to the unaudited net carrying value of our property interests as at March 31, 2009 of RMB187,009,000, there was a surplus of approximately RMB43,057,000. If such revaluation surplus was incorporated in the Group's financial statements for the year ending December 31, 2009, additional amortization of RMB220,000 and depreciation of RMB1,068,000 would be charged. The revaluation surplus will not be reflected in the financial statements in subsequent year as we have elected to state the property interests at cost model.*

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since December 31, 2008, being the date of the latest audited consolidated financial results as set out in the Accountants' Report in Appendix I to this prospectus.

PROPERTY INTERESTS

Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the property interests attributable to us, as of March 31, 2009 at approximately RMB230.1 million. The text of its letter, summary of values and valuation certificates are set out in "Appendix IV — Property Valuation".

Property interests include the land use rights to the parcels of land and the building ownership rights of the completed buildings and structures.

A reconciliation of the net carrying value of the relevant property interest, as of December 31, 2008, to their market value as of March 31, 2009 as stated in "Appendix IV — Property Valuation" is as follow:

	Properties
	RMB'000
Net carrying value as of December 31, 2008	188,874
Movements for the period ended from December 31, 2008 to March 31, 2009	
— Amortization	(319)
— Depreciation	(1,546)
Net carrying value of March 31, 2009	187,009
Valuation as of March 31, 2009 as per Appendix IV to this prospectus:	230,066
Surplus	43,057

DIVIDENDS

We will not declare or pay any dividends other than from profits and reserves lawfully available for distribution, including share premium. Our Shareholders may approve the distribution of dividends in a general meeting, but the amount may not exceed the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends or may also declare dividends half yearly or at other intervals at a fixed rate if our Directors are of the opinion that the profits available for distribution justify the payment of such dividends.

We did not declare any dividends during the Track Record Period. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on our Articles, the Cayman Companies Law, applicable laws and regulations and other relevant factors. Any future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors.

Our Directors intend to declare and recommend dividends in an amount of not less than 25% of the net profit attributable to the Shareholders in respect of the year ending December 31, 2010 and in respect of each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that our Company must or will or is able to declare and pay dividends in such manner or declare and pay dividends at all.

Any dividends declared will be in Hong Kong dollars with respect to the Shares on a per share basis and our Company will pay such dividends in Hong Kong dollars. Our Directors believe that our dividend policy mentioned above will not have a material adverse effect on our working capital position.

DISTRIBUTABLE RESERVES

Our subsidiaries are required to follow the laws and regulations of the PRC and our Articles of Association, both of which provide for a statutory reserve fund, which is funded from net profit after tax, but before dividends distributed at the discretion of our board of directors, on at least 10% of net profit. The statutory reserve fund is provided for each entity until the balance of such fund has reached 50% of the entity's registered capital. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase capital. According to our Company Law of the PRC, the statutory reserve fund shall be provided at 10% of the profit after tax of the current year. The discretionary common reserve may be drawn subject to the approval of shareholders at general meetings. Upon Listing, we may not distribute dividends exceeding the lower of our Group's distributable reserves as determined under PRC GAAP and those under IFRS. In accordance with our Company Law, profit after tax can be distributed as dividends after appropriate contributions to the statutory common reserve fund. As at December 31, 2008, we had approximately RMB481.8 million available for distribution to our shareholders.