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June 4, 2009

The Directors
Lumena Resources Corp.

Credit Suisse (Hong Kong) Limited
Somerley Limited

Dear Sirs,

We set out below our report on the financial information regarding Lumena Resources Corp. (the "Company") and its subsidiaries (collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for each of the three years ended December 31, 2006, 2007 and 2008 (the "Relevant Periods") and the consolidated balance sheets of the Group as at December 31, 2006, 2007 and 2008 and the Company's balance sheet as at December 31, 2007 and 2008 together with explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated June 4, 2009 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on April 12, 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization (the "Reorganization") as fully explained in the section headed "Corporate reorganization" in Appendix VII to the Prospectus, the Company has since June 12, 2007 become the ultimate holding company of the subsidiaries now comprising the Group as set out in Note 1 of Section II below. The principal activity of the Company is investment holding.

Details of the Company's direct and indirect interests in its subsidiaries at the date of this report are set out in Note 1 of Section II. All companies now comprising the Group have adopted December 31 as their financial year end date. Details of the financial statements of the companies comprising the Group that are subject to audit and names of the respective auditors are set out in Note 1 of Section II.

For the purpose of this report, the directors of the Company have prepared the financial statements of the Company and the Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") (the "IFRSs Financial Statements"). We have carried out an independent audit on the IFRSs Financial Statements of the Group for each of the three years ended December 31, 2006, 2007 and 2008 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared based on the IFRSs Financial Statements with no adjustments made thereon, and on the basis set out in Note 2 of Section II.

DIRECTORS' RESPONSIBILITY

The directors of the Company are responsible for the preparation and the true and fair presentation of the IFRSs Financial Statements and the Financial Information in accordance with IFRSs. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the IFRSs Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

For the Financial Information for each of the years ended December 31, 2006, 2007 and 2008 our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the IFRSs Financial Statements, and carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by HKICPA.

OPINION

In our opinion, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the state of affairs of the Company as at December 31, 2007 and 2008 and of the Group as at December 31, 2006, 2007 and 2008 and of the Group's results and cash flows for the years then ended.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	2006	2007	2008
		Year ended December 31,		
		RMB'000	RMB'000	RMB'000
Revenue	6	204,755	371,530	1,140,354
Cost of sales	8	(112,430)	(151,295)	(343,794)
Gross profit		92,325	220,235	796,560
Other revenue and gains	9	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	10(ii)	—	—	(8,280)
Operating profit	10	57,949	149,424	712,383
Finance costs	11	(7,079)	(34,521)	(98,800)
Profit before income tax		50,870	114,903	613,583
Income tax expense	13	(1,616)	(25,901)	(171,503)
Profit for the year		49,254	89,002	442,080
Attributable to				
Equity holders of the Company		44,029	78,950	429,739
Minority interests		5,225	10,052	12,341
		49,254	89,002	442,080
		RMB cents	RMB cents	RMB cents
Earnings per share attributable to the equity holders of the Company				
— Basic	14	2.90	5.19	28.27

Consolidated Balance Sheets

	Notes	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	16	69,210	611,885	806,214
Land use rights	17	25,011	56,400	57,709
Goodwill	18	8,386	8,386	8,386
Mining rights	19	218	245,070	404,470
Other intangible asset	21	17,588	17,588	17,588
Deposits paid for acquisition of property, plant and equipment	16(c)	—	—	309,741
		120,413	939,329	1,604,108
Current assets				
Inventories	22	5,406	7,929	8,270
Trade and other receivables, deposits and prepayments	23	156,366	248,728	258,298
Pledged bank deposits	24	—	46,988	32,394
Cash and cash equivalents	25	1,663	71,057	827
		163,435	374,702	299,789
Current liabilities				
Trade and other payables	26	84,446	330,486	360,795
Bank borrowings	27	83,900	12,600	258,947
Tax payable		1,509	11,026	34,995
		169,855	354,112	654,737
Net current (liabilities) / assets		(6,420)	20,590	(354,948)
Total assets less current liabilities		113,993	959,919	1,249,160
Non-current liabilities				
Bank borrowings	27	—	631,049	423,618
Net assets		113,993	328,870	825,542
EQUITY				
Share capital	30(b)	1	77	113
Reserves	31(b)	96,143	300,892	785,187
Equity attributable to equity holders of the Company		96,144	300,969	785,300
Minority interests		17,849	27,901	40,242
Total equity		113,993	328,870	825,542

Balance Sheets

	Notes	At December 31, 2006	2007	2008
		RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiaries	20	—	740,679	728,974
Current assets				
Other receivables and prepayments	23	—	73	6,885
Amounts due from subsidiaries	28	—	43,288	—
Pledged bank deposits	24	—	33,081	32,355
		—	76,442	39,240
Current liabilities				
Other payables	26	—	29,403	124,916
Bank borrowings	27	—	—	169,447
		—	29,403	294,363
Net current assets / (liabilities)		—	47,039	(255,123)
Total assets less current liabilities		—	787,718	473,851
Non-current liabilities				
Bank borrowings	27	—	631,049	423,618
Net assets		—	156,669	50,233
EQUITY				
Share capital	30(a)	—	77	113
Reserves	31(a)	—	156,592	50,120
Total equity		—	156,669	50,233

Consolidated Statements of Changes in Equity

	Equity attributable to equity holders of the Company										
	Share capital	Share premium	Share option reserve	Pre-IPO share option reserve	Capital contribution	Statutory reserves	Translation reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	RMB'000 (note 31(b)(i))	RMB'000 (note 31(b)(ii))	RMB'000 (note 32)	RMB'000 (note 31(b)(iv))	RMB'000 (note 31(b)(v))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2006	1	—	27,872	—	—	—	1,663	19,698	49,234	12,624	61,858
Exchange difference arising on translation of overseas operations / Income recognized directly in equity	—	—	—	—	—	—	2,881	—	2,881	—	2,881
Profit for the year	—	—	—	—	—	—	—	44,029	44,029	5,225	49,254
Total recognized income and expense for the year	—	—	—	—	—	—	2,881	44,029	46,910	5,225	52,135
Appropriations	—	—	—	—	—	7,859	—	(7,859)	—	—	—
At December 31, 2006 and January 1, 2007	1	—	27,872	—	—	7,859	4,544	55,868	96,144	17,849	113,993
Exchange difference arising on translation of overseas operations / Income recognized directly in equity	—	—	—	—	—	—	22,260	—	22,260	—	22,260
Profit for the year	—	—	—	—	—	—	—	78,950	78,950	10,052	89,002
Total recognized income and expense for the year	—	—	—	—	—	—	22,260	78,950	101,210	10,052	111,262
Issue of shares by the Company	77	27,872	(27,872)	—	—	—	—	—	77	—	77
Arising from Shares Swap (note 31(b)(iii))	(1)	—	—	—	—	—	—	—	(1)	—	(1)
Capital contribution (note 31(b)(iv))	—	—	—	—	103,539	—	—	—	103,539	—	103,539
Appropriations	—	—	—	—	—	22,291	—	(22,291)	—	—	—
At December 31, 2007 and January 1, 2008	77	27,872	—	—	103,539	30,150	26,804	112,527	300,969	27,901	328,870
Exchange difference arising on translation of overseas operations / Income recognized directly in equity	—	—	—	—	—	—	40,792	—	40,792	—	40,792
Profit for the year	—	—	—	—	—	—	—	429,739	429,739	12,341	442,080
Total recognized income and expense for the year	—	—	—	—	—	—	40,792	429,739	470,531	12,341	482,872
Recognition of share-based payments	—	—	—	13,800	—	—	—	—	13,800	—	13,800
Issue of new shares upon capitalization issue (note 30(a)(iv))	36	(36)	—	—	—	—	—	—	—	—	—
Appropriations	—	—	—	—	—	88,309	—	(88,309)	—	—	—
At December 31, 2008	113	27,836	—	13,800	103,539	118,459	67,596	453,957	785,300	40,242	825,542

Consolidated Cash Flow Statements

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities			
Profit before income tax	50,870	114,903	613,583
Adjustments for:			
Interest income	(325)	(3,981)	(1,300)
Interest expense	7,079	34,521	98,800
Depreciation of property, plant and equipment	10,308	13,173	41,228
Loss / (Gain) on disposal of property, plant and equipment	—	113	(364)
Amortization of land use rights	611	611	1,274
Amortization of mining rights	119	119	4,236
Impairment of receivables	164	9,949	—
Stocks-write off	—	—	913
Share-based payments	—	—	13,800
Foreign exchange differences	2,915	22,435	3,011
Operating profit before working capital changes	71,741	191,843	775,181
Increase in trade and other receivables, deposits and prepayments	(84,560)	(102,311)	(9,570)
Decrease / (Increase) in inventories	1,119	(2,523)	(1,254)
Increase in trade and other payables	1,679	77,300	134,687
Cash (used in) / generated from operations	(10,021)	164,309	899,044
Income tax paid	(107)	(16,384)	(147,534)
Net cash (used in) / generated from operating activities	(10,128)	147,925	751,510
Cash flows from investing activities			
Interest received	325	3,981	1,300
Decrease / (Increase) in pledged bank deposits	30,000	(46,988)	14,594
Purchase of property, plant and equipment	(6,810)	(502,183)	(225,894)
Proceeds from disposal of property, plant and equipment	—	—	880
Deposits paid for acquisition of property, plant and equipment	—	—	(309,741)
Payment for purchase of land use rights	—	(3,000)	(31,583)
Payment for acquisition of mining rights	—	(159,196)	(249,411)
Net cash generated from / (used in) investing activities	23,515	(707,386)	(799,855)
Cash flows from financing activities			
New bank loans	88,690	767,188	106,400
Issue of share capital	—	76	—
Repayment of bank loans	(96,363)	(103,900)	(29,500)
Interest paid	(7,079)	(34,521)	(98,800)
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 of foreign exchange rate changes	20	12	15
Cash and cash equivalents at end of year	1,663	71,057	827

II. NOTES TO THE FINANCIAL INFORMATION

1. FORMATION OF THE GROUP

The Company was incorporated in the Cayman Islands on April 12, 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"). The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Group is principally engaged in processing and sale of powder thenardite, specialty thenardite and medical thenardite.

At the date of this report, the particulars of the subsidiaries in which the Company has direct or indirect interests are set out as follows:

Name	Country / Place and date of incorporation / establishment and kind of legal entity	Particulars of issued and fully paid share capital / registered capital	Effective interest held by the Company	Principal activities	Name of the auditors for 2006, 2007 and 2008
Interests held directly					
Rich Light International Limited ("Rich Light")	Incorporated on August 5, 2005 in the British Virgin Islands ("BVI"), limited liability company	U.S. dollars ("US$")100	100%	Investment holding	No statutory audit requirements
Interests held indirectly					
Top Promise Resources Limited ("Top Promise")	Incorporated on February 21, 2005 in Hong Kong, limited liability company	Hong Kong dollars ("HK$")1	100%	Investment holding	Williamson Lam Certified Public Accountant (Practicing)
Sichuan Chuanmei Mirabilite Co., Ltd. 四川省川眉芒硝有限責任公司 ("Chuanmei Mirabilite")	Established on June 1, 2001 in the People's Republic of China ("PRC"), sino-foreign joint venture	RMB142,077,000	90%	Processing and sale of powder thenardite and medical thenardite	Sichuan Yongli Accounting Firm, Ltd. 四川永立會計師事務所有限公司
Sichuan Chuanmei Special Glauber Salt Co., Ltd. 四川川眉特種芒硝有限公司 ("Chuanmei Glauber Salt")	Established on June 19, 2007 in the PRC, wholly foreign-owned enterprise	US$50,000,000	100%	Processing and sale of powder thenardite and specialty thenardite	Sichuan Yongli Accounting Firm, Ltd. 四川永立會計師事務所有限公司

2. BASIS OF PREPARATION

As the Company and its subsidiaries were under common control by Mr. Suolang Duoji (formerly known as Dominique Shannon and Li Yan) and Mr. Suolang Duoji's control over these companies are not transitory, the Financial Information is thereby prepared on the basis as if the Company had been the holding company of the Group from the beginning of the earliest period presented using the principles of merger accounting (note 3(a)). The Financial Information presents the consolidated results, cash flows and financial positions of the Group as if the Company had been in existence throughout the Relevant Periods 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 where they were not existed at those dates. An exception to the merger accounting is the acquisition of equity interest in Chuanmei Mirabilite from an unrelated third party. The acquisition was accounted for under the purchase method in accordance with International Financial Reporting Standard 3 *Business Combinations*. All material intra-group transactions and balances have been eliminated on consolidation.

The Financial Information have been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting Standards and Interpretations as approved by the International Accounting Standards Board ("IASB"), and all applicable individual International Accounting Standards ("IAS") and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The Financial Information has been prepared under the historical cost convention. The measurement bases are fully described in the accounting policies below.

The Group has not issued any financial statements prior to this report since the Company was incorporated on April 12, 2007. The IASB has issued a number of new and revised IASs which are effective during the Relevant Periods and in preparing the Financial Information, the Group has adopted all these new and revised IASs consistently throughout the Relevant Periods.

The Group has not early adopted the following IFRSs that have been issued but are not yet effective:

IAS 1 (Revised)	Presentation of Financial Statements[3]
IAS 23 (Revised)	Borrowing Costs[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
IAS 28 (Revised)	Investments in Associates[4]
IAS 31 (Revised)	Interests in Joint Ventures[4]
IAS 1, IAS 32 and IAS 39 and IFRS 7 (Amendments)	Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation[3]
IAS 39 (Amendment)	Eligible Hedged Items[4]
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards[4]
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
IFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[3]
IFRS 3 (Revised)	Business Combinations — Comprehensive Revision on Applying the Acquisition Method[4]
IFRS 7 (Amendment)	Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments[3]
IFRS 8	Operating Segments[3]
IFRIC 2 (Amendment)	Members' shares in Cooperative Entities and Similar Instruments[3]
IFRIC 13	Customer Loyalty Programmes[1]
IFRIC 15	Agreements for the Construction of Real Estate[3]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[2]
IFRIC 17	Distributions of Non-cash Assets to Owners[4]
IFRIC 18	Transfers of Assets from Customers[5]
Improvements to IFRSs*	Annual Improvements to IFRSs 2008 and IFRSs 2009

Notes:

1 Effective for annual periods beginning on or after July 1, 2008

2 Effective for annual periods beginning on or after October 1, 2008

3 Effective for annual periods beginning on or after January 1, 2009

4 Effective for annual periods beginning on or after July 1, 2009

5 Effective for transfers of Assets from Customers received on or after July 1, 2009

* In 2008, the IASB has issued *Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. The improvements contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 2, IAS 7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 21, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 32, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41. Except for the amendment to IFRS 5 which is effective for

the annual periods on or after July 1, 2009, others amendments are effective for annual periods beginning on or after January 1, 2009 although there are separate transitional provision for each standard.

In 2009, the IASB has also issued another *Annual Improvements to IFRSs*. The improvements included IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for the annual periods on or after July 1, 2009, others amendments are effective for annual periods beginning on or after January 1, 2010 although there are separate transitional provision for each standard.

The directors anticipate that all the new or revised IFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, IAS 1 (Revised) *Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, IFRS 8 *Operating Segments* may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in IFRS 8.

The directors are in the process of assessing the impact of other new or revised IFRSs upon initial application. So far, the directors have preliminary concluded that the initial application of these IFRSs are unlikely to have a significant impact on the Group's results and financial position.

The Financial Information has been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group's current liabilities exceeds its current assets by RMB354,948,000 as at December 31, 2008. Based on projections of the Group's profits and cash inflows from future operations and the ability of the Group to obtain continuing bank financing to finance its continuing operation, the Company's directors have prepared the Financial Information on a going concern basis.

It should be noted that accounting estimates and assumptions have been used in preparing the Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas where assumptions and estimates are significant to the Financial Information or areas involving a higher degree of judgment or complexity are set out in note 4 "Critical accounting estimates and judgments".

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Merger accounting

The assets and liabilities of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination. The combined income statement includes the results of each of the combining entities or businesses from the date of incorporation/establishment or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. All significant intra-group transactions, balances and unrealized gains on transactions have been eliminated on combination. Unrealized losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

(b) Subsidiary

A subsidiary is an entity (including special purpose entity) over which the Group has power to govern its financial and operating polices, generally accompanying a shareholding of more than one half of the voting rights, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Except for those acquisitions which qualify as a common control combination, which are accounted for using merger accounting (note 3(a)), purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespectively of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 3(c)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

All the material intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, the investment in subsidiary is stated at cost less provision for impairment losses, if any. The result of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of the subsidiary is separately disclosed in the consolidated balance sheet. It is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash generated units, that are expected to benefit from the business combination in which the goodwill arose.

(d) 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 CIP 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:

Building 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.

(e) Land use rights

Payment for obtaining land use rights is considered as operating lease payment and charged to income statement over the period of the right using the straight-line method.

(f) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(g) Foreign currencies

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the group entity operates (i.e. the "functional currency"). The functional currency of the Company is HK$. The Financial Information is presented in Renminbi ("RMB"), since the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB.

In preparing the financial statements of individual group entity, transactions in currencies other than the group entity's functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

For the purpose of the Financial Information, the assets and liabilities of the foreign entities which functional currency is not RMB are translated into RMB at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. Foreign exchange gains and losses arising thereon are dealt with in the translation reserve. Such translation differences are recognized in the income statement in the period in which the foreign operation is disposed of.

(h) Mining rights

Mining rights are stated at cost less accumulated amortization and are amortized on a straight line basis over 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 such mine is available for use.

(i) Intangible asset

Trademark acquired in a business combination

Trademark acquired in a business combination is identified and recognized separately from goodwill where it satisfies the definition of an intangible asset and its fair value can be measured reliably. The cost of such trademark is its fair value at the acquisition date.

Subsequently to initial recognition, trademark with indefinite useful life is carried at cost less any subsequent accumulated impairment losses. It is tested for impairment as described below in note 3(j).

(j) Impairment of non-financial assets

Intangible asset with an indefinite useful life is tested for impairment at least annually, irrespective of whether there is any indication that it is impaired. All other asset are tested for impairment whenever there are indications that the asset's 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.

(k) Inventories

Inventories comprise raw materials and finished goods. At the balance sheet date, the inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average basis, comprise direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Financial assets

The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All financial assets are recognized when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs. Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. On derecognition of a financial asset, the difference between the assets' carrying amount 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.

Loans and receivables including trade and other receivables, amounts due from related parties, pledged bank deposits and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are included in current assets. Other loans and receivables are included in current assets unless they are expected not to be realized within 12 months after the balance sheet date and in such case, they are classified as non-current assets in the balance sheet.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Any changes in the value of loans and receivables through the amortization process are recognized in the income statement.

(m) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial assets 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 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.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and cash in hand.

(o) Financial liabilities

Financial liabilities comprise bank borrowings and trade and other payables including amounts due to related parties which are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Gain or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 statement.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of any qualifying asset, which are necessarily take a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Other borrowing costs are expensed.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

(q) Government grants

Government grants are recognized as income when there is reasonable assurance that the conditions attaching to such grants are complied with the rights to receive payment have been established. When the grant relates to an expense item, it is recognized as other revenue and presented as such over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(r) Provision and contingent liabilities

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 the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) 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.

(t) Income and expense recognition

Revenue from the sale of goods is recognized when the goods are delivered to the customers.

Interest income is recognized on a time-proportion basis by reference to the principal outstanding and the effective interest rate method.

Operating expenses are recognized in the income statement upon utilization of the relevant services or when the relevant expenses are incurred, as appropriate.

(u) Cost of sales

Direct cost of production, which includes primarily raw materials costs, labor costs, electricity costs, depreciation expenses, resources tax and repair and maintenance expenses are recognized in inventories and then as cost of sales when the revenue from sale of goods is recognized.

(v) Retirement benefits costs

The Group's contributions to the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

In accordance with the rules and regulations in the PRC, the employees of the entities established in the PRC participate in defined contribution retirement benefits plans organized by regional governments. The regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(w) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

(x) Share capital

Ordinary shares with discretionary dividends are classified as equity. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

(y) Share-based payment transactions

Equity-settled share-based payment

The Group operates equity-settled share-based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of financial instruments e.g. share options are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value of the equity instruments at the date on which the financial instruments are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets). In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

When share options are granted to non-employee in exchange for services, they are measured at the fair value of the services received. The fair value is recognized as expense over the vesting period, if applicable, unless the services qualify for recognition as assets. Corresponding entries have been made to equity.

Equity-settled share-based compensation in relation to the pre-IPO share option scheme and share option scheme is recognized as an expense in income statement with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. In respect of share options, the fair value of the share options granted by the Group to its employees is recognized in income statement with a corresponding increase in share option reserve. Upon exercise of the share options, the amount in the share option reserve is transferred to the share premium account. In case the share options are lapsed, the amount in the share option reserve is released directly to retained profits.

(z) Related parties

A party is considered to be related to the Group if :

(i) the party directly, or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the process of applying the Group's accounting policies, which are described in note 3, management has made various estimates and judgments which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgments are continually evaluated. The key source of estimation uncertainty and accounting judgments that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognized in the Financial Information are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(c). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the estimates used in assessing impairment for goodwill are set out in note 18.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each balance sheet date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for non-financial assets are set out in note 21.

Impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the evaluation of collectability and ageing analysis of receivables and on management's judgment. A considerable amount of judgment is required in assessing the expected timing of collection and ultimate realization of these receivables, including credit worthiness and collection history of each customer and other debtor. Management will reassess the provision at each balance sheet date. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payment, additional allowances may be required.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for the property, plant and equipment of the Group. This estimate is based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in the income statement.

Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the Financial Information. 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 profits and cash inflows from operations and the ability of the Group to obtain continuing 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 obtain continuing bank financing to finance its continuing operations. Accordingly, management has prepared the Financial Information on a going concern basis. An adverse change in any of the above conditions may require the Financial Information to be prepared on an alternative basis and such basis, together with the fact that the Financial Information 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.

5. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

5.1 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the board of directors meet regularly and co-operate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks.

(a) Market risk

(i) Interest rate risk

Except for bank deposits which are interest bearing (notes 24 and 25), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from bank borrowings. Bank borrowings obtained at variable rates and fixed rates expose the Group to cash flow interest-rate risk and fair value interest-rate risk respectively.

As at December 31, 2007 and 2008, approximately 98% and 87% of the bank borrowings bore interest at floating rates respectively (December 31, 2006: nil). The interest rate and terms of repayment of bank borrowings are disclosed in note 27 below. The Group has not hedged its cash flow and fair value interest rate risk. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly. Management also considers the fair value interest rate risk is insignificant due to fixed-rate bank borrowings are due within one year in general.

Based on the market conditions as at December 31, 2008, the Group determined that it is reasonably possible for interest rate on bank borrowings to increase/decrease by 150 basis points in the coming twelve months. If interest rate on bank borrowings had been 150 basis points higher/lower with all other variables held constant, the profit after tax and retained earnings would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of the changes are as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Profit for the year and retained earnings increase/ (decrease)			
— 150 basis points higher	(1,259)	(11,152)	(11,646)
— 150 basis points lower	1,259	11,152	11,646

The changes in interest rates do not affect the Company's and the Group's other components of equity.

(ii) Foreign currency risk

The Group mainly operates in the PRC. The functional currency of the Company and its subsidiaries are mainly HK$ and RMB respectively with certain of their business transactions being settled in US$. In addition, the Company obtained a long-term USD bank loan on June 23, 2007 (note 27(iv)). The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US$, against the functional currency of the relevant Group entities. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

The following table details the Group's sensitivity to a reasonably possible change of 10% in exchange rate of the foreign currency against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 10% change in foreign currency rates.

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Profit for the year and retained earnings increase/ (decrease)			
— if RMB weakens against US$	393	(59,797)	(56,071)
— if RMB strengthens against US$	(393)	59,797	56,071

The changes in foreign exchange rates do not affect the Company's and the Group's other components of equity.

(b) Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognized financial assets is the carrying amount of those assets as disclosed in note 15 below. None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

The credit risk on pledged bank deposits and cash and cash equivalents is limited because the counterparties are banks with high credit rating.

The Group trades only with recognized, creditworthy third parties. The Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of receivable balances. With respect to credit risk arising from the other financial assets of the Group which comprise other receivables and amounts due from related parties, the Group's exposure to credit risk arising from default of counterparties is limited as the counterparties have good credit standing and the Group does not expect any significant loss for uncollected advances from these entities.

In order to minimize the credit risk, the management continuously monitor the level of exposure to ensure that follow-up action and / or corrective actions are taken promptly to lower exposure or even to recover over due balances. In addition, management reviews the receivable amount of the receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents as well as the availability of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of fund from major financial institutions to meet its liquidity requirements in the short and longer term.

In preparing the Financial Information, the directors of the Company have given careful consideration for the Group in light of the net current liabilities of approximately RMB354,948,000 as at December 31, 2008. They have carried out a detailed review of the cash flow forecast for 24-month period ending December 31, 2010. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during the period. The directors are of the opinion that the assumptions which are included in the cash flow forecast are reasonable. Accordingly, the Financial Information has been prepared on a going concern basis. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

In the opinion of the directors, certain bank borrowings that mature within one year can be renewed on an annual basis at the discretion of the Group within limit approved by the banks and the Group expects to have adequate source of funding (including other and bank borrowings as disclosed in notes 36 (b), (d) and (e)) to finance the Group and manage the liquidity position.

The table below analyses the Group's financial liabilities based on the remaining contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount	Total contractual undiscounted cash flow	Less than one year	One to less than two years	Two to less than five years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at December 31, 2006					
Borrowings	83,900	87,143	87,143	—	—
Trade and other payables	67,558	67,558	67,558	—	—
As at December 31, 2007					
Borrowings	643,649	955,291	116,787	276,618	561,886
Trade and other payables	308,617	308,617	308,617	—	—
As at December 31, 2008					
Borrowings	682,565	803,739	317,568	206,979	279,192
Trade and other payables	330,955	330,955	330,955	—	—

Note:

The interest on borrowings is calculated based on borrowings held as at December 31, 2006, 2007 and 2008 without taking into account of future issues. The interest rate is estimated using the effective interest rate as at the respective balance sheet dates.

5.2 Fair value estimation

The carrying value of trade and other receivables, prepayments and deposits, trade and other payables, pledged bank deposits and cash and cash equivalents are assumed to approximate their fair values due to the short-term maturity of these balances.

The fair value of interest-bearing bank borrowings (note 27) is estimated by discounting the future contractual cash flows at the current market interest rates that is available to the Group for similar financial instruments.

5.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder returns.

The Group monitors its capital on the basis of the debt-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debt (including bank borrowings and trade and other payables, as shown in the consolidated balance sheet) less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity, as shown in the consolidated balance sheet. Based on the debt-to-adjusted capital ratios, the Group may adjust dividend policy, issue new shares or return capital to shareholders subject to the financial and operating covenants relating to a bank borrowing of US$100 million made in 2007 (note 27(iv)) which restrict the Group to incur any additional offshore borrowing and the Company to declare dividend or return capital to the existing shareholders.

The debt-to-adjusted capital ratios at December 31, 2006, 2007 and 2008 are as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Bank borrowings	83,900	643,649	682,565
Trade and other payables	84,446	330,486	360,795
Less: Pledged bank deposits	—	(46,988)	(32,394)
Cash and cash equivalents	(1,663)	(71,057)	(827)
Net debt	166,683	856,090	1,010,139
Equity	113,993	328,870	825,542
Debt-to-adjusted capital ratio	1.46	2.60	1.22

6. REVENUE

Revenue, which is also the Group's turnover, represents the net amounts received and receivable for goods sold, less value-added tax and returns, for the Relevant Periods. The amount of each significant category of the revenue recognized during the Relevant Periods is as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Revenue			
— powder thenardite	151,633	149,405	154,486
— medical thenardite	53,122	145,567	192,163
— specialty thenardite	—	76,558	793,705
	204,755	371,530	1,140,354

7. SEGMENT INFORMATION

Based on risks and returns, the directors of the Company consider that the primary reporting format of the Group is by business segment. The directors consider that there is only one business segment, being processing and sale of powder thenardite, medical thenardite and specialty thenardite. Therefore no further information about business segment is presented.

The Group primarily operates in the PRC, sales are made to overseas customers as well as customers in the PRC. Geographical segment is the secondary reporting format of the Group. In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customer. The Group's assets and capital expenditure are attributed to the segments based on the location of the assets.

The Group's turnover analyzed by geographical markets during the Relevant Periods is presented below:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The PRC, other than Hong Kong	180,219	366,635	1,129,863
New Zealand	18,120	4,895	5,009
Others	6,416	—	5,482
	204,755	371,530	1,140,354

The carrying amounts of segment assets and capital expenditure, which represents additions to property, plant and equipment and mining rights, analyzed by geographical markets is presented below:

	Segment assets		
	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The PRC, other than Hong Kong	276,059	1,181,319	1,858,630
Hong Kong	2,193	14,198	10,266
Unallocated	5,596	118,514	35,001
	283,848	1,314,031	1,903,897

	Capital expenditure		
	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
The PRC, other than Hong Kong	5,411	797,763	399,773
Hong Kong	1,399	3,356	154
	6,810	801,119	399,927

8. COST OF SALES

Cost of sales represents the direct costs attributable to the production of goods sold during the Relevant Periods. An analysis of the Group's cost of sales is as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Cost of sales			
— powder thenardite	97,923	101,618	110,997
— medical thenardite	14,507	35,820	56,209
— specialty thenardite	—	13,857	176,588
	112,430	151,295	343,794

9. OTHER REVENUE AND GAINS

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Interest income on bank balances stated at amortized costs	325	3,981	1,300
Gain on disposal of scrap materials / obsolete fixed assets	1,820	178	1,530
Government subsidy	800	850	—
Others	1,673	315	298
	4,618	5,324	3,128

Government grants were received from the PRC government for subsidizing the Group relating to environmental protection. There are no unfulfilled conditions or contingencies relating to these grants.

10. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting) the following items:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Auditors remuneration	63	1,864	1,274
Amortization of land use rights (note (i))	611	611	1,274
Amortization of mining rights (note (i))	119	119	4,236
Cost of inventories recognized as an expense	74,802	124,437	256,471
Depreciation of property, plant and equipment	10,308	13,173	41,228
Repair expenses arising from earthquake (note (ii))	—	—	8,280
Loss on disposal of property, plant and equipment	—	113	—
Net foreign exchange loss	2,792	1,042	47
Operating lease charges on rented premises	58	155	2,284
Staff costs (including directors' remuneration)			
— Wages, salaries and bonus	18,958	25,903	42,012
— Equity-settled share-based payments (note 32)	—	—	13,800
— Contribution to defined contribution pension plans	582	1,340	2,093
	19,540	27,243	57,905
Impairment on receivables	164	9,949	—

Notes:

(i) Amounts have been included in other operating expenses on the face of consolidated income statements.

(ii) On May 12, 2008, an earthquake with a magnitude of 8.0 on the Richter scale according to the State Seismological Bureau of China, hit Sichuan Province, China. As a result, certain production facilities and equipments of the Group were damaged. The Group entered into certain agreements with contractors for repairing these assets in May 2008, and the repair expenses of RMB8,280,000 arising from earthquake was recognized in the consolidated income statement accordingly.

11. FINANCE COSTS

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Interest expenses on bank borrowings wholly repayable within five years	7,079	68,314	119,593
Less : Amount included in the cost of qualifying assets*	—	(33,793)	(20,793)
	7,079	34,521	98,800

* The qualifying assets represented the mining right of Muma Mining Area, certain machinery and equipment and certain buildings and mining structures of the Guangji Mining Area. Borrowing costs included in the cost of qualifying assets have been capitalized at rate of 19.54% for the years ended December 31, 2007 and 2008.

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(i) Directors' remuneration

The aggregate amount of remuneration paid and payable to the directors of the Company by the Group during the Relevant Periods are as follows:

	Year ended December 31, 2006					
	Fees	Salaries and allowances	Discretionary bonus	Contribution to pension plans	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Zhang Daming . . .	—	200	—	—	—	200
Deng Xianxue	—	200	—	10	—	210
Li Xudong	—	120	—	3	—	123
Non-executive directors						
Suolang Duoji	—	—	—	—	—	—
Zhang Songyi	—	—	—	—	—	—
Wang Chun Lin . .	—	—	—	—	—	—
	—	520	—	13	—	533

	Year ended December 31, 2007					
	Fees	Salaries and allowances	Discretionary bonus	Contribution to pension plans	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Zhang Daming . . .	—	406	558	4	—	968
Deng Xianxue	—	460	543	16	—	1,019
Li Xudong	—	157	—	7	—	164
Non-executive directors						
Suolang Duoji	—	630	—	4	—	634
Zhang Songyi	—	—	—	—	—	—
Wang Chun Lin . .	—	1,260	—	11	—	1,271
	—	2,913	1,101	42	—	4,056

	Year ended December 31, 2008					
	Fees	Salaries and allowances	Discretionary bonus	Contribution to pension plans	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Zhang Daming . . .	—	925	—	11	792	1,728
Deng Xianxue	—	930	—	25	750	1,705
Li Xudong	—	454	—	15	600	1,069
Non-executive directors						
Suolang Duoji	—	1,156	—	11	—	1,167
Zhang Songyi	—	1,156	—	11	—	1,167
Wang Chun Lin . .	—	1,249	—	11	—	1,260
	—	5,870	—	84	2,142	8,096

(ii) Five highest paid individuals

The five highest paid individuals consisted of three, four and five directors for the years ended December 31, 2006, 2007 and 2008, respectively, details of whose remuneration are set out above. Details of the remuneration of the remaining of two, one and nil highest paid individuals for the years ended December 31, 2006, 2007 and 2008, respectively, are as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Salaries and allowances	300	203	—
Discretionary bonus	—	—	—
Contribution to pension plans	8	5	—
	308	208	—

The remuneration paid to each of the above non-director individuals during the Relevant Periods fell within the band of nil to HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

13. INCOME TAX EXPENSE

The major components of income tax expense for the Relevant Periods are as follows:

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Current tax			
— Provision for PRC income tax	1,616	25,901	171,503

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the Relevant Periods.

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong during the Relevant Periods.

(iii) PRC enterprise income tax ("EIT") is calculated at a rate of 33% in accordance with the relevant laws and regulations in the PRC for the years ended December 31, 2006 and 2007.

(iv) Chuanmei Mirabilite was approved as a foreign invested enterprise in 2005. Pursuant to an approval document on certain tax preferential policies titled "Guo Shui You Pi (2005) No. 019" issued by the Bureau of State Tax of Dongpo District, Meishan City, Sichuan Province (四川省眉山市東坡區國家稅務局國稅優批 (2005) 019 號), Chuanmei Mirabilite is entitled for exemption of EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended December 31, 2005 was Chuanmei Mirabilite's first profit-making year and was the first year of its tax holiday.

Pursuant to a notice titled "Chuan Guo Shui Han (2006) No. 40" issued by the Bureau of State Tax of the Sichuan Province (四川省國家稅務局川國稅函 (2006) 40 號) on February 7, 2006, Chuanmei Mirabilite is subject to local income tax at a rate of 3% for the year ended December 31, 2006.

Based on the above, for the year ended December 31, 2007 the EIT tax rate applicable to Chuanmei Mirabilite was 18%.

(v) Chuanmei Glauber Salt began generating income in November 2007. Pursuant to a notice issued by the Bureau of State Tax of Dongpo District of Meishan City of the Sichuan Province on September 27, 2008, Chuanmei Glauber Salt is entitled for exemption of EIT for the year ended December 31, 2007. Based on the management's assessment and as advised by the PRC legal counsel of the Group, Chuanmei Glauber Salt is subject to local income tax at a rate of 3% for the year ended December 31, 2007.

(vi) On March 16, 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC ("new EIT Law"), which became effective on January 1, 2008. According to the new EIT Law, the income tax rate applicable to the Group's PRC subsidiaries is unified at 25%. Pursuant to the grandfathering arrangement under the new tax law, the Group's subsidiaries will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. Thereafter, the normal tax rate applicable to the Group's PRC subsidiaries is unified at 25%. For the year ended December 31, 2008, Chuanmei Mirabilite and Chuanmei Glauber Salt are subject to EIT tax rate of 12.5% and 25% respectively.

(vii) For each of the years ended December 31, 2006 and 2007, the Group did not have any material unrecognized deferred tax assets / liabilities.

Deferred tax liabilities of approximately RMB25,021,000 have not been established for the withholding and other taxation that would be payable on the unremitted earnings of Chuanmei Mirabilite and Chuanmei Glauber Salt, as such amount are permanently reinvested; according to the PRC audited accounts of these subsidiaries, such unremitted earnings totalled approximately RMB500,425,000 as at December 31, 2008.

A reconciliation of income tax expense and accounting profit at applicable tax rate is as follows:

	Year ended December 31,		
	2006	**2007**	**2008**
	RMB'000	**RMB'000**	**RMB'000**
Profit before income tax	50,870	114,903	613,583
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	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

14. EARNINGS PER SHARE

The calculation of basic earnings per share is calculated based on the consolidated profit attributable to the equity holders of the Company of approximately RMB44,029,000, RMB78,950,000, RMB429,739,000 for the years ended December 31, 2006, 2007 and 2008 respectively 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 520,000,000 shares were issued pursuant to the capitalization issue of the Company as described in note 30(a)(iv), as if the shares were in issue throughout the Relevant Periods.

No diluted earnings per share is presented as its inclusion, for the purpose of this report is not considered meaningful.

15. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amount of the Group's financial assets and liabilities as recognized at the respective balance sheet dates may also be categorized as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Financial assets			
Cash and cash equivalents	1,663	71,057	827
Pledged bank deposits	—	46,988	32,394
Loans and receivables			
— Trade and other receivables	132,629	235,111	192,514
	134,292	353,156	225,735
Financial liabilities			
Current liabilities			
Financial liabilities measured at amortized cost			
— Trade and other payables	67,558	308,617	330,955
— Bank borrowings	83,900	12,600	258,947
	151,458	321,217	589,902
Non-current liabilities			
Financial liabilities measured at amortized cost			
— Bank borrowings	—	631,049	423,618
	151,458	952,266	1,013,520

The carrying amount of the Company's financial assets and liabilities as recognized at the respective balance sheet dates may also be categorized as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
Financial assets			
Pledged bank deposits	—	33,081	32,355
Loans and receivables			
— Amounts due from shareholders	—	73	—
— Amounts due from subsidiaries	—	43,288	—
	—	76,442	32,355
Financial liabilities			
Current liabilities			
Financial liabilities measured at amortized cost			
— Other payables	—	29,403	94,823
— Amount due to a director	—	—	30,057
— Amounts due to shareholders	—	—	36
— Bank borrowings	—	—	169,447
	—	29,403	294,363
Non-current liabilities			
Financial liabilities measured at amortized cost			
— Bank borrowings	—	631,049	423,618
	—	660,452	717,981

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings and mining structures	Machinery and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2006					
At cost	—	17,333	64,552	1,388	83,273
Accumulated depreciation	—	(1,427)	(8,980)	(104)	(10,511)
Net book amount	—	15,906	55,572	1,284	72,762
Year ended December 31, 2006					
Opening net book amount	—	15,906	55,572	1,284	72,762
Additions	3,771	129	1,791	1,119	6,810
Depreciation	—	(1,547)	(8,615)	(146)	(10,308)
Transfers	(3,771)	—	3,771	—	—
Exchange alignment	—	(27)	(4)	(23)	(54)
Closing net book amount	—	14,461	52,515	2,234	69,210
At December 31, 2006 and January 1, 2007					
At cost	—	17,427	70,110	2,484	90,021
Accumulated depreciation	—	(2,966)	(17,595)	(250)	(20,811)
Net book amount	—	14,461	52,515	2,234	69,210
Year ended December 31, 2007					
Opening net book amount	—	14,461	52,515	2,234	69,210
Additions	41,576	111,361	401,631	1,580	556,148
Disposal	—	(105)	(8)	—	(113)
Depreciation	—	(2,029)	(10,490)	(654)	(13,173)
Transfer	(3,376)	895	2,231	250	—
Exchange alignment	—	(50)	(37)	(100)	(187)
Closing net book amount	38,200	124,533	445,842	3,310	611,885
At December 31, 2007 and January 1, 2008					
At cost	38,200	129,482	473,918	4,191	645,791
Accumulated depreciation	—	(4,949)	(28,076)	(881)	(33,906)
Net book amount	38,200	124,533	445,842	3,310	611,885
Year ended December 31, 2008					
Opening net book amount	38,200	124,533	445,842	3,310	611,885
Additions	226,825	8,550	891	25	236,291
Disposal	—	(516)	—	—	(516)
Depreciation	—	(6,558)	(33,905)	(765)	(41,228)
Transfer	(59,054)	44,717	14,210	127	—
Exchange alignment	—	(50)	(55)	(113)	(218)
Closing net book amount	205,971	170,676	426,983	2,584	806,214
At December 31, 2008					
At cost	205,971	182,108	488,951	4,190	881,220
Accumulated depreciation	—	(11,432)	(61,968)	(1,606)	(75,006)
Net book amount	205,971	170,676	426,983	2,584	806,214

Notes:

(a) The Group's buildings are on land held under medium-term lease in the PRC.

(b) Certain buildings and mining structures, machinery and equipment are pledged to secure bank borrowings granted to the Group as disclosed in note 29 below.

(c) On January 1, 2008, the Group entered into an agreement to acquire equipment and machineries in respect of the Muma Mining Area at an aggregate consideration of approximately RMB400,000,000 of which approximately RMB309,741,000 had been paid by the Group and classified as deposits separately from property, plant and equipment above as at December 31, 2008.

17. LAND USE RIGHTS

	RMB'000
2006	
Net carrying amount at January 1, 2006	25,622
Amortization charge	(611)
Net carrying amount at December 31, 2006	25,011
At December 31, 2006	
Gross carrying amount	26,233
Accumulated amortization	(1,222)
Net carrying amount	25,011
2007	
Net carrying amount at January 1, 2007	25,011
Additions (note (ii))	32,000
Amortization charge	(611)
Net carrying amount at December 31, 2007	56,400
At December 31, 2007	
Gross carrying amount	58,233
Accumulated amortization	(1,833)
Net carrying amount	56,400
2008	
Net carrying amount at January 1, 2008	56,400
Additions	2,583
Amortization charge	(1,274)
Net carrying amount at December 31, 2008	57,709
At December 31, 2008	
Gross carrying amount	60,816
Accumulated amortization	(3,107)
Net carrying amount	57,709

Notes:

(i) The Group's interests in land use rights represent prepaid operating lease payments in respect of land located in the PRC. The land use rights were acquired with the lease period from 43 years to 50 years and are amortized over their lease periods. As at December 31, 2008, the land use rights have remaining lease periods from 33 to 50 years.

(ii) During the year ended December 31, 2007, the Group entered into an agreement to acquire the land use right of Guangji Mining Area at a consideration of approximately RMB32,000,000 in which approximately RMB3,000,000 was paid as at year end date. The remaining balance of RMB29,000,000 was paid during the year ended December 31, 2008.

(iii) Details of the Group's land use rights pledged to secure the Group's bank borrowings are set out in note 29 below.

18. GOODWILL

	RMB'000
Carrying amount at January 1, 2006, December 31, 2006, 2007 and 2008	8,386

Goodwill as at December 31, 2006, 2007 and 2008 arose from the acquisition of Chuanmei Mirabilite in 2004. For the annual impairment test for the Relevant Periods, the carrying amount of goodwill belongs to the cash generating unit which engages in processing and sale of powder and medical thenardite. Its recoverable amount was determined based on a value in use calculation, covering a detailed budget plan up to the year 2012. The discount rate applied to the cash flow projections was 22.89%. Cash flow beyond the four-year period is extrapolated using the estimated growth rate of 2%. The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC. Based on the results of the impairment testing, management determines that there is no impairment of the cash-generating unit of processing and sale of powder and medical thenardite attributed to the goodwill.

Key assumptions were used for value in use calculation for the Relevant Periods. The following described each key assumption on which management has based for cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — Management determined gross margin based on past experience in this market and its expectations for market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the respective industries.

Apart from the considerations described above in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

19. MINING RIGHTS

	RMB'000
At January 1, 2006	
Cost	456
Accumulated amortization	(119)
Net book value	337
Year ended December 31, 2006	
Opening net book amount	337
Amortization charge	(119)
Closing net book amount	218
At January 1, 2007	
Cost	456
Accumulated amortization	(238)
Net book value	218
Year ended December 31, 2007	
Opening net book amount	218
Additions	244,971
Amortization charge	(119)
Closing net book amount	245,070
At January 1, 2008	
Cost	245,427
Accumulated amortization	(357)
Net book value	245,070
Year ended December 31, 2008	
Opening net book amount	245,070
Additions	163,636
Amortization charge	(4,236)
Closing net book amount	404,470
At December 31, 2008	
Cost	409,063
Accumulated amortization	(4,593)
Net book value	404,470

Notes:

(a) The Group started mining at the Dahongshan Mining Area in 2005 and obtained the mining right certificate in April 2005 which was expired in October 2008. The mining right is amortized over the contractual period of 3.5 years.

During the year ended December 31, 2008, the Group paid a sum of approximately RMB51,046,000 to renew the mining right of Dahongshan Mining Area for the period from September 2008 to September 2038.

(b) On September 10, 2007, the Group entered into an agreement to acquire the mining right of the Muma Mining Area at a total consideration of approximately RMB240,000,000 of which approximately RMB154,225,000 had been paid by the Group as at December 31, 2007. The remaining balance of RMB85,775,000 was paid during the year ended December 31, 2008.

During the year ended December 31, 2007, 2008 borrowing costs of approximately RMB4,971,000 and RMB20,793,000 respectively were capitalized and included in the cost incurred for acquisition of mining right of Muma Mining Area.

(c) During the year ended December 31, 2008, the Group also made a payment of approximately RMB91,797,000 for the acquisition of the mining right of the Guangji Mining Area.

(d) The renewed/new mining right certificates of Dahongshan Mining Area, Muma Mining Area and Guangji Mining Area in the PRC were issued to the Group on September 12, 2008. The mining rights are amortized over their estimated useful life of 30 years.

20. INTERESTS IN SUBSIDIARIES

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Investment in subsidiaries	—	113,014	113,014
Amounts due from subsidiaries	—	627,665	615,960
	—	740,679	728,974

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the settlement of these amounts due is neither planned nor likely to occur in the foreseeable future and in substance, the amounts due from subsidiaries are extensions of the Company's investments in these subsidiaries.

21. OTHER INTANGIBLE ASSET

	Trademark
	RMB'000
At December 31, 2006, 2007 and 2008	
Cost	17,588
Impairment loss recognized	—
Net book value	17,588
Years ended December 31, 2006, 2007 and 2008	
Opening net book amount	17,588
Closing net book amount	17,588

Notes:

Trademark as at December 31, 2006, 2007 and 2008 arose from the acquisition of Chuanmei Mirabilite in 2004. The Group assessed the useful life and economic life of the trademark and concluded that the trademark has no foreseeable limit to the period which it is expected to generate net cash inflow for the Group and regarded the trading right as having indefinite useful life.

The carrying amount of trademark at each balance sheet date is tested for impairment by the management by estimating its recoverable amount based on the value in use calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to the year 2012. The discount rate applied to the cash flow projections was 19.84%. Cash flow beyond the four-year period are extrapolated using the estimated growth rate of 2%. The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC. Based on the results of the impairment testing, management determines that there is no impairment of the cash-generating unit of processing and sale of thenardite attributed to the trademark.

Key assumptions were used for value in use calculation for the Relevant Periods. The following described each key assumption on which management has based its cash flow projections to undertake impairment testing of trademark:

Budgeted gross margins — Management determined gross margin based on past experience in this market and its expectations for market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the respective industries.

Apart from the considerations described above in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

22. INVENTORIES

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Raw materials	3,751	6,954	5,394
Finished goods	1,655	975	2,876
	5,406	7,929	8,270

23. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Trade receivables	65,740	117,108	137,478
Less: allowance for doubtful debts	(164)	(9,146)	(9,146)
Trade receivables, net (note (i))	65,576	107,962	128,332
Other receivables	21,271	8,109	63,565
Bills receivables	80	110	80
Deposits and prepayments	23,737	13,617	65,784
Amounts due from related parties (note 33(iii))	45,702	118,857	537
Amounts due from shareholders (note 33(iv))	—	73	—
	156,366	248,728	258,298

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
Prepayments	—	—	6,885
Amounts due from shareholders (note 33(iv))	—	73	—
	—	73	6,885

Notes:

(i) The ageing analysis of trade receivables as at December 31, 2006, 2007 and 2008 net of impairment provision, is as follows:

	At December 31,		
	2006	**2007**	**2008**
	RMB'000	**RMB'000**	**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

At each balance sheet date, the Group's trade receivables are individually determined for impairment testing. The individually impaired receivables, if any, are recognized based on the credit history of the customers, such as financial difficulties and default in payments, and current market conditions.

During the Relevant Periods, credit terms normally granted to the trade customers ranged from 40 days to 90 days depending on the customers' relationship with the Group, its creditworthiness and settlement record.

In general, trade receivables that are aged below one year are not considered impaired based on management's historical experience and the Group would consider impairment provision for trade receivables which are aged one year or above.

The movement in the allowance for doubtful debts during the Relevant Periods is as follows:

	2006	**2007**	**2008**
	RMB'000	**RMB'000**	**RMB'000**
At January 1	—	164	9,146
Impairment losses recognized	164	8,982	—
At December 31	164	9,146	9,146

As at December 31, 2006 and 2007 and 2008, the Group's trade receivables of RMB164,000, RMB9,146,000 and RMB9,146,000 respectively were impaired and the amounts of provision made in respect of the balances were RMB164,000, RMB9,146,000 and RMB9,146,000 respectively. The individually impaired receivables mainly relate to management assessment that the entire amount of the receivable balances is unlikely to be recovered. The Group does not hold any collateral over these balances. The ageing analysis of trade receivables which were impaired and were provided for as at December 31, 2006, 2007 and 2008 is as follows:

	At December 31,		
	2006	**2007**	**2008**
	RMB'000	**RMB'000**	**RMB'000**
Over 365 days	164	9,146	9,146

The ageing analysis of trade receivables that are past due but are not considered impaired as at December 31, 2006, 2007 and 2008 is as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:			
— 181 – 365 days	4,048	3,583	3,789
— Over 365 days	6	473	403
	4,054	4,056	4,192

Trade receivables that are not yet past due relate to a wide range of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(ii) Trade and other receivables are interest-free and unsecured. The directors considered that the carrying amount of trade and other receivables approximates their fair values.

(iii) Included in trade and other receivables of the Group are the following amounts denominated in a currency other than the functional currency of the group entity to which the balances relate:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
HK$	387	10,415	7,556

24. PLEDGED BANK DEPOSITS

As at December 31, 2006, 2007 and 2008, pledged bank deposits were denominated in the following currencies:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
— HK$ (note)	—	13,907	40
— US$ (note)	—	33,081	32,354
	—	46,988	32,394

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
— US$ (note)	—	33,081	32,355

Note:

Certain bank balances of Top Promise and the Company have been pledged to secure the US$ bank loan (note 27(iv)) as at December 31, 2007 and 2008. The effective interest rate of Top Promise and the Company per annum on the pledged bank deposits were nil and 2.98% respectively. It will be released upon the settlement of relevant bank borrowing.

The directors considered that the fair value of pledged bank deposits approximate their carrying amounts.

25. CASH AND CASH EQUIVALENTS

As at December 31, 2006, 2007 and 2008, cash and cash equivalents were denominated in the following currencies:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Cash at bank and in hand			
— RMB	1,475	70,784	602
— HK$	185	26	62
— US$	3	247	163
	1,663	71,057	827

Cash deposited with banks bear interest at effective interest rates ranging from approximately 0.01% to 2.75% per annum during the Relevant Periods.

The directors considered that the carrying amounts of cash and cash equivalents approximate their fair value.

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26. TRADE AND OTHER PAYABLES

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Trade payables (note (i))	33,086	39,355	45,543
Other payables	32,272	237,387	172,202
Receipt in advance	16,888	21,869	29,840
Amount due to a director (note 33(iii))	—	29,675	112,359
Amount due to minority shareholder (note 33(iii))	2,200	2,200	—
Amount due to a related party (note 33(iii))	—	—	815
Amounts due to shareholders (note 33(iv))	—	—	36
	84,446	330,486	360,795

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
Other payables	—	29,403	94,823
Amount due to a director (note 33(iii))	—	—	30,057
Amounts due to shareholders (note 33(iv))	—	—	36
	—	29,403	124,916

Notes:

(i) The ageing analysis of trade payables of the Group as at December 31, 2006, 2007 and 2008 is as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	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

(ii) The directors considered that the carrying amounts of trade and other payables approximate their fair values.

(iii) Included in trade and other payables of the Group are the following amounts denominated in a currency other than the functional currency of the group entity to which the balances relate:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
HK$	534	41,967	207,311

27. BANK BORROWINGS

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Secured	41,900	643,649	682,565
Unsecured	42,000	—	—
	83,900	643,649	682,565

The maturity profile of the above borrowings is as follows:

Current			
Due within one year	83,900	12,600	258,947
Non-current			
More than one year, but within two years	—	180,300	169,447
More than two years, but within five years	—	450,749	254,171
	—	631,049	423,618
	83,900	643,649	682,565

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
Secured	—	631,049	593,065

The maturity profile of the above borrowings is as follows:

Current			
Due within one year	—	—	169,447
Non-current			
More than one year, but within two years	—	180,300	169,447
More than two years, but within five years	—	450,749	254,171
	—	631,049	423,618
	—	631,049	593,065

The carrying amounts of bank borrowings by currencies are as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
RMB	83,900	12,600	89,500
US$	—	631,049	593,065
	83,900	643,649	682,565

The exposure of bank borrowings of the Group to interest rate changes are as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
— at fixed rates (note (i))	83,900	12,600	89,500
— at floating rates (note (ii))	—	631,049	593,065
	83,900	643,649	682,565

Notes :

(i) The RMB bank loans were arranged at fixed interest rates of 5.58% to 7.25%, 6.58% to 7.03% and 5.58% to 7.47% per annum as at December 31, 2006, 2007 and 2008 respectively.

(ii) The effective interest rate on the U.S. dollars bank loan is 19.54% per annum.

(iii) The secured short-term RMB bank loans are collateralized by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in note 29. The unsecured short-term RMB bank loans are guaranteed by the related companies of the Group.

(iv) On June 23, 2007, the Company entered into a facility agreement with, among others, Credit Suisse, Singapore Branch acting as facility agent and security agent for and on behalf of Credit Suisse, Singapore Branch and Credit Suisse International (the "Facility Lenders") to borrow an US Dollar bank loan ("the Facility Agreement") of US$100,000,000. Pursuant to the Facility Agreement, the bank loan should be repaid within 5 years. For the first 2 years, the Company is required to repay interest only every six months. Starting from the third year, the Company is required to repay loan principal and interest together in seven equal installments every six months. The interest is payable at an annual rate based on the 6-month LIBOR plus 4% and the loan is collateralized and guaranteed as follows:

- Guaranteed by the Company's shareholders;
- Guaranteed by the Company, Rich Light and Top Promise, subsidiaries of the Company;
- Secured by the pledged bank deposits as disclosed in note 24;
- Secured by the shares of the Company, Rich Light and Top Promise;
- Secured by the equity interests in Chuanmei Mirabilite and Chuanmei Glauber Salt; and
- Secured by a subordination and assignment deed for the loan owing to Mr. Suolang Duoji by Top Promise.

In addition, as one of the conditions precedents to the provision of the facility under the Facility Agreement, the Company, its shareholders and the Facility Lenders as referred to the above entered into another agreement in respect of warrants to purchase shares in the Company. The details of the warrants agreement are set out in note 31(b)(iv).

As at December 31, 2007, the proceeds from that borrowing amounted to RMB734,588,000 (US$100,000,000) of which RMB103,539,000 was accounted for as capital contribution from shareholders by issuing the warrants and guarantee as explained in note 31(b)(iv).

(v) The carrying amounts of bank loans approximated their fair value.

28. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due are non-trade by nature, unsecured, interest-free and repayable on demand. The directors considered that the carrying amounts of the balances approximate their fair value.

29. PLEDGE OF ASSETS

At the respective balance sheet dates, the Group had pledged certain buildings, machinery and equipment and other assets to secure the credit facilities granted by certain banks. The carrying values of these assets pledged at the balance sheet date are as follows:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Group			
Buildings and mining structures (note 16)	5,043	4,176	71,795
Machinery and equipment (note 16)	34,143	13,398	30,110
Land use rights (note 17)	25,011	24,400	23,789
Bank deposits (note 24)	—	46,988	32,394
	64,197	88,962	158,088

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Company			
Bank deposits (note 24)	—	33,081	32,355

30. SHARE CAPITAL

(a) Company

	Par value	Number of ordinary shares	Nominal value	
	US$		US$	RMB'000
Authorized:				
At the date of incorporation and December 31, 2007 and January 1, 2008 (note (i))	0.1	500,000	50,000	385
Subdivision of shares (note (iii))		4,999,500,000	—	—
At December 31, 2008	0.00001	5,000,000,000	50,000	385
Issued and fully paid:				
At the date of incorporation (note (i))	0.1	1	1	1
Issue of new shares (note (ii))	0.1	99,999	9,999	76
At December 31, 2007	0.1	100,000	10,000	77
Subdivision of shares (note (iii))		999,900,000	—	—
Issue of new shares (note (iv))	0.00001	520,000,000	5,200	36
At December 31, 2008	0.00001	1,520,000,000	15,200	113

Notes:

(i) The Company was incorporated on April 12, 2007 with an authorized share capital of US$50,000 divided into 500,000 shares, each with par value of US$0.1. Upon incorporation, a share held by the subscriber was transferred to a shareholder.

(ii) On the same date, 99,999 shares were issued and allotted at par value of US$0.1 each.

(iii) Pursuant to the written resolution of the shareholders of the Company passed on April 25, 2008, every issued and unissued ordinary shares of US$0.1 each of the Company was subdivided into 10,000 ordinary of US$0.00001 each (the "Shares Subdivision"). The Shares Subdivision became effective on the same date. As a result of the Shares Subdivision, the authorized share capital of the Company has become of US$50,000 divided into 5,000,000,000 ordinary shares of US$0.00001 each and the issued share capital immediately prior to the Shares Subdivision of US$10,000 divided into 100,000 ordinary shares of US$0.1 each has become US$10,000 divided into 1,000,000,000 ordinary shares of US$0.00001 each.

(iv) On April 25, 2008 (after the effect of the Shares Subdivision), an aggregate of 520,000,000 ordinary shares were allotted and issued, credited as fully paid at par of US$0.00001 each to the then shareholders of the Company proportional to their then shareholdings, by the capitalization of the sum of US$5,200 (equivalent to RMB36,338) from the share premium account. Such allotment and capitalization were conditional on the share premium account being credited as a result of the new shares issued in connection with the proposed listing of the Company's shares on the Stock Exchange.

(b) Group

For the purpose of this report, the share capital in the consolidated balance sheet as at December 31, 2006 represented the paid up capital of Rich Light, a direct wholly-owned subsidiary. Upon the formation of the Group on June 12, 2007 as a result of the shares swap (note 31(b)(iii)) which took place on the same date, the Company became the holding company of the Group and the share capital in the consolidated balance sheets as at December 31, 2007 and 2008 represented the share capital of the Company (note 30(a)).

31. RESERVES

(a) Company

Details of the Company's reserve are as follows:

	Share premium (note (b)(i))	Pre-IPO share option reserve (note 32)	Capital contribution (note (b)(iv))	Translation reserve	Contributed surplus	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	—	—	—	—	—	—	—
Exchange difference arising on translation	—	—	—	(658)	—	—	(658)
Loss for the year	—	—	—	—	—	(59,303)	(59,303)
Total recognized income and expense for the year	—	—	—	(658)	—	(59,303)	(59,961)
Issue of shares by the Company	27,872	—	—	—	—	—	27,872
Capital contribution (note (b)(iv))	—	—	103,539	—	—	—	103,539
Arising from reorganization (note)	—	—	—	—	85,142	—	85,142
At December 31, 2007 and January 1, 2008	27,872	—	103,539	(658)	85,142	(59,303)	156,592
Exchange difference arising on translation	—	—	—	699	—	—	699
Loss for the year	—	—	—	—	—	(120,935)	(120,935)
Total recognized income and expense for the year	—	—	—	699	—	(120,935)	(120,236)
Recognition of share-based payments	—	13,800	—	—	—	—	13,800
Issue of new shares upon capitalization issue (note 30(a)(iv))	(36)	—	—	—	—	—	(36)
At December 31, 2008	27,836	13,800	103,539	41	85,142	(180,238)	50,120

Note:

Contributed surplus represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company pursuant to the shares swap as described in note 31(b)(iii).

(b) Group

Details of the movements on the Group's reserve are as set out in the consolidated statements of changes in equity on page I-6.

(i) Share premium

As described in note (ii) below, Mr. Zhang Songyi and Mr. Wang Chun Lin exercised their option to acquire 27% equity interests of the Company. Share premium represented the value of the professional services provided in connection with the acquisition of Chuanmei Mirabilite in 2004.

(ii) Share option reserve

Pursuant to a memorandum of understanding dated April 15, 2004 entered into by Mr. Suolang Duoji, Mr. Zhang Songyi and Mr. Wang Chun Lin, Mr. Zhang Songyi and Mr. Wang Chun Lin were granted an option (the "Option") at the consideration of US$1.00, to purchase 27% equity interests in the Company at an exercise price of US$0.1 in exchange for their professional services in connection with the acquisition of Chuanmei Mirabilite in 2004.

The Option was exercisable for a period of 5 years from the date of acquisition of Chuanmei Mirabilite and should lapse automatically upon expiry of the exercise period. As at the date of acquisition, the value of the professional services agreed between Mr. Suolang Duoji, Mr. Zhang Songyi and Mr. Wang Chun Lin was approximately RMB27,872,000. The professional services fee was recognized as the cost of acquisition.

On April 12, 2007, Mr. Zhang Songyi and Mr. Wang Chun Lin exercised their option to purchase 27% equity interests of the Company.

(iii) Shares swap

On June 12, 2007, Mr. Suolang Duoji, Triple A Investments Limited and Beansprouts Limited (Triple A Investments Limited was owned by Mr. Wang Chun Lin and his spouse; Beansprouts Limited was owned by Mr. Zhang Songyi and his spouse), the then shareholders of Rich Light transferred their shares to the Company for 100,000 shares issued by the Company at par value per share ("Shares Swap"). Upon completion of the Shares Swap, the entire issued share capital of Rich Light was held by the Company and Chuanmei Mirabilite became a 90% owned subsidiary of the Company through Rich Light and Top Promise.

(iv) Capital contribution

As described in note 27 (iv) above, the Company and its shareholders entered into another agreement in respect of an instrument constituting warrants to purchase shares in the Company on June 23, 2007 (the "Instrument Constituting Warrants"). The warrants were issued by Nice Ace Technology Limited ("Nice Ace") (the "Warrant Issuer"), which held 73% interest of the Company and was wholly owned by Mr. Suolang Duoji, to Credit Suisse, Singapore Branch and Credit Suisse International (the "Warrant Holders") with a right to purchase approximately 7.5% of the total issued shares of the Company from the Warrant Issuer (the "Warrants") within a specific period as mentioned in the section head

"Principal Terms and Conditions of the Warrants" in Appendix VIII of the Prospectus. Subject to certain conditions, the Warrants may be settled in cash in lieu of transferring of shares upon the exercise at the discretion of the Warrant Issuer. The Warrant Holders has a right to put the Warrants back at a put price which is made with reference to a 16% per annum rate of return upon the occurrence of certain events as set out in the Instrument Constituting Warrants.

Due to the fact that the facility arrangements were specially for the purpose of Top Promise's capital injection in Chuanmei Glauber Salt and the acquisition of Guangji Mine and Muma Mine, and these facility arrangements were secured by the Warrants and guarantees provided by shareholders, the capital contribution of the Group and the Company represented the fair value of the Warrants which entitled the Warrant Holders to purchase for the share capital of the Company from Nice Ace as well as the guarantees provided by the shareholders of the Company.

The fair value of the Warrants is determined by the management of the Company. Jones Lang LaSalle Sallmanns Limited, an independent firm of professionally qualified valuer is required by the Company to assist to estimate the fair value of the Warrants by using the Binomial Tree Model.

(v) Statutory reserves

— Statutory surplus reserve

According to the relevant laws and regulations in the PRC, subsidiaries of the Group are required to transfer 10% of their profits after taxation after setting off the accumulated losses brought forward from prior years, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Any further appropriation is optional. These reserves may be used to make good previous years' losses, if any, and may be converted to increase paid-up capital of the respective entities.

— Statutory public welfare fund

In accordance with the relevant laws and regulations in the PRC, the subsidiaries of the Group is required to appropriate certain portion of its profits after tax, as determined in accordance with the PRC Accounting Regulations, to the statutory public welfare fund but the amount of appropriation is determined by the board of directors. The statutory public welfare fund shall only apply to collective welfare of staff and workers and welfare facilities remain as properties of the Group.

32. PRE-IPO SHARE OPTION SCHEME

Pursuant to a written resolution approved by the Company's shareholders on April 30, 2008, the pre-IPO share option scheme of the Company ("Pre-IPO Share Option Scheme") became effective. See "Appendix VII — Statutory and General Information Pre-IPO Share Option Scheme". Certain executive directors, senior managerial staff and employees of the Group were granted options to recognize their contribution to the Group. Under the Pre-IPO Share Option Scheme, 198 individuals (the "Grantees") comprised of 3 directors, 7 senior managerial staff and 188 employees of the Group, were granted options conditionally. The exercise of the options would entitle the Grantees to purchase an aggregate of 76,000,000 shares of the Company immediately following completion of the global offering and the capitalization issue at the offer price. The options are vested on the date on which the shares of the Company will be listed on the Stock Exchange (the "Listing Date") and the Grantees remain in employment for a certain period of time. The options are exercisable by installments and up to 7 years from the Listing Date (the "Option Period"). Details of the scheme are as follows:

(i) Particulars of the options granted

	No. of shares to be issued upon full exercise of option	Percentage of total number of option shares granted	Percentage of total issued share capital immediately after global offering*
Grantee(s)			
Zhang Daming	4,218,000	5.55%	0.22%
Deng Xianxue	3,990,000	5.25%	0.21%
Li Xudong	3,192,000	4.20%	0.16%
195 Grantees who are senior managerial staff and employee of the Group	64,600,000	85.00%	3.36%
Total	76,000,000	100.00%	3.95%

* Assuming that the over-allotment option and all options granted under the Pre-IPO Share Option Scheme are not exercised and without taking into account the purchase rights of the Warrant Holders.

(ii) Exercise of Options

Options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

(a) For Grantees who have joined the Company for at least one calendar year as of the Listing Date

Exercise Period	**Maximum number of options exercisable**
Any time after the Listing Date until the 1st anniversary of the Listing Date	1st phase options, being up to half of the total number of options granted
Any time after the 1st anniversary of the Listing Date until the 2nd anniversary of the Listing Date	2nd phase options, after the exercise of which, the cumulative number of exercised options may be up to two-thirds of total number of options granted
Any time after the 2nd anniversary of the Listing Date until the 3rd anniversary of the Listing Date	3rd phase options, after the exercise of which, the cumulative number of exercised options may be up to five-sixths of the total number of options granted
Any time after the 3rd anniversary of the Listing Date until expiry of the validity period of the relevant options	4th phase options, being such number of options granted less the number of options already exercised

(b) For Grantees who have joined the Company for less than one calendar year as of the Listing Date

Exercise Period	Maximum number of options exercisable
Any time after the 1st anniversary of the Listing Date until the 2nd anniversary of the Listing Date	1st phase options, being up to half of the total number of options granted
Any time after the 2nd anniversary of the Listing Date until the 3rd anniversary of the Listing Date	2nd phase options, after the exercise of which, the cumulative number of exercised options may be up to two-thirds of total number of options granted
Any time after the 3rd anniversary of the Listing Date until the 4th anniversary of the Listing Date	3rd phase options, after the exercise of which, the cumulative number of exercised options may be up to five-sixths of the total number of options granted
Any time after the 4th anniversary of the Listing Date until expiry of the validity period of the relevant options	4th phase options, being such number of options granted less the number of options already exercised

The Group will receive HK$1 for each grant under the Pre-IPO Share Option Scheme.

No option was exercised by the Grantees and no option was cancelled or lapsed during the period between the grant date and year ended December 31, 2008.

The fair value of the options is determined by BMI Appraisals Limited, an independent valuer by using the Binomial Model. Details of the inputs to the Binomial Model are as follows:

Expected volatility* (%)	47.88%
Risk-free interest rate (%)	2.544%
Dividend yield	3.93%
Expected life of option (years)	7 years
Exercise price (HK$)	HK$1.659

* The expected volatility is assumed based on the historical volatilities of the share prices of the comparable companies. It is assumed that the volatility is constant throughout the option life.

The fair value of the options granted is approximately HK$41,099,000 in aggregate, of which the Group recognized HK$15,512,000 (RMB13,800,000) as share option expense in the consolidated income statement for the year ended December 31, 2008. The corresponding amount has been credited to the share option reserve. No liabilities were recognized as those are equity settled share-based payments transactions.

33. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in this report, the Group and the Company have the following related party transactions during the Relevant Periods:

(i) Name of and relationship with related parties

Name of related parties	Relationship
Mr. Suolang Duoji	Ultimate shareholder and director of the Company
Mr. Zhang Songyi	Ultimate shareholder and director of the Company
Mr. Li Xudong	Director of the Company and Chuanmei Mirabilite
Mr. Zhang Zhigang*	Director of Chuanmei Mirabilite
Sichuan First Silk Printing & Dyeing Co., Ltd. ("Sichuan First Silk")	10% equity holder of Chuanmei Mirabilite
Haton Polymer & Fibre Corp.	Mr. Suolang Duoji has 54.3% equity interest in this entity
Haton Polymer & Fibre Limited	Mr. Suolang Duoji has 54.3% equity interest in this entity
Haton Polymer Limited	Mr. Suolang Duoji has 54.3% equity interest in this entity
Mandra Capital	Mr. Zhang Songyi has 50% equity interest in this entity
Sichuan Tengzhong	Mr. Li Xudong has 90% equity interest in this entity
Sichuan Huatuo Industry & Commerce Development Co., Ltd. ("Sichuan Huatuo")	Mr. Zhang Zhigang has 69.9% equity interest in this entity indirectly.

* Mr. Zhang Zhigang resigned as director of Chuanmei Mirabilite in February 2008.

(ii) Significant related party transactions during the Relevant Periods

	Year ended December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Consultancy fee paid to Mandra Capital	307	1,066	—
Purchase of property, plant and machinery from Sichuan Tengzhong	—	343,435	—
Rentals paid to Sichuan Huatuo	—	—	192

The directors considered that all related party transactions were carried out in the ordinary course of business and at terms agreed between the parties.

(iii) Amounts due from / to related parties

Group	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Amounts due from related parties (Non-trade):			
Mr. Suolang Duoji (a director)	45,702	—	—
Haton Polymer & Fibre Corp.	—	6,020	—
Haton Polymer & Fibre Limited	—	135	—
Haton Polymer Limited	—	3,460	537
Sichuan Tengzhong	—	109,242	—
	45,702	118,857	537

All the balances due from related parties have been fully settled on or before May 13, 2009.

Maximum amount due from these related parties during the Relevant Periods are as follows:

	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Mr. Suolang Duoji	45,702	45,702	—
Haton Polymer & Fibre Corp.	—	6,020	6,020
Haton Polymer & Fibre Limited	—	135	135
Haton Polymer Limited	—	3,460	3,460
Sichuan Tengzhong	—	109,242	109,242

Group	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Amounts due to related parties (Non-trade):			
Mr. Suolang Duoji (a director)	—	29,675	112,359
Sichuan Tengzhong	—	—	815
Sichuan First Silk (minority shareholder)	2,200	2,200	—
	2,200	31,875	113,174

The balance due to Sichuan First Silk was fully settled on March 31, 2008. The balances due to Mr. Suolang Duoji and Sichuan Tengzhong have been fully settled on or before May 20, 2009.

Company	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Amount due to a related party (Non-trade):			
Mr. Suolang Duoji (a director)	—	—	30,057

The amounts due from / to related parties are unsecured, interest free and repayable on demand. The directors considered that the carrying amounts of the balances approximate their fair value.

(iv) Amounts due from / to shareholders

Group and Company	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Amounts due from shareholders (non-trade):			
Nice Ace Technology Limited	—	52	—
AAA Mining Limited	—	5	—
Mandra Mirabilite Limited (formerly known as Asia Coal Mine Methane Holdings Limited)	—	15	—
Asia Coal Bed Methane Investment Limited	—	1	—
	—	73	—

All the balances were fully settled on April 29, 2008.

Group and Company	At December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Amounts due to shareholders (non-trade):			
Nice Ace Technology Limited	—	—	24
AAA Mining Limited	—	—	2
Mandra Mirabilite Limited (formerly known as Asia Coal Mine Methane Holdings Limited)	—	—	5
Mandra Esop Limited	—	—	3
OSSF Capital Sdn. Bhd.	—	—	2
	—	—	36

All the balances due to shareholders have been fully settled on May 13, 2009.

The amounts due from / to shareholders are non-trade by nature, unsecured, interest free and repayable on demand. The directors considered that the carrying amounts of the balances approximate their fair value.

(v) Key management remuneration

Total staff costs include compensations to the key management personnel (excluding directors), the details of which are as follows:

	Year ended December 31, 2006 RMB'000	2007 RMB'000	2008 RMB'000
Salaries, allowances and other short-term employee benefits	630	789	2,449
Equity-settled share-based payment expenses	—	—	3,631
Contribution to pension plans	18	22	24
	648	811	6,104

34. CAPITAL COMMITMENTS

At the balance sheet dates, the Group had the following capital commitments:

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
— additions to property, plant and equipment	1,467	11,894	304,817
— acquisition of land use right	—	4,786	4,786
	1,467	16,680	309,603

The Company had no capital commitments as at December 31, 2006, 2007 and 2008.

35. OPERATING LEASE COMMITMENTS

The Group had no operating lease commitments as at December 31, 2006 and 2007. At December 31, 2008, the Group leased an office premise under operating lease arrangements and had committed to make the following future minimum lease payments in respect of non-cancellable operating leases falling due as follows :

	At December 31,		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Within one year	—	—	2,358
In the second to fifth years	—	—	2,304
	—	—	4,662

The Company had no operating lease commitments as at December 31, 2006, 2007 and 2008.

36. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this report, the following significant events have taken place subsequent to December 31, 2008 and up to the date of this report:

(a) Share option scheme

Pursuant to the resolutions in writing of the shareholders of the Company on May 26, 2009, the Company has adopted the share option scheme. The principal terms of the share option scheme are set out in the section headed "Statutory and General Information — Share Option Scheme" of Appendix VII to the Company's Prospectus.

(b) On January 5, 2009, the Group obtained and drawn down a loan facility of RMB30 million from Evergrowing Bank (恒豐銀行). The loan is secured by certain buildings and land use rights of the Group as well as the mining right of Dahongshan Mining Area.

(c) On May 5, 2009, Credit Suisse, Singapore Branch and the Group have agreed on certain amendments to the terms of the Credit Suisse facility agreement. The revised principal terms of the Credit Suisse facility agreement are set out as follows:

- Repayment: 65% of net IPO proceeds will be applied to repay the bank borrowing of US$100 million as mentioned in note 27(iv).

- Loan period: After Listing, the remaining outstanding loan will be repaid at once in June 2010.

- Interest rate: After Listing, the interest rate will be adjusted to 13.5% per annum.

- Security: All continuing guarantees, indemnities and share charges provided by the Company's shareholders will be released before Listing. In addition, all equity pledge over subsidiaries of the Company will also be released before Listing. However, the security and guarantees as referred to in the section "History, Reorganization and Corporate Structure — Facility Arrangements — Security and Guarantee" on page 93 of the Prospectus as documents (ii), (x) and (xi) will not be released upon Listing. On May 8, 2009, Top Promise and China Sun Fund Management Limited, an independent third party, entered into a subordination and assignment deed for an unsecured offshore loan facility as disclosed in note (d) to further secure the remaining balance of US$ bank borrowing under the Facility Agreement.

(d) On May 7, 2009, the Group obtained an unsecured offshore loan facility of HK$145 million (equivalent to approximately RMB127.7 million) from China Sun Fund Management Limited with a term of 3 years for repayment of the amount owed to Mr. Suolang Duoji, a director of the Company. The principal terms have been agreed by China Sun Fund Management Limited and the Group for the unsecured loan facility are set out as follows:

- Maximum loan amount: HK$145 million (equivalent to approximately RMB127.7 million)

- Loan period: three years commencing from the date of drawdown of the loan facility, with voluntary repayment provisions available to the Group

- Interest rate: 10% per annum; interest on the loan facility shall be payable on the last day of every interest period, which is of six months commencing from the date of drawdown of the loan facility

- Priority of repayment: In any event, the bank borrowing of US$100 million as disclosed in note 27(iv) has priority over this loan facility. For the avoidance of doubt, no repayment of loan principal and accrued interest under this loan facility shall be permitted unless the bank borrowing of US$100 million has been repaid in full or the Company has obtained prior written consent from Credit Suisse, Singapore Branch before the full repayment of the bank borrowing of US$100 million is made.

(e) On May 5, 2009, the Group has obtained two commitment letters from The Agricultural Bank of China, Chengdu Economic and Technology Development Zone Branch with a loan amount of RMB300 million. Both commitments will be valid from May 2009 to May 2011.

Save as aforesaid, no other significant event took place subsequent to December 31, 2008 and up to the date of this report.

37. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to December 31, 2008.

Yours faithfully,
Grant Thornton
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