LUMENA RESOURCES CORP.

旭光資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 67)

EXTRACT OF COMPANY INFORMATION AND FINANCIAL INFORMATION

EXTRACT OF COMPANY INFORMATION AND FINANCIAL INFORMATION OF LUMENA RESOURCES CORP.

RISK FACTORS

Risks Relating to our Business and our Industry

We are experiencing a period of rapid growth and may not be able to manage our growth effectively.

We are experiencing a period of rapid growth and expansion that has placed, and continues to place, significant demands on our management personnel, systems and resources. We have increased our thenardite mining and production capacity by 1.0 million tpa and we plan to complete construction of and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa mining and production facility of powder and specialty thenardite in the Muma Mining Area in the third quarter of 2010. In August 2009, we entered into an agreement to acquire an existing production facility and thenardite resources located close to our Dahongshan and Guangji Mining Areas and plan to upgrade this facility to produce animal feed thenardite. We also intend to develop and manufacture medical thenardite downstream applications as well as other thenardite applications. To accommodate this growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management effort and significant additional expenditures. As we have a limited history operating on such a large scale, we may not have sufficient experience to address the risks frequently encountered by companies that attempt to realize a large increase in capacity in a short time, including our potential failure to:

- effectively manage large scale production;
- attract, train, motivate and retain qualified personnel;
- manage the logistics, utility and supply needs of our expanded operations; or
- maintain adequate control over our expenses.

We cannot assure you that we will be able to manage our growth effectively, and failure to do so may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business depends on the demand for and price of thenardite.

We currently derive and expect to derive substantially all of our revenues from thenardite sales in the near future. Our business is dependent on the demand and price of thenardite which are beyond our control. According to Behre Dolbear, demand for thenardite over the past ten years has been relatively constant or declining in certain European and North American countries due to the stabilization or decline of certain thenardite consuming industries such as the powder detergent, kraft paper, textile and glass industries in these regions. Given that there are currently at least three other producers in China with a production capacity of more than 1.0 million tpa, there is a risk of price-cutting by thenardite producers in China to secure market share, according to Behre Dolbear. See "Industry Overview" and "Business – Sales and Marketing – Pricing". Any negative changes to thenardite demand or price may have a material adverse effect on our business, prospects, financial condition and results of operations.

In addition, our medical thenardite is subject to a price control by the Sichuan Commodity Price Control Bureau (四川省物價局), which set a price ceiling of RMB4,500 per tonne of medical thenardite from June 2005 to June 2010. Many pharmaceutical products with medical thenardite as an ingredient may also be subject to various price controls as set by the relevant governmental authorities. These price controls may be subject to further downward adjustments as the PRC governmental authorities seek to make pharmaceutical products more affordable to the general public. Since the implementation of PRC Pricing Control Law (中華人民共和國價格法) in May 1998, the relevant PRC governmental authorities have ordered price reductions with respect to a number of pharmaceutical products. Any future tightening of price control or government mandated price reductions relating to medical thenardite or its downstream pharmaceutical products may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our business operations depend on the policies and regulations of the PRC government.

We are subject to extensive national, provincial and local governmental laws, regulations, policies and controls. The liabilities, costs, obligations and requirements associated with these laws and regulations may be material and may delay the commencement of, or cause interruptions to, certain parts of our operations. Failure to comply with the relevant laws and regulations in our mining and production operations may result in the suspension of our operations. There can be no assurance that the relevant government agencies will not change such laws or regulations or impose additional or more stringent laws or regulations. Compliance with laws or regulations may require us to incur material capital expenditures or other obligations or liabilities that may have a material adverse effect on our business, prospects, financial condition and results of operations. Specific governmental policies and regulations that have a material effect on our operations include:

Glauberite exploration and mining rights. On September 12, 2008, we obtained the mining rights in the Guangji and Muma Mining Areas and renewed mining rights in the Dahongshan Mining Area. Our current mining rights with respect to the Dahongshan, Guangji and Muma Mining Areas all extend to 2038. We recently entered into an agreement to purchase certain thenardite resources located close to our Dahongshan and Guangji Mining Areas. See “Business – Recent Developments”. The mining rights with respect to such thenardite resources will expire in 2014. Once the mining rights to our mines expire, we may not be able to renew our mining rights on favorable terms, or at all. Accordingly, we may incur significant expenses in connection with the renewal of these mining rights, or we may not be able to continue our operations at such mines. In addition, we cannot assure you that we will be successful in procuring the necessary exploration rights, that any initial exploration work will reveal a deposit worthy of development, or that we will be successful in procuring the necessary mining right permit in connection with any future acquisition or expansion. Failure to procure exploration or exploitation and mining rights may have a material adverse effect on our business, prospects, financial condition and results of operations. See “PRC Laws and Regulations”.

Mining safety regulations. We cannot predict the timing or the outcome of safety inspections. In addition, recent significant mining accidents in China have prompted the PRC government to strengthen safety regulations, and future accidents may result in more stringent regulations. As a result, we may be required to devote substantial financial and other resources to comply with these regulations. If we fail to comply with the relevant safety laws and regulations or fail to pass safety inspections, we may be required to pay penalties or fines or take remedial actions, any of which may result in adverse publicity and potentially significant monetary damages that may have a material adverse effect on our business, prospects, financial condition and results of operations or cause us to suspend operations or cease operations entirely.

Environmental regulations. We may use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and production processes and are subject to and required to comply with all PRC national and local environmental protection laws and regulations. Environmental protection laws and regulations impose fees for the discharge of waste substances, require the establishment of reserves for reclamation and rehabilitation and impose fines for serious environmental offences. We are required to obtain various permits, including permits for pollution discharge, in connection with our mining or production processes. We are also required to file with the relevant government authorities for the storage and use of hazardous chemicals. There can be no assurance that we will be able to renew such permits upon expiry or to obtain the relevant government approval for the storage and use of the hazardous chemicals when required. The PRC government may shut down any facility that fails to correct or cease operations that raise environmental concerns. In addition, if more stringent regulations are adopted in the future, we cannot assure you that we will be able to fully comply with such regulations and the costs of compliance with these new regulations may be substantial. If we fail to comply with existing or future environmental laws and regulations, we may be required to pay penalties or fines or take remedial actions, any of which may result in adverse publicity and potentially significant monetary damages that may have a material adverse effect on our business, prospects, financial condition and results of operations or cause us to suspend operations or cease operations entirely.

We do not have land use rights for certain parcels of land above our two mines and may not be able to continue to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels.

We currently own and operate one underground mine through Chuanmei Mirabilite at Dahongshan Mining Area (the "Dahongshan Mine") and one underground mine through Chuanmei Glauber Salt at Guangji Mining Area (the "Guangji Mine"). We do not have land use rights for certain parcels of land where these mines are located and we currently lease these parcels, totaling 700,003.5 m^2, from the People's Government of Wansheng Town, Meishan County (眉山縣萬勝鎮人民政府) and the People's Government of Dongpo District (眉山市東坡區人民政府) in Meishan City, respectively. We have built certain facilities on these leased parcels. We do not have building ownership certificates and construction project completion approvals for these facilities due to the lack of the land use rights for the underlying land. Part of the leased land includes the roads leading to the primary access tunnels into our mines. There can be no assurance that our access will not be hindered or encumbered as we do not have the land use rights over the roads leading to our primary access tunnels. These tunnels cannot be easily relocated without significant disruption to our mining operations. Under the relevant PRC laws, the mining rights for an underground mine and the land use rights for the land where the mine is located are granted separately. Our underground mining activities are unaffected by our lack of valid land use rights for the land directly above our mining reserves and our use of the 865.9 m^2 of land adjacent to the primary access tunnels to our underground mines is in compliance with PRC laws. In addition, none of our thenardite production and processing facilities are located on the collectively-owned land. See "Business – Property". Only state-owned land can be granted or leased for industrial use, including open-pit or surface mining operations. The leased parcels where the Dahongshan Mine and Guangji Mine are located are collectively-owned land rather than state-owned land and therefore cannot be used or leased for our aboveground industrial operations under PRC laws. As a result, our lease agreements with the Wansheng Town Government and the People's Government of Dongpo District and our use of these leased parcels and facilities located on such parcels are not in compliance with the relevant PRC laws and we may be subject to monetary fines, governmental, third party or other actions and may be forced to stop operating on such property. If we are no longer able to access the primary access tunnels to our mines, or if we no longer have access to these leased parcels, our mining operations will be severely disrupted and our financial condition and results of operations will be materially and adversely affected. See "Business – Property".

Our recent acquisition of a production facility and thenardite resources involves certain risks which may materially and adversely affect our expansion plan in connection with animal feed thenardite.

In August 2009, we entered into an agreement to acquire a production facility and thenardite resources located close to our Dahongshan and Guangji Mining Areas. See "Business – Recent Developments". Among the assets to be transferred to us under the agreement, one parcel of land lacks land use rights and the remaining parcels lack transferable titles, and certain buildings lack building ownership rights. We are currently coordinating with the sellers to correct these defects. However, there can be no assurance that the seller will be able to correct such title defects or that we will be able to obtain such land use rights or building ownership permits.

In addition, although we have paid the full purchase price of RMB68.0 million in September 2009, pursuant to the agreement, the sellers have three months from the agreement date with respect to the production assets and mining rights, and six months with respect to the administrative assets, to fulfill their transfer obligations under the agreement. If the sellers breach their obligations, we may have limited recourse against them and will need to resort to legal proceedings. Further, the transfer of mining rights is also subject to certain governmental procedures and there can be no assurance that such transfer will be completed within our estimated timeframe, or at all. If any of these occurs, we may not be able to recover the purchase price and our expansion plans in connection with animal feed thenardite may be delayed, which may in turn materially and adversely affect our business, prospects, financial condition and results of operations.

We recorded negative working capital and experienced net cash outflow in the past, and are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations, expand our production capacity and to continue as a going concern.

We have cash requirements both for ongoing operating expenses, working capital, general corporate purposes and for interest and principal payments on our outstanding indebtedness. As of December 31, 2008, we had cash and cash equivalents of RMB0.8 million (US$0.1 million) and our current liabilities exceeded our current assets by RMB354.9 million (US$52.0 million). For the year ended December 31, 2008, net cash outflow was RMB70.3 million (US$10.3 million). We had net current assets of RMB46.1 million (US$6.7 million) as of June 30, 2009 and had a net cash inflow of RMB249.9 million (US$36.6 million) in the six months ended June 30, 2009. If we are unable to generate sufficient revenue and cash from our operations or secure additional financing to meet our obligations, we may be forced to reduce expenditures or not be able to continue as a going concern. Reduction of expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategy, including our expansion plans in accordance with our expectations. In addition, we have experienced negative cash flow from operations in the year ended December 31, 2006. There can be no assurance that we will not face negative cash flow in the future, which could negatively affect our liquidity and may materially and adversely affect our businesses, prospects, financial condition and results of operations.

In addition, our financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Our ability to continue as a going concern is substantially dependent on projections of our profits and cash flow from operations and our ability to obtain continued bank financing to meet our working capital and financing requirements. If there is an adverse change to such projections or our ability to obtain additional financing, our financial statements may need to be prepared on an alternative authoritative basis and adjustments relating to the recoverability and classification of recorded asset amounts or the classification of liabilities may need to be made. Furthermore, future reports issued by our auditors could include a "going concern qualification", which could have a negative impact on our ability to obtain financing and may adversely impact our stock price.

We rely on bank borrowings, but we may not be able to comply with the covenants under these borrowings or secure sufficient payment or refinancing when they mature.

As of June 30, 2009, we had RMB250.7 million (US$36.7 million) in cash and cash equivalents and RMB477.1 million (US$69.9 million) in outstanding bank borrowings of which approximately RMB429.1 million (US$62.8 million) was due within one year. We cannot assure you that we will be able to obtain extensions of these credit facilities in the future as they mature. In the event we are unable to obtain extensions of these facilities, or if we are unable to obtain sufficient alternative funding at reasonable terms, we will have to repay these borrowings with cash generated by our operating activities. We cannot assure you that our business will generate sufficient cash flow from operations to repay these borrowings. In addition, repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and growth, and may have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, we are subject to interest rate fluctuations on our financial indebtedness which may adversely impact our cash flow if prevailing interest rate increases. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risks – Interest rates". On August 4, 2009, we borrowed US$120 million under a loan facility agreement with BOCI Leveraged & Structured Finance Limited ("LSF"). We pledged the shares of Rich Light and Top Promise as well as their respective accounts as security for this loan facility. This facility requires us to maintain certain financial ratios. We have been in the past in breach of certain financial ratios in other loan facilities and there is no assurance we may be able to comply with the covenants and restrictions under our current or future indebtedness. We have entered into short term loan agreements with various onshore banks, under which we pledged our mining rights for the Dahongshan Mining Area, certain land use rights, buildings, mining structures, machinery and equipment of our onshore subsidiaries as security. We may lose part or all of these pledged property and assets if we cannot repay the onshore loans when they mature, which may materially and adversely affect our business, prospects, financial condition and results of operations.

We need additional capital to fund our operations and growth which we may not be able to obtain on acceptable terms, or at all.

We need capital to fund capital expenditure associated with our current and new production facilities and the acquisition of additional mining rights in the future. We expect our planned capital expenditures for the six months ending December 31, 2009 and the year ending December 31, 2010 to be at least approximately RMB876 million. To the extent we decide to engage in additional acquisition and expansion projects, our capital expenditures will substantially increase. There can be no assurance that we will generate sufficient cash flow for our intended expansion plans. In the event we do not have such operating cash flow, we will need to obtain alternative financing.

There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the mining and production of thenardite;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;

- Chinese governmental regulation of foreign investment in companies engaged in the thenardite mining and production;
- economic, political and other conditions in China and the rest of the world;
- the amount of capital that other Chinese entities may seek to raise in the foreign capital markets; and
- Chinese governmental policies relating to foreign currency borrowings.

We may be required to scale back our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. Future debt facilities may also impose restrictive covenants that may restrict our business and operations. In the event that we breach any of these covenants, we may not be able to obtain the necessary waivers or consent. Our inability to raise additional funds in a timely manner and on terms favorable to us, or at all, may have a material adverse effect on our business, prospects, financial condition and results of operations.

Demand for specialty thenardite may not develop as expected or at all.

We focused on the production of powder and medical thenardite prior to November 2007. We commenced production of specialty thenardite in November 2007. For the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009, 20.6%, 69.6% and 67.8%, respectively, of our sales revenue were generated from specialty thenardite. For the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009, specialty thenardite had a gross profit margin of 81.9%, 77.8% and 78.9%, respectively, compared to the gross profit margin of 32.0%, 28.2% and 18.5%, respectively, for powder thenardite. A decrease in the demand for specialty thenardite would reduce our profits and profit margins. We cannot assure you that the gross profit margin on our specialty thenardite will be maintained or will not decline or that the market for such products will grow as expected, or at all. We cannot assure you that we will be able to maintain or grow our customer base to utilize our increased production capacity. If the demand for specialty thenardite decreases or if we are unable to expand our customer base to utilize our production capacity, our business, prospects, financial condition and results of operations may be materially and adversely affected. See "– We may be adversely affected by the recent economic crisis in the world".

We may not be able to continue our production of medical thenardite or maintain our current competitive position in the sales of medical thenardite, and we may not be able to obtain a GMP Certification and Pharmaceutical Production Permit for our intended 0.2 million tpa medical thenardite and approximately 15,000 tpa medical thenardite downstream application production facilities in the Muma Mining Area.

Our Dahongshan production facility currently holds the GMP Certification and the Pharmaceutical Production Permit, both of which are required under the PRC laws for the production of medical thenardite and were issued by the Food and Drug Administration of Sichuan Province (四川省食品藥品監督管理局) (the "Sichuan FDA"). Our GMP Certificate will expire in July 2014 and our Pharmaceutical Production Permit will expire in December 2010, and there can be no assurance that we will be able to renew them upon their expiration. See "Business – Quality Control". Since our continued production and sale of medical thenardite, which accounted for 39.2%, 16.9% and 21.6% of our revenue for the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009, respectively, are dependent on the Pharmaceutical Production Permit, if we are unable to renew it on time or at all, our business, prospects, financial condition and results of operations may be materially and adversely affected.

We do not have a GMP Certification and Pharmaceutical Production Permit for our intended 0.2 million tpa production facility of medical thenardite and approximately 15,000 tpa production facility of medical thenardite downstream applications in the Muma Mining Area. There can be no assurance that we will get such certification or permit for the Muma Mining Area on time or at all. Failure to obtain such certification or permit would delay the commencement of production of medical thenardite at such facility which would have a material adverse effect on our business, prospects, financial condition and results of operations.

In addition, other producers in China may obtain the GMP Certification and Pharmaceutical Production Permit required for the production of medical thenardite. Any competition from any licensed producer for medical thenardite may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may not manufacture our products cost-effectively.

A number of factors, many of which are beyond our control, may cause delays and cost overruns, which may negatively affect our profitability. These factors include manufacturing difficulties, supply disruptions and defects in raw materials or equipment. If we are unable to streamline and adjust our production facilities to increase efficiency or if we face technological difficulties in our production processes, we may be unable to achieve cost-effective production of our products which may have a material adverse effect on our business, prospects, financial condition and results of operations.

In addition, our profit margins are significantly influenced by our ability to maintain high production yields and capacity utilization. We expect to continue to incur substantial depreciation and other expenses in connection with the expansion of our production facilities. Given the high fixed costs of our business, our profitability depends on both the absolute pricing levels for our products and on capacity utilization rates for our production facilities. During the three years ended December 31, 2008 and six months ended June 30, 2009, we maintained a high level of utilization at our production facility in the Dahongshan Mining Area. We only commenced commercial production at our production facility in the Guangji Mining Area on November 1, 2008 and during our ramp-up period at the Guangji Mining Area production facility our utilization rates were low. For details of our production capacity and volume during each of the three years ended December 31, 2008 and the six months ended June 30, 2009, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations and Financial Condition – Increased Production Capacity". We cannot assure you that we will be able to maintain the utilization rates to provide for cost effective production in the future. In extended periods of low demand, we may experience relatively low capacity utilization rates in our operations which may have a material adverse effect on our business, prospects, financial condition and results of operations.

The accuracy of our resources and reserves estimates is based on a number of assumptions and we may produce less thenardite than our current estimates.

Our resources and reserves estimates are based on a number of assumptions in accordance with the JORC Code. However, we cannot assure you that our resources and reserves will be recovered in the quantities, quality or yields presented herein.

Ore resources and reserves estimates are inherently prone to variability. They involve expressions of judgment with regard to the presence and grade of mineralization and the ability to extract and process the mineralization economically. These judgments are based on a variety of factors, such as knowledge, experience and industry practice. The accuracy of these estimates may be affected by many factors, including the quality of the results of drilling and sampling of the ore bodies and analysis of the ore samples and the procedures adopted and experience of the persons making the estimates.

If we encounter mineralization or geological or mining conditions at our mines different from those predicted by historical drilling, sampling and similar examinations, we may have to adjust our mining plans in a way that may materially and adversely affect our business, prospects, financial condition and results of operations and reduce the estimated amount of ore resources and reserves available for production and expansion plans.

You should not assume that the resources estimated are capable of being directly reclassified as reserves under the JORC Code. The inclusion of resources estimates should not be regarded as a representation that these amounts can be exploited economically. You are cautioned not to place undue reliance on resources and reserves estimates. See "Business – Our Mining Operations and Production Facilities".

We may not be successful in our recent or future acquisitions or may encounter difficulties in integrating and developing the acquired assets or businesses.

We plan to increase our glauberite reserves through acquisitions of other mining rights and mining assets. In addition to mining rights and mining assets, if we are presented with appropriate opportunities, we may acquire other businesses or assets that are complementary to our business. We also have plans to acquire existing mining operations and reserves in Sichuan Province and to upgrade such existing production facilities. In August 2009, we entered into an agreement to acquire an existing production facility and thenardite resources located close to the Dahongshan and Guangji Mining Areas for the production of animal feed thenardite. We cannot assure you that we will be successful in these applications or acquisitions. In addition, we must receive various regulatory approvals and/or permits in order to develop our reserves. See "PRC Laws and Regulations". Our inability to acquire mining rights or assets, develop glauberite reserves or obtain necessary governmental approvals may have a material adverse effect on our business, prospects, financial condition and results of operations.

Future acquisitions may also expose us to potential risks, including risks associated with the assimilation of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of an acquisition. Any difficulties encountered in the acquisition and integration process may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our major capital projects may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results.

Our current and future expansion projects require significant capital expenditures. We expect our planned capital expenditures for the six months ending December 31, 2009 and the year ending December 31, 2010 to be at least approximately RMB876 million. To the extent we decide to engage in additional acquisition and expansion projects, our capital expenditures will substantially increase. These projects may be delayed or adversely affected by a number of factors beyond our control, including the failure to obtain regulatory approvals and permits or sufficient funding or other resource constraints. Moreover, actual costs for our capital projects may exceed our budgets. As a result of project delays, higher than expected costs, changes in market circumstances or other factors, we may not be able to achieve the intended economic benefits of these projects, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations.

Our mining and production activities are subject to operational risks and hazards.

Our mining and production operations are subject to a number of operational risks and hazards, some of which are beyond our control, which could delay the production and delivery of our products, increase the cost of mining and production at our production facilities or result in accidents in our mines or production facilities. These risks and hazards include unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions and natural disasters, industrial accidents, leakage of the pipelines that transport mirabilite solution from mining facilities to production facilities, power or fuel supply interruptions, critical equipment failure, malfunction and breakdowns of information management systems, fires, earthquakes, flooding and unusual or unexpected variations in mineralization, geological or mining conditions. These risks and hazards may result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, possible legal liability, damage to our business reputation and corporate image and, in severe cases, fatalities. We have, since 2002, experienced three accidents at our mines. Two accidents were related to railway car collisions. The third accident involved a roof fall during equipment installation at our mine in the Guangji Mining Area. See "Business – Safety Control – Occupational Health and Safety". We cannot assure you that accidents will not occur in the future. Such accidents may have a material adverse effect on our reputation, business, prospects, financial condition and results of operations.

In addition, breakdowns of equipment, difficulties or delays in obtaining materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes could temporarily disrupt or even shut down our operations, which in turn may also materially and adversely affect our business, prospects, financial condition and results of operations.

Due to our location in Sichuan Province, we and a number of our customers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Our existing mining and production operations, and the operations of a number of our customers are located in Sichuan Province. Certain events such as earthquake, snow storms or other natural disasters may disrupt our mining or production operations or the operations of our customers. This could force our customers to obtain products from other sources. Furthermore, a disruption of operations at our customers' facilities could lead to reduced demand for our products.

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, businesses and production operations in the severely affected areas of Sichuan Province at or close to the earthquake epicenter were closed or shut down due to safety concerns. We were approximately 120 kilometers away from the earthquake epicenter. We suffered a total loss of RMB9.2 million primarily as a result of damage to certain inventories, production facilities and equipment, suspension of mining operation for six days and suspension of production operations for less than 2 days at our operational production and mining facilities. There can be no assurance that we may not be directly or indirectly further affected by the after-effects of this earthquake, which in turn may materially and adversely affect our business, prospects, financial condition and results of operations.

Our business and results of operations are vulnerable to increases in energy costs.

We rely heavily on coal to provide heat and power for thenardite production. We expect coal costs to remain our largest raw material expenditure in the future. We purchase our coal pursuant to short-term supply contracts with a term of one year or less at spot market prices with reference to caloric content. Coal prices in China are directly affected by changes in supply and demand in the China market and, to a lesser extent, fluctuations in coal prices in the international market. Our average purchase price per tonne of coal was RMB185, RMB192, RMB270 (US$40) and RMB321 (US$47) in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. This resulted in coal costs of RMB40.8 million, RMB56.9 million, RMB157.7 million (US$23.1 million) and RMB77.4 million (US$11.3 million) in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. In addition, we also partially rely on the public electricity network for our electricity needs. The average electricity price per kilowatt-hour was RMB0.52, RMB0.54, RMB0.56 (US$0.08) and RMB0.54 (US$0.08) in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. This resulted in electricity costs of RMB8.8 million, RMB9.8 million, RMB15.9 million (US$2.3 million) and RMB6.3 million (US$0.9 million) in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Description of Selected Income Statement Line Items – Cost of Sales". Any increase in domestic prices for coal or electricity could materially and adversely affect our business, prospects, financial condition and results of operations.

Many cities and provinces in the PRC have suffered serious power shortages since the second quarter of 2004. Many of the regional grids do not have sufficient power generating capacity to satisfy in full the increased demand for electricity driven by continued economic growth and extreme weather conditions. Many regions in China suffered power outages during the severe snow storms in February 2008, and our mining and production facility in the Guangji Mining Area experienced a power outage that lasted for two days. In the event of power shortage or outage, our business, operation, results of operations and financial conditions could be materially and adversely affected.

Our dependence on a limited number of customers and industries may cause significant fluctuations or declines in our revenues.

Sales to our top five customers by revenue constituted 32.8%, 41.9%, 45.0% and 46.1% of our total revenues for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. In addition, we had 117, 93, 99 and 37 customers who were distributors in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. See "Business – Sales and Marketing". We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. We cannot assure you that we will be able to retain these customers or that they will maintain current level of business with us. If there is a reduction or cessation of orders from any of these customers for any reason, our business, prospects, financial condition and result of operations will be adversely affected.

We understand that a substantial portion of our products have been supplied to the powder detergent, glass and textile industries. We anticipate sales to these three downstream industries will continue to account for a substantial portion of our thenardite production for the foreseeable future. If a substitute for thenardite is developed or thenardite demand declines in one or more of these downstream industries, our business, prospects, financial condition and results of operations will be materially and adversely affected.

Our products may not meet customer specifications or industry standards.

Our customers require our thenardite products to be of a consistent quality to ensure that the products they produce are of an acceptable quality for their downstream use. There can be no assurance that our thenardite products will meet our customers' quality requirements or meet industry standards on a consistent basis or at all. Failure to do so may result in possible legal liability, damage to our business reputation, corporate image and client relationship, which may in turn cause a material adverse effect on our business, prospects, financial condition and result of operations.

We operate in a highly competitive environment and we may not be able to sustain our current market position if we fail to compete successfully.

We may experience downward pressure on our prices and profit margins, largely due to additional industry capacity from competitors in China. Some of our competitors may be able to operate more efficiently due to a number of factors and may also have greater access to capital and substantially greater production, intellectual property, marketing and other resources than we do.

The principal competitive factors affecting the thenardite industry include:

- quality and quantity of marketable reserves;
- prices, as affected by a thenardite producer's ability to reduce costs and maintain an adequate production yield;
- product features and quality;
- customer service and technical expertise;
- available capacity and ability to supply products in line with increased demand in a timely manner; and
- timely introduction of new products.

Our ability to compete successfully in the thenardite industry also depends on factors partially outside of our control, including industry and general economic conditions. We cannot assure you that our strategies will remain competitive or that they will continue to be successful in the future. Increased competition may result in pricing pressure and loss of our market share, either of which may have a material adverse effect on our financial condition and results of operations.

We have limited insurance coverage which may not be sufficient to cover all of our potential losses.

We only have limited insurance coverage. As a result, we may have to pay out of our funds for financial and other losses, damages and liabilities, including those caused by fire, weather, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any business interruption insurance or third party liability insurance other than motor vehicle insurance. Any business disruption or natural disaster may result in substantial costs and diversion of resources. Losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

Our business depends substantially on the continuing efforts of our executive officers and our ability to attract and retain qualified technical personnel.

Our business depends substantially on the continued services of our executive officers and, to a significant extent, on our ability to attract, train and retain qualified technical personnel, particularly those with expertise in glauberite mining and thenardite production. For example, Mr. Zhang Daming, our chief executive officer, has been working with us since August 2004 and has been critical to our growth and strategic development. We do not carry key person insurance on any of our personnel, and we cannot assure you that we will be able to attract or retain qualified technical personnel. If one or more of our executive officers or key employees were unable or unwilling to continue their service with us, we might not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key personnel and staff members. If any dispute arises between such employees and us, we cannot assure you the extent to which any non-competition undertakings of such employees could be enforced in our favor or at all. Our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected, and we may incur additional expenses to recruit, train and retain personnel. As our business has grown and is expected to continue to grow rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business.

We may fail to protect our intellectual property rights or be exposed to infringement or misappropriation claims by third parties, and litigation involving intellectual property rights may be costly and may not be resolved in our favor.

We regard our proprietary trademark, patent, trade secrets, know-how and other similar intellectual properties as critical to our success. We cannot assure you that infringement of our intellectual property rights by other parties does not exist now or will not occur in the future. We seek to protect our proprietary technologies, trademark, production processes, documentation and other written materials primarily through intellectual property laws and contractual restrictions. We also require employees and consultants with access to our proprietary information to execute confidentiality agreements with us.

In addition, our intellectual property rights may not be adequately protected because:

- other parties may still misappropriate our technologies despite the existence of laws or contracts prohibiting it;

- policing unauthorized use of our intellectual property may be difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use; and

- enforcement under intellectual property laws in China may be slow and difficult in light of the application of such laws and the uncertainties associated with the PRC legal system. See "- Risks Relating to Conducting Business in China – The interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties in China".

Reverse engineering, unauthorized copying or other misappropriation of our proprietary technologies may enable third parties to benefit from our technologies without paying us for doing so. Any inability to adequately protect our proprietary rights may have a material negative impact on our ability to compete, to generate revenue and to grow our business.

We believe our trademarks are important to our success and competitive position. We have registered our trademarks including "Chuanmei" (川眉) and "Sansu" (三蘇) in the PRC. We are currently unaware of any material violations or infringements of our trademarks. However, there can be no assurance that the actions taken by us will be sufficient to protect our trademarks. The unauthorized use of our trademarks on counterfeit products could harm our market image and reputation, which could materially and adversely affect our business, prospects, financial condition and results of operations.

To protect our intellectual property rights and maintain our competitive advantage, we may file suits against parties who we believe are infringing upon our intellectual property rights. Such litigation may be costly and may divert management attention and our other resources away from our business. In certain situations, we may have to bring lawsuits in foreign jurisdictions, in which case we are subject to additional risks as to the result of the proceedings and the amount of damages that we can recover. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. An adverse determination in any such litigation may impair our intellectual property rights and may harm our reputation, business, prospects, financial condition and results of operations.

In addition, our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that we will not be subject to claims of infringement upon the intellectual property rights of third parties. The validity and scope of any potential claims relating to our mining and production technology and know-how involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we are a party may subject us to significant liability to third parties, require us to seek licenses from third parties, pay ongoing royalties, or redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigations may also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigations.

We may not be successful in developing new products and applications.

We believe that growth in the thenardite market is partially driven by reaching new markets through the expansion of the number and variety of products and applications. We currently produce three main categories of thenardite products, and in order to capture market growth we must continue to research and develop new thenardite products as well as new downstream applications for the existing products. For example, we intend to develop and manufacture thenardite products such as animal feed thenardite, medical thenardite downstream applications and other thenardite applications. We cannot assure you that we will be successful in developing new products at a pace competitive with other thenardite producers or at a pace matching evolving industrial needs in China and globally, or at all. If we cannot continue to develop and expand our product and application technology base, our business, prospects, financial condition and results of operations may be materially and adversely affected.

The interests of our controlling shareholder and other investors may conflict with the interests of our Company.

Mr. Suo Lang Duo Ji currently beneficially owns 40.5% of our issued share capital as well as share options to subscribe for an additional 0.1% of our issued share capital. Mr. Suo Lang Duo Ji has other business interests and may take actions that favor those interests over the interests of our Company, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We lack long-term sales contracts with our customers.

Our customers have not provided us, and are not obligated to provide us, with any long-term purchase orders or commitments. Our customers generally issue purchase orders on an as-needed basis pursuant to annual framework contracts. See "Business – Sales and Marketing – Thenardite Sales Contracts". Accordingly, we do not have long-term purchase orders or commitments to protect us from the adverse financial effects of a reduction in the demand for our products and services that could result from a general economic downturn, the entry of new competitors into the market, the introduction by others of new or improved production technology, an unanticipated shift in the needs of our customers or any other factor affecting the demand for our products and services. In addition, the price of a particular product for a customer, which is subject to negotiation on a periodic basis, generally declines over time. We cannot assure you that our customers will continue to place orders with us in similar quantities, or at all. If they fail to do so, there may be a material adverse effect on our business, prospects, financial condition and results of operations.

We may fail to maintain effective internal controls.

As a company listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), we have implemented various measures to improve our internal controls. We intend to continue to monitor and take further steps to improve our internal controls in the future. However, due to our limited experience with the internal control measures that we have recently implemented, we cannot assure you that all such measures taken to improve our internal controls will be effective as expected or that material deficiencies in our internal controls will not be discovered in the future. Our efforts to improve our internal controls have required, and may continue to require, increased costs and significant management time and commitment. If we fail to maintain effective internal controls in the future, then our business, prospects, financial condition and results of operations may be materially and adversely affected.

We lack building ownership certificates for some of our buildings in the PRC.

As of June 30, 2009, we lacked building ownership certificates for some of our buildings situated on land that we own. While we are in the process of applying for building ownership certificates for some of these buildings, there can be no assurance that we will obtain these building ownership certificates on a timely basis or at all. Other buildings for which we are not applying for building ownership certificates may be required to be demolished by the government authorities.

We will consider relocating such buildings to other locations within our facilities or re-construct such buildings if requested by relevant government authorities. If we are required by the relevant PRC land authority to cease occupying the relevant properties and if we fail to find alternative replacement sites on terms acceptable to us, we may need to relocate part of our operations which may have a material adverse effect on our business, prospects, financial condition and results of operations. See "Business – Property".

We have been unable to obtain certain explosives permits under the 2006 Explosives Regulation.

We use explosives on a regular basis in our mining operations. On September 1, 2006, the Regulation on the Safety Administration of Explosives for Civilian Use (民用爆炸物品安全管理條例) (the "2006 Explosives Regulation"), was implemented by the PRC State Council (中國國務院) (the "State Council"), and required all enterprises that utilize explosives to obtain entity explosives permits and all technicians who handle and use explosives to obtain individual explosives permits issued by the local public security bureau. The 2006 Explosives Regulation also provided that the Administrative Rules for Explosive Activities (爆破作業分級管理辦法) (the "Administrative Rules for Explosives"), shall be further stipulated by the Ministry of Public Security of the PRC. This legislation replaces in its entirety the Regulation on the Control of Explosives for Civilian Use (民用爆破物品管理條例) (the "1984 Explosives Regulation"), which was promulgated by the State Council on January 6, 1984. On October 8, 2006, the Ministry of Public Security of the PRC (中華人民共和國公安部) issued the Notice Relating to the Implementation of the 2006 Explosives Regulation (公安部關於貫徹執行《民用爆炸品安全管理條例》有關問題的通知) (the "2006 Explosives Regulation Notice"), which stated that while entities are required to apply for their respective entity explosives permits and technicians are required to apply for the relevant individual explosives permits under the 2006 Explosives Regulation, before the issuance of the Administrative Rules for Explosives the utilization permits and individual permits issued pursuant to the 1984 Explosives Regulation would remain effective. As of June 30, 2009, the Administrative Rules for Explosives had not been issued. As a result, we have been unable to obtain the explosives permits required by the 2006 Explosives Regulation. We cannot assure you that we will obtain such permits in a timely manner, or at all once the Administrative Rules for Explosives is implemented. Without such permits we may be subject to governmental action that would stop us from using explosives and thereby severely disrupting our mining operations, which would have a material adverse effect on our business, results of operations and financial conditions. See "Business – Explosives Permit".

We operated in the Guangji Mining Area without mining rights and certain other relevant approvals.

We commenced pilot commercial mining and production at our 1.0 million tpa production facility in the Guangji Mining Area in November 2007. We operated continuously from such time without mining rights, necessary permits and approvals relating to production safety, environmental protection and construction completion and certain other permits and approvals for our mining and production activities in the Guangji Mining Area. On September 12, 2008, we received the mining rights with respect to the Guangji Mining Area, on October 31, 2008 we received the safety production permit for our mining and production facility in the Guangji Mining Area and by November 1, 2008, we had received other required permits and approvals except the explosives permits, land use rights with respect to certain collectively-owned lands and building ownership certificates and construction project completion approval for the aboveground buildings located on such lands as disclosed herein. See "– We do not have land use rights for certain parcels of land above our two mines and may not be able to continue to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels" and "– We have been unable to obtain explosives permits under the 2006 Explosives Regulation." Our operation in the Guangji Mining Area during this period without the necessary safety production permit, environmental impact assessment approval, acceptance certificate for the environmental protection, acceptance certificate for completion of construction project, safety inspection certificate and fire control system acceptance certificate for completion may result in a fine which includes the disgorgement of revenues generated during the period of operations without the needed rights, permits and approvals. See "Business – Our Mining Operations and Production Facilities – Guangji Mining Area and Production Facility".

We may be adversely affected by the recent economic crisis in the world.

The recent global economic crisis has adversely affected the U.S. and the world economies. Under such deteriorating global economy and with the continual weak sentiment, demand for, among other things, thenardite and its downstream products may fall, which in turn would affect our profitability. As a result of recent events, we have experienced pricing pressure on our powder thenardite product and anticipate slower growth of specialty thenardite demand. Moreover, many banks have been tightening credit, which may increase our financing costs. Banks may also reduce the amount of or discontinue the banking facilities currently available to us. In addition, our customers may not be able to make payments to us on time, or at all, which may negatively impact our operating cash flows. If this economic downturn continues, our business, results of operations and financial conditions could be materially and adversely affected.

Risks Relating to Conducting Business in the PRC

We are vulnerable to adverse changes in political and economic policies of the PRC government that affect economic growth in China.

All of our business operations are conducted in China and we anticipate selling substantially all of our products in China in the near future. The largest demand for thenardite comes from downstream industries such as powder detergent, textile and glass. The growth in these industries are linked to economic trends and development. Accordingly, we are affected by the economic, political and legal environment in China, and China's overall GDP growth.

The Chinese economy differs from the economies of most developed countries in many respects, including the fact that it:

- has a high level of government involvement;
- is in the early stages of development of a market-oriented economy;
- has experienced rapid growth;
- has a tightly controlled foreign exchange policy; and
- is characterized by an inefficient allocation of resources.

Since 1978, China has been one of the world's fastest growing economies in terms of GDP growth. We cannot assure you, however, that such growth will be sustained in the future. In addition, due to the close trade relationship between the United States, the European Union, some Asian countries and China, if an economic slowdown or economic crisis occurs in these countries, China's economic growth may be materially adversely affected. Efforts by the PRC government to slow the pace of growth of the Chinese economy may result in reduced demand for our products.

Moreover, while the Chinese economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. The PRC government has implemented various measures including recent interest rate increases, to encourage economic growth and guide the allocation of resources. The PRC government exercises control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on our business. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. If China suffers an economic downturn affecting our customers and we are unable to develop offshore customers in other regions, then our business, prospects, financial condition and results of operations may be materially and adversely affected.

Recent regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions.

On October 21, 2005, the PRC State Administration of Foreign Exchange (中國國家外匯管理局) (the "SAFE") promulgated the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Round-trip Investment via Overseas Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "Circular No. 75"). Circular No. 75 states that if PRC residents use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with SAFE or its authorized organization with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations. Under Circular No. 75, failure to comply with the registration procedures set forth in such regulation may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity. In May 2007, SAFE issued relevant guidance to its local counterparts with respect to the operational process for SAFE registration. This guidance provides more specific and stringent supervision on the registration under Circular No.75 and imposes obligations on any onshore subsidiaries of an offshore special purpose vehicle to coordinate with and supervise the PRC resident beneficial owners of its offshore parent entity to complete the SAFE registration.

We do not have control over our shareholders and cannot assure you that all of our PRC resident beneficial owners will comply with Circular No.75. In connection with Chuanmei Glauber Salt's SAFE registration, Mr. Suo Lang Duo Ji did not disclose his ownership of Top Promise and therefore his indirect ownership of Chuanmei Glauber Salt, and the Meishan Branch SAFE instructed him to pay a fine of RMB10,000 as a result of such inaccuracies. Mr. Suo Lang Duo Ji paid such fine in April 2008 and made the registration with the Sichuan Branch SAFE. Our PRC legal counsel, Grandall Legal Group (Shanghai), has advised us that Mr. Suo Lang Duo Ji's registration is currently effective. See "PRC Laws and Regulations – Circular No. 75". Any future failure by any of our shareholders who is a PRC resident, or controlled by a PRC resident, to comply with relevant requirements under Circular No. 75 may subject our PRC subsidiaries to fines or sanctions imposed by the PRC government, including restrictions on our subsidiaries' ability to pay dividends or make distributions to us and our ability to increase our investment in or to provide loans to our subsidiaries.

Because it is uncertain how SAFE will interpret or implement its circular, we cannot predict how this circular and other SAFE circulars will affect our business operations or ability to implement our strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our business, prospects, financial condition and results of operations.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us to make additional capital contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries are subject to PRC regulations. For example, loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment each of our PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of our PRC subsidiaries, and must be registered with the local branch of the SAFE as a procedural matter. In addition, our capital contributions to each of our PRC subsidiaries must be approved by the Ministry of Commerce of the PRC (中國商務部) (or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部) or its local counterpart) ("MOFCOM"). We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect their liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

The PRC tax law increases the enterprise income tax rate applicable to our subsidiaries in China.

On March 16, 2007, the PRC National People's Congress approved the draft bill of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "PRC EIT Law") which became effective on January 1, 2008. The PRC EIT Law sets a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revokes the tax exemptions, reductions and preferential treatments applicable to foreign-invested enterprises. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatments in accordance with the then prevailing tax laws and administrative regulations. These enterprises may continue to enjoy tax preferential treatments after the implementation of the PRC EIT Law until the respective terms of their preferential treatments expire. The preferential treatment period of enterprises which had not enjoyed any preferential treatment because they had failed to record any profit, however, was deemed to start from the implementation of the PRC EIT Law.

As a result of the transitional measures, Chuanmei Mirabilite will continue to enjoy a preferential income tax rate of 12.5% for foreign-invested enterprises of a production nature through the end of 2009. Starting 2010, Chuanmei Mirabilite is expected to be subject to the regular enterprise income tax rate of 25%. Chuanmei Glauber Salt has been subject to the regular enterprise income tax rate of 25% since 2008.

In addition, under the PRC EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC may be considered a resident enterprise and will normally be subject to enterprise income tax at the rate of 25% of its global income. On December 6, 2007, the Implementation Rules for the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅實施條例) (the "Implementation Rules for the PRC EIT Law") were promulgated by the PRC State Council and became effective on January 1, 2008. The Implementation Rules for the PRC EIT Law provide that the term "de facto management bodies" refers to management bodies with material management and control in all aspects over, without limitation, the production, operation, personnel, finance and assets of the enterprise. In April 2009, the PRC State Administration of Taxation (國家稅務總局) promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. However, there have been no official implementation rules regarding the determination of "de facto management bodies" for enterprises that are not controlled by PRC enterprises, such as companies like us. We hold our shareholders' meetings and board meetings outside China, and we keep our shareholders' list outside China, and most financing decisions are made outside China. However, most of our directors and senior management are currently based inside China and we keep our books and account inside China. The above elements may be relevant for the tax authorities to determine whether we are a PRC resident enterprise for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, our Company takes the position that we are not a PRC resident enterprise for tax purposes. However, there can be no assurance that the tax authorities will agree with our position. If our Company is deemed a PRC resident enterprise for tax purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our global income.

Furthermore, the exemption from the 20% withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the former tax laws is no longer available. Under the PRC EIT Law and the Implementation Rules for the PRC EIT Law, PRC income tax at the rate of 10% (or a lower treaty rate) is applicable to dividends paid by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax laws and treaties that the PRC has entered into. As we position ourselves and our non-PRC subsidiaries as "non-resident enterprises", any dividend that we or any such non-PRC subsidiary receives from our PRC subsidiaries may be subject to PRC taxation at the 10% rate (or lower treaty rate).

We may not be able to obtain necessary approvals for capital investment from the relevant governmental authority.

We must obtain PRC government approvals for all of our significant capital investment projects. There can be no assurance that all our projects will be approved or there will not be a delay in securing such approvals. Because the commercial viability of our future development plans for our thenardite business depends largely on these projects, our business, prospects, financial condition and results of operations may be materially adversely affected if any of these projects is not approved, or is not approved on a timely basis.

The interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties in China.

We conduct all of our mining and production operations through our subsidiaries established in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, and may not be as consistent or predictable as in other more developed jurisdictions. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, or we may receive interpretations that are inconsistent with our interpretations. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturn of local government's decisions by itself, provincial or national governments. These uncertainties may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on our business, prospects, financial condition and results of operations.

We have received a number of confirmation letters from governmental agencies relating to our historic and ongoing non-compliance with certain PRC laws and regulations. The uncertainties set forth above apply equally to these confirmation letters. See "Business".

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the experts of the Group.

We conduct all of our operations in China and significantly all of our assets are located in China. In addition, all of our Directors and executive officers reside within China or Hong Kong. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon us or some of our directors and senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. In addition, there is doubt as to (i) whether a judgment of a United States court based solely upon the civil liability provisions of the United States federal securities laws would be enforceable in the Cayman Islands against us or our directors and officer; and (ii) whether an original action could be brought in the Cayman Islands against us or our directors and officers to enforce liabilities based solely upon the United States federal securities laws. Therefore, it may be difficult for you to enforce judgments obtained in United States courts against us or our directors and officers based upon the civil liability provisions of the United States federal securities regulations.

The outbreak of any severe communicable disease in the PRC or elsewhere may affect economic conditions.

The outbreak of any severe communicable disease in the PRC or elsewhere could have a material adverse effect on the overall business sentiment and environment in the PRC. This situation in turn may have a material adverse effect on domestic consumption and, possibly, the overall GDP growth of the PRC. As substantially all of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our business, prospects, financial condition and results of operations. In addition, if our employees are affected by any severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our production. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may in turn have a material adverse effect on our business and profitability.

The recent outbreak of Influenza A (H1N1), also widely known as "swine influenza," has caused deaths worldwide. Countries and territories including Hong Kong have officially reported cases of Influenza A (H1N1) infection. The increasing number of Influenza A (H1N1) infected cases in certain Asian countries and territories could indicate a possible full-blown pandemic, which would in turn undermine human lives and the local and cross-border business activities and threaten the prospects of economic recovery in those areas. It is unclear whether the epidemic will become more aggressive or will wane in the near future. Any prolonged outbreak of Influenza A (H1N1) or other severe communicable disease in the PRC or elsewhere could have a material adverse effect on our business, prospects, financial condition or result of operations.

Our labor costs may increase.

The Standing Committee of the National People's Congress adopted the PRC Labor Contract Law on June 29, 2007 which became effective on January 1, 2008. The PRC Labor Contract Law imposes requirements relating to, among others, the types of contracts to be executed between employer and employee, and establishes time limits for probation periods and for how long and how many times an employee can be placed on a fixed-term employment contract. It also requires that social insurance be paid on behalf of employees, otherwise employees are entitled to unilaterally terminate the labor contract.

As a result of the new law and regulations, our labor costs may increase. If labor costs increase in China, our production costs will increase and we may not be able to pass these increases on to our customers due to competitive pricing pressures. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could adversely affect our business, financial condition or results of operations.

Other Risks

Our subsidiaries and affiliates may be restricted from paying dividends or repaying intercompany loans or advances to us.

As a holding company, we depend upon the receipt of dividends and the repayment of intercompany loans or advances from our subsidiaries and affiliates to satisfy our obligations. The ability of our subsidiaries and affiliates to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to applicable law, relevant shareholders' agreements or constitutive documents and restrictions contained in debt instruments of such subsidiaries and affiliates.

Our subsidiaries and affiliates are separate legal entities and will have no obligations, contingent or otherwise, to pay any dividends or make any distributions to us or, to otherwise pay amounts due with respect to our indebtedness or to make funds available for such payments. Accordingly, there can be no assurance that we will have sufficient cash flows from distributions by our subsidiaries and affiliates to satisfy our obligations in respect of our indebtedness. Any shortfall would have to be made up from other sources of cash, such as a sale of investments or any financing available to us.

In addition, PRC regulations require payment of dividends to be made only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations also require approval by the SAFE prior to making any shareholder loan and require such loan to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, our PRC subsidiaries must present evidence of payment of the 10% withholding tax on the interest payable in respect of any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require. Accordingly, we may not receive sufficient cash flow from our PRC subsidiaries in the form of dividends or repayment of intercompany loans or advances to satisfy our obligations in respect of our indebtedness.

Our PRC subsidiaries may only pay dividends after completion of a financial year.

We currently conduct, and expect to continue to conduct, our operations through our two PRC subsidiaries. Although these PRC subsidiaries have not made any dividend payments to us in the past, we believe that they should be able to pay and remit dividends in foreign exchange as they should generally be able to present the required evidence or the PRC tax payments to the relevant branch of the SAFE or its designated foreign exchange bank. However, under PRC regulations issued by the SAFE, our PRC subsidiaries are only allowed to declare and distribute dividends after completion of a financial year. Also, according to the articles of association of some PRC subsidiaries, dividends of those PRC subsidiaries may only be declared and distributed annually.

We are vulnerable to fluctuations in the value of the Renminbi.

Some of our other debt obligations are denominated in U.S. dollars, while most of our sales are denominated in Renminbi with the remainder in U.S. dollars and Euros. Fluctuations in exchange rates, particularly among the U.S. dollar, Renminbi and the Euro, may affect our net profit margins and may result in fluctuations in our operating gains and losses. We have not used any other forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, had been based on rates set by The People's Bank of China (中國人民銀行) (the "PBOC"). On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Effective on May 21, 2007, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar was enlarged from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 21.1 % from July 21, 2005 to August 27, 2009. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the Renminbi against the U.S. dollar. As most of our costs and expenses is denominated in U.S. dollar, the revaluation from July 2005 has and may further increase our costs in U.S. dollar terms. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, as we need to convert our Renminbi into U.S. dollars for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

In addition, an appreciation in the value of the Renminbi against foreign currencies may make our products more expensive for our international customers as well as reduce the competitiveness of our PRC customers in the international market, thus potentially leading to a reduction in our sales and profitability.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations in respect of some of our indebtedness depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries receive substantially all of their revenues in Renminbi. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant subsidiary must also present evidence of payment of the 10% withholding tax on the interest payable in respect of such shareholder loan. If any such PRC subsidiary under the shareholder loans for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, including the failure of the SAFE to approve the registration of the loans or to approve the payments under the loans, the PRC subsidiary will be unable to pay us any interest and principal, when due, on our shareholder loans, which may affect our ability to satisfy our obligations in respect of some of our indebtedness.

We have incurred significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and could further intensify the risks associated with our leverage.

We have significant indebtedness outstanding. As at June 30, 2009, our consolidated short-term borrowings and consolidated long-term borrowings amounted to RMB429.1 million (US$62.8 million) and RMB173.6 million (US$25.4 million), respectively. In addition, as at June 30, 2009, our consolidated capital commitments were RMB250.4 million (US$36.7 million). See "Management's Discussion and Analysis of Financial Condition and Results of operations – Capital Commitments".

In addition, we and our subsidiaries may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of such indebtedness and leverage could intensify. The amount of our indebtedness could have important consequences to the investors. For example, it could:

- limit our ability to satisfy our obligations under other debt;
- increase our vulnerability to adverse general economic and industry condition;
- require use to dedicate a substantial portion of our cash flow from operations to servicing and repaying indebtedness, reducing the availability of cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in the businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing existing indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction.

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, might involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the laws of the United States or other jurisdictions.

Certain facts and statistics contained herein have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured.

Certain facts and statistics herein related to the PRC, its economy and the industries in which we operate are derived directly or indirectly from official government sources generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us, and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics hereto may be inaccurate and the statistics may not be comparable to statistics produced for other economies. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on all such facts and statistics.

There may be less publicly available information about us than is available in certain other jurisdictions.

We are a company listed on the Hong Kong Stock Exchange. There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with IFRS, which differ in certain significant respects from U.S. GAAP.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2009 prepared in accordance with IFRS, and as adjusted to give effect to the exercise of 17,320,000 options granted under the Pre-IPO Share Option Scheme (as defined under "Management – Share Option Scheme").

Except as otherwise disclosed herein, there have been no material changes to the capitalization of our Company since June 30, 2009.

	As at June 30, 2009			
	Actual		As adjusted	
	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
Current borrowings:				
Current bank borrowings	429,082	62,821	429,082	62,821
Non-current borrowings:				
Non-current bank and other borrowings(1)	173,648	25,424	173,648	25,424
Equity:				
Equity attributable to owners of the Company(2)	1,639,975	240,106	1,670,308	244,548
Non-controlling interests	48,960	7,168	48,960	7,168
Total equity	1,688,935	247,274	1,719,268	251,716
Total capitalization(3)	1,862,583	272,698		

Notes:

(1) Subsequent to June 30, 2009, we repaid total bank and other borrowings of RMB518.2 million (US$75.9 million) and obtained new bank loans of RMB1,091.6 million (US$159.8 million), of which US$120.0 million borrowed from LSF will be repaid.

(2) In July and August 2009, a total of 17,320,000 options granted under the Pre-IPO Share Option Scheme were exercised at HK$2.00 per Share. As a result, the equity attributable to owners of the Company increased from RMB1,640.0 million to RMB1,670.3 million.

(3) Total capitalization includes total equity and non-current borrowings.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents our summary financial and other data. The summary financial data as of and for each of the years ended December 31, 2006, 2007 and 2008 is derived from our audited consolidated financial statements for those years and as of the dates indicated. Our audited consolidated financial statements as of and for each of the years ended December 31, 2006, 2007 and 2008 have been audited by Grant Thornton, Certified Public Accountants, Hong Kong. The summary financial data as of and for the six months ended June 30, 2008 and 2009 is derived from our unaudited condensed consolidated interim financial information. The unaudited summary consolidated interim financial information as of and for the six months ended June 30, 2008 and 2009 contains all adjustments that our management believes are necessary for the fair presentation of such information. Results for interim periods are not indicative of results for the full year. The financial statements have been prepared and presented in accordance with IFRS, which differ in certain material respects from U.S. GAAP. The summary financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto.

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(Audited)				(Unaudited)		
	(RMB'000)			(US$'000)	(RMB'000)		(US$'000)
Income Statement Information							
Revenue	204,755	371,530	1,140,354	167,146	553,927	592,346	86,725
Cost of sales	(112,430)	(151,295)	(343,794)	(50,391)	(165,387)	(163,575)	(23,949)
Gross profit	92,325	220,235	796,560	116,755	388,540	428,771	62,776
Other revenue and gains	4,618	5,324	3,128	458	1,376	1,788	262
Selling and distribution expenses	(24,565)	(6,912)	(11,147)	(1,634)	(5,365)	(3,596)	(527)
Other operating expenses	(14,429)	(69,223)	(67,878)	(9,949)	(40,193)	(38,470)	(5,632)
Repair expenses arising from earthquake	–	–	(8,280)	(1,214)	–	–	–
Operating profit	57,949	149,424	712,383	104,416	344,358	388,493	56,879
Finance costs	(7,079)	(34,521)	(98,800)	(14,481)	(45,428)	(35,587)	(5,210)
Profit before income tax	50,870	114,903	613,583	89,935	298,930	352,906	51,669
Income tax expense	(1,616)	(25,901)	(171,503)	(25,137)	(82,700)	(89,477)	(13,100)
Profit for the year/period	49,254	89,002	442,080	64,798	216,230	263,429	38,569

	As at December 31,				As at June 30,	
	2006	2007	2008		2009	
	(Audited)				(Unaudited)	
	(RMB'000)			(US$'000)	(RMB'000)	(US$'000)
Balance Sheet Information						
Non-current assets	120,413	939,329	1,604,108	235,120	1,816,452	265,944
Current assets	163,435	374,702	299,789	43,941	764,800	111,973
Total assets	283,848	1,314,031	1,903,897	279,061	2,581,252	377,917
Current liabilities	169,855	354,112	654,737	95,967	718,669	105,219
Non-current liabilities	–	631,049	423,618	62,091	173,648	25,424
Total liabilities	169,855	985,161	1,078,355	158,058	892,317	130,643
Net assets	113,993	328,870	825,542	121,003	1,688,935	247,274
Total equity	113,993	328,870	825,542	121,003	1,688,935	247,274

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(Audited)				(Unaudited)		
	(RMB'000)			(US$'000)	(RMB'000)		(US$'000)
Cash Flow Information							
Net cash (used in)/generated from operating activities	(10,128)	147,925	751,510	110,152	497,864	82,607	12,094
Net cash generated from/(used in) investing activities	23,515	(707,386)	(799,855)	(117,238)	(536,500)	(308,367)	(45,148)
Net cash (used in)/generated from financing activities	(14,752)	628,843	(21,900)	(3,210)	(28,528)	475,662	69,641
Net (decrease)/increase in cash and cash equivalents	(1,365)	69,382	(70,245)	(10,296)	(67,164)	249,902	36,587
Cash and cash equivalents at beginning of year/period	3,008	1,663	71,057	10,415	71,057	827	121
Effect on foreign exchange rate changes	20	12	15	2	16	–	–
Cash and cash equivalents at end of year/period	1,663	71,057	827	121	3,909	250,729	36,708

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(Audited)				(Unaudited)		
	(RMB'000)			(US$'000)	(RMB'000)		(US$'000)
Other Financial Data							
EBITDA(1)	68,662	159,346	757,821	111,077	363,069	415,923	60,895
EBITDA Margin(2)	33.5	42.9	66.5	66.5	65.5	70.2	70.2
Adjusted EBITDA(3)	68,662	159,346	771,621	113,100	369,817	426,026	62,374
Adjusted EBITDA Margin(4)	33.5	42.9	67.7	67.7	66.8	71.9	71.9

Notes:

(1) Represents profit for the year/period before interest income, interest expense, income tax expense, depreciation and amortization. EBITDA and the related ratios are supplemental measures of our performance and liquidity and are not required by, or represented in accordance with, IFRS. Furthermore, EBITDA is not a measure of our financial performance or liquidity under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies may calculate EBITDA differently than us, limiting its usefulness as a comparative measure.

(2) Represents EBITDA as a percentage of revenue.

(3) Represents profit for the year/period before interest income, interest expense, income tax expense, depreciation and amortization and share-based payments. Adjusted EBITDA and the related ratios are supplemental measures of our performance and liquidity and are not required by, or represented in accordance with, IFRS. Furthermore, adjusted EBITDA is not a measure of our financial performance or liquidity under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies may calculate adjusted EBITDA differently than us, limiting its usefulness as a comparative measure.

(4) Represents adjusted EBITDA as a percentage of revenue.

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements as at and for the years ended December 31, 2006, 2007 and 2008, and our unaudited condensed consolidated financial statements as at and for the six months ended June 30, 2008 and 2009, and in each case, the related notes thereto. Our consolidated financial statements have been prepared in accordance with IFRS.

OVERVIEW

We are engaged in the mining, processing and manufacturing of natural thenardite products. According to the information provided by Behre Dolbear, we believe we have the largest single line thenardite production facility in the world in terms of production capacity as of December 31, 2008. We are also the second largest thenardite producer in the world in terms of production capacity as of December 31, 2008, according to Behre Dolbear. Over 60% of our production capacity is dedicated to the production of specialty thenardite. As at June 30, 2009, our production facility in the Dahongshan Mining Area was the only production facility in China with the GMP Certificate for medical thenardite and the Pharmaceutical Production Permit, effectively making us the only approved and certified medical thenardite producer in China. Based on the information provided by Behre Dolbear, as at December 31, 2008, we had a domestic thenardite market share of approximately 22.9% and a global thenardite market share of approximately 11.3%.

We are in a period of significant production growth. We completed construction of and commenced commercial production at our 1.0 million tpa mining and production facility in the Guangji Mining Area, which increased our total combined production capacity to 1.6 million tpa as of November 1, 2008. We expect to complete the construction of and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa mining and production facility of powder and specialty thenardite in the Muma Mining Area in the third quarter of 2010. In August 2009, we entered into an agreement to acquire an existing production facility and thenardite resources located close to our Dahongshan and Guangji Mining Areas. We plan to upgrade this production facility to produce animal feed thenardite. We also intend to develop and manufacture medical thenardite downstream applications and other thenardite applications.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Growth in traditional downstream markets in China. The traditional downstream markets for thenardite in China are detergents, textiles and glass accounting for over 75% of thenardite consumption in the year ended December 31, 2007, according to Behre Dolbear. Behre Dolbear also anticipates that these industries will remain the main source of demand in China for thenardite in the near future. According to Behre Dolbear, domestic thenardite consumption has expanded at an average annual rate of approximately 16% for the past seven years as China's economy has rapidly and steadily developed. With the current worldwide economic downturn, however, growth in domestic thenardite consumption has been slowing down in the key traditional downstream markets as well as in various new application areas. See "Industry Overview". In the year ended December 31, 2008 and the six months ended June 30, 2009, 99.1% and 99.9% of our total revenue was derived from domestic sales, respectively.

Increased production capacity. Our revenue is dependent upon our production volume and capacity. The production volume of our thenardite products is constrained by the capacity of our thenardite mining and processing operations. We have completed construction of and commenced commercial production at our 1.0 million tpa production facility in the Guangji Mining Area, which increased our total combined production capacity to 1.6 million tpa as of November 1, 2008. This new production facility commenced pilot production in November 2007. We intend to complete construction and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa production facility of powder and specialty thenardite in Muma Mining Area in the third quarter of 2010. Our total thenardite production capacity as of and production volume for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 are set out below:

	Year ended December 31,			Six months ended June 30,
	2006	**2007**	**2008**	**2009**
	(in tonnes)			
Thenardite mining and production capacity (tpa) as of(1)	500,000	1,600,000(2)	1,600,000	1,600,000
Thenardite produced for the year/period ended(3)	504,199	694,708(4)	1,516,076	762,648

Notes:

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

(2) During the year ended December 31, 2007, we performed a series of technical upgrades and expanded the production capacity of our mining and production facility in the Dahongshan Mining Area from 0.5 million tpa to 0.6 million tpa. In November 2007, our production facility in the Guangji Mining Area with a production capacity of 1.0 million tpa commenced operation. As a result, our total mining and production capacity increased to 1.6 million tpa in the year ended December 31, 2007.

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

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

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

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

Average selling prices. The average selling prices of our products for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 are set out below:

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(RMB)	(RMB)	(RMB)	(US$)	(RMB)	(RMB)	(US$)
Average Sales Price (per tonne)							
Powder thenardite							
– domestic[(1)]	300	278	313	46	297	253	37
– exports	454	379	568	83	496	636	93
Medical thenardite	1,899	1,934	1,939	284	1,951	2,548	373
Specialty thenardite	–	858	856	125	843	861	126

Note:

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

The domestic average selling price for our powder thenardite product decreased 7.3% from the year ended December 31, 2006 to December 31, 2007. As we include transportation costs for delivering our products to customers in our domestic average selling prices, increased sales to customers who collected our thenardite products from our storage facilities resulted in a decrease of our domestic average selling prices. The domestic average selling price for our powder thenardite increased 12.6% from the year ended December 31, 2007 to the year ended December 31, 2008, primarily due to an increase in our coal costs and transportation costs which we were able to pass on to our customers. See "– Cost of coal". This additional amount we charged our domestic powder thenardite customers reflected the transportation costs associated with transporting our powder thenardite from our production facility to our storage facility located near the Meishan train station. The domestic average selling price for our powder thenardite decreased by 19.2% from year ended December 31, 2008 to the six months ended June 30, 2009, primarily due to increased competition in the powder thenardite market which put a downward pressure on the selling price of our powder thenardite and the global economic crisis which decreased thenardite demand. The export average selling price for our powder thenardite decreased by 16.5% from the year ended December 31, 2006 to December 31, 2007, primarily due to a decrease in transportation costs included in our export selling price. This decrease in transportation costs resulted from increased customs clearance of our exports through export customs located closer to our storage facility. The export average selling price for our powder thenardite increased from the year ended December 31, 2007 to the six months ended June 30, 2009 due to an overall increase in our cost of sales and our sales to additional overseas customers at favorable average selling prices. With numerous thenardite producers expanding their production capacities, it is unlikely that prices for powder thenardite will rise, if at all, in the near future. Given the large number of high volume producers in China and the recent slowdown in China's economic growth, there is a risk of price-cutting by thenardite producers to secure market share. The average selling price of our medical thenardite increased from RMB1,899 in the year ended December 31, 2006 to RMB1,939 (US$284) in the year December 31, 2008 and to RMB2,548 (US$373) in the six months ended June 30, 2009. We believe that these increases were primarily due to increased attention by the Food and Drug Administration of the PRC (中國國家食品藥品監督管理局) to the quality of and production processes for medical thenardite in pharmaceutical products, which allowed us to command a higher average selling price for our medical thenardite. As we only began sales of our specialty thenardite in November 2007, the selling prices of this product have thus far been determined on a contract by contract basis and have not been subject to significant fluctuation. The average selling price of specialty thenardite remained relatively stable during the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009. The slight increase in specialty thenardite average selling price from the year ended December 31, 2008 to the six months ended June 30, 2009 was primarily due to a change in specialty thenardite product mix.

Thenardite demand. Our sales volume is dependent upon the demand for our products and our ability to meet such demand. We have increased our thenardite production capacity to 1.6 million tpa and intend to further increase our production capacity in the future. The sales volume of our thenardite products have steadily increased as we have increased our production capacity. The sales volumes of our products for the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009 are set out below:

	Year ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	(in tonnes, except for percentages)									
Sales Volume										
Powder thenardite – domestic	424,094	83.8%	519,481	74.5%	459,346	30.6%	220,685	29.8%	246,393	32.2%
Powder thenardite – exports	54,041	10.7%	12,912	1.9%	18,469	1.2%	11,791	1.6%	1,258	0.2%
Total powder thenardite	478,135	94.5%	532,393	76.4%	477,815	31.8%	232,476	31.4%	247,651	32.4%
Specialty thenardite	–	–	89,270	12.8%	926,830	61.6%	458,607	62.0%	466,200	61.0%
Medical thenardite	27,971	5.5%	75,281	10.8%	99,080	6.6%	49,174	6.6%	50,111	6.6%
Total thenardite sales	506,106	100.0%	696,944	100.0%	1,503,725	100.0%	740,257	100.0%	763,962	100.0%

The year ended December 31, 2008 was the first full period presented where the production facility at the Guangji Mining Area was operational. We sold 926,830 tonnes and 466,200 tonnes of specialty thenardite in the year ended December 31, 2008 and the six months ended June 30, 2009, respectively, which represented 61.6% and 61.0% of the total thenardite we sold in such periods. We expect specialty thenardite sales revenue to continue to represent a significant portion of our revenue in the future. We sold 10.3% less powder thenardite in terms of volume in the year ended December 31, 2008 than in the year ended December 31, 2007, primarily as a result of allocating more production capacity to produce medical thenardite at our production facility in the Dahongshan Mining Area. Due to the recent global economic crisis, however, the growth of demand for detergent, textiles and glass are expected to slow down in China, the rest of Asia and South America in the next two years which may result in only a modest growth of thenardite consumption in these regions.

Cost of coal. The cost of coal comprised 36.3%, 37.6%, 45.9%, 45.8% and 47.3% of our total cost of sales for each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009, respectively. We use coal in our onsite coal fired power plants for our mining operations and production facilities and expect the cost of coal to continue to be the largest component of our cost of sales in the future. The main factors affecting the price of coal we purchase are the supply and demand for coal in China and the caloric content of coal we purchase. Our average purchase price of coal per tonne for each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009 were RMB185, RMB192, RMB270 (US$40), RMB262.0 and RMB321 (US$47), respectively. In the first half of 2009, although the average price of coal decreased worldwide, our average purchase price of coal increased as we increased our purchase of coal with higher caloric content. We seek to optimize our coal utilization efficiency and manage our energy costs by purchasing higher caloric content coal.

In each of the three years ended December 31, 2008 and the six months ended June 30, 2009, we purchased coal based on caloric content or projected coal consumption volumes. As a result of our increased production capacity, we expect to increase the total coal consumption but lower the coal consumption per tonne of thenardite produced.

Packaging costs. We incurred RMB15.5 million, RMB33.2 million, RMB58.1 million (US$8.5 million), RMB26.9 million and RMB28.4 million (US$4.2 million) in packaging costs for each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009, respectively, which represented 13.8%, 22.0%, 16.9%, 16.3% and 17.4% of our total cost of sales for the same periods. Our packaging costs are principally related to our sales of medical thenardite. Medical thenardite requires additional packaging costs as the packaging is more expensive and our customers demand medical thenardite to be delivered in small packages. The increase in packaging costs from the year ended December 31, 2006 to the year ended December 31, 2008 and from the six months ended June 30, 2008 to the six months ended June 30, 2009 was primarily due to an increase in the sales of medical thenardite and an overall increase in sales volume.

Transportation costs. We incurred RMB23.0 million, RMB6.0 million, RMB10.1 million (US$1.5 million), RMB4.7 million and RMB3.1 million (US$0.5 million) in transportation costs for each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009, respectively. Our transportation costs decreased from the year ended December 31, 2006 to the year ended December 31, 2008 and from the six months ended June 30, 2008 to the six months ended June 30, 2009 as a result of decreased export sales and a significant increase in our sales to customers who collected our thenardite products from our storage facilities. Our transportation costs increased from the year ended December 31, 2007 to the year ended December 31, 2008 as a result of our payment of transportation costs associated with transporting our powder thenardite to the storage facility located near the Meishan train station.

Product mix and margins. We began sales of specialty thenardite in November 2007 and increased sales of medical thenardite during the three years ended December 31, 2008 and the six months ended June 30, 2009. The margins on medical thenardite and specialty thenardite are significantly higher than powder thenardite. As a result, our gross margins were 45.1%, 59.3%, 69.9%, 70.1% and 72.4% in each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009, respectively. We incorporate transportation costs in our selling prices with reference to the distance between the delivery location and our storage facilities. In the three years ended December 31, 2008, our customers' collection of our products from our storage facilities resulted in decreased margins for our powder thenardite products. For the six months ended June 30, 2009, the average selling price of powder thenardite decreased as a result of the decreased export sales of powder thenardite which had a higher average selling price than domestic sales of powder thenardite.

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

CRITICAL ACCOUNTING POLICIES

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

Impairment of non-financial assets

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

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

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

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

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

Derecognition of financial assets and financial liabilities

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

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

Impairment of financial assets

Our Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of our Company 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 our Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognized when they are assessed as uncollectible.

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

Useful lives of property, plant and equipment

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

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

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

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

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

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

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

Mining rights

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

Income taxes

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

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

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

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

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

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

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

Provisions and contingent liability

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

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

Going concern basis

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

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

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

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

	Year ended December 31,							Six months ended June 30,				
	2006		2007		2008			2008		2009		
	(Audited)							(Unaudited)				
	(RMB'000)					(US$'000)		(RMB'000)			(US$'000)	
Powder thenardite												
– domestic	127,097	62.1%	144,510	38.9%	143,995	21,106	12.6%	65,562	11.8%	62,459	9,145	10.5%
– export	24,536	12.0%	4,895	1.3%	10,491	1,538	0.9%	5,850	1.1%	800	117	0.1%
Medical thenardite	53,122	25.9%	145,567	39.2%	192,163	28,166	16.9%	95,949	17.3%	127,707	18,698	21.6%
Specialty thenardite	–	–	76,558	20.6%	793,705	116,336	69.6%	386,566	69.8%	401,380	58,765	67.8%
Total	204,755	100.0%	371,530	100.0%	1,140,354	167,146	100.0%	553,927	100.0%	592,346	86,725	100.0%

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

Cost of sales

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

	Year ended December 31,							Six months ended June 30,				
	2006		2007		2008			2008		2009		
	(Audited)							(Unaudited)				
	(RMB'000)					(US$'000)		(RMB'000)			(US$'000)	
Cost of sales												
Raw materials												
Coal	40,843	36.3%	56,877	37.6%	157,663	23,109	45.9%	75,791	45.8%	77,429	11,336	47.3%
Packaging[1]	15,482	13.8%	33,236	22.0%	58,103	8,516	16.9%	26,857	16.3%	28,387	4,156	17.4%
Others[2]	15,024	13.4%	17,759	11.7%	37,170	5,448	10.8%	20,314	12.3%	13,077	1,915	8.0%
Total	71,349	63.5%	107,872	71.3%	252,936	37,073	73.6%	122,962	74.4%	118,893	17,407	72.7%
Labor	15,468	13.7%	17,375	11.5%	27,183	3,984	7.9%	12,686	7.7%	13,471	1,972	8.3%
Electricity	8,814	7.8%	9,845	6.5%	15,897	2,330	4.6%	8,447	5.1%	6,280	919	3.8%
Depreciation	8,724	7.8%	10,247	6.8%	37,930	5,560	11.0%	17,243	10.4%	18,805	2,753	11.5%
Exports tax	3,712	3.3%	1,003	0.7%	–	–	–%	–	–%	–	–	–%
Others[3]	1,562	1.4%	1,542	1.0%	5,948	872	1.7%	2,658	1.6%	1,525	224	0.9%
Finished goods movement	1,037	0.9%	680	0.4%	(2,812)	(412)	(0.8)%	(1,795)	(1.1)%	1,578	231	1.0%
Resource tax[4]	1,764	1.6%	2,731	1.8%	6,712	984	2.0%	3,186	1.9%	3,023	443	1.8%
Total	112,430	100.0%	151,295	100.0%	343,794	50,391	100.0%	165,387	100.0%	163,575	23,949	100.0%

Notes:

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

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

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

(4) *Resource taxes for the Guangji Mine were included in the years ended December 31, 2007 and 2008 and in the six months ended June 30, 2008 and 2009 as we only commenced pilot production in November 2007.*

Raw material costs are the main component of our cost of sales, representing 63.5%, 71.3%, 73.6%, 74.4% and 72.7% of our total cost of sales for each of the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009, respectively. The majority of our raw material costs consists of coal and packaging costs.

In each of the three years ended December 31, 2008 and the six months ended June 30, 2009, we purchased coal based on caloric content or projected coal consumption volumes. The coal costs for the years ended December 31, 2006 and 2007 were primarily incurred to operate our coal fired power plant located at our production facility in the Dahongshan Mining Area. The coal costs for the year ended December 31, 2008 and the six months ended June 30, 2009 were incurred to operate our coal fired power plant at both the Dahongshan Mining Area and Guangji Mining Area. As we expand our production capacity, we expect to consume more coal in the future.

Our packaging costs have increased primarily due to a significant increase in the sales of medical thenardite and an overall increase in sales volumes due to our significantly increased production capacity. Medical thenardite accounts for higher packaging costs as such product is delivered in smaller packages.

Depreciation expenses increased in the year ended December 31, 2008 and the six months ended June 30, 2009 as the assets of our production facility located in the Guangji Mining Area were added and began to depreciate in November 2007. We expect depreciation expenses to further increase once we complete construction and begin production at our production facility to be constructed in the Muma Mining Area.

Gross profit and gross margin

Gross profit is equal to revenue less cost of sales. Gross margin is equal to gross profit divided by revenue. In each of the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2008 and 2009, our gross profit was RMB92.3 million, RMB220.2 million, RMB796.6 million (US$116.8 million), RMB388.5 million and RMB428.8 million (US$62.8 million), respectively, and our gross margin was 45.1%, 59.3%, 69.9%, 70.1% and 72.4%, respectively. Our gross margins are significantly affected by whether our customers collect our products from our storage facilities and our product mix. We incorporate transportation costs in our selling prices with reference to the distance between the delivery location and our storage facilities. In the three years ended December 31, 2008 and the six months ended June 30, 2009, our customers' collection of our thenardite products from our storage facilities resulted in decreased margins for our powder thenardite products. Our gross margins for powder thenardite decreased from 32.0% in the year ended December 31, 2007 to 28.2% in the year ended December 31, 2008 and to 18.5% in the six months ended June 30, 2009 primarily due to increased coal costs. Our gross margins for specialty thenardite decreased from 81.9% in the year ended December 31, 2007 to 77.8% in the year ended December 31, 2008 primarily due to increased costs of coal and other raw materials and depreciation expenses. Our gross margins for specialty thenardite increased from 78.4% in the six months ended June 30, 2008 to 78.9% in the six months ended June 30, 2009, primarily as a result of a change in specialty thenardite product mix. Our gross margins for medical thenardite decreased from 75.4% in the year ended December 31, 2007 to 70.7% in the year ended December 31, 2008 primarily due to increased costs of coal, packaging and other raw materials. Our gross margins for medical thenardite remained relatively stable in the six months ended June 30, 2009 as compared to in the six months ended June 30, 2008. Medical thenardite and specialty thenardite are higher margin products compared with powder thenardite. Our overall gross margins increased for the three years ended December 31, 2008 and the six months ended June 30, 2009 primarily due to increased sales of such higher margin products. The table below sets forth the gross profit margins for our powder, medical and specialty thenardite for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
		(Audited)		(Unaudited)	
Gross profit margin					
Powder thenardite	35.4%	32.0%	28.2%	26.2%	18.5%
Medical thenardite	72.7%	75.4%	70.7%	69.5%	78.6%
Specialty thenardite	–	81.9%	77.8%	78.4%	78.9%

Other revenue and gains

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

Selling and distribution expenses

Selling and distribution expenses consist primarily of transportation costs.

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

	Year ended December 31,							Six months ended June 30,				
	2006		2007		2008			2008		2009		
	(Audited)							(Unaudited)				
	(RMB'000)					(US$'000)		(RMB'000)			(US$'000)	
Selling and distribution expenses												
Transportation	23,031	93.7%	5,978	86.5%	10,068	1,476	90.3%	4,743	88.4%	3,135	459	87.2%
Entertainment	46	0.2%	83	1.2%	107	16	1.0%	78	1.5%	162	24	4.5%
Office	173	0.7%	76	1.1%	89	13	0.8%	47	0.9%	14	2	0.4%
Travel	399	1.6%	58	0.8%	58	8	0.5%	33	0.6%	4	1	0.1%
Export packaging[1]	238	1.0%	–	–	12	2	0.1%	11	0.2%	–	–	–%
Others[2]	678	2.8%	717	10.4%	813	119	7.3%	453	8.4%	281	41	7.8%
Total	24,565	100.0%	6,912	100.0%	11,147	1,634	100.0%	5,365	100.0%	3,596	527	100.0%

Notes:

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

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

The selling and distribution expenses for each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 2008 and 2009 were RMB24.6 million, RMB6.9 million, RMB11.1 million (US$1.6 million), RMB5.4 million and RMB3.6 million (US$0.5 million), respectively. Due to increased sales to customers who collected our thenardite products from our storage facilities, the selling and distribution expenses for domestic sales decreased significantly from the year ended December 31, 2006 to the year ended December 31, 2007. Our selling and distribution expenses increased from the year ended December 31, 2007 to the year ended December 31, 2008 as a result of our payment of transportation costs associated with transporting our powder thenardite to our storage facility located near the Meishan train station. Our selling and distribution expenses decreased from the six months ended June 30, 2008 to the six months ended June 30, 2009 primarily due to decreased export sales, which reduced transportation costs.

Other operating expenses

Other operating expenses consist primarily of staff costs (including directors' remuneration), and exchange loss, depreciation and amortization, legal and professional fees, impairment on receivables, mineral resource compensation fees and mining usage fees. In the year ended December 31, 2008, it also included expenses related to our share option plan, the initial public offering, the write off of inventory damaged in the Sichuan Province earthquake and a donation to disaster relief efforts in the Sichuan Province. In the six months ended June 30, 2009, it also included expenses related to our share option plan and our initial public offering. Mineral resource compensation fees and mining usage fees were not payable for the Guangji Mine in the year ended December 31, 2007 as we only commenced pilot production in November 2007 and commercial production on November 1, 2008.

Operating profit and operating margin

Operating profit is equal to our gross profit less selling and distribution expenses and other operating expenses, after taking into account other revenue and gains. Operating margin is equal to operating profit divided by revenue. For each of the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2008 and 2009, our operating profit was RMB57.9 million, RMB149.4 million, RMB712.4 million (US$104.4 million), RMB344.4 million and RMB388.5 million (US$56.9 million), respectively, and our operating margin was 28.3%, 40.2%, 62.5%, 62.2% and 65.6%, respectively. Our operating margins increased from the year ended December 31, 2006 to the six months ended June 30, 2009 primarily due to increased sales of medical thenardite and specialty thenardite, which are higher margin products compared to powder thenardite.

Finance costs

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

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

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

In June 2007, we borrowed a US$100 million term loan under a facility agreement (the "Facility Agreement") entered into by (among others) us as borrower and Credit Suisse, Singapore Branch as facility agent and security agent acting for and on behalf of Credit Suisse, Singapore Branch and Credit Suisse International (the "Facility Lenders"). This loan was used to finance our capital injection into Chuanmei Glauber Salt and our acquisition of the Guangji Mine and Muma Mine as well as our construction of buildings and mining structures in the Guangji Mining Area (i.e. the qualifying assets). In accordance with IAS 23 "Borrowing Costs", the borrowing costs incurred for the qualifying assets were capitalized during the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009. A portion of the loan under the Facility Agreement was paid off with the proceeds from our initial public offering in June 2009 whereas the remaining amount was converted into a one year-term loan bearing an interest rate of 13.5% per annum repayable in full at maturity. With the consent from the Facility Lenders, the remainder of the loan under the Facility Agreement was paid off in August 2009 with the proceeds of the US$120 million term loan with LSF. We paid breakage costs of US$17,685 in connection with such early repayment. See "Description of Other Material Indebtedness".

Income tax expenses

All of our income tax expenses in the year ended December 31, 2006 were related to PRC income tax incurred by our onshore operating subsidiary Chuanmei Mirabilite as Chuanmei Glauber Salt only began generating income in November 2007. Our income tax expenses for each of the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009 include the PRC income taxes incurred by both Chuanmei Mirabilite and Chuanmei Glauber Salt. Each of our subsidiaries incorporated in China was subject to enterprise income tax on its taxable income as reported in its statutory financial statements prepared under the PRC GAAP and adjusted in accordance with the relevant tax laws and regulations in China. Pursuant to such laws and regulations, until 2008, foreign-invested enterprises incorporated in China were subject to enterprise income tax at a statutory rate of 33.0%, which included a 30.0% state income tax and a 3.0% local income tax. In connection with our approval to become a foreign invested enterprise in 2005, Chuanmei Mirabilite was entitled to a two-year income tax exemption from its first profitable year and 50% reduction of its applicable income tax rate for the subsequent three years. The year ended December 31, 2005 was Chuanmei Mirabilite's first profitable year. For the year ended December 31, 2006, the local tax bureau imposed a 3.0% local income tax on Chuanmei Mirabilite. Based on the above, the applicable tax rate of Chuanmei Mirabilite in effect was 3.0%, 18.0% and 12.5% for each of the three years ended December 31, 2006, 2007 and 2008, respectively. We expect the tax rate applicable to Chuanmei Mirabilite to be 12.5% for the year ending December 31, 2009.

As of January 1, 2008, we became subject to the PRC EIT Law, which imposed a tax rate of 25.0% on all enterprises incorporated in China, including foreign-invested enterprises, and eliminated many tax exemptions, reductions and preferential treatments available under current tax laws and regulations. However, under the PRC EIT Law, existing preferential tax treatments could be grandfathered for enterprises that were established before March 16, 2007. In the year ended December 31, 2007, Chuanmei Glauber Salt was subject only to a local tax of 3.0% as it was exempt from state taxes. Commencing January 1, 2008, Chuanmei Glauber Salt was subject to the PRC EIT tax rate of 25.0%. Our income tax rate for Chuanmei Glauber Salt for each of the two years ended December 31, 2007 and 2008 was 3.0% and 25.0%, respectively. We expect the tax rate applicable to Chuanmei Glauber Salt to be 25.0% for the year ending December 31, 2009.

We expect to have minimal taxable income in jurisdictions other than China. Our subsidiary in Hong Kong is subject to a profit tax at the rate of 16.5% on assessable profit determined under relevant Hong Kong tax regulations. The Cayman Islands currently levy no taxes on individuals or corporations based on profits, income, gains or appreciations.

Taxation for the three years ended December 31, 2008 and the six months ended June 30, 2008 and 2009 can be reconciled to profit before income tax as follows:

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(Audited)				(Unaudited)		
	(RMB'000)			(US$'000)	(RMB'000)		(US$'000)
Profit before income tax	50,870	114,903	613,583	89,935	298,930	352,906	51,669
Tax at the domestic income tax rate	17,570	49,343	164,848	24,162	81,412	92,809	13,588
Effect of tax holidays of the PRC subsidiaries	(16,144)	(38,718)	(17,799)	(2,609)	(7,995)	(12,433)	(1,820)
Tax effect of expenses not deductible	190	15,970	24,658	3,614	9,408	9,159	1,341
Tax effect of income not taxable	–	(694)	(204)	(30)	(125)	(58)	(9)
Income tax expense	1,616	25,901	171,503	25,137	82,700	89,477	13,100

RESULTS OF OPERATIONS

Six months ended June 30, 2009 compared to the six months ended June 30, 2008

Revenue

Our revenue increased 6.9% from RMB553.9 million in the six months ended June 30, 2008 to RMB592.3 million (US$86.7) in the six months ended June 30, 2009. This increase was primarily due to increased sales volumes and average selling prices of specialty thenardite and medical thenardite. Our revenue contributed by medical thenardite increased by 33.2% from RMB95.9 million in the six months ended June 30, 2008 to RMB127.7 million (US$18.7 million) in the six months ended June 30, 2009 primarily due to the increased average sales price for medical thenardite. Our revenue contributed by specialty thenardite increased by 3.8% from RMB386.6 million in six months ended June 30, 2008 to RMB401.4 million (US$58.8 million) in the six months ended June 30, 2009 primarily due to increased sales of higher priced specialty thenardite and increased sales volumes.

Cost of sales

Our cost of sales decreased by 1.1% from RMB165.4 million in the six months ended June 30, 2008 to RMB163.6 million (US$23.9 million) in the six months ended June 30, 2009. This decrease was primarily due to decreased purchase prices for sodium carbonate and caustic soda and decreased electricity price per kilowatt hour.

Gross profit and gross margins

As a result of the foregoing, our gross profit increased by 10.4% from RMB388.5 million in the six months ended June 30, 2008 to RMB428.8 million (US$62.8 million) in the six months ended June 30, 2009. Our gross margin also increased from 70.1% from the six months ended June 30, 2008 to 72.4% million in the six months ended June 30, 2009, primarily due to the increased average selling prices of specialty thenardite and medical thenardite and increased sales volumes of specialty thenardite. Both specialty and medical thenardite are significantly higher margin products compared to powder thenardite.

Other revenue and gains

Other revenue and gains increased by 28.6% from RMB1.4 million in the six months ended June 30, 2008 to RMB1.8 million (US$0.3 million) in the six months ended June 30, 2009. The other revenue and gains in the six months ended June 30, 2009 was primarily due to government subsidy of RMB1.0 million and bank interest income of RMB0.3 million primarily from cash deposits in offshore banking accounts in connection with the Facility Agreement. The other revenue and gains in six months ended June 30, 2008 were primarily due to interest income of RMB0.8 million from cash deposits in offshore banking accounts in connection with the Facility Agreement.

Selling and distribution expenses

Selling and distribution expenses decreased by 33.3% from RMB5.4 million in the six months ended June 30, 2008 to RMB3.6 million (US$0.5 million) in the six months ended June 30, 2009. This decrease was primarily due to decreased export sales which reduced transportation costs.

Other operating expenses

Other operating expenses decreased from RMB40.2 million in the six months ended June 30, 2008 to RMB38.5 million (US$5.6 million) in the six months ended June 30, 2009. Other operating expenses in the six months ended June 30, 2009 primarily included equity-settled share-based payments of RMB10.1 million (US$1.5 million), legal fees of RMB0.9 million (US$0.1 million), amortization of mining rights payment of RMB6.5 million (US$1.0 million) and professional fees in connection with our initial public offering of RMB4.2 million (US$0.6 million). Other operating expenses in the six months ended June 30, 2008 primarily included equity-settled share-based payments of RMB6.7 million and professional fees in connection with our initial public offering of RMB7.1 million. As a result of the Sichuan Province earthquake, we incurred a repair expense of RMB6.5 million in the six months ended June 30, 2008.

Operating profit and operating margins

As a result of the foregoing, operating profit increased by 12.8% from RMB344.4 million in the six months ended June 30, 2008 to RMB388.5 million (US$56.9 million) in the six months ended June 30, 2009, representing operating margins of 62.2% and 65.6% in the six months ended June 30, 2008 and 2009, respectively.

Finance costs

Finance costs decreased by 21.6% from RMB45.4 million in the six months ended June 30, 2008 to RMB35.6 million (US$5.2 million) in the six months ended June 30, 2009. This was primarily due to the partial repayment of our offshore loan under the Facility Agreement using proceeds from our initial public offering.

Income tax expense

Income tax expense increased from RMB82.7 million in the six months ended June 30, 2008 to RMB89.5 million (US$13.1 million) in the six months ended June 30, 2009. For the six months ended June 30, 2009, Chuanmei Mirabilite and Chuanmei Glauber Salt were subject to a tax rate of 12.5% and 25%, respectively, which are the same as their respective tax rates during the six months ended June 30, 2008. Our effective tax rate decreased from 27.7% for the six months ended June 30, 2008 to 25.4% for the six months ended June 30, 2009 primarily due to a decrease in tax effect of non-deductible expenses. The decrease in tax effect of non-deductible expenses during the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 was primarily due to the decreased losses incurred by Lumena and Top Promise during the same periods as a result of the partial repayment of our offshore loan under the Facility Agreement using proceeds from our initial public offering. Losses incurred by Lumena and Top Promise were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite and Chuanmei Glauber Salt in the PRC.

Profit for the period

As a result of the foregoing, profit for the period increased from RMB216.2 million in the six months ended June 30, 2008 to RMB263.4 million (US$38.6 million) in the six months ended June 30, 2009, representing net profit margins of 39.0% and 44.5% in the six months ended June 30, 2008 and 2009, respectively.

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

Revenue

Our revenue increased 206.9% from RMB371.5 million in the year ended December 31, 2007 to RMB1,140.4 million (US$167.1 million) in the year ended December 31, 2008. This increase was primarily due to sales of 926,830 tonnes of specialty thenardite which generated sales revenues of RMB793.7 million (US$116.3 million) in the year ended December 31, 2008 and increased sales of medical thenardite. Sales revenues contributed by medical thenardite increased 32.0% from RMB145.6 million in the year ended December 31, 2007 to RMB192.2 million (US$28.2 million) in the year ended December 31, 2008 primarily due to increased market demand for medical thenardite.

Cost of sales

Our cost of sales increased 127.2% from RMB151.3 million in the year ended December 31, 2007 to RMB343.8 million (US$50.4 million) in the year ended December 31, 2008. This increase was primarily due to an increase in production volumes which increased our raw material costs and labor costs primarily as a result of the operation of our Guangji Mining Area production facility in the year ended December 31, 2008. Raw material costs increased 134.5% from RMB107.9 million in the year ended December 31, 2007 to RMB252.9 million (US$37.1 million) in the year ended December 31, 2008 primarily due to increased coal costs and packaging costs. Coal costs increased 177.2% from RMB56.9 million in the year ended December 31, 2007 to RMB157.7 million (US$23.1 million) in the year ended December 31, 2008 primarily due to increased coal prices and consumption volume at the new production facility in the Guangji Mining Area in the year ended December 31, 2008. Packaging costs increased 74.8% from RMB33.2 million in the year ended December 31, 2007 to RMB58.1 million (US$8.5 million) in the year ended December 31, 2008. This increase was primarily due to an increase in the sales of medical thenardite which requires higher packaging costs and our overall increase in sales volume due to our significantly increased production capacity.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased 261.7% from RMB220.2 million in the year ended December 31, 2007 to RMB796.6 million (US$116.8 million) in the year ended December 31, 2008, which represented a gross margin increase from 59.3% in the year ended December 31, 2007 to 69.9% in the year ended December 31, 2008. This gross margin increase was primarily due to the increase in sales of specialty thenardite and increased sales of medical thenardite, both of which are significantly higher margin products compared to powder thenardite.

Other revenue and gains

Other revenue and gains decreased 41.2% from RMB5.3 million in the year ended December 31, 2007 to RMB3.1 million (US$0.5 million) in the year ended December 31, 2008. The other revenue and gains in the year ended December 31, 2008 were primarily due to interest income of RMB1.3 million (US$0.2 million) from cash deposited in offshore banking accounts in connection with the Facility Agreement and a gain on disposal of scrap materials/obsolete fixed assets of RMB1.5 million (US$0.2 million). The other revenue and gains in the year ended December 31, 2007 was primarily due to interest income of RMB4.0 million from cash deposited in offshore banking accounts in connection with the Facility Agreement.

Selling and distribution expenses

Selling and distribution expenses increased 61.3% from RMB6.9 million in the year ended December 31, 2007 to RMB11.1 million (US$1.6 million) in the year ended December 31, 2008. This increase was primarily due to a 68.4% increase in transportation expenses from RMB6.0 million in the year ended December 31, 2007 to RMB10.1 million (US$1.5 million) in the year ended December 31, 2008 primarily as a result of the transportation costs incurred by transporting our powder thenardite to our storage facility located near the Meishan train station.

Other operating expenses and repair expenses arising from earthquake

Other operating expenses decreased from RMB69.2 million in the year ended December 31, 2007 to RMB67.9 million (US$9.9 million) in the year ended December 31, 2008. Other operating expenses in the year ended December 31, 2008 primarily included equity-settled share-based payments of RMB13.8 million (US$2.0 million), staff salaries and wages of RMB8.6 million (US$1.3 million), professional fees in connection with our initial public offering of RMB10.1 million (US$1.5 million), director salaries of RMB5.9 million (US$0.9 million), social insurance costs of RMB3.6 million (US$0.5 million), depreciation and amortization expenses of RMB8.6 million (US$1.3 million) and a stock write off of RMB0.9 million (US$0.1 million) caused by the earthquake. Other operating expenses in the year ended December 31, 2007 primarily included professional fees incurred for arrangements of bank borrowings of RMB33.4 million, an impairment on receivables of RMB9.9 million, directors salaries of RMB4.0 million, staff salaries and wages of RMB4.2 million, social insurance costs of RMB3.0 million and depreciation and amortization expenses of RMB3.4 million.

As a result of the Sichuan Province earthquake and the resulting aftershocks, we incurred a repair expense of RMB8.3 million (US$1.2 million) in the year ended December 31, 2008.

Operating profit and operating margins

As a result of the foregoing, operating profit increased 376.8% from RMB149.4 million in the year ended December 31, 2007 to RMB712.4 million (US$104.4 million) in the year ended December 31, 2008, representing operating margins of 40.2% and 62.5% in the year ended December 31, 2007 and 2008, respectively.

Finance costs

Finance costs increased 186.2% from RMB34.5 million in the year ended December 31, 2007 to RMB98.8 million (US$14.5 million) in the year ended December 31, 2008. This was primarily due to costs associated with the Facility Arrangements used to finance our operations, including the construction and development of our production facility in the Guangji Mining Area and the Muma Mining Area. The recorded expense was less than the cost of such interest because a portion of such interest payments were capitalized as cost of qualifying assets.

Income tax expense

Income tax expense increased from RMB25.9 million in the year ended December 31, 2007 to RMB171.5 million (US$25.1 million) in the year ended December 31, 2008. For the year ended December 31, 2008, Chuanmei Mirabilite and Chuanmei Glauber Salt were subject to a tax rate of 12.5% and 25.0%, respectively. Our effective tax rate increased from 22.5% for the year ended December 31, 2007 to 28.0% for the year ended December 31, 2008 primarily due to the increased income tax paid for profit made by Chuanmei Glauber Salt and the increased tax effect of non-deductible expenses. The increase in tax effect of non-deductible expenses during the year ended

December 31, 2008 as compared to the year ended December 31, 2007 was primarily due to the increased losses incurred by Lumena and Top Promise during the same periods, which were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite and Chuanmei Glauber Salt in the PRC.

Profit for the year

As a result of the foregoing, profit for the year increased from RMB89.0 million in the year ended December 31, 2007 to RMB442.1 million (US$64.8 million) in the year ended December 31, 2008, representing net profit margins of 24.0% and 38.8% in the years ended December 31, 2007 and 2008, respectively.

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

Revenue

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

Cost of sales

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

Gross profit and gross margin

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

Other revenues and gains

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

Selling and distribution expenses

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

Other operating expenses

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

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

Operating profit and operating margins

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

Finance costs

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

Income tax expense

Income tax expense increased from RMB1.6 million in the year ended December 31, 2006 to RMB25.9 million in the year ended December 31, 2007 and primarily as a result of the step-up of our income tax rate for Chuanmei Mirabilite in accordance with our tax holiday from 3.0% in the year ended December 31, 2006 to 18.0% in the year ended December 31, 2007 and the increased tax effect of expenses not deductible partially offset by the increased tax effect of income not taxable. The tax effect of non-deductible expenses increased primarily due to impairment provision for long outstanding trade receivables and other receivables in the PRC as well as increased losses incurred by Lumena and Top Promise during the year ended December 31, 2007 which were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite in the PRC. Tax effect of income not taxable mainly represented the interest income earned by Lumena from offshore bank deposits which were not subject to income tax during the year ended December 31, 2007. For the year ended December 31, 2007, the effective tax rate of Chuanmei Glauber Salt was 3.0%. Our income tax expenses and effective tax rate increased accordingly.

Profit for the year

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

LIQUIDITY AND CAPITAL RESOURCES

Our cash needs have historically been related primarily to purchases in property, plant and equipment, acquisition of mining rights, costs and expenses relating to our mining and thenardite production activities, and repayment of bank loans, which were financed by our cash resources from operating activities and onshore and offshore bank loans. We intend to obtain short-term and long-term borrowings in order to finance our cash needs not met by our operating cashflows and other capital resources. Our policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants to ensure that we maintain sufficient cash reserves to meet our liquidity requirements in the short and long term. We recorded a net outflow of cash of RMB1.4 million in the year ended December 31, 2006, a net cash inflow of RMB69.4 million in the year ended December 31, 2007, a net cash outflow of RMB70.3 million (US$10.3 million) in the year ended December 31, 2008, and a net cash inflow of RMB249.9 million (US$36.6 million) in the six months ended June 30, 2009.

We plan to fund capital expenditures and related expenses and our working capital needs with cash from operating activities and short-term and long-term borrowings.

Taking into account our financing sources (including cash flow from operating activities and borrowings under our bank facilities) and our planned capital expenditures, we believe that we have sufficient liquidity to meet our debt repayment obligations in 2009. See "Risk Factors – Risks Relating to Our Business and Our Industry – We rely on bank borrowings, but we may not be able to comply with the covenants under these borrowings or secure sufficient payment or refinancing when they mature" and "Risk Factors – Other Risks – We have incurred significant indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial condition and could further intensify the risks associated with our leverage".

CASH FLOW DATA

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

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008		2008	2009	
	(Audited)				(Unaudited)		
	(RMB'000)			(US$'000)	(RMB'000)		(US$'000)
Net cash (used in)/ generated from operating activities	(10,128)	147,925	751,510	110,152	497,864	82,607	12,094
Net cash generated from/(used in) investing activities	23,515	(707,386)	(799,855)	(117,238)	(536,500)	(308,367)	(45,148)
Net cash (used in)/ generated from financing activities	(14,752)	628,843	(21,900)	(3,210)	(28,528)	475,662	69,641
Net (decrease)/increase in cash and cash equivalents	(1,365)	69,382	(70,245)	(10,296)	(67,164)	249,902	36,587
Cash and cash equivalents at beginning of year/period	3,008	1,663	71,057	10,415	71,057	827	121
Effect on foreign exchange rate changes	20	12	15	2	16	–	–
Cash and cash equivalents at end of year/period	1,663	71,057	827	121	3,909	250,729	36,708

Cash flows from operating activities

Net cash (used in) generated from operating activities in each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009 was RMB(10.1) million, RMB147.9 million, RMB751.5 million (US$110.2 million), RMB497.9 million and RMB82.6 million (US$12.1 million), respectively. The increase in net cash generated from operations in the year ended December 31, 2007 was principally due to the commencement of operation in our Guangji Mining Area and a significant increase in our profit generated from thenardite production in the year ended December 31, 2007 compared to the previous year. The increase in net cash generated from operating activities in the year ended December 31, 2008 was principally due to the increase in revenue generated from sales of specialty thenardite. The decrease in net cash generated from operating activities in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, was primarily a result of a decrease in working capital and an increase in income tax payments.

Net cash generated from operating activities for the six months ended June 30, 2009 was primarily due to operating profit before working capital changes of RMB425.2 million (US$62.3 million) less working capital changes of RMB239.5 million (US$35.1 million). The operating profit before working capital changes for the six months ended June 30, 2009 was a result of profit before income tax of RMB352.9 million (US$51.7 million) and non-cash expenses of RMB72.3 million (US$10.6 million). The non-cash expenses were primarily due to interest expenses of RMB35.6 million (US$5.2 million), depreciation of property, plant and equipment of RMB20.5 million (US$3.0 million) and share-based payments of RMB10.1 million (US$1.5 million). The working capital in the six months ended June 30, 2009 decreased by RMB239.5 million (US$35.1 million) primarily as a result of an increase in trade and other receivables of RMB145.3 million (US$21.3 million) and a decrease in trade and other payables of RMB94.5 million (US$13.8 million). The increase in trade and other receivables was primarily due to increased turnover days of our average trade receivables as a result of longer repayment periods of our customers within the contracted credit terms. The decrease in trade and other payables was primarily due to the repayment of loans due to Mr. Suo Lang Duo Ji and a decrease in interest payable as a result of the partial repayment of our offshore loan under the Facility Agreement using proceeds from our initial public offering, partially offset by amounts payable incurred in connection with our initial public offering.

Net cash generated from operating activities in the year ended December 31, 2008 was primarily due to operating profit before working capital changes of RMB775.2 million (US$113.6 million) plus working capital changes of RMB123.9 million (US$18.2 million). The operating profit before working capital changes for the year ended December 31, 2008 was a result of profit before income tax of RMB613.6 million (US$89.9 million) and non-cash expenses of RMB161.6 million (US$23.7 million). The non-cash expenses were primarily due to interest expenses payable of RMB98.8 million (US$14.5 million), depreciation of property, plant and equipment of RMB41.2 million (US$6.0 million) and expenses related to our share option scheme of RMB13.8 million (US$2.0 million). The interest expenses payable were primarily related to interest expenses payable pursuant to the Facility Agreement and onshore borrowings. The working capital in the year ended December 31, 2008 increased by RMB123.9 million (US$18.2 million) primarily as a result of an increase in trade and other payables of RMB134.7 million (US$19.7 million) partially offset by an increase in trade and other receivable, deposits and prepayments of RMB9.6 million (US$1.4 million) and an increase in inventories of RMB1.3 million (US$0.2 million).

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

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

Cash flows from investing activities

Net cash generated from (used in) investing activities in each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009 was RMB23.5 million, RMB(707.4) million, RMB(799.9) million (US$(117.2) million), RMB(536.5) million and RMB(308.4) million (US$(45.1) million), respectively. The large increase in net cash used in investing activities in 2007 was primarily due to the investment of amounts borrowed under the Facility Agreement in property, plant and equipment and amount paid for the acquisition of mining rights in the Muma Mining Area. The net cash used in investing activities in the year ended December 31, 2008 was primarily due to payment for the acquisition of mining rights, deposits paid for the acquisition of property, plant and equipment, the payment of the purchase of land use rights and purchases of property, plant and equipment, all of which were associated with the development of our production facilities in the Guangji Mining Area. The net cash used in investing activities in the six months ended June 30, 2009 was primarily due to payments for the purchase of property, plant and equipment and deposits paid for the acquisition of property, plant and equipment, all of which were associated with the development of our production facilities in the Muma Mining Area.

Net cash used in investing activities for the six months ended June 30, 2009 was primarily due to purchase of property, plant and equipment of RMB76.8 million (US$11.2 million), deposits paid for acquisition of property, plant and equipment of RMB161.7 million (US$23.7 million) and an increase in pledged bank deposits of RMB70.1 million (US$10.3 million).

Net cash used in investing activities for the year ended December 31, 2008 was primarily due to deposits paid for the acquisition of property, plant and equipment of RMB309.7 million (US$45.4 million) at the Muma Mining Area, payment of RMB249.4 million (US$36.6 million) for mining rights in all of our three mining areas, payment for the purchase of land use rights of RMB31.6 million (US$4.6 million) for the Guangji Mining Area and purchases of property, plant and equipment of RMB225.9 million (US$33.1 million) primarily for the Guangji Mining Area.

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

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

Cash flows from financing activities

Net cash (used in) generated from financing activities in each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009 was RMB(14.8) million, RMB628.8 million, RMB(21.9) million (US$(3.2) million), RMB(28.5) million, and RMB475.7 million (US$69.6 million). The large increase in cash generated from financing activities in the year ended December 31, 2007 was primarily due to loan proceeds of RMB734.6 million received under the Facility Agreement entered into in June 2007, which was much larger than historical amount borrowed under other previous loan agreements. The large increase in net cash generated from financing activities for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, was primarily as a result of the proceeds from our initial public offering and additional onshore loans, partially offset by the partial repayment of our offshore loan under the Facility Agreement using proceeds from our initial public offering.

Net cash generated in financing activities for the six months ended June 30, 2009 was primarily due to new bank loans of RMB209.8 million (US$30.7 million) and proceeds from our initial public offering of RMB591.1 million (US$86.5 million) partially offset by repayment of loans of RMB261.9 million (US$38.3 million) and interest payment of RMB63.4 million (US$9.3 million).

Net cash used in financing activities for the year ended December 31, 2008 was primarily due to the repayment of bank loans of RMB29.5 million (US$4.3 million) and interest paid of RMB98.8 million (US$14.5 million), which was partially offset by new bank loans of RMB106.4 million (US$15.6 million).

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

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

WORKING CAPITAL

The following table sets out our current assets, current liabilities and net current liabilities/assets as at December 31, 2008 and June 30, 2009:

	As at December 31, 2008		As at June 30, 2009	
	(Audited)		(Unaudited)	
	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
Current assets				
Inventories	8,270	1,212	7,984	1,169
Trade and other receivables	258,298	37,860	403,577	59,087
Pledged bank deposits	32,394	4,748	102,510	15,008
Cash and cash equivalents	827	121	250,729	36,709
Total	299,789	43,941	764,800	111,973
Current liabilities				
Trade and other payables	360,795	52,883	268,201	39,267
Bank borrowings – due within one year	258,947	37,955	429,082	62,821
Provision for tax	34,995	5,129	21,386	3,131
Total	654,737	95,967	718,669	105,219
Net current (liabilities)/assets	(354,948)	(52,026)	46,131	6,754

Our current liabilities increased 9.8% from RMB654.7 million (US$96.0 million) as of December 31, 2008 to RMB718.7 million (US$105.2 million) as of June 30, 2009. This increase was primarily due to a 65.7% increase of bank borrowings from RMB258.9 million (US$38.0 million) as of December 31, 2008 to RMB429.1 million (US$62.8 million) as of June 30, 2009 partially offset by a 25.7% decrease of trade and other payables from RMB360.8 million (US$52.9 million) as of December 31, 2008 to RMB268.2 million (US$39.3 million) as of June 30, 2009. Our borrowings due within one year increased to RMB429.1 million (US$62.8 million) primarily as a result of additional onshore borrowings in the six months ended June 30, 2009. These additional onshore borrowings were used to finance our onshore operations as well as fund our expansion plans. Trade and other payables decreased primarily as a result of early repayment of our offshore loan under the Facility Agreement.

Our current liabilities increased 84.9% from RMB354.1 million in the year ended December 31, 2007 to RMB654.7 million (US$96.0 million) in the year ended December 31, 2008. This increase was primarily due to an increase of bank borrowings from RMB12.6 million in the year ended December 31, 2007 to RMB258.9 million (US$37.9 million) in the year ended December 31, 2008 and a 9.2% increase of trade and other payables from RMB330.5 million in the year ended December 31, 2007 to RMB360.8 million (US$52.9 million) in the year ended December 31, 2008. Our bank borrowings increased to RMB258.9 million primarily as a result of additional onshore borrowings and the fact that a portion of the loan under the Facility Agreement became current liabilities in the year ended December 31, 2008. These additional onshore borrowings were used to finance our onshore operations as well as fund our expansion plans. Trade and other payables increased primarily as a result of additional amounts due to Mr. Suo Lang Duo Ji as he extended additional loans to the Company which was partially offset by the repayment of certain loans we extended to Mr. Suo Lang Duo Ji in the year ended December 31, 2008.

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

INDEBTEDNESS

Borrowings

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

	Year ended December 31,				At June 30,	
	2006	2007	2008		2009	
	(Audited)				(Unaudited)	
	(RMB'000)			(US$'000)	(RMB'000)	(US$'000)
Borrowings:						
Group:						
Secured-bank loans	41,900	643,649	682,565	100,046	477,082	69,849
Unsecured-other borrowing	42,000	–	–	–	125,648	18,396
Total	83,900	643,649	682,565	100,046	602,730	88,245
Company:						
Secured	–	631,049	593,065	86,928	309,582	45,325
Maturity Profile:						
Due within one year	83,900	12,600	258,947	37,955	429,082	62,821
More than one year, but within two years	–	180,300	169,447	24,836	48,000	7,028
More than two years, but within five years	–	450,749	254,171	37,255	125,648	18,396
Total	83,900	643,649	682,565	100,046	602,730	88,245

For the year ended December 31, 2006, there was no notable seasonality of borrowing requirements. For the years ended December 31, 2007, 2008 and the six months ended June 30, 2009, additional funds were required for the expansion of our mining operations and production facilities in the Guangji and Muma Mining Areas.

Our debt primarily consists of secured bank loans and unsecured other borrowings. All of our onshore borrowings are short-term to take advantage of the lower annual interest applicable to short-term borrowings. Those short-term bank loans are collateralized by a pledge of certain of our buildings, machinery and equipment and other assets with an aggregate carrying value as at December 31, 2006, 2007 and 2008 and June 30, 2009 of approximately RMB64.2 million, RMB89.0 million, RMB158.1 million (US$23.2 million) and RMB551.4 million (US$80.7 million). As at June 30, 2009, the effective interest rates for our onshore short-term bank loans ranged from 5.09% to 7.47% per annum. The renewal of our short-term loans is subject to approval by the lending banks. During the three years ended December 31, 2008 and the six months ended June 30, 2009, we have not encountered any difficulties in renewing our short-term loans.

Unsecured other borrowings consist of a three-year term loan of HK$142.5 million borrowed from China Sun Fund Management Limited in May 2009 (the "China Sun Fund Loan"). This loan bears an interest rate of 10%. We fully repaid this loan in September 2009.

The Agricultural Bank of China, Chengdu Economic and Technology Development Zone Branch (中國農業銀行成都經濟技術開發區支行) issued two commitment letters (the "Commitment Letters") with a validity period from May 2009 to May 2011 granting us a RMB300.0 million loan facility, the availability of which is subject to certain conditions. We obtained onshore loans of RMB48.0 million in June 2009 and RMB72.0 million pursuant to the Commitment Letters in July and August 2009.

In July, August and September 2009, we repaid onshore bank borrowings of RMB83.0 million and borrowed an additional onshore bank loan of RMB30.0 million.

In June 2007, we obtained a term loan of US$100 million from the Facility Lenders under the Facility Agreement. A portion of this loan was repaid in June 2009 with the proceeds from our initial public offering whereas the remaining balance was converted into a one-year term loan bearing an interest rate of 13% per annum. With the consent from the Facility Lenders, the remaining balance was repaid in August 2009. We paid breakage costs of US$17,685 in connection with such early repayment.

In August 2009, we obtained a one-year term loan of US$120.0 million from LSF. This loan bears an interest rate of 10% per annum for the first six months and LIBOR plus 9% thereafter. See "Description of Other Material Indebtedness". We intend to fully repay this loan.

In September 2009, we obtained an additional onshore loan of RMB170.0 million from China Merchants Bank, Chengdu Branch, Yihua Road Sub-branch for a term of one year. This loan bears an interest rate at PBOC 12-month lending rate minus 5%. RMB170.0 million in cash was deposited in our account with China Merchants Bank, Hong Kong Branch as cash collateral for this loan.

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

Bank borrowings decreased by 11.7% from approximately RMB682.6 million (US$100.1 million) as at December 31, 2008 to approximately RMB602.7 million (US$88.2 million) as at June 30, 2009 primarily as a result of the partial repayment of the offshore loan under the Facility Agreement using the proceeds from our initial public offering, partially offset by additional onshore bank loans.

There have been no material changes in our indebtedness since June 30, 2009, except for (i) the repayment of the China Sun Fund Loan in full in September 2009, (ii) the obtaining of RMB72.0 million onshore loans pursuant to the Commitment Letters, (iii) the repayment of RMB83.0 million of onshore bank borrowings and the obtaining of an additional onshore bank loan of RMB30.0 million, (iv) the US$120.0 million loan facility extended to us by LSF in August 2009, (v) the repayment of the remaining balance of the loan under the Facility Agreement in August 2009 and (vi) an additional RMB170.0 million onshore loan from China Merchants Bank, Chengdu Branch, Yihua Road Sub-branch, as described above. We intend to fully repay the US$120.0 million loan from LSF, thereby extending the maturity profile of our indebtedness portfolio.

Contingent liabilities

As at December 31, 2006, 2007 and 2008 and June 30, 2009, we had no significant contingent liabilities.

CAPITAL COMMITMENTS

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

	At December 31,				At June 30,	
	2006	2007	2008		2009	
	(Audited)				(Unaudited)	
	(RMB'000)			(US$'000)	(RMB'000)	(US$'000)
Contracted, but not provided for:						
– additions to property, plant and equipment	1,467	11,894	304,817	44,678	245,569	35,953
– acquisition of land use rights	–	4,786	4,786	702	4,786	701
Total	1,467	16,680	309,603	45,380	250,355	36,654

As of June 30, 2009, our capital commitments related directly to the construction and development of our mining and production facility to be located in the Muma Mining Area.

CAPITAL EXPENDITURE

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

	Year ended December 31,				Six months ended June 30,	
	2006	2007	2008		2009	
	(Audited)				(Unaudited)	
		(RMB'000)		(US$'000)	(RMB'000)	(US$'000)
Expansion						
Construction in progress	–	38,200	167,771	24,591	–	–
Buildings and mining structure	129	112,256	53,267	7,808	77,991	11,419
Machinery and equipment	5,562	403,862	15,101	2,213	670	98
Motor vehicles	1,119	1,830	152	22	43	6
Payment for mining rights	–	159,196	249,411	36,557	60	9
Deposit paid for property, plant and equipment	–	–	309,741	45,400	161,741	23,680
Purchase price paid for land use rights	–	3,000	29,000	4,251	–	–
Total	6,810	718,344	824,443	120,842	240,505	35,212

For the year ended December 31, 2006, our capital expenditure was mainly in relation to our machinery and equipment and motor vehicles. For the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009, our capital expenditure was mainly in relation to our buildings and mining structure, machinery and equipment and mining rights.

For the six months ending December 31, 2009 and the year ending December 31, 2010, we expect our planned capital expenditures to be at least approximately RMB876 million, primarily in connection with the remaining capital expenditures relating to our expansion projects in the Muma Mining Area, the development of animal feed thenardite (including asset acquisition), the development of medical thenardite downstream applications and the upgrading of aboveground and underground facilities in Guangji Mining Area. To the extent we decide to engage in other expansion and acquisition projects, such as the development of other thenardite applications, our capital expenditures will substantially increase. Our actual capital expenditures may vary from the foregoing estimate due to higher than expected costs, changes in market conditions, changes in our business plans or strategies, domestic regulatory environment and other factors. See "Risk Factors – Risks Relating to our Business and our Industry – Our major capital projects may not be completed within the expected time frame and within our budget, or at all, and may not achieve the intended economic results".

We intend to fund our planned capital expenditure through a combination of, including but not limited to, the proceeds of our initial public offering in June 2009, bank loans, and cash flow from operating activities.

MARKET RISKS

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

Interest rates

Our exposure to interest rate risk relates primarily to our short-term and long-term bank borrowings, which totaled RMB682.6 million (US$100.0 million) as at December 31, 2008 and RMB602.7 million (US$88.2 million) as at June 30, 2009, respectively. An increase in prevailing interest rates would lead to an increase in interest cost on our short-term borrowing when such debt is rolled over. To date, we have not entered into any type of interest rate agreements or derivatives, which are generally not available in the PRC, to hedge against interest rate fluctuations. To the extent that we do so in the future, we cannot assure you that any future hedging activities will protect us from fluctuations in interest rates.

Foreign exchange

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

Inflation

In recent years, China has not experienced significant inflation, and therefore inflation has not had a significant effect on our business during the three years ended December 31, 2008 and the six months ended June 30, 2009. According to the National Bureau of Statistics of China, the overall national inflation/(deflation) rate of China, as represented by the general consumer price index, was approximately 1.5%, 4.8%, 5.9% and (1.7)% in each of the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.

RECENT ACCOUNTING PROCUREMENTS

In the current period, we have applied for the first time the following new and revised IFRSs issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for our financial statements for the annual financial period beginning on January 1, 2009.

- IAS 1 (Revised 2007) Presentation of financial statements
- IAS 27 (Amendment) Cost of an investment in a subsidiary, jointly controlled entity or an associate
- IFRS 2 (Amendment) Share-based payment – vesting conditions and cancellations
- IFRS 8 Operating segments

Other than as noted below, the adoption of these new and revised IFRSs has had no material effect on our interim financial statements.

IAS 1 (Revised 2007) Presentation of financial statements

The adoption of IAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognized directly in equity are now recognized in other comprehensive income, for example translation of financial statements of foreign operations. IAS 1 also affects the presentation of owner changes in equity and introduces "statements of comprehensive income". It has had no impact on our reported results or financial position. Comparatives have been restated to conform with the revised standard.

IAS 27 Amendment – Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires us to recognize dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions is out of the investee's pre-acquisition or post-acquisition reserves.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to our accounting policy on impairment of non-financial assets.

For the current interim period, we did not receive any dividends from our subsidiaries. The new accounting policy has been applied prospectively as required by the amendment to IAS 27, and therefore no comparatives have been restated.

IFRS 2 (Amendment) Share-based payment – vesting conditions and cancellations

This standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on our financial position or performance.

IFRS 8 Operating segments

The adoption of IFRS 8 has not affected our identified and reportable operating segments. However, reported segment information are now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of our risks and returns. Comparatives have been provided on a basis consistent with the revised segment information.

NON-IFRS FINANCIAL MEASURES

We use EBITDA and adjusted EBITDA to provide additional information about our operating performance. EBITDA represents to our profit for the year/period before interest income, interest expense, income tax expense, depreciation and amortization. Adjusted EBITDA represents our profit for the year/period before interest income, interest expense, income tax expense, depreciation and amortization and share-based payments. As the thenardite industry is capital intensive, capital expenditure requirements and levels of debt and interest expense may have a significant impact on the profit for the year/period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

The following table reconciles our net income under IFRS to our definition of EBITDA and adjusted EBITDA for the years/periods indicated:

	Year ended December 31,				Six months ended June 30,		
	2006	2007	2008	2008	2008	2009	2009
	(Audited)				(Unaudited)		
	(RMB '000)			(US$'000)	(RMB '000)		(US$'000)
Revenue	204,755	371,530	1,140,354	167,146	553,927	592,346	86,725
Net profit	44,029	78,950	429,739	62,989	210,630	254,711	37,292
Minority interests	5,225	10,052	12,341	1,809	5,600	8,718	1,277
Net income before minority interests	49,254	89,002	442,080	64,798	216,230	263,429	38,569
EBITDA Adjustments							
Depreciation and amortization	11,038	13,903	46,738	6,851	19,527	27,706	4,056
Interest income	(325)	(3,981)	(1,300)	(190)	(816)	(276)	(40)
Interest expense	7,079	34,521	98,800	14,481	45,428	35,587	5,210
Income tax expense	1,616	25,901	171,503	25,137	82,700	89,477	13,100
EBITDA	**68,662**	**159,346**	**757,821**	**111,077**	**363,069**	**415,923**	**60,895**
EBITDA Margin	**33.5%**	**42.9%**	**66.5%**	**66.5%**	**65.5%**	**70.2%**	**70.2%**
Adjusted EBITDA Adjustments							
Share-based payments	–	–	13,800	2,023	6,748	10,103	1,479
Adjusted EBITDA	**68,662**	**159,346**	**771,621**	**113,100**	**369,817**	**426,026**	**62,374**
Adjusted EBITDA Margin	**33.5%**	**42.9%**	**67.7%**	**67.7%**	**66.8%**	**71.9%**	**71.9%**

EBITDA, adjusted EBITDA and the related ratios are supplemental measures of our performance and liquidity and are not required by, or represented in accordance with, IFRS. Furthermore, EBITDA or adjusted EBITDA is not a measure of our financial performance or liquidity under IFRS and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies may calculate EBITDA or adjusted EBITDA differently than us, limiting its usefulness as a comparative measure.

This section contains certain information and statistics concerning the global and PRC thenardite industry. We have derived the information and data partly from the Behre Dolbear Report dated June 4, 2009 issued by Behre Dolbear & Company (USA), Inc., or Behre Dolbear, and the Independent Technical Review Report dated October 5, 2009 issued by JT Boyd. While our Company has taken reasonable care in the extraction, compilation and reproduction of information and statistics from these sources, our Company has not independently verified the information and statistics derived directly or indirectly from official government sources or made any representation as to their accuracy. Such information and statistics may be out-of-date and may not be consistent with other information and statistics compiled within or outside China. You should not place undue reliance on such information and statistics contained in this section.

ABOUT BEHRE DOLBEAR

We commissioned Behre Dolbear, a wholly-owned subsidiary of The Behre Dolbear Group, to provide a market research report for the thenardite industry. Behre Dolbear is a third party mineral industry consulting firm. Since 1911, The Behre Dolbear Group has specialized in studies for commercial and multi-national financial institutions, mining companies, governments and governmental agencies, legal firms, and other parties with interests in the mineral industry. Behre Dolbear covers technical, operational and financial issues in a broad range of commodities including base and precious metals, coal, industrial minerals, diamonds and gemstones, ferrous metals, and construction materials. In conducting its market research, Behre Dolbear collected and reviewed publicly available data such as government-derived information, annual reports of companies in the thenardite industry, reference books, and articles published in industrial minerals and chemical journals. Behre Dolbear has exercised due care in collecting and reviewing the information so collected and believes that the basic assumptions are factual and correct and the interpretations are reasonable. Behre Dolbear has independently analyzed the information, but the accuracy of the conclusions of its review largely relies on the accuracy of the information collected. Future thenardite consumption and demand projected by Behre Dolbear in this section are based on recent historic information while taking into consideration any substantial economic, market and/or technical changes which might affect the thenardite industry. Information and statistics in this section are sourced from the Behre Dolbear Report unless otherwise expressly specified.

INTRODUCTION TO THENARDITE

Thenardite (Na_2SO_4) is an edible, water-soluble, white, crystalline, hygroscopic mineral powder. Thenardite is an important raw material used in chemical and light industries and is used extensively in the manufacture of powder detergents, textiles, glass, Kraft pulp, chemical feedstock and pharmaceutical products.

Thenardite is classified by its purity, color, density, pH content, neutrality and inclusion of other minerals. It can be processed into different forms to cater for a variety of end-use requirements and applications.

Thenardite can be produced from either natural minerals (mineral production) or as a chemical by-product (synthetic production). Non-marine evaporates are used to produce thenardite. Glauberite ($Na_2SO_4 \cdot CaSO_4$) is one of the more abundant non-marine evaporates in China. Glauberite appears in solid form in arid regions as a salty precipitate. Glauberite is highly soluble and when mixed with water transforms into mirabilite ($Na_2SO_4 \cdot 10H_2O$). Mirabilite is an aqueous mixture that is then dehydrated and processed into thenardite, which is the term used for the solid Na_2SO_4 product with above 98% sodium sulfate purity. Natural thenardite products tend to be of higher purity than those that are produced as synthetic by-products.

GLOBAL THENARDITE INDUSTRY

Glauberite Reserves and Resources

Global glauberite resources are estimated to be approximately 35.3 billion tonnes and sufficient to meet demand well into the future at the present consumption rate. China, the United States, Canada, Mexico, Spain and Turkey are the countries with the largest glauberite reserves. Glauberite reserves are concentrated in these countries and other countries need to rely on imports to meet their domestic thenardite demand. The following table sets forth the top natural thenardite producing countries in the world along with their respective reserves and resource bases as of December 31, 2008:

MAJOR THENARDITE PRODUCING COUNTRIES	ANNUAL NATURAL THENARDITE OUTPUT (tpa)	ANNUAL SYNTHETIC THENARDITE OUTPUT (tpa)	RESERVES[1] (tonnes)	RESOURCES[1] (tonnes)
	(million tonnes)			
China	9.1	1.0	10,500	30,000
United States	0.3	0.3	860	1,400
Canada	0.3	–	<1	270
Mexico	0.6	–	350	230
Spain	1.0	<0.1	180	3,300
Turkey	0.3	–	100	100

Source: Behre Dolbear
Note:

(1) As the data collected by Behre Dolbear are from various sources including government-derived information, annual reports of companies in the thenardite industry, reference books and articles published in industrial minerals and chemical journals, the words "reserves" and "resources" used in this chart are generalizations and are not intended to be in strict conformity with specific international codes and/or categorization systems and/or usages to which such terms are customarily applied.

China is by far the biggest thenardite producer in the world and has the most extensive glauberite resource base. The reserve in China alone is approximately 10.5 billion tonnes.

Thenardite Production

Natural Thenardite

Natural thenardite is mined and produced in a variety of ways, including room-and-pillar mining, in situ leaching of thick ore beds, solution mining, solar evaporation and cooling-crystallization of lake brine, and pumping of brine from complex salt deposits. Some mining methods are more costly than others.

By-product or synthetic thenardite is produced during various manufacturing processes, including chromium chemical production, rayon spinning, hydrochloric acid production, iodine/nitrate processing, resorcinol production, ascorbic acid production, and many others. Global synthetic thenardite production capacity is estimated to be approximately 1.3 million tpa with approximately 1.0 million tpa attributable to China.

The following table summarizes the major natural thenardite producers around the world along with their respective base production capacity as of December 31, 2008:

Country	Major Producers	Base Production Capacity (tonnes per annum)
China[1]	Nafine Group International Co., Ltd.	1,650,000
	Lumena Resources Corp.	1,600,000
	Xinli Chemical Co., Ltd.	1,400,000
Mexico	Penoles – Quimica del Rey	620,000
Spain	CRIMIDESA SA	500,000
	Minera de Santa Marta SA	240,000
	FMC Foret SA	>200,000
	Sulquisa SA	>200,000
United States	Searles Valley Minerals	>300,000
	Cooper Natural Resources	145,000
Turkey	Alkim SA	>300,000
Canada	Saskatchewan Minerals	150,000
	Millar Western (recently acquired by Zeox)	100,000

Source: Behre Dolbear
Note:

(1) China has over 12.1 million tpa of natural thenardite production capacity. The companies listed are the three largest reported thenardite producers in China.

Synthetic Thenardite

Synthetic thenardite production is dependent on the primary chemical process from which it is produced as a by-product. Synthetic thenardite availability is thus entirely dependent on the thenardite yield of the primary chemical process. Demand for the primary product varies depending on its specific market. Primary product demands are not driven by the supply and demand consideration for thenardite. If demand for a primary chemical product suddenly increases or decreases, then there would be a related change in the production of synthetic thenardite byproduct.

As thenardite is generally fungible, consumers will not differentiate between natural and synthetic thenardite unless strict chemical and physical specifications are needed. The production cost of synthetic thenardite is typically low, sometimes minimal, because it is a function of the primary chemical process.

Thenardite Demand

Global natural thenardite demand has historically been strong in Asia and certain other parts of the world and has increased at a CAGR of 7.9% between 2004 and 2007. Due to the recent global economic crisis, it is anticipated that the growth of natural thenardite demand will slow down and maintain at a CAGR of 2.5% between 2008 and 2010. Demand for natural thenardite among western countries has been stagnant or declining continuously over the past decade due to the stabilization or decline of certain thenardite consuming industries in these regions. Chinese natural thenardite demand growth is projected to increase from approximately 6.5 million tonnes in 2008 to approximately 6.8 million tonnes in 2010, representing a CAGR of 2.5%. A rebound is expected in 2010 at the earliest.

The table below sets forth natural thenardite consumption volume of some areas or countries for the periods indicated:

	Natural Thenardite Consumption Volume for Year Ended (million tonnes)					
Region	**2004A**	**2005A**	**2006A**	**2007A**	**2008E**	**CAGR (%)**
China	4.7	5.3	5.6	6.0	6.5	8.3
Asia (excluding China)	2.3	2.7	3.1	3.5	3.7	12.4
Europe	1.7	1.7	1.7	1.7	1.7	0.7
United States	0.4	0.2	0.2	0.3	0.3	(8.0)
Canada	0.1	0.1	0.1	0.1	0.1	0
Mexico	0.5	0.6	0.6	0.6	0.6	4.7
Latin America (excluding Mexico)	0.3	0.3	0.3	0.4	0.4	8.0
Total	10.0	10.9	11.6	12.6	13.3	7.5

Source: Behre Dolbear

Natural thenardite demand in developed markets, such as the United States, Canada and Europe, is stagnant or declining and these markets are best served by well-established local thenardite producers. However, thenardite demand is expected to increase slightly in the next few years in Asia, South America and certain other emerging markets in the Middle East and African countries as industrial production moves to these regions. As these regions become increasingly industrialized and as their respective economies expand, thenardite demand will increase.

Thenardite products have been traditionally consumed by light and chemical industries. These traditional downstream industries will remain the main sources of demand for thenardite.

The specific demand breakdown by industry application is as follows:

Detergents

Thenardite is used in powder laundry and dishwasher detergents as a processing aid and can constitute as much as 60.0% of the powder. Powder detergents account for approximately 40.0% of the overall demand for thenardite and have traditionally been, and remain, the largest market for thenardite throughout the world. Overall, the market is saturated with detergent products and thenardite consumption by the detergent industry can vary according to the formulation trends of detergent producers. Thenardite is a beneficial additive because it is very white, non-corrosive and pH neutral. For powder detergent, thenardite is the most suitable inert filler and there are no effective substitutes for thenardite. Powder detergent, however, can be substituted by liquid detergent, which uses no thenardite.

Demand for detergents in the developing countries of Asia, South America, and the Middle East is growing and is expected to remain strong as more consumers start to use washing machines. In Mexico, demand is strong as more and more people use washing machines and buy thenardite based detergents. In the mature markets of the United States, Canada and Europe, demand is expected to remain flat and possibly diminish in the short term. With the current worldwide economic downturn, growth projections have been severely curtailed. A rebound is expected in 2010 at the earliest.

Textiles

In the textile industry, thenardite is used in the dyeing process for textile fibres. Thenardite is added to textile dye baths to drive the dye from the solution onto the textile fibres. The dyeing process continues until the desired shade is obtained and the rate of dye absorption is governed by the rate of thenardite addition. Most dye processes are pH and zinc sensitive, requiring thenardite with pH ranging from 6.5 to 8.0 and with minimal amounts of zinc. Unlike competing products such as sodium chloride, thenardite does not corrode the stainless steel vessels used in the dyeing process. Since stainless steel vessels are dominant in the processing systems, this is a significant consideration for the textile industry. Most dye machine manufacturers warrant their equipment, specifying the use of sodium sulfate instead of sodium chloride. Using sodium chloride can void manufacturers' warranties. As long as manufacturers of textile producing equipment continue to use stainless steel in their equipment, sodium sulfate will most likely remain the industry choice. If equipment types and materials change in the future, then it is possible that sodium chloride or some other commodity might be used in the textile dyeing process. As a result of the foregoing, there is a relatively small risk of substitution in the foreseeable future. Demand for thenardite in the textile industry in the United States and Western Europe is declining due to textile manufacturers relocating to regions with lower labor costs such as China, the rest of Asia and Africa. As a result, it is expected that the increased demand from textile operations will result in rising thenardite consumption rates in these regions. With the current economic downturn, growth projections have been severely curtailed. A rebound is expected in 2010 at the earliest.

Glass

Thenardite helps remove small air bubbles in molten glass and prevents scum formation on the surface of the molten glass in the refining stage. Most thenardite consumed in the glass industry is used in the production of flat glass. Glass grade thenardite requires low iron content and a minimum Na_2SO_4 purity of 99.3-99.7%, as the glass industry has strict limits on iron, copper and noble metal levels in the product. Thenardite is the most effective substance for this application and there is a relatively small risk of significant substitution by other products in this area. Although sodium ash and calcium sulfate have been used to replace thenardite, they produce less effective results. The glass industry and consequent consumption of thenardite are strongly impacted by fluctuations in the construction and automobile industries. In addition, demand for thenardite is also affected by the rate of glass recycling.

New construction in the United States housing market is currently in a severe depression. Automobile manufacturing has been declining in North America and no additional consumption is expected in this sector. As a result, thenardite demand by the glass industry in the near term is expected to decrease. The auto sales in China, however, have been increasing, albeit at a slower rate, resulting in sustained consumption of thenardite for this application. The glass industry in Western Europe has been steady and is expected to remain so in the near future.

Paper and Pulp

At the beginning of the 1980s, the manufacture of Kraft paper created significant demand for thenardite, although such use has now declined. Kraft paper is the heavy, brown paper found in cardboard and grocery bags. In the manufacturing process for Kraft paper pulp, thenardite is reduced chemically to sulfide forms, which are the active constituents of pulping liquor. In the past, demand for natural thenardite decreased due to the increasing supply of synthetic thenardite from the production process of chlorine dioxide, which is also used as a bleaching agent in the pulp and paper industry. However, due to environmental concerns about the use of chlorine based bleaching compounds, the demand for natural thenardite is expected to increase slightly in the next three years.

Emulsified sulfur and caustic soda (sodium hydroxide) are also readily used in this market as a substitute for thenardite. Due to recent closures of some Canadian Kraft plants, production has increased in the United States Kraft companies. If energy costs increase in China there will be less plastic imports from China and more Kraft bag demand for packaging in the United States.

Production of Kraft pulp has been increasing slightly in the past few years. Some new Kraft mills have opened in Germany recently. The overall market is not very big and changes in consumption in this area are not seen as a significant factor for global thenardite consumption.

Food and Medical

Thenardite is used as an ingredient in various stock foods and medicines because of its mild laxative properties and anti-inflammatory properties. Thenardite is also used in food dyes, as a flavor enhancer in beverages, and in Kroger Brand baking sodas and lotions such as Aquacare and Aspercreme. Medical thenardite is especially popular in China where it is used as a mild laxative and for control of inflammations. Medical thenardite requires a minimum Na_2SO_4 purity of 99.0% or higher. Quality control standards for production of both food and medicinal grade products are high. Manufacturing is typically certified, regulated and closely monitored by government agencies. Companies that can meet the manufacturing standards and acquire the appropriate certifications face no barriers to entry for the food or medical markets and can typically take advantage of the value added prices as a result.

Other Uses

Other uses of thenardite include the manufacture of carpet fresheners, starch, ceramics, printing inks, sulfonated oils, synthetic sponges and veterinary medicines. Thenardite is also used in the production processes of chemical feed stocks. Consumption in these applications is relatively small and is not expected to grow substantially.

New Applications

Thenardite has been used experimentally in the treatment of coal to decrease maintenance costs for coal- fired power plants. As China and the United States are the largest consumers of coal, if thenardite is commonly adopted as a coal-treatment application, demand for thenardite could increase as a result.

In the United States, thenardite has also been tested as an additive to quick-dry cement, with some success. However, the evaluation of new cement additives usually requires extensive testing periods, particularly in cold environments, before new products are certified for use. Hence there has been no significant consumption for this application to date.

End Product Customization

Regular thenardite products could be further customized in packaging and sizing to meet the needs for various markets. For example, the detergent industry requires not only common white thenardite, but also more effective large-granule thenardite. Color-particle thenardite is also of growing popularity among certain consumers. Other customization includes pH modification and addition of calcium and other minerals for special applications. These customized products can command higher average selling prices due to their improved chemical and physical features.

Competition and Pricing

China will be the major producer and supplier of thenardite in the Asian and South American markets in the foreseeable future, as no other producing country in the world has the capacity, production cost structure or transportation advantages to compete in these markets. Outside of China, CRIMIDESA and Minera de Santa Marta, SA in Spain, Searles Valley Minerals and Cooper Natural Resources in the United States, Quimica del Rey SA de CV in Mexico, Alkim SA in Turkey, Saskatchewan Mineral and Millar Western Industries in Canada are the major international thenardite producers, most of which primarily serve their local markets.

Overall, natural thenardite is purer than synthetic thenardite. The production of synthetic thenardite, as a secondary by-product, is dependent on certain other primary chemical production processes. As a by-product, the production cost of synthetic thenardite is typically low, sometimes minimal. If there is a transportation advantage and if a synthetic thenardite product has physical and chemical characteristics that are applicable to meet specific end-use requirements, that synthetic product will typically be used. Nevertheless, synthetic thenardite output is generally steady, it should not impact the natural thenardite market any more than it already has.

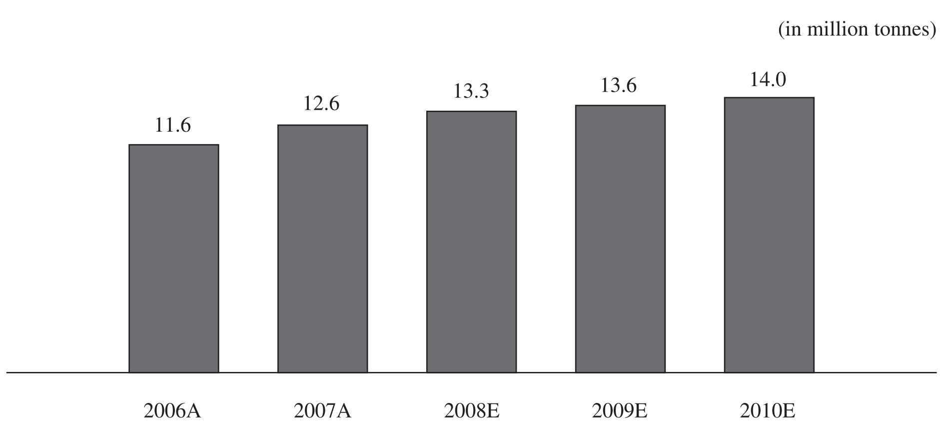
The traditional markets for thenardite, such as laundry detergents, textiles, glass and paper and pulp, are mature markets. Competition in these markets is primarily based on price. Therefore, customers seek the most cost effective and reliable thenardite supplier.

Thenardite products are not traded on any exchange, therefore no terminal or futures market exists for thenardite products where producers, consumers and traders can fix an official or settlement price.

Thenardite pricing is driven by the industry supply and demand dynamics, uniqueness of product specifications and production and transportation costs. Prices vary depending on the grade and packaging costs. Overall, the global average selling price for thenardite has been stable since 2005.

Global Market Forecast

Overall, the growth of thenardite consumption is historically strong in certain parts of the world. Due to the recent global economic crisis, however, the growth of demands for detergent, textiles and glass are expected to slow down in China, the rest of Asia and South America in the next two years which may result in only a modest growth of thenardite consumption in these regions. The long-term market for thenardite in these regions is expected to rebound in 2010 at the earliest. Little or no growth is anticipated in North America and Europe. The table below sets forth global natural thenardite consumption levels for the periods indicated:



Source: Behre Dolbear

OVERVIEW OF CHINA'S THENARDITE INDUSTRY

China ranks first in the world in terms of the size of glauberite reserves and is the world's largest producer and exporter of thenardite. As the data collected by Behre Dolbear are from various sources including government-derived information, annual reports of companies in the thenardite industry, reference books and articles published in industrial minerals and chemical journals, the words "reserves" and "resources" used in this chart are generalizations and are not intended to be in strict conformity with specific international codes and/or categorization systems and/or usages to which such terms are customarily applied.

Glauberite Reserves in China

The characteristics of China's glauberite reserves are as follows:

- as of 2008, China's total glauberite reserves (in terms of thenardite volume) are approximately 10.5 billion tonnes, accounting for approximately 88% of the total global reserves;

- the provinces with the most abundant glauberite reserves are Sichuan, Qinghai, Inner Mongolia, Yunnan, Jiangsu, Hubei and Hunan;

- among China's glauberite deposits, more than 80% are categorized as large and medium-sized; and

- glauberite reserves in China are relatively high-grade, with average purity of glauberite ore of approximately 24.3% Na_2SO_4; the glauberite ore in Sichuan Province is particularly good with an average purity of up to 34.7% Na_2SO_4.

Thenardite Production in China

China is a major producer of thenardite products. There are approximately 200 producers with natural thenardite production facilities, 59 of which are considered major producers, according to JT Boyd.

A majority of China's thenardite output is concentrated in Sichuan and Jiangsu provinces. The average output from the major producers ranges from 30,000 to 550,000 tpa per producer and the average output among small producers ranges from 150 to 200 tpa, according to JT Boyd.

Thenardite production volumes have grown significantly in China in the past decade to a total annual production capacity of more than 12.1 million tpa by 2008.

Thenardite Demand in China

Traditional downstream industries, such as powder detergent, glass and textile production are expected to remain the main sources of demand for thenardite.

Detergent

Currently, 32% of thenardite demand in China comes from the production of powder laundry detergents. Consumption of thenardite in the powder detergent industry was approximately 2.1 million tonnes in 2008. Driven by the growth of economy and the improvement of living conditions in China, consumption is expected to grow at an annual rate of 2-3% from 2008 to 2010. According to Euromonitor International, the retail market size of powder detergent in China was approximately RMB20.9 billion (US$3.0 billion) for the year ended December 31, 2008.

Glass

Growth in the glass manufacturing industry is mainly driven by China's construction and automobile industries. The consumption of thenardite in the glass manufacturing industry was around 0.7 million tonnes and accounted for approximately 13.0% of total thenardite demand in China in 2008. The projected annual growth rate for this market from 2008 to 2010 is approximately 1-2%.

Textiles

In 2008, the consumption of thenardite by the textile industry was around 1.0 million tonnes and accounted for approximately 18% of the total thenardite demand in China in 2008. Annual growth rate in this market from 2008 to 2010 is projected to be around 1-2%.

Food and Medical

Behre Dolbear believes that current consumption of medical and food grade thenardite in China is probably in the range of 110,000 to 140,000 tonnes per year. According to Behre Dolbear, some studies suggest that medical thenardite consumption may reach 400,000 tonnes by 2014.

Demand from New Applications

New thenardite application areas in China include the production of cement products, pre-processing of coal for coal-fired power plants and production of fertilizer and other chemical products. Future demand for thenardite could increase as a result of the development of these new applications of thenardite.

Demand from Exports

China is the biggest thenardite exporter in the world, and its 2008 export volume was approximately 2.6 million tonnes. The high quality and low prices of Chinese thenardite products and the proximity to high growth Asian markets provide the Chinese thenardite producers with economic advantage in several markets worldwide. Chinese thenardite exports have increased at a CAGR of 12.2% between 2004 and 2007. Due to the recent global economic crisis, the growth of exports is expected to slow down for the next two years and to maintain at a CAGR of 2%. Total exports of thenardite are expected to be over 2.7 million tonnes in 2010.

Brazil, Indonesia, Korea, Philippines, Vietnam, Japan and other areas in South America and Asia are the primary markets for Chinese thenardite products. In these regions, the demand for thenardite has experienced an increase in the last several years. Since China is now a member of WTO, it has the ability to export thenardite products with minimal trade restrictions to countries that are also WTO members.

The following chart shows China's natural thenardite export volumes from 2003-2008:

Chinese Exports of Natural Thenardite by Destination Country

Year	Brazil	Korea Republic	Philippines	Thailand	Vietnam	Japan	Indonesia	Others	Total
					(Million Tonnes)				
2003A	0.07	0.14	0.18	0.08	0.07	0.13	0.07	0.59	1.35
2004A	0.16	0.19	0.19	0.09	0.08	0.13	0.06	0.70	1.59
2005A	0.25	0.26	0.18	0.07	0.08	0.16	0.08	0.89	1.90
2006A	0.33	0.26	0.17	0.08	0.09	0.16	0.70	0.93	2.00
2007A	0.41	0.23	0.16	0.10	0.10	0.16	0.70	1.03	2.24
2008E	0.45	0.27	0.15	0.11	0.07	0.23	0.08	1.25	2.61

Source: Behre Dolbear

Competition and Pricing

Most thenardite producers in China have historically operated at or near full capacity. It is expected that domestic competition will increase as numerous domestic producers have announced production capacity expansion plans. We are the only producer in China with a 1.0 million tpa single line production facility and are the second largest thenardite producer in the world in terms of production capacity as of December 31, 2008. The table below summarizes production capacity of the top five Chinese thenardite producers broken down by production facility and total production capacity as of December 31, 2008:

MAJOR THENARDITE PRODUCERS IN CHINA	PRODUCTION CAPACITY BY PRODUCTION FACILITY (tpa)	TOTAL PRODUCTION CAPACITY (tpa)
	(million tonnes)	
Nafine Group International Co., Ltd.	0.6	1.7
	0.5	
	0.3	
	0.3	
Lumena Resources Corp	1.0	1.6
	0.6	
Xinli Chemical Co., Ltd..	0.8	1.4
	0.6	
Hongze Yingzhu Chemical Industry Company	0.7	1.1
	0.2	
	0.2	
Yahong Honga Qing Yi Jiang Chemical	0.8	0.8

Source: Behre Dolbear

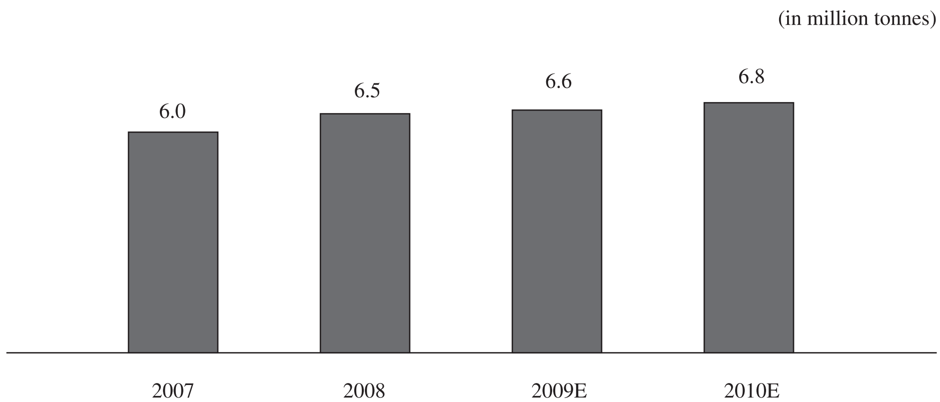
It is anticipated that thenardite producers in China will not face any significant competition from overseas suppliers, because overseas suppliers are subject to high transportation costs. In addition, since most overseas producers are operating at full capacity they would have to spend significant capital to expand their operations before they could expand their international market shares.

With numerous thenardite producers expanding their production capacities, it is unlikely that prices will rise significantly, if at all, in the near future. Given the large number of high volume producers in China and the recent slowdown in China's economic growth, there is a risk of price-cutting by thenardite producers to secure market share.

China Market Forecast

Domestic thenardite consumption has expanded at an average annual rate of approximately 16% for the past seven years as China's economy has rapidly and steadily developed. With the current worldwide economic downturn, however, growth in domestic thenardite consumption has been slowing down in the key traditional downstream markets as well as in various new application areas.

The historic projection of natural thenardite demand from 2007 to 2010 in China is shown in the chart as follows:



Source: Behre Dolbear

Overview

We are engaged in the mining, processing and manufacturing of natural thenardite products. According to the information provided by Behre Dolbear, we believe we have the largest single line thenardite production facility in the world in terms of production capacity as of December 31, 2008. We are also the second largest thenardite producer in the world in terms of production capacity as of December 31, 2008, according to Behre Dolbear. Over 60% of our production capacity is dedicated to the production of specialty thenardite. As at June 30, 2009, our production facility in the Dahongshan Mining Area, which is located 20km northwest of Meishan City, Sichuan Province, was the only production facility in China with the GMP Certificate for medical thenardite and the Pharmaceutical Production Permit, effectively making us the only approved and certified medical thenardite producer in China. Based on the information provided by Behre Dolbear, as at December 31, 2008, we had a domestic thenardite market share of approximately 22.9% and a global thenardite market share of approximately 11.3%.

Thenardite is an important raw material used to manufacture chemical and light industrial products. We produce powder thenardite, specialty thenardite and medical thenardite. Our powder thenardite and specialty thenardite are primarily used as inert fillers in powder detergents and as processing aids in the textile and glass industries. Our medical thenardite is primarily used in Chinese and western medicines as a mild laxative and an anti-inflammatory agent. We are focused on the production and sale of medical and specialty thenardite as they are higher-margin products.

We currently operate two captive underground glauberite mines located in the Dahongshan Mining Area and the Guangji Mining Area in Sichuan Province from which we source all of our glauberite ore for the production of thenardite. The Guangji Mining Area is located 12km southwest of the Dahongshan Mining Area. We have also acquired mining rights in the Muma Mining Area in Sichuan Province. According to JT Boyd, there is a total of approximately 56.1 million tonnes of proved and probable thenardite reserves pursuant to the JORC Code located in these three mining areas as at June 30, 2009. China has the largest glauberite reserve in the world, according to Behre Dolbear, and our reserves are higher than the average grade of reserves in China, according to JT Boyd.

We extract our glauberite ore using the "room solution" mining technique to produce mirabilite solution from our underground mines. The mirabilite solution is then pumped and transported to our production facilities above ground to be further processed and made into thenardite.

We are in a period of significant production growth. We completed construction of and commenced commercial production at our 1.0 million tpa mining and production facility in the Guangji Mining Area, which increased our total combined mining and production capacity to 1.6 million tpa as of November 1, 2008. We expect to complete construction of and commence commercial production at our 0.2 million tpa medical thenardite production facility in the Muma Mining Area by the end of 2009 and a 1.0 million tpa powder and specialty thenardite mining and production facility in the Muma Mining Area in the third quarter of 2010. In August 2009, we entered into an agreement to acquire an existing production facility and mining reserves located close to our Dahongshan and Guangji Mining Areas. We plan to upgrade this production facility to produce animal feed thenardite. We also intend to develop and manufacture medical thenardite downstream applications and other thenardite applications.

We operate our business through our two operating subsidiaries in China, Chuanmei Mirabilite and Chuanmei Glauber Salt. Chuanmei Mirabilite operates the production and mining operations in the Dahongshan Mining Area and Chuanmei Glauber Salt operates and will operate the production and mining operations in the Guangji Mining Area and the Muma Mining Area, respectively.

For the year ended December 31, 2006, we sold 478,135 tonnes of powder thenardite and 27,971 tonnes of medical thenardite. For the year ended December 31, 2007, we sold 532,393 tonnes of powder thenardite, 89,270 tonnes of specialty thenardite and 75,281 tonnes of medical thenardite. For the year ended December 31, 2008, we sold 477,815 tonnes of powder thenardite, 926,830 tonnes of specialty thenardite and 99,080 tonnes of medical thenardite. For the six months ended June 30, 2009, we sold 247,651 tonnes of powder thenardite, 466,200 tonnes of specialty thenardite and 50,111 tonnes of medical thenardite. We used to focus on the production and sale of powder thenardite. We currently focus on the production and sale of medical thenardite and specialty thenardite, which are higher margin products. We only began the production and sale of specialty thenardite in November 2007 and expect revenues from specialty thenardite to increase as a percentage of our total revenue in the future. Our revenue for each of the three years ended December 31, 2008 and the six months ended June 30, 2009 was RMB204.8 million, RMB371.5 million, RMB1,140.4 million (US$167.1 million) and RMB592.3 million (US$86.7 million), respectively and our net profit for the same periods was RMB49.3 million, RMB89.0 million, RMB442.1 million (US$64.8 million) and RMB263.4 million (US$38.6 million), respectively.

Our Competitive Strengths

We believe our success to date can be attributed to a combination of our competitive strengths, including the following:

The world's second largest thenardite producer in terms of production capacity with a leading market presence in China

We believe we have the largest single line thenardite production facility in the world in terms of production capacity as of December 31, 2008, according to the information provided by Behre Dolbear. We are also the second largest thenardite producer in the world in terms of production capacity as of December 31, 2008, according to Behre Dolbear. As of June 30, 2009, we had a total combined production capacity of 1.6 million tpa. Large-scale production of thenardite requires abundant and quality glauberite reserves, significant investment and technical expertise, posing barriers to entry. Therefore, we do not expect the number of large-scale thenardite producers to increase substantially in the near term. We believe that we will be able to benefit from economies of scale with our large-scale production. With our plans to expand our production capacity further in the future, we believe we will continue to enjoy the benefits of being one of the largest thenardite producers in the world in terms of production capacity with a leading market presence in China.

Accumulated thenardite production know-how and research and development capabilities focused on the development of new products and applications and the improvement of our production process

We believe the thenardite production know-how we have accumulated has enabled us to reduce costs relating to coal and electricity, which are the key inputs for energy in thenardite production across all of our production facilities. As of June 30, 2009, our medical thenardite production facility was the only one in China with the GMP Certificate for medical thenardite and the Pharmaceutical Production Permit. According to the information provided by Behre Dolbear, we believe our 1.0 million tpa production facility is the largest single line production facility in the world in terms of production capacity as of December 31, 2008. We believe these accomplishments are closely related to our accumulated thenardite production know-how.

We have been able to combine the technology of our equipment suppliers into our production facility in the Guangji Mining Area. The design of our production facility in the Guangji Mining Area and the materials used to build such facility allows us to more efficiently use steam generated in our evaporating process which we believe allows us to consume less energy than our production process located in the Dahongshan Mining Area.

Our research and development is primarily focused on product development, new application discovery, mining and production process improvement. We have more than 18 years of experience in solution mining. To date, we are able to commercially produce approximately 10 different kinds of specialty thenardite products and continue to work closely with our customers to fulfill their needs for specialty thenardite products. We are also working with different organizations including research institutes to improve our production processes and to discover new applications for thenardite products, such as in quick-dry cement manufacturing. We believe that this collaboration will allow us to focus on the development of high-value, high-margin products. We believe that our know-how has a significant impact on the quality of our medical thenardite as well as our ability to make a variety of specialty thenardite tailored to meet customer specifications. We believe that the quality of our products and our ability to make customized specialty thenardite drive the demand for our higher priced and higher margin medical and specialty thenardite.

In particular, we have in the past devoted research and development efforts in respect of the development of our specialty thenardite business. The relevant production equipment and system for specialty thenardite must meet strict requirements which involve significant investments. The pipes, valves, evaporating tanks, boilers and thermal dryer beds and other production equipment used for production of powder thenardite must be upgraded technologically to achieve higher temperature resistance, higher pressure resistance and anti-acid/alkali corrosion. Certain additional equipment must also be introduced to the production system to achieve the required specific physical and chemical qualities of the thenardite products. Being a leader of the specialty thenardite industry in the PRC, we believe we have been able to capture the relevant technology and know-how in advance of our competitors in the industry.

Our strong research and development capability has been recognized in the industry as well as by the government. We have set up a thenardite research and development center in Sichuan Province, which we believe is the only thenardite technology center recognized at the provincial government level in China.

Abundant and quality glauberite ore reserves

We believe our quality glauberite ore reserves in Sichuan Province enable us to have a steady supply of high quality raw material for our existing and future thenardite production. According to JT Boyd and Behre Dolbear, the glauberite ore in Sichuan Province reportedly has an average purity of 35% and the average purity of our reserve ranges from 34% to 40% Na_2SO_4 as compared to China's average of approximately 25%. According to JT Boyd, our glauberite ore reserves are consistently high in concentration and thickness and low in pollutants and we have approximately 56.1 million tonnes of proved and probable thenardite reserves pursuant to the JORC Code in our three mining areas as at June 30, 2009. Further, our glauberite ore is calcium-based which facilitates the production of higher purity thenardite than other types of glauberite ore. We believe that this high level of purity has enabled us to command higher average selling prices than our competitors across all our product lines as we are able to produce thenardite products with high purity levels. We also believe that the purity of our thenardite facilitated our research and development efforts in developing our medical and specialty thenardite products.

Recognized brand name among downstream industries and strong business relationships with our customers

We enjoy strong brand recognition among downstream industries in China which enables us to maintain strong customer relationships and market share. Our powder thenardite produced and sold under the brand of "Chuanmei" has been recognized as a "Sichuan Famous Brand Product" since 1993 and the registered trademark "Chuanmei" was recognized as a "China Well-known Trademark" by the SAIC in March 2008. Our medical thenardite products are sold under the brand "Sansu".

We believe our powder thenardite is among the highest quality in the market. Our products are recognized and used by multi-national corporations such as P&G. As a leading Chinese specialty thenardite producer, we are currently able to produce approximately 10 different kinds of specialty thenardite products. We also work closely with our customers to understand their needs for our thenardite products, which further maintains our leading domestic market position. We believe our efforts to understand our customer's specific needs and our capability to respond to their needs have earned us our market reputation and position as the thenardite supplier of choice for many consumers.

Well-positioned to benefit from the growth in demand for thenardite in China

We are well-positioned to benefit from the growth in thenardite demand in China. China is one of the major thenardite consumption markets in the world, consuming 5.7 million tonnes and 6.0 million tonnes of natural thenardite representing approximately 48.5% and 47.4% of world consumption in the years ended December 31, 2006 and 2007, respectively, according to Behre Dolbear. Behre Dolbear projects that the CAGR of thenardite consumption in China will be 4.6% from 2007 to 2010. In anticipation of this increase in demand, we have expanded our production capacity from 0.6 million tpa to 1.6 million tpa by completing the construction of the production facility in the Guangji Mining Area. As suggested by Behre Dolbear, there is room for growth for thenardite market in China as well as other developing countries of Asia, South America and the Middle East where more consumers utilize washing machines and powder detergents.

As at June 30, 2009, our production facility in the Dahongshan Mining Area was the only production facility in China with the GMP Certificate for medical thenardite and the Pharmaceutical Production Permit, effectively making us the only approved and certified medical thenardite producer in China. Recently, a number of food and medical products have caused serious illness and fatalities in China, leading to an increased attention to food and drug safety issues. We believe such attention benefits producers like us who have been certified and approved by government authorities for medical thenardite production. Our production facility at the Dahongshan Mining Area can produce up to 150,000 tpa of medical thenardite. We also intend to complete construction of and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009. We intend for this new medical thenardite facility to have the ability to produce medical thenardite downstream applications by the end of the first quarter of 2011.

Our 1.0 million tpa production facility in the Guangji Mining Area is designed to have the ability to produce both powder and specialty thenardite, which enables us to respond quickly to potential shifts in market demand for thenardite. We believe there are a large number of uses for our thenardite products and that demand in China will come from a number of industries such as powder detergents, textiles and glass as well as from new applications such as quick-dry cements and the pre-processing of coal.

Experienced senior management team with industry expertise

Our management team, comprising our chief executive officer, Mr. Zhang Daming, our chief financial officer, Mr. Zhu Ben Yu, our mining director, Mr. Zhu Jimin, our chief engineer, Mr. Li Chunxian, our human resource and purchase director, Mr. Gou Xingwu, and our production director, Mr. Li Hongqing, has many years of experience in the mining industry in China and has contributed to our competitive advantages over both foreign and domestic thenardite producers. Members of our senior management have an average of above 10 years of experience in the mining industry and provide for focused marketing efforts, strategic relationships with key industry participants, quality control and stringent cost controls experience and knowledge of the regulatory environment in China.

Our Strategies

Our long-term goals are to further strengthen our leading position in the thenardite market in China, increase our market share through focused growth and further extend our product portfolio. We intend to achieve these goals by pursuing the following strategies.

Continue expansion of production capacity

To capitalize on projected growth opportunities and further enhance our market position as a leading thenardite producer in China, we intend to complete construction of and commence commercial production at a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 with an estimated capital expenditure of approximately RMB406.1 million and a 1.0 million mining and production facility of powder and specialty thenardite in the Muma Mining Area in the third quarter of 2010 with an estimated capital expenditure of approximately RMB646.4 million. As of June 30, 2009, an aggregate of RMB618.8 million has already been spent to acquire production equipment and mining facilities. In August 2009, we entered into an agreement to acquire an existing production facility and thenardite resources located close to our Dahongshan and Guangji Mining Areas. We plan to upgrade this facility to produce animal feed thenardite, a type of specialty thenardite. We also intend to acquire or upgrade existing production facilities to develop and manufacture medical thenardite downstream applications and other thenardite applications.

Further explore acquisition opportunities to increase our thenardite reserve base

We intend to increase our thenardite reserve base by acquiring additional mining rights for high quality glauberite mines. We continue to explore opportunities for growth through selective acquisitions. We will consider the following criteria when exploring future acquisition opportunities:

- the resources, reserves or mining operations of the target company;
- the amount, grade, mining costs and sustainability of the target resources or reserves;
- the financial costs and benefits of the acquisition;
- potential synergies with the potential target in terms of technology, know-how, management expertise and business compatibility; and
- the contributions of the acquisition towards the overall sustainability of our business.

We are currently exploring opportunities to acquire thenardite reserves in Sichuan Province.

Reduce production costs through research and development

We aspire to be one of the most cost-efficient thenardite producers in the industry. We intend to continue to increase our cost effectiveness by investing in advanced technology and applying prudent manufacturing principles. We devote research and development resources to enhance the efficiency of our production processes. As at June 30, 2009, we retained five consultants and employed 33 mining and thenardite technicians. We have cooperated with the Zigong Light Industry Design and Research Institute to conduct a feasibility study for the 1.0 million tpa vacuum thenardite processing technology and to develop our specialty thenardite production system. We have also entered into a technology cooperation agreement with Zigong Light Industry Design and Research Institute to improve our water cooling and circulation system. We have also entered into a technology agreement with Sichuan Pharmaceutical Design Institute in connection with our planned 0.2 million tpa medical thenardite production facility. It is intended that our thenardite research and development center will cooperate with other research institutes in the future. We will continue to invest in our research and development to improve operational efficiency and to lower unit production costs.

Develop new products and applications to target high margin sales

We have recently taken the initiative to expand our production of specialty thenardite and medical thenardite, the gross profit margins of which were 81.9% and 75.4%, respectively, for the year ended December 31, 2007, 77.8% and 70.7%, respectively, for the year ended December 31, 2008, and 78.9% and 78.6%, respectively, for the six months ended June 30, 2009 as compared to the gross profit margin of 32.0%, 28.2% and 18.5% of powder thenardite for the same periods. In addition, average selling prices in the domestic market for specialty and medical thenardite products were significantly higher than powder thenardite products. Since our production facility in the Dahongshan Mining Area is the only licensed producer of medical thenardite in China, and we believe we are a leading producer of specialty thenardite, we believe the competition we face in the domestic market for specialty and medical thenardite products will be limited in the near future.

We began commercial production of medical thenardite in 2005. In November 2007, we commenced pilot production of specialty thenardite. We are able to commercially produce approximately 10 different kinds of specialty thenardite products. Although we only commenced production of our specialty thenardite product in November 2007, we have received a positive market response and have entered into contracts for more than 0.8 million tonnes specialty thenardite for 2009. We believe that there is a growing market for our specialty thenardite products.

In addition to our existing products, we intend to continue to develop new products and new downstream applications for our thenardite products through our research and development efforts in order to further extend our product portfolio. We are currently in the process of developing animal feed thenardite, a type of specialty thenardite, to further diversify our specialty thenardite product range. We have filed our production standard of animal feed thenardite with the relevant authority in April 2009. We also intend to further refine our medical thenardite for clinical applications and develop other thenardite applications. If suitable opportunities arise in the future, we may also consider entering into other mineral resources mining businesses.

Recent Developments

In August 2009, we entered into an equity transfer agreement with Sichuan First Silk to acquire the remaining 10% equity interest in Chuanmei Mirabilite for a consideration of RMB264.0 million. We have paid approximately RMB185.0 million as the first installment of the purchase price and are required to pay the balance within ten business days from the date on which all conditions precedent, including the receipt of governmental approvals, to the equity transfer agreement are satisfied. This transaction is expected to be completed by the end of 2009. Upon the completion of this transaction Chuanmei Mirabilite will become our wholly-owned subsidiary. See "Related Party Transactions".

In August 2009, we entered into an agreement to acquire a production facility and thenardite resources located close to the Dahongshan and Guangji Mining Areas from third party sellers for a total consideration of approximately RMB68.0 million. The purchase price was fully paid in

September 2009. We expect the production assets and mining rights to be transferred to us by the end of January 2010 and the remaining administrative assets to be transferred to us by the end of February 2010. We intend to upgrade this production facility to produce animal feed thenardite and to use these newly acquired resources to support such production.

Our Products

We produce powder thenardite, specialty thenardite and medical thenardite. The purity of the sodium sulfate content and specific physical and chemical features distinguish specialty and medical thenardite from powder thenardite.

The table below sets out our sales volumes and revenue contribution by product type and as a percentage of our total revenues for the periods indicated:

	For the year ended December 31,									For the six months ended June 30, 2009		
	2006			2007			2008			2009		
	Sales Volumes Tonnes	Sales Revenue	%	Sales Volumes Tonnes	Sales Revenue	%	Sales Volumes Tonnes	Sales Revenue	%	Sales Volumes Tonnes	Sales Revenue	%
	(RMB'000, except for tonnage and percentages)											
Powder thenardite	478,135	151,633	74.1	532,393	149,405	40.2	477,815	154,486	13.5	247,651	63,259	10.6
Specialty thenardite	–	–	–	89,270	76,558	20.6	926,830	793,705	69.6	466,200	401,380	67.8
Medical thenardite	27,971	53,122	25.9	75,281	145,567	39.2	99,080	192,163	16.9	50,111	127,707	21.6
Total	506,106	204,755	100.0	696,944	371,530	100.0	1,503,735	1,140,354	100.0	763,962	592,346	100.0

Powder Thenardite

As we understand from our customers, our powder thenardite is mainly used in the powder detergents, glass and textile industries. In the powder detergent industry it is used as an inert filler. In the glass industry it is used as a refining process aid. In the textile industry it is used as a dyeing process aid. The quality of powder thenardite is subject to the supervision of the General Administration of Quality Supervision, Inspection and Quarantine. Our powder thenardite is in compliance with the industry standard set forth in National Standard GB- T6009-2003. We currently produce powder thenardite at our production facility in the Dahongshan Mining Area.

We sold approximately 478,135 tonnes, 532,393 tonnes, 477,815 tonnes and 247,651 tonnes of powder thenardite in the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Revenue derived from sales of powder thenardite amounted to RMB151.6 million, RMB149.4 million, RMB154.5 million (US$22.6 million) and RMB63.3 million (US$9.3 million), respectively, for the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, representing 74.1%, 40.2%, 13.5% and 10.6% of our total revenues for those periods, respectively.

Although we expect to increase production volumes for powder thenardite, we expect the percentage of our revenues represented by powder thenardite to decrease in the near future due to the further increase of our medical and specialty thenardite production volumes.

Specialty Thenardite

We design our specialty thenardite products to meet the specifications of our customers for their end products. Our specialty thenardite products include neutral thenardite (with a pH of 6 to 8), granular thenardite, extra fine thenardite, high purity thenardite (purity higher than 99.3%), low chlorine thenardite, low calcium and magnesium thenardite, extra white thenardite, low iron content thenardite, color thenardite and others. We understand that our specialty thenardite products are generally used in the same industries as our powder thenardite. Specialty thenardite products are widely regarded as favorable material compared to powder thenardite products as they can reduce production costs of downstream products and improve product quality. For example, granular thenardite reduces the need for additional downstream processing by detergent manufacturers. Neutral thenardite, due to its neutral pH, is used to reduce the corrosion of textiles during the dyeing process and is increasingly used for high-end textiles. There is no industry standard specifically applicable to specialty thenardite.

Although we only began pilot commercial production of specialty thenardite in our production facility located in the Guangji Mining Area in November 2007, we sold 89,270 tonnes, 926,830 tonnes and 466,200 tonnes of specialty thenardite for the year ended December 31, 2007 and 2008 and the six months ended June 30, 2009, respectively, which generated revenues of RMB76.6 million, RMB793.7 million (US$116.3 million) and RMB401.4 million (US$58.8 million) for the same periods. With the completion of our 1.0 million tpa production facility located in the Muma Mining Area in the third quarter of 2010, we intend to increase our production volumes of both powder and specialty thenardite.

We believe that we will be able to solicit additional orders of specialty thenardite for our planned 1.0 million tpa production facility in the Muma Mining Area. We believe that the demand for specialty thenardite products will increase along with the potential improvement of PRC economic environment and as a result of measures implemented by the PRC government in November 2008 to promote domestic economic growth. For instance, we believe the accelerated construction of significant infrastructure projects in China will impact on the demand for cement, which may in turn, provide valuable opportunities for our research on specialty thenardite as an additive to quick-dry cement.

Medical Thenardite

Medical thenardite is used in both Chinese and western medicines. Medical thenardite undergoes a different production process from our powder and specialty thenardite products. We produce medical thenardite only at our production facility located in the Dahongshan Mining Area. We understand from our customers that our medical thenardite product is primarily used in Chinese and western medicines as a mild laxative and an anti- inflammatory agent and is sold under the National Pharmaceutical Batch Code (國藥准字) Z51022578 issued by the State Food and Drug Administration. Its quality is in compliance with the product specifications set out in the 2005 National Pharmaceutical Encyclopedia and is subject to the supervision of the Sichuan FDA. Medical thenardite is currently subject to a price ceiling of RMB4,500 per tonne as set by the Sichuan Commodity Price Control Bureau (四川省物價局).

We sold approximately 27,971 tonnes, 75,281 tonnes, 99,080 tonnes and 50,111 tonnes of medical thenardite in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. We generated revenues of RMB53.1 million, RMB145.6 million, RMB192.2 million (US$28.2 million) and RMB127.7 million (US$18.7 million) from sales of medical thenardite for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, representing 25.9%, 39.2%, 16.9% and 21.6% of our total revenues for those periods. With the completion of 0.2 million tpa production facility of medical thenardite located in the Muma Mining Area in 2009, we intend to increase our production volumes of medical thenardite.

New products under development

Animal feed thenardite

We are currently developing the production process for animal feed thenardite, which is a type of specialty thenardite, to diversify our specialty thenardite product range. Sulfur, one of the basic components of thenardite, is indispensable to livestock and poultry. However, it is not produced naturally in livestock and poultry and can only be provided through ingestion. Thenardite is a source of sodium and sulfur in animal feed, and we believe it increases the daily weight gain, egg laying rate and milk yield of livestock and poultry. The Ministry of Agriculture of China (the "Ministry of Agriculture") has approved thenardite as a feed additive and set out the recommended formula in the Safety Code for Feed Additive Application. There are currently no national technical standards for the animal feed thenardite and each manufacturer of animal feed thenardite needs to file its enterprise technical standards with the authorities. We have filed our technical standards in April 2009.

In August 2009, we entered into an agreement to acquire an existing production facility and thenardite resources located close to our Dahongshan and Guangji Mining Areas. We plan to upgrade this production facility to produce animal feed thenardite.

Medical thenardite downstream applications

We are also in the process of upgrading our medical thenardite to provide downstream applications. Through a series of crystallization, heating and evaporation processes, medical thenardite can be further processed into a more refined product, which has a milder taste, higher quality and higher purity. This product can be used in various clinic departments such as gastroenterology, digestion, obstetrics, gynecology, stomatology, spleen, pediatrics, orthopedics, trauma, burns, plastic surgery, ICU, hemorrhoids, dermatology and traditional Chinese medicine.

We plan to commence constructing our medical thenardite downstream application production facility in the first quarter of 2010 and commercial production by the end of first quarter of 2011.

Our Mining Operations and Production Facilities

Overview

We currently operate one underground mine at the Dahongshan Mining Area and one underground mine at the Guangji Mining Area, and employ solution mining at both mines. In addition, we acquired mining rights at the Muma Mining Area in 2008. We also plan to employ solution mining in the Muma Mining Area. We have carried out exploration activities in connection with the preparation of mining design plans and construction of trial pits for mining access points and underground extraction roadways. Such exploration activities do not form part of the ordinary course of our business and are distinguishable from the licensed exploration activities as envisaged under Chapter 18 of the Listing Rules.

As of June 30, 2009, we had total proved and probable thenardite reserves of 56.1 million tonnes pursuant to the JORC Code, according to JT Boyd. The following table provides information on our glauberite reserves and resources as of June 30, 2009.

	Marketable Reserves[1]			Resources[2]		
Our Mines	**Proved**	**Probable**	**Total**	**Measured**	**Indicated**	**Total**
	(in million tonnes)			(in million tonnes)		
Dahongshan Mining Area	15.1	4.1	19.2	25.2	6.8	32.0
Guangji Mining Area	11.6	8.2	19.8	19.3	13.6	32.9
Muma Mining Area	5.8	11.3	17.1	9.7	19.4	29.1
Total	32.5	23.6	56.1	54.2	39.8	94.0

Source: JT Boyd
Notes:

(1) *Yield of saleable thenardite from recoverable reserves after accounting for mining and processing losses. Marketable reserves under the JORC Code are divided into proved and probable reserves.*

(2) *Resources are a less accurate measure of ore occurrence when compared to reserves. The distance between the drill holes for resource ore testing were twice the distance needed to determine reserves. See "Risk Factors – Risks Relating to our Business and our Industry – The accuracy of our resources and reserves estimates is based on a number of assumptions and we may produce less thenardite than our current estimates".*

According to JT Boyd, the purity of our mining reserves in both the Dahongshan and Guangji Mining Areas are generally higher than the average purity in Sichuan Province and the rest of China. Also, both mines contain calcium-based glauberite ore which is considered to be the most suitable for specialty thenardite production due to its chemical property. According to JT Boyd, the average purity of our reserve in the Dahongshan, Guangji and Muma Mining Areas is between 34-40% Na_2SO_4 as compared to China's average of approximately 25% Na_2SO_4.

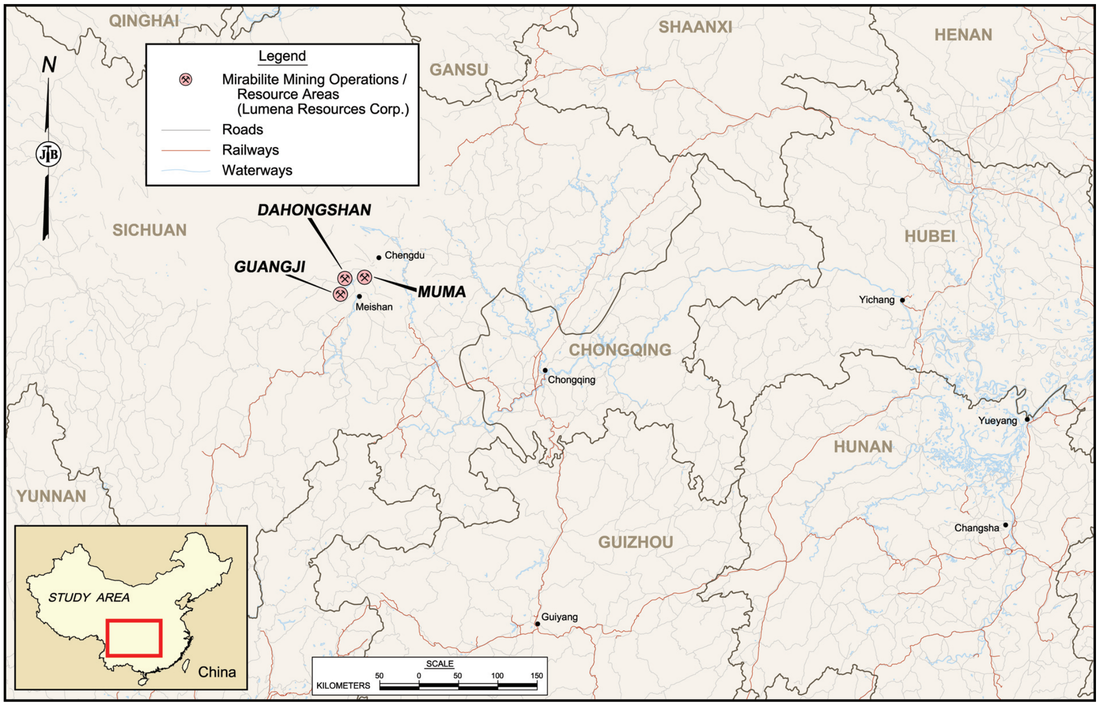
We acquired the mining rights in the Muma Mining Area in 2008. According to JT Boyd, the average purity of the mining reserve in the Muma Mining Area is 34-36% Na_2SO_4. As of June 30, 2009, we owned land use rights to a parcel of land totaling 67,362.0m^2 above our mining reserve in the Muma Mining Area.

Mine Service Life

Mine Area	**Marketable Reserves Thenardite (Mt)**	**Mine Life (Years)**
Dahongshan	19.2	32
Guangji	19.8	20
Muma	17.1	14

Source: JT Boyd

The following map illustrates the locations of our mines:



Source: JT Boyd

As of June 30, 2009, we had two thenardite production facilities with a combined production capacity of 1.6 million tpa. We commenced production in the Dahongshan Mining Area in 1953. Our production in the Guangji Mining Area started on a pilot basis in November 2007 and commenced full commercial production in November 2008. In addition, we expect to complete construction of a 0.2 million tpa production facility of medical thenardite in the Muma Mining Area by the end of 2009 and a 1.0 million tpa mining and production facility of powder and specialty thenardite in the Muma Mining Area in the third quarter of 2010.

Dahongshan Mining Area and Production Facility

Our mine in the Dahongshan Mining Area is a fully developed and operational underground mining and processing facility that produced 504,199 tonnes, 603,839 tonnes, 576,569 tonnes and 297,762 tonnes of thenardite in the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. The average purity of our reserve in the Dahongshan Mining Area is 38-40% Na_2SO_4, according to JT Boyd. The Dahongshan Mining Area is approximately 3.7 km^2 and located 20km northwest of Meishan City in Sichuan Province. We currently operate the No. 1 Ore Zone and No. 2 Ore Zone in the Dahongshan Mining Area. Our current mining right permit in connection with our Dahongshan Mine is valid from 2008 to 2038. Our estimated proved and probable thenardite reserve totals 19.2 million tonnes pursuant to the JORC Code, according to JT Boyd. We acquired the mining rights in the Dahongshan Mining Area together with the acquisition of 90% equity interest in Chuanmei Mirabilite. The remaining 10% equity interest is held by Sichuan First Silk. Our acquisition price of Chuanmei Mirabilite was approximately RMB73.4 million, which was fully paid in 2005. The mining rights in the Dahongshan Mining Area were valued and recorded in our financial statements at RMB0.5 million in accordance with IFRS 3 for the year ended December 31, 2004. In August 2009, we entered into an agreement with Sichuan First Silk to acquire the remaining 10% equity interest in Chuanmei Mirabilite for a consideration of RMB264.0 million. This transaction is expected to be completed by the end of 2009.

As of June 30, 2009, our mining and production facilities in the Dahongshan Mining Area had a total production capacity of 0.6 million tpa. We plan to utilize 80-85% of this production capacity to produce powder thenardite and 15-20% to produce medical thenardite. It has a coal-fired power plant that has an installed capacity of 4.5 MW.

As of June 30, 2009, we did not have the land use rights for the parcel of land immediately above our mining reserves in the Dahongshan Mining Area. However, underground mining activities are unaffected by our lack of land use rights for the land directly above our mining reserves. See "Risk Factors – Risks Relating to Our Business and Our Industry – We do not have land use rights for certain parcels of land above our two mines and may not be able to continue to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels" and "– Property".

Meishan Mirabilite Factory (眉山芒硝廠), our predecessor, failed to obtain the approval for construction project, environmental effects approval, approval for completion-based check and acceptance for the environmental protection, approval of safety check & acceptance for completion of project, approval of fire prevention check & acceptance for completion of project and construction project completion approval in connection with its No. 1, No. 2 and No. 5 thenardite production lines of the Dahongshan Mining Area due to administrative error of the management then in charge. The relevant authorities, however, have confirmed to us in their confirmation letter that we will not be fined or otherwise penalized for the lack of these approvals in connection with the aforementioned production lines.

The production of medical thenardite differs from that of powder thenardite in terms of production processes, operational parameters, sanitary conditions and packaging requirements and is carried out at an uncontaminated workshop within our production facility in the Dahongshan Mining Area.

Guangji Mining Area and Production Facility

Our Guangji Mining Area is approximately 3.9 km^2 and located 12km southwest of the Dahongshan Mining Area and we commenced pilot operation in the Guangji Mining Area in November 2007. The average purity of our reserve in the Guangji Mining Area is 35-40% Na_2SO_4, according to JT Boyd. Our current mining right permit in connection with our Guangji Mine is valid from 2008 to 2038. JT Boyd estimates that proved and probable thenardite reserves total 19.8 million tonnes in the Guangji Mining Area pursuant to the JORC Code.

As of June 30, 2009, our mining and production facilities in the Guangji Mining Area had a production capacity of a 1.0 million tpa which is designed to have a production capacity to produce both powder thenardite and specialty thenardite by adjusting the production processes and operational parameters. It has a coal-fired power plant that has an installed capacity of 7 MW.

In March 2007, the People's Government of Dongpo District and our Company entered into an investment contract (《四川省川眉芒硝工業集中區項目投資合同書》) pursuant to which the People's Government of Dongpo District agreed to assist Chuanmei Mirabilite in the construction, development and operation of a thenardite production processing factory in the Guangji Mining Area.

We obtained the necessary permits for construction of the mining and production facility located at the Guangji Mining Area, including the working permit on construction works (建設項目施工許可證), the planning Permit on constructions works (建設項目規劃許可證) and the construction land use permit (建設用地使用許可證), in March and April 2007 and started our construction in June 2007. In November 2007, the Meishan Administration of Environmental

Protection approved our pilot commercial production in the Guangji Mining Area from November 2007 to February 2008, the term of which was subsequently extended to August 15, 2008. In November 2007, the State Land and Resources Bureau of Meishan City issued a letter confirming the validity of our mining activities in the Guangji Mining Area on a pilot basis. We then commenced pilot production on November 16, 2007. We entered into an agreement with the Land and Resources Bureau of Sichuan Province to acquire the mining rights in the Guangji Mining Area for approximately RMB65.5 million on March 10, 2008 and the consideration was fully paid in March 2008. We were subsequently instructed by the Land and Resources Bureau of Sichuan Province to pay and we have paid an additional consideration of approximately RMB26.3 million by end of September 2008. In March 2008, the Meishan Administration of Safety Supervision confirmed to us in a letter that we had met the relevant requirements for work safety for our operations in this period of pilot production.
In April 2008, we received approval from the Sichuan Administration of Environmental Protection (四川省環境保護局) also in relation to our pilot production.

Notwithstanding the foregoing, we operated without mining rights and certain other relevant permits and approvals from November 2007 to October 31, 2008. These relevant permits and approvals included our work safety permit, pollutant discharge permits, environment impact assessment for the Guangji Mine construction and certain inspections and certifications relating to the completion of the construction of our production and mining facility in the Guangji Mining Area. By October 2008, we had obtained the mining rights for the Guangji Mine and other necessary permits and approvals for our mining and production facilities in the Guangji Mining Area. Simultaneous with the grant of the mining rights and other necessary permits and approvals, the Land and Resources Bureau of Sichuan Province and other relevant government authorities have confirmed to us by way of confirmation letters that we will not be fined or otherwise penalized for our past operation without mining rights and other necessary permits and approvals in the Guangji Mining Area. As advised by our PRC legal counsel, Grandall Legal Group (Shanghai), operating without mining rights and a work safety permit, which can only be obtained upon receiving the mining rights, subjected us to the possibility of being ordered to suspend production, a disgorgement of revenues and significant monetary fines. Failure to obtain the other permits and approvals could have subjected us to a production suspension order and/or a revocation of our mining rights, licenses and business licenses. We believe that in view of the approvals we obtained for our pilot production and in consideration of the fact that we have since obtained the mining rights and other relevant permits, approvals and confirmation letters in October 2008, we should not be fined as a result of our lack of mining rights or other relevant permits and approvals for the period from November 2007 to October 31, 2008. See "Risk Factors – Risks relating to Our Business and Our Industry – We operated in the Guangji Mining Area without mining rights and certain other relevant approvals".

As of June 30, 2009, we do not have the land use right for the parcel of land immediately above our mining reserves in the Guangji Mining Area. Our underground mining activities are unaffected by our lack of land use rights for the land directly above our mining reserves. See "Risk Factors – Risks Relating to Our Business and Our Industry – We do not have land use rights for certain parcels of land above our two mines and may not be able to continue to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels" and "– Property".

Muma Mining Area and Production Facility

The Muma Mining Area is approximately 3.7 km^2 and located in Wuyang Village, Pengshan County, Meishan City, Sichuan Province. The average purity of our reserve in the Muma Mining Area is 34-36% Na_2SO_4, according to JT Boyd. Pursuant to the Muma Mining Rights Agreement dated September 10, 2007 entered into between Chuanmei Glauber Salt as the purchaser and Sichuan Muma Mirabilite Mining Co., Ltd. (四川牧馬芒硝礦業有限公司) ("Muma Mining") as the seller, Chuanmei

Glauber Salt purchased from Muma Mining the mining rights in respect of the Muma Mining Area. Our current mining right permit in connection with our mines in the Muma Mining Area is valid from 2008 to 2038. JT Boyd's estimate of proved and probable thenardite reserve totals 17.1 million tonnes pursuant to the JORC Code. The total purchase price for the mining rights in the Muma Mining Area was determined by Chuanmei Glauber Salt and Muma Mining pursuant to arm's length negotiations to be RMB240.0 million, which was fully paid as of December 31, 2008. Although this purchase price is lower than the appraised value provided by an independent valuer, our PRC legal counsel, Grandall Legal Group (Shanghai) has advised us that it is in compliance with the relevant PRC laws and regulations.

We intend to complete construction of and commence commercial production at a 0.2 million tpa medical thenardite production facility in the Muma Mining Area by the end of 2009. We intend for this new medical thenardite facility in the Muma Mining Area to have the ability to produce both our existing medical thenardite product as well as medical thenardite downstream applications. In addition, we plan to complete a 1.0 million tpa powder and specialty thenardite production facility in the Muma Mining Area in the third quarter of 2010. Our planned 1.0 million tpa production facility in the Muma Mining Area is expected to be able to produce both powder thenardite and specialty thenardite by adjusting the production processes and operational parameters. As such, we will have the flexibility to allocate a portion of the production capacity to produce powder thenardite if commercially practical.

As of the June 30, 2009, we have obtained the environmental effects approval and project approval for our 0.2 million tpa medical thenardite production facility in the Muma Mining Area. Upon completing the construction of this medical thenardite production facility, we are required to obtain the approval of completion-based check and acceptance for environmental protection and the Pharmaceutical Production Permit. Within 30 days of our commencement of commercial production, we must obtain the GMP Certification. See "Risk Factors – Risks Relating to Our Business and Our Industry – We may not be able to continue our production of medical thenardite or maintain our current competitive position in the sales of medical thenardite, and we may not be able to obtain a GMP Certification and Pharmaceutical Production Permit for our intended 0.2 million tpa medical thenardite and approximately 15,000 tpa medical thenardite downstream application production facilities in the Muma Mining Area".

Renewal of Mining Rights

Our mining right for the Dahongshan Mining Area was issued in April 2005 for a period of 3.5 years with a maximum annual production capacity of 1.2 million tonnes. A replacement mining right for the Dahongshan Mining Area was issued in November 2007 to reflect the change of Chuanmei Mirabilite's legal status from a domestic enterprise to a sino-foreign joint venture in May 2005. Our mining rights in the Dahongshan Mining Area were renewed in September 2008 for a period of 30 years. We believe that according to the applicable PRC laws and regulations currently in effect, there would be no legal or procedural impediment to renewing our current mining rights upon their expiration, provided that residual reserves and the geological environment of the mining area remain suitable for commercial mining activities after the expiration of the term of the current mining rights, our mining activities have complied with the relevant laws and regulations and that we have duly paid all necessary resource taxes, mineral resource compensation fees and mining usage fees and an application for renewal of mining rights must be submitted no later than 30 days prior to the expiration of the mining right permit. For any mine that has remaining reserves after the expiration of the relevant mining right permit, we intend to submit an application to renew the mining right permit in due course. As of June 30, 2009, we have always been able to renew our mining rights over the Dahongshan Mining Area. Our mining rights for the Dahongshan Mining Area are currently pledged to Evergrowing Bank pursuant to a pledge agreement dated December 31, 2008 in connection with a RMB30.0 million one year onshore term loan, which bears a fixed interest rate of approximately 6.1%

per annum and is repayable in full at maturity. See “Risk Factors – Risks Relating to Our Business and our Industry – We rely on outstanding bank borrowings, but we may not be able to comply with the covenants under these borrowings or secure sufficient payment or refinancing when they mature”.

The following table provides details of our mining right permits:

Mining Rights Areas	Certificate Number	Current Mining Right Permit Grant Date	Mining Right Validity	Mining Right Permit Renewal Date	Authorized Area
Dahongshan Mining Area. . . .	5100000820458	September 2008	30 yrs	September 2038	Ore Zones 1, 2, 6, 7 and 8
Guangji Mining Area	5100000810456	September 2008	30 yrs	September 2038	Ore Zones 1 and 2
Muma Mining Area	5100000820457	September 2008	30 yrs	September 2038	Ore Zones 1, 2, and 3

In accordance with the relevant PRC laws and regulations, the validity period of a mining right permit is determined by the period the applicant applied for and the total thenardite reserves estimated by a recognized PRC certification body. We applied for a mining right validity period of 30 years as it is the statutory maximum period available. The PRC certification body estimated the total thenardite reserves in our mines based on estimation standards and procedures used in the PRC and such estimation was verified by the Land and Resource Bureau of Sichuan Province. These standards are different from the JORC Code. See “Risks Relating to our Business and our Industry – The accuracy of our resources and reserves estimates is based on a number of assumptions and we may produce less thenardite than our current estimates” and “Business – Our Mining Operations and Production Facilities – Mine Service Life”.

Ongoing Fees and Taxes

Under relevant PRC laws and regulations, we are required to pay resource taxes, mineral resources compensation fees, mining usage fees and mining purchase price. The table below sets out the relevant payments made by us for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009:

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	(RMB’000)			
Resource taxes	1,764	2,731	6,712	3,023
Mineral resource compensation fees.	120	122	142	–
Mining usage fees	1.5	1.5	1.5	–

Resource taxes are payable on each tonne of thenardite we produce at a rate of RMB4.0 per tonne. The fluctuation in the amounts of the total resource taxes payable in the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009 is in line with the variations in our thenardite production volume. Mineral resource compensation fees are charged at a rate of RMB120,000 per year for our mine in the Dahongshan Mining Area. Mining usage fees are charged at a rate of RMB1,000 per km^2 of permitted mining area. Mining purchase price is decided based on the approved appraisal value of the mining right and paid in one lump sum or six yearly installments. During the three years ended December 31, 2008 and the six months ended June 30, 2009, resources taxes were included in cost of sales. The mineral resources compensation fee and mining usage fees were included in operating expenses.

We paid resources taxes for the Guangji Mine during the years ended December 31, 2007 and 2008 and the six months ended June 30, 2009. However, no relevant mineral resources compensation fees and mining usage fees were incurred for Guangji Mine, as we only commenced pilot operation in November 2007. As the mining operations in the Muma Mine have not commenced, no resources taxes, mineral resources compensation fees and mining usage fees in respect of the Muma Mine were paid so far. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Description of Selected Income Statement Line Items – Cost of Sales" and "– Other Operating Expenses" for the accounting treatment of these ongoing fees and taxes.

In accordance with the relevant regulations, we entered into mining environment restoration undertaking agreements with the relevant district and town government and was required to pay an environment security deposit of approximately RMB22.3 million in connection with our ownership of the Dahongshan, Guangji and Muma Mines, of which RMB4.5 million was paid as of June 30, 2009. The remaining balance will be paid throughout the mining life of the respective mines.

Explosives Permit

We use explosives on a regular basis in our mining operations. Pursuant to the 1984 Explosives Regulation, the use of explosives would require explosives permits. Such permits included explosives utilization permits and permits issued to the technicians who handle and use explosives. These permits were to be issued by the public security bureau at the county or city level. Chuanmei Mirabilite possessed its explosives utilization permit and renewed such permit on February 23, 2009 and Chuanmei Mirabilite's technicians also possessed the necessary individual permits. From its inception until August, September and November 2008, Chuanmei Glauber Salt's technicians lacked their necessary individual explosives permits. From its inception until February 23, 2009, Chuanmei Glauber Salt lacked its explosives utilization permit. Before Chuanmei Glauber Salt and its technicians obtained their respective explosives permits, Chuanmei Mirabilite and its technicians conducted explosives activities on behalf of Chuanmei Glauber Salt and its technicians.

On September 1, 2006, the 2006 Explosives Regulation was implemented by the State Council and required all enterprises that utilize explosives to obtain entity explosives permits and all technicians who handle and use explosives to obtain individual explosives permits issued by the local public security bureau. The 2006 Explosives Regulation also provided that the Administrative Rules for Explosives shall be further stipulated by the Ministry of Public Security of the PRC. This legislation replaces the 1984 Explosives Regulation in its entirety. On October 8, 2006, the Ministry of Public Security of the PRC issued the 2006 Explosives Regulation Notice. The 2006 Explosives Regulation Notice stated that while entities are required to apply for their respective entity explosives permits and technicians are required to apply for the relevant individual explosives permits under the 2006 Explosives Regulation, before the issuance of the Administrative Rules for Explosives the utilization permits and individual permits issued pursuant to the 1984 Explosives Regulation would remain effective.

Chuanmei Mirabilite and Chuanmei Glauber Salt have made enquiries with the Meishan Public Security Bureau with respect to the application procedure for the entity explosives permits, but were informed by the Meishan Public Security Bureau that such entity explosives permits cannot be issued until it completes its internal reorganization. Although it is unclear when the Meishan Public Security Bureau will commence the issuance of entity explosives permits, it has issued us a confirmation letter, confirming that our failure to obtain the relevant entity explosives permits is due to its administrative delays and our use of explosives was in compliance with applicable PRC laws and regulations. Furthermore, our PRC legal advisors, Grandall Legal Group (Shanghai), has advised us that prior to the issuance of the Administrative Rules for Explosives, neither Chuanmei Mirabilite nor Chuanmei Glauber Salt will be required to obtain an entity explosives permit. See "Risk Factors – Risks Relating to Our Business and Our Industry – We have been unable to obtain certain explosives permits under the 2006 Explosives Regulation". As of June 30, 2009, our PRC legal counsel, Grandall Legal Group (Shanghai) has advised us that while we have been unable to obtain the entity and individual explosives permits pursuant to the 2006 Explosives Regulation, we are in compliance with the 1984 Explosives Regulation and the 2006 Explosives Regulation Notice issued by the Ministry of Public Security of the PRC on October 8, 2006. We have been unable to obtain such permits due solely to the Administrative Rules of Explosives having not yet been issued.

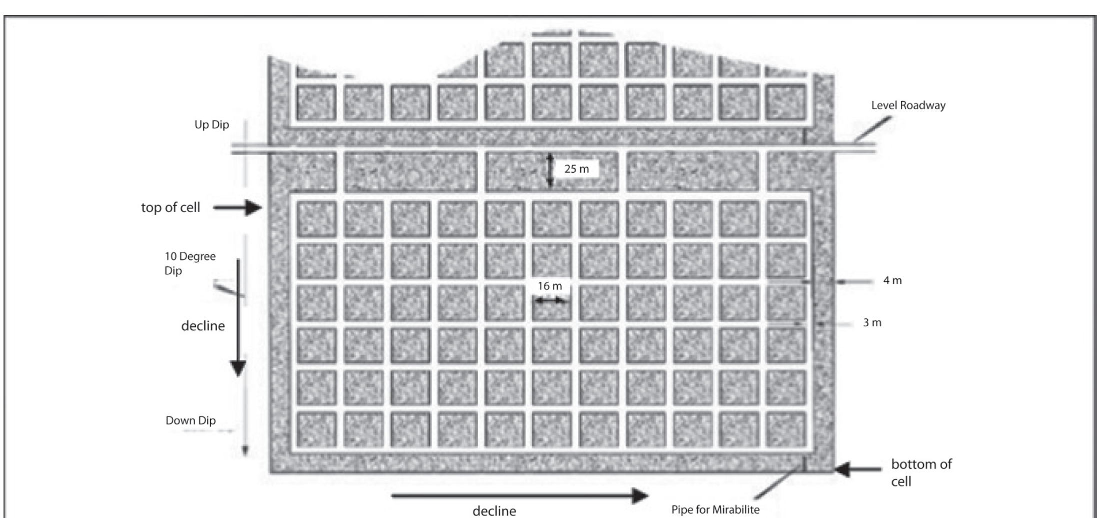
As Chuanmei Mirabilite had obtained and renewed its explosives utilization permit and its technicians had obtained the necessary individual permits pursuant to the 2006 Explosives Regulation Notice, we believe that Chuanmei Mirabilite's use of explosives for its own purposes has been in compliance with relevant PRC laws and regulations. As Chuanmei Glauber Salt had obtained its explosives utilization permit, its technicians had obtained the necessary individual permits pursuant to the 2006 Explosives Regulation Notice and Meishan Public Security Bureau has issued a confirmation letter, we believe that Chuanmei Mirabilite's use of explosives on behalf of Chuanmei Glauber Salt prior to Chuanmei Glauber Salt obtaining its respective explosives permits and Chuanmei Glauber Salt's use of explosives for its own purposes should not result in any fines or penalties. We will (i) comply with the 2006 Explosives Regulations once the relevant rules are promulgated by the Ministry of Public Security of the PRC and (ii) will not use explosives if our explosives permits later become invalid.

As of June 30, 2009, Chuanmei Mirabilite and Chuanmei Glauber Salt had 45 and 25 technicians, respectively, that hold the relevant individual explosives permits.

Mining Process

We employ the "room solution" mining technique. This technique first divides the underground glauberite ore area into confined areas called production cells. Each cell is then blasted to fragment the ore, water is run through the cell to produce a mirabilite solution, and that solution is then pumped into our production facility to produce thenardite. The basic mining production cell is illustrated below:

Illustrative Layout Production Cell



Source: JT Boyd

Production Cell Creation

The underground glauberite ore area is first divided into production cells. Once fully developed, each production cell has a series of 9 to 10 declining roadways with 15 horizontal connecting roadways. Approximately 4,860 meters of roadway must be drilled for each cell. After all the roadways have been created, pipelines for water injection are installed at the top corner of the cell and extraction pumps are installed at the lowest corner of the cell.

The glauberite ore extracted from these roadways is transported aboveground and mixed with water to produce a mirabilite solution. This mirabilite solution is pumped back underground for use in the solution mining process as further described below.

Blasting

Once the production cell is fully developed, explosives and detonators are used to fragment each cell area. Blasting is conducted a few times in each production cell. Each blasting loosens up approximately 200,000 tonnes of ore. Gases produced during the blasting are removed and diluted by the mine's ventilation system. Each blasting takes approximately a few days to complete.

Solution Mining

Once the ore and rock is fragmented, low concentration mirabilite solution, approximately 7-8° Baume, is flooded into the cell area to dissolve the ore. When the concentration level in the resulting mirabilite solution reaches 27° Baume, the mirabilite solution is suctioned off and pumped to the mine's mirabilite pipeline system for transport to the surface. The cells can be reflooded several times. The operating life of an individual cell is three to five years. The volume of recoverable glauberite ore is depleted over time and when the concentration level drops to 7° to 8° Baume, the solution is removed from the ore-depleted cell and is circulated to a newer mining block. In the solution mining process, the leftover insoluble material expands to fill the void left in the original cell due to water saturation.

Our Processing Operations

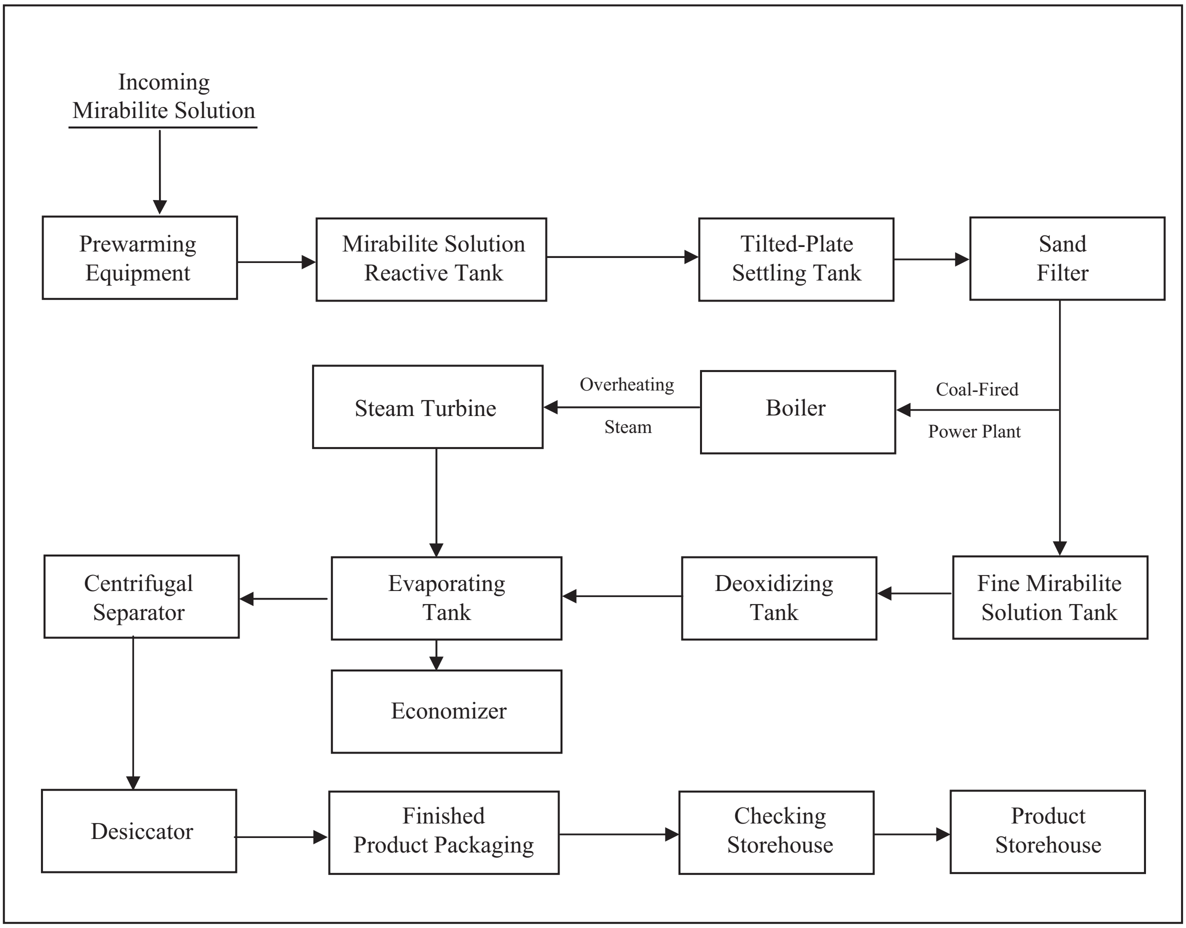
Mirabilite Processing and Thenardite Production

Powder thenardite production process

After the mirabilite solution is pumped aboveground, it is heated and pumped into a reactor tank. In the reactor tank, the mirabilite solution is mixed with a reagent (i.e., soda ash and caustic soda) to remove calcium and magnesium. The mirabilite solution is then passed through a sand filter to produce a further refined mirabilite. The refined mirabilite solution is then deoxidized using a vacuum system.

Five steam evaporators in a series are used to concentrate the sodium sulfate. The steam evaporators use residual heat recovery from our coal-fired generating station's steam turbine. We intend to modernize the evaporation system to achieve more efficient heat recovery and reduce energy costs. After passing through the evaporators, the product is centrifuged and dried to produce powder thenardite.

Mirabilite Processing Flowchart



Source: JT Boyd

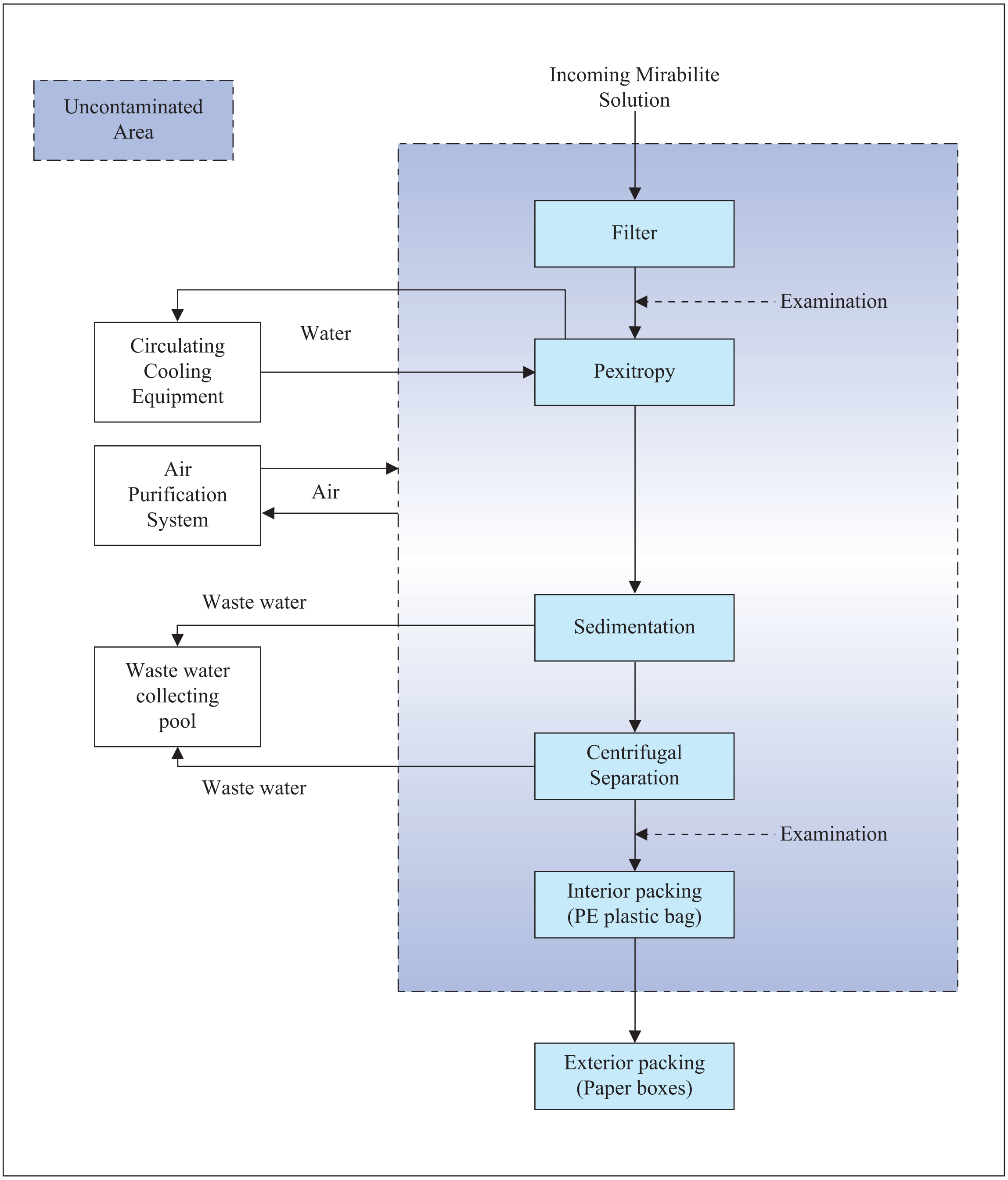
Specialty thenardite production process

The specialty thenardite is produced by adjusting the production processes and operational parameters in the powder thenardite production process.

Medical thenardite production process

Mirabilite solution is first passed through sand filters until it has met purity standards. The filtered mirabilite solution then enters into a low temperature crystallization facility. The solution crystallizes under a constant temperature below 15° Celsius. The crystals and excess water are separated by centrifugal separation. The resulting product is then quality tested and packaged for shipment.

Medical Thenardite Production Process



Packaging and Distribution

Our powder and specialty thenardite products are packaged in double-layered plastic bags used for transport. After filling, the inner layer of the bag is heat sealed and the outer bag is sewn shut. Our powder and specialty thenardite products are usually packaged and sold in 50kg bags and 1,000kg bags. Our medical thenardite products are packaged inside the uncontaminated area into bags of 1 kg each, which are sold in boxes of twenty bags. The packaged thenardite products are then placed into the warehouse for interim storage. The products are dispatched to customers or our storage facilities located near the Meishan train station. The transportation of our products is usually by road or railway and handled by third party contractors.

Raw Materials and Sourcing

Coal

We use coal for our coal-fired power generating stations at the production facilities located in Dahongshan and Guangji Mining Areas. After the steam is used to generate electricity, the residual steam is used to heat our distillation towers. We source coal for our production facilities from domestic suppliers that we anticipate can provide a stable and reliable supply at market prices. We usually enter into a one year framework supply contract with our coal supplier, under which the price range of coal in accordance with its caloric content will be specified, and the actual sales price will be determined based on prevailing market prices when we place our order and on the caloric content as per our examination of the coal upon delivery at our product facilities. In the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, we used 221,000 tonnes, 296,000 tonnes, 583,000 tonnes and 241,000 tonnes of coal, respectively, and our coal costs were RMB40.8 million, RMB56.9 million, RMB157.7 million (US$23.1 million) and RMB77.4 million (US$11.3 million), respectively, for the same period. Coal costs constituted 36.3%, 37.6%, 45.9% and 47.3% of our total cost of sales in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively, and has been our largest raw material expenditure during the same period.

Electricity

The majority of electricity used at our production facilities in the Dahongshan and Guangji Mining Areas is sourced from our on-site coal-fired power generating stations. Our remaining electricity needs are sourced from Sichuan Electric Power Corporation, Meishan Branch. Passing through several substations the power is reduced to 36V for underground use and 220/380V for surface use. As a backup to our coal-fired power generating stations, we have four 750 kW diesel powered generators in the Dahongshan Mining Area and one 750 kW back-up diesel powered generator in the Guangji Mining Area. We plan to build an on-site coal-fired power station for our production facility in the Muma Mining Area before we commence commercial production.

During the severe snow storms in February 2008, our underground mining facility in the Guangji Mining Area experienced a temporary power outage for two days. We suffered no loss from this power outage because during the same period our thenardite production facility was supported by our coal-fired power plant for its electricity needs. With the full operation of our coal-fired power plant in the Guangji Mining Area, most of our electricity needs for both our mining and production facility are now sourced from our power plant with the public electricity network serving as a backup. As such, we believe the chance for a future power outage is minimal.

Water

For our mining operations in the Dahongshan Mining Area and Guangji Mining Area, the water used for solution mining and other industrial purposes is sourced primarily from two reservoirs pursuant to our relevant water usage permits. We plan to source the water used for our Muma Mining Area from local rivers. The water we use in our mining and production process is recycled underground for glauberite ore dissolution. Water evaporated through the process is replenished by injecting fresh water.

Packaging

Packaging costs comprised 13.8%, 22.0%, 16.9% and 17.4% of our total cost of sales for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Our packaging costs have been increasing in absolute terms and as a percentage of our total cost of sales primarily as a result of the increased sales of medical thenardite. The increase in packaging costs was principally related to our sales of medical thenardite. Medical thenardite accounts for higher packaging costs as such products are delivered in smaller sized bags as compared to deliveries of powder or specialty thenardite. Packaging costs increased over the three years ended December 31, 2008 and the six months ended June 30, 2009 primarily due to a significant increase in the sales of medical thenardite.

Largest Suppliers

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, purchases from our five largest suppliers accounted for approximately 39.7%, 39.4%, 52.9% and 62.3%, respectively, of our total purchases. These suppliers included our coal suppliers, packaging materials suppliers and medical thenardite packaging suppliers. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, purchases from our largest supplier accounted for approximately 12.7%, 8.9%, 17.8% and 21.2% of our total purchases, respectively. For the year ended December 31, 2006, our largest supplier was a coal supplier. For the year ended December 31, 2007, our largest supplier was the supplier for packing materials, Meishan Dongpo District Century Paper Box Manufacturer Company. For the year ended December 31, 2008, our largest supplier was Renshou Taiji Trading Co., Ltd., a coal supplier. For the six months ended June 30, 2009, our largest supplier was Sichuan Dexing Energy Group Co. Ltd., a coal supplier.

Equipment

The major equipment used for the mining and production of thenardite includes circulation pumps, evaporating tanks, centrifugal separators, boilers, thermal dryer beds and power generators. We purchase our equipment from domestic suppliers. Our engineers work closely with the equipment suppliers to design our production facilities. Our technical team is responsible for overseeing the installation of our manufacturing lines to ensure that the interaction between the various individual components of the entire production process is optimized. In connection with our current expansion projects in the Muma Mining Area, we have engaged Nanxi Nanshan Equipment Co., Ltd. as our general contractor to oversee the manufacture, acquisition and installation of the necessary equipment and machinery.

For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our aggregate expenditures on new equipment were RMB5.6 million, RMB403.9 million and RMB15.1 million (US$2.2 million) and RMB0.7 million (US$0.1 million), respectively.

For our capital expenditure during the three year ended December 31, 2008 and the six months ended June 30, 2009 and the expected and committed capital expenditure for the year ending December 31, 2009, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Indebtedness – Capital Commitments".

Repair and Maintenance

We conduct repair and maintenance on our mining and production facilities on a regular basis in accordance with both the equipment manufacturers' recommended schedules and procedures and needs from our actual operating activities.

Management Information Systems

We maintain a computerized information system which tracks raw material procurement, storage, inventory and sales. We believe that an efficient management information system can significantly improve our overall performance.

Sales and Marketing

Overview

We sell the majority of our thenardite in the domestic market. In the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, approximately 88.0%, 98.7%, 99.1% and 99.9% of our total sales were to the domestic customers, respectively, and the remainder was exported to overseas, including Australia, New Zealand, Southeast Asia and South America. Our export sales have decreased as a percentage of our total sales primarily as a result of a decrease in tax refunds on our export sales in 2006 and the cancellation of such tax refunds in 2007, as well as the depreciation of the U.S. dollar against the RMB. All of our export sales are powder thenardite products.

The sales to our five largest customers accounted for approximately 32.8%, 41.9%, 45.0% and 46.1% of our total revenues in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Sales to one of our largest customers, Chengdu Yijing Trading Chemical Engineering Co., Ltd. (成都藝競化工有限公司) ("Chengdu Yijing"), totaled RMB15.7 million, RMB67.2 million, RMB266.0 million (US$39.0 million) and RMB147.7 million (US$21.6 million) in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively and accounted for approximately 7.7%, 18.1%, 23.3% and 24.9% of our total revenues for the same respective periods. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, sales to distributors accounted for approximately 73.4%, 82.9%, 71.9% and 63.3% of our total revenue, respectively. We had 117, 93, 99 and 37 customers who were distributors in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

None of our directors, supervisors, senior management, their associates, or any shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers.

Thenardite Sales Contracts

A substantial portion of our sales is made pursuant to annual framework contracts which typically set out the range of supply volume and price for the following year. We believe such arrangement is consistent with industry practice. We believe there are no significant differences between the sales contracts we sign with customers who are distributors and end-users. The sales contracts for our powder, specialty and medical thenardite products share similar major terms.

Our sales contracts typically contain provisions that require us to deliver thenardite produced according to certain customer specifications. Failure to meet these specifications can result in price adjustments, economic penalties, suspension or cancellation of shipments or termination of contracts. Before placing an order, our customers will typically advise us of their quantity needs in advance. Depending on the relevant contract, we may deliver our product to our customers or our customers may collect the products from our storage facilities.

Our customers are generally granted a credit period ranging from 40 days to 90 days whereas some customers of our powder thenardite products are required to pay us in full before delivery of our products. During the three years ended December 31, 2008 and the six months ended June 30, 2009, we have not experienced any material collection difficulties.

One of the largest customers of our thenardite products was Chengdu Yijing, whose purchases accounted for approximately 7.7%, 18.1%, 23.3% and 24.9% of our total revenues in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Chengdu Yijing's principal business is manufacturing and supplying chemical raw materials. We have had more than three years of business relationship with Chengdu Yijing and it is currently the only customer with which we have a sales contract with a term of more than a year. Pursuant to the three year sales contract with Chengdu Yijing which commenced on August 1, 2008, we sold powder thenardite and specialty thenardite products to Chengdu Yijing, which is a supplier to P&G, one of the major global powder detergent producers. The sales price under this contract is fixed for the first year and subject to semi-annual adjustment for the remaining two years, and the sales volume is fixed for the first two years and subject to negotiation for the third year.

The largest customers of our specialty thenardite products include Chengdu Yijing and Meishan Jinlai Chemicals Company Limited (眉山市金錸化工有限公司) ("Meishan Jinlai") for the year ended December 31, 2008. Meishan Jinlai is a distributor of chemical products including but not limited to thenardite, powder detergent and alkaline protease. Meishan Jinlai has been our customer since 2006. As to specialty thenardite, we usually enter into sales contracts with Meishan Jinlai for a period of three months and renew the contracts on substantially similar terms for additional three months. Pursuant to such contracts, Meishan Jinlai has been purchasing from us fixed quantities of specialty thenardite products at fixed prices. Meishan Jinlai usually takes delivery of the specialty thenardite products at our storage facilities and is granted a credit period from 40 to 90 days.

Pricing

The price for our powder thenardite is based on our cost of production, our desired profit margin and general market demand. We believe that because of the overall high quality of our thenardite products and the strong recognition of our "Chuanmei" brand, our powder thenardite can be priced slightly higher than the average selling price of other market players. Although annual framework contracts for powder thenardite usually fix the sale price, in practice we can adjust the price of our products according to market fluctuations by discussion with our customers. Through our sale and marketing team, we actively collect market information.

The price for our specialty thenardite varies and is negotiated on a contract by contract basis. We also price our medical thenardite based on our cost of production, our desired profit margin and general market demand. We began commercial production of medical thenardite in 2005 and the average selling price of our medical thenardite remained relatively stable. Medical thenardite is currently subject to a price ceiling of RMB4,500 per tonne as set by the Sichuan Commodity Price Control Bureau. See "Management's discussion and analysis of financial condition and results of operations – Factors Affecting Results of Operations and Financial Condition – Average Selling Prices". As at June 30, 2009, we had entered into medical thenardite sales contracts with customers with a contract price (net of PRC value-added tax) ranging from RMB2,479 to RMB3,077 per tonne. As at June 30, 2009, we have also entered into annual framework agreements with customers with an indicative price range (net of PRC value-added tax) of RMB2,564 to RMB2,991 per tonne. See "Risk Factors – Risks Relating to our Business and our Industry – We lack long-term sales contracts with our customers".

Sales and Marketing

We sell our thenardite products directly to domestic end users in powder detergents, glass, textiles and other industries as well as to distributors who in turn sell our products to end customers. We believe all of our overseas sales are made to distributors.

Our sales team currently consists of nine members who are responsible for negotiating sales contracts, delivery coordination, market research and follow-up customer services. We communicate with our customers on our products from time to time, including collecting feedback from customers on a regular basis.

Brand Name and Awareness

Our powder thenardite has been sold under the brand name "Chuanmei" which has been used by our predecessor since 1985. Our recently launched specialty thenardite products are sold under this brand name as well. Our powder thenardite is produced and sold under the name of "Chuanmei" and has been recognized as a "Sichuan Famous Brand Product" since 1993 and the registered trademark "Chuanmei" was recognized as a "China Well-known Trademark" by the SAIC in March 2008. Our medical thenardite is sold under the brand name "Sansu".

Quality Control

We believe that our commitment to quality control is one of the principal factors contributing to our success. We have established a strict quality control system and a set of quality control standards. We have obtained ISO9001:2000 Quality Management System Certificate for our powder and specialty thenardite. We have obtained the GMP Certificate and the Pharmaceutical Production Permit for medical thenardite, allowing us to produce medical thenardite for pharmaceutical purposes at our production facility in the Dahongshan Mining Area. The Pharmaceutical Production Permit and GMP Certificate are both issued by the Sichuan FDA, the supervision authority for food and drug production in Sichuan Province, and are only granted to manufacturers that can meet the national standards set out in the Pharmaceutical Administrative Law of the PRC (中華人民共和國藥品管理法) (the "Pharmaceutical Administrative Law"), the Good Manufacturing Practice Rules (藥品生產質量管理規範) (the "Good Manufacturing Practice Rules"), and the Administrative Measures of GMP Certificate (藥品生產質量管理規範認證管理辦法). Both the Pharmaceutical Production Permit and the GMP Certificate are required for legitimate production of medical thenardite. These certificates are evidence that our quality control system has met national and international standards of quality assurance. Our GMP Certificate will expire in July 2014 and our Pharmaceutical Production Permit will expire in December 2010. According to the applicable PRC laws and regulations currently in effect, we are required to renew our GMP Certificate and Pharmaceutical Production Permit every five years through application to the Sichuan FDA six months prior to the relevant expiration date.

Inspection and quality control are carried out by our staff at each production stage, including: (a) the inspection of incoming raw materials; (b) the examination of the product at different stages of production to ensure that the quality is satisfactory; and (c) the testing and inspection of finished products for consistency and quality upon completion of the production process. As of June 30, 2009, our quality control team is composed of two managers and 21 other staff members with relevant experience in quality control of thenardite products. Over half of our quality control staff members hold the Quality Control Qualification Permit issued by Sichuan Bureau of Quality and Technical Supervision (四川省質量技術監督局).

During the three years ended December 31, 2008 and the six months ended June 30, 2009, we met industry standards and have not experienced any returns of our thenardite products or customer complaints.

Inventory Control

Under proper conditions, our powder and specialty thenardite products may be stored for a relatively long period of time and our medical thenardite product may be stored for no more than three years.

Our inventory comprises mainly thenardite products, coal, packaging materials and auxiliary materials. We adopt a comprehensive policy on inventory control. Incoming and outgoing thenardite products are inspected by our quality control team. We issue measurement forms to truck drivers as records of delivery. We maintain records regarding the inventory of thenardite products and conduct an inventory count on a regular basis.

Competition

Our sales volume is affected primarily by the market demand for our products and our production capacity. We compete on the basis of stable product quality, timely delivery and customer service. While we are one of the largest domestic thenardite producers as measured by production capacity as of December 31, 2008, according to Behre Dolbear, we continue to face competition from other thenardite producers.

Our large volume of production differentiates us from small to medium sized thenardite producers and we believe it is one of our significant competitive advantages.

Research and Development

We believe that our research and development efforts have been and will continue to be vital to the maintenance of our long-term competitiveness. We therefore intend to continue to devote management and financial resources to research and development. Our senior management team spearheads our research and development efforts and sets strategic directions for the advancement of our products and production processes.

Our research and development activities focus principally on product development, new application discovery, production efficiency and production process improvement. Our research and development efforts enable us to lower the cost of labor and raw materials, streamline our manufacturing processes and increase economies of scale.

To date, we are able to commercially produce 10 different kinds of specialty thenardite products and continue to work closely with our customers to fulfill their production needs for specialty thenardite products. We are also continuously working with different organizations including research institutes to discover new applications for thenardite products, such as in quick dry cement manufacturing. We are focused on the development of higher-value, high-margin products. We are currently developing other new products such as animal feed thenardite and medical thenardite downstream applications as well as other thenardite applications.

As of June 30, 2009, we retained five external consultants with extensive experience in the mining, thenardite and chemical industries and we also have 33 full time technicians from the departments of product development, mine development and research & development and quality control with relevant experience involved in our research and development. We have also cooperated with Zigong Light Industry Design and Research Institute and Sichuan Pharmaceutical Design Institute for our research and development efforts. In the past, we have cooperated with Zigong Light Industry Design and Research Institute to conduct a feasibility study for the 1.0 million tpa vacuum thenardite processing technology and to develop our specialty thenardite production system. We have also entered into technology cooperation agreement with Zigong Light Industry Design and Research Institute in April 2008 to jointly improve our water cooling and circulation system. Under this technology cooperation agreement, we are required to pay Zigong Light Industry Institution a service fee of RMB0.4 million upon completion of the system improvement. While we are entitled to utilize the system improvement under this technology cooperation agreement, Zigong Light Industry Design and Research Institute retains the intellectual property right of such improvement. We also entered into a technology agreement with Sichuan Pharmaceutical Design Institute in November 2008, under which Sichuan Pharmaceutical Design Institute shall provide the relevant technology services in connection with our planned 0.2 million tpa medical thenardite production facility, including the development of production technology of medical thenardite and the compilation of the feasibility study report of such production facility. The total service fee to be paid to Sichuan Pharmaceutical Design Institute under this technology agreement is RMB4.0 million. We own the right to any intellectual property developed under this agreement.

Property

As of June 30, 2009, we used or owned: (i) the land use rights to 15 parcels of land with an aggregate area of approximately 662,155.6 m^2 and the land use rights to 10 units with a total apportioned land area of approximately of 583.8 m^2 and (ii) approximately 140 buildings and 10 units with an aggregate floor area of approximately 100,773.7 m^2 (excluding office spaces leased from third parties). As of June 30, 2009, we leased office spaces with an aggregate floor area of approximately 4,735.16 m^2.

Our PRC legal counsel, Grandall Legal Group (Shanghai), has advised us that pursuant to the applicable PRC laws and regulations, we are not required to obtain land use rights on the land immediately above our mining reserves in the Dahongshan and Guangji Mining Areas for our underground mining activities conducted within such areas. Therefore, we believe that our underground mining activities conducted within the mining areas pursuant to our mining right permits are in compliance with the relevant PRC laws and regulations.

As of June 30, 2009, we leased two parcels of collectively-owned land totaling 700,003.5 m^2 from the Wansheng Town Government and the People's Government of Dongpo District. We have built certain facilities on these leased parcels. The leased parcels are also partially used for disposal of ore blocks and slag generated from our mining and production processes. Except for an area of approximately 865.9 m^2, where the primary access tunnels to our Dahongshan and Guangji Mining Areas are located, we do not conduct mining operations on the leased parcels.

However, our PRC legal counsel, Grandall Legal Group (Shanghai), has advised us that under the Land Administrative Law of the People's Republic of China and its implementation rules, collectively-owned land cannot be used or leased for aboveground industrial operations and the abovementioned lease agreements for collectively-owned land are not in compliance with the PRC laws and regulations and therefore may not be enforceable against the relevant lessors. See "Risk Factors – Risks Relating to Our Business and Our Industry – We do not have land use rights for certain parcels of land above our two mines and may not be able to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels". Part of collectively-owned land we leased includes the roads leading to the primary access tunnels into our mines which cannot be easily relocated without significant disruption to our mining operations. While it is possible for us to access our mining resources by creating a new tunnel, we have already invested and constructed the mining infrastructure into our existing access tunnels.

The Land and Resources Bureau of Meishan City issued a confirmation letter to Chuanmei Mirabilite and Chuanmei Glauber Salt on November 6, 2008 confirming that these two parcels of land are barren and hilly and not suitable for agricultural use. The Land and Resources Bureau of Meishan City further confirmed that under the relevant PRC laws and industry practice, Chuanmei Mirabilite and Chuanmei Glauber Salt have the right to use the land adjacent to the primary access tunnels into the Dahongshan Mine and the Guangji Mine with an area of approximately 865.9 m^2 for mining purposes as well as construct necessary mining facilities thereon. While our use of the remaining portion of the leased parcels is not in compliance with the relevant laws and regulations, the Land and Resources Bureau of Meishan City has confirmed that we will not be held liable or subject to any penalty for our use of the remaining portion of the leased parcels. In addition, the Land and Resources Bureau of Sichuan Province issued us a confirmation letter on April 23, 2009 confirming that (i) we will not be held liable or subject to any penalty for our past, existing and future use of the two parcels of collectively-owned land and (ii) we will not be required to demolish the buildings and/or structures erected thereon. Based on the abovementioned confirmation letter and relevant PRC laws and regulations, therefore we believe that our use of the 865.9 m^2 land adjacent to the primary access tunnels into the underground mines in the Dahongshan and Guangji Mining Areas is in compliance with the PRC laws. See "Risk Factors – Risks Relating to Conducting Business in the PRC – The interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties in China".

With respect to the remaining portion of the two parcels of lands, there exists the risk of such lands being forfeited and the properties erected thereon being demolished. Grandall Legal Group (Shanghai) have also advised that the above mentioned confirmation letters received from the Land and Resources Bureau of Meishan City and the Land and Resources Bureau of Sichuan Province are issued by the competent authorities. As a result, we believe that the risk of (i) us being penalized for our past, existing and future use of the said collectively-owned land; (ii) us being requested to cease using the leased lands and demolish the properties erected thereon; and (iii) the land use rights of the leased land being granted to a third-party is remote. Furthermore, the People's Government of Dongpo District issued a letter of undertaking on March 24, 2009. In case we are no longer able to use these two parcels of collectively-owned land or if complaints from the local villagers later arise in connection with our use of these two parcels, the People's Government of Dongpo District undertook to indemnify us for any economic loss we may suffer therefrom and to provide us with another parcel of land with lawful title for the purpose of disposing ore blocks and slag generated from our mining and production processes. Our PRC legal counsel, Grandall Legal Group (Shanghai), confirmed that this letter of undertaking from the People's Government of Dongpo District is valid and binding under the PRC laws. See "Risk Factors – Risks Relating to Conducting Business in the PRC – The interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties in China".

As of June 30, 2009, we did not have the building ownership certificates for 37 buildings we used or owned, which can be classified into four categories: (i) eight temporary structures that are not crucial to our operations with an aggregate floor area of approximately 1,284 m^2; (ii) 12 buildings that are no longer in use that will be demolished with an aggregate floor area of approximately 4,133 m^2 (iii) two buildings that we intend to obtain building ownership certificates for once zoning adjustments have been completed with an aggregate floor area of approximately 5,853.4 m^2, and (iv) 15 buildings located on our leased land with an aggregate floor area of approximately 4,899.9 m^2.

The first category of buildings are temporary or basic structures used for storage, staff quarters, maintenance rooms and other purposes that are not crucial to our operations. We do not have building ownership certificates for these structures. The Real Estate Bureau of Meishan City (眉山市房地產管理局) has issued the confirmation letter confirming that we are the owner of these buildings and may use them despite not having building ownership certificates and that we shall not be fined for such properties without ownership certificates. We did not apply for the building ownership certificates for these structures as some of these buildings were no longer being used or scheduled to be demolished. Further, certain of these temporary structures were not built to meet building ownership minimum requirements for permanent buildings. We believe that the risk that we will be forced to demolish or cease using such properties is remote. We have never been requested to demolish any such properties, that the risk to demolish such properties is low and if requested by relevant government authorities, replacement premises and facilities are readily available at limited cost.

The second category of buildings are no longer used in our operations. We plan to demolish these properties before December 31, 2009 or earlier if requested by the government.

The third category of buildings is comprised of two warehouses located near the Meishan train station. We use these buildings to store our products prior to shipment. We are in the process of obtaining the building ownership certificates for these buildings. Due to certain zoning adjustments in Meishan City, we may not be able to obtain these building ownership certificates prior to the Listing. As zoning adjustments are governmental acts, we are unable to estimate the timeframe for processing our building ownership certificates. Therefore, we cannot assure you when we will obtain such building ownership certificates. The Real Estate Bureau of Meishan City issued a confirmation on February 12, 2009 stating that our application for building ownership certificates in respect of these two properties will be processed upon completion of the zoning adjustments and our receipt of the relevant planning approvals. While we do not anticipate receiving such building ownership certificates prior to the Listing, we do not anticipate the applications and processing costs associated with such certificates to be significant. We believe there should be no material legal impediment for us to obtain such ownership certificates once the zoning adjustments have been completed and our Company has obtained all necessary urban planning approval documents.

The fourth category of buildings is comprised of 15 buildings located on the collectively-owned land located in the Dahongshan Mining Area and the Guangji Mining Area that we leased from the Wansheng Town Government and the People's Government of Dongpo District. See "Risk Factors – Risks Related to Our Business and Our Industry – We do not have land use rights for certain parcels of land above our two mines and may not be able to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels".

These 15 buildings can be classified into two sub-categories: (i) ancillary facilities such as the staff quarters, warehouses, maintenance rooms and other buildings that are not crucial to the our operations with an aggregate floor area of approximately 4,034 m^2 and (ii) basic structures such as a winch room, electricity distribution facilities, air induction room and duty room located at the primary access tunnels into our mines at the Dahongshan and Guangji Mining Areas. Our PRC legal counsel, Grandall Legal Group (Shanghai), has advised us that we will not be able to obtain building ownership certificates for this first sub-category of buildings as we do not have the land use rights for the land on which these buildings have been built. If we are required to relocate such buildings, we would be able to relocate them to the corresponding aboveground facilities at Dahongshan and Guangji Mining Areas. For the second sub-category of buildings, the Land and Resources Bureau of Meishan City issued a certificate on November 6, 2008 confirming that based on the PRC laws and industry practice, we have the right to use the land adjacent to the primary access tunnels at the Dahongshan and Guangji Mining Areas for mining purposes as long as we hold valid mining right permits. As of June 30, 2009, we hold valid mining right permits at the Dahongshan and Guangji Mining Areas. The Land and Resources Bureau of Meishan City also confirmed that they will not order us to demolish the buildings and structures on these leased lands with an area of approximately 865.9 m^2.

According to the Properties Structural Safety Evaluation and Damages Assessment Report (房屋建築安全鑑定及損失評估報告) issued by the Property Safety Evaluation Office of Real Estate Bureau of Meishan City (眉山市房地產管理局房屋安全鑑定辦公室) on June 23, 2008, all of the Group's properties erected on the collectively-owned land are structurally safe.

Since we lack construction project completion approvals for these 15 buildings, we may be subject to a maximum penalty of RMB13,200 and RMB64,000 for the buildings in the Dahongshan Mining Area and the Guangji Mining Area, respectively. As of June 30, 2009, these figures represent 4% of the total construction cost of those buildings. We may also be ordered to demolish such buildings. We are also subject to a RMB30 fine per square meter of collectively-owned land we use. Excluding the portion of collectively-owned land adjacent to our access tunnels, we currently use approximately 500,002.5 m^2 of collectively-owned land and the remaining portion of the collectively-owned land of approximately 200,000 m^2 is still being used by the local villagers. Therefore, we may be subject to a maximum fine of approximately RMB15.0 million. In the event we are requested to relocate our slag disposal site and ancillary facilities situated on the two parcels of collectively-owned land, we may incur a potential loss of approximately RMB2.0 million. This estimation is primarily based on the relevant relocation costs. Relocation of our slag disposal site is estimated to cost RMB1.8 million, which is primarily associated with new disposal site formation, pavement maintenance and reinforcement, slag relocation and surface ground modification at the old disposal site after the slag being removed. Relocation of the ancillary facilities situated on the collectively-owned land is estimated to cost RMB0.2 million, which primarily includes transportation costs, installation costs and equipment replacement costs. If we are required to relocate our slag disposal site and ancillary facilities on the two parcels of land we may suffer a potential loss of profit of approximately RMB29 million. See "PRC Laws and Regulations – Regulations of Collectively-owned Lands". We believe that the risk of us being fined or ordered to demolish these buildings is remote. If we are requested by the relevant government authority to either discontinue the use of such land or be fined for our use, we will stop the use of such land.

Nonetheless, despite the limited likelihood, in the event that we are no longer able to access the primary access tunnels to our mines, we are unable to quantify the losses or costs we may incur. See "Risk Factors – Risks Relating to Our Business and Our Industry – We do not have land use rights for certain parcels of land above our two mines and may not be able to access the primary access tunnels into our mines and continue our use of certain facilities built on those parcels".

Except for our properties located on leased lands, we have obtained land use rights for all of our owned properties as of June 30, 2009.

We do not intend to apply for the building ownership certificates in relation to the above-mentioned buildings. For other building ownership certificates to be obtained after Listing, we will make relevant disclosure to our shareholders in our annual report.

Major Awards and Certifications

As of June 30, 2009, we were granted the following major awards and certifications:

Certificate/Award	Recipient of Award	Awarding Organization	Date of Issue	Term of validation
Sichuan Famous Brand Product	Chuanmei Mirabilite	People's Government of Sichuan Province	2007	2007 to 2009
ISO9001:2000 Quality Production System Certification	Chuanmei Mirabilite Chuanmei Glauber Salt	China Certification Centre for Quality Mark	August 27, 2008	August 27, 2008 to August 26, 2011
ISO14001:2004 (Environmental Management System)	Chuanmei Mirabilite	China Quality Certification Centre	February 13, 2007	February 13, 2007 to February 12, 2010
Sichuan Province Well-known Trademark	Chuanmei Mirabilite	Administration for Industry and Commerce of Sichuan Province	2007	December 25, 2007 to December 24, 2010
China Well-known Trademark	Chuanmei Mirabilite	SAIC	March 2008	–

We believe that the "Sichuan Famous Brand Product" and "China Well-known Trademark" awards evidence the strong recognition of our products and brand among the public while the ISO certificates and the Certificate of Conformity of Product Quality signify that we have implemented proper quality control and environmental protection measures in line with international and PRC standards.

We intend to renew all the above awards and certifications upon their respective expirations, if applicable. We will apply for renewal of the above awards and certifications directly with the relevant accreditation authority. We are committed to maintain high product quality and sound environmental protection measures in order to ensure ongoing compliance with the requirements of such awards and certifications. While we believe we would be successful in renewing such certifications, none of our products or operations is dependent on the successful renewing of any such certifications.

Intellectual Property

We have developed our own mining and production process. As at June 30, 2009, we have seven PRC registered trademarks, including "Chuanmei Brand" and "Sansu", under various classes and three registered domain names, "chinachuanmei.cn", "lumena.hk" and "lumena.com.hk". We have also applied for the registration of four PRC invention patents and two Hong Kong trademarks.

Insurance Coverage

Chuanmei Mirabilite maintains comprehensive property insurance policies for fixed and current assets for a total insured amount of approximately RMB96.0 million which are due for renewal in September 2010. Chuanmei Glauber Salt maintains similar insurance policies for fixed and current assets for a total insured amount of approximately RMB468.2 million which are due for renewal in December 2009.

We also maintain insurance policies for motor vehicles used in the transportation of products in respect of motor vehicle damage or loss, traffic accidents, passenger and third-party liabilities.

Environmental Protection

We are committed to conducting our operations in a manner that complies with applicable environmental laws and regulations, and endeavor to mitigate the adverse impact of our operations on the environment. Mining processes inherently generate surface subsidence, solid waste, dust and gas, noise, waste water, and other industrial waste. Our production facilities are subject to various pollution control regulations with respect to noise and air pollution and the disposal of waste and hazardous materials. We have obtained all requisite environmental permits and approvals to conduct our business, and our mining and production facilities, construction, operation, process and equipment are in compliance with relevant national environmental and safety standards. Our PRC legal counsel further confirms that there is no environmental pollution incident discovered or administrative penalty imposed on us as a result of any violation of environmental laws and regulations during the past three years. In addition, we were certified to be in compliance with the standard of the ISO14001:2004 Environmental Management System by the China Certification Centre for Quality Mark in February 2007.

A team of three full-time employees is responsible for overseeing and implementing our pollution control system. Our production development department is also responsible for formulating our environmental policies and ensuring that all of our mining and production facilities are in compliance with applicable environmental laws and regulations. In the three years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our annual expenditures on environmental compliance related activities were RMB0.4 million, RMB0.3 million, RMB1.8 million (US$0.3 million) and RMB0.1 million (US$13,000), respectively, which were mainly associated with waste discharge, equipment maintenance and tree planting. These improvements reduce the environmental impact of our operations.

We have established a pollution control system and installed various types of pollution control equipment in our facilities to reduce, treat, and recycle the waste generated in our mining and production process when feasible. We perform regular and on-spot maintenance on our mining and production facilities to ensure our equipment and system are in good working condition and in compliance with the applicable environmental rules and standards. In addition, we have also undertaken the following procedures to avoid or minimize negative environmental impact, including:

Surface Subsidence

We conduct our mining process strictly in accordance with the Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises (非煤礦礦山企業安全生產許可證實施辦法) (the "Non-coal Mining Safety Regulations") and leave sufficient underground pillars to support the surface. Subsidence is further mitigated by the inherent swelling characteristics of the non-soluble strata occurring within and between the glauberite beds. In addition, large barrier and other support pillars are left intact to protect the integrity of key roadway openings. The mine has also left the glauberite resource areas underlying the mine surface facilities and the nearby Pan'ao River in place. There has not been any evidence of ground fissures or other manifestations of surface subsidence within the surface areas overlying existing mine workings.

Solid Waste

Our mining and manufacture production generates a large amount of solid waste. There are three different kinds of solid waste. One is the ore blocks generated from the production cell creation process, which are dissolved to produce mirabilite solution. After dissolution processing, the slag is disposed of on-site, and the disposal site is later rehabilitated with plants and grass. A small amount of slag is also generated from mirabilite refining process. Part of this material is dried and compressed into sulfate remover to be used for our coal fire power stations. The rest is transferred into our underground ore-depleted cells. The third form of solid waste is compressed of the coal cinders generated by our coal-fired power stations.

Dust and Gas Generation

Airborne dust and waste gas are produced during underground mining operations. We remove the underground airborne dust with a ventilation system. Our above ground production plants adopt electrostatic precipitators and filter bag techniques to remove airborne dust. These measures allow the mine and processing plant to operate in compliance with dust/gas emission and control requirements in the PRC.

Waste Water

We have adopted a waste water recycling system. All waste water generated from our production process is recycled underground to be used in glauberite ore dissolution. This operational design allows us to avoid discharge of waste water.

Noise

Noise is generated during the operation of equipment and machinery, and during underground blasting operations. We take all reasonable measures to control noise including the use of low noise equipment (sound mufflers) and providing earplugs to all employees working in areas exposed to high noise levels.

We intend to continue our environment protection measures to ensure future compliance with applicable environmental rules and regulations. We plan to further enhance our pollution control system by adopting advanced technology and implementing equipment upgrades to address potential environmental risks.

Safety Control

Occupational Health and Safety

We regard occupational health and safety as one of our important social responsibilities. In general, underground mining operations involve risks and hazards that might be caused by dust and gas, ground water or other geological factors. According to China Mining Association, an industry association, our glauberite mines have relatively lower inherent risk as compared with other types of mines due to the stable conditions of the deposits, in that they are not co-extensive with explosive or dangerous gas, and the mining methods employed. We have maintained a good production safety track record. We have, since 2002, experienced three accidents at our mines. Two accidents were related to underground railway car collisions due to negligent operation which caused one injury but no fatality in each instance. We paid RMB5,184 and RMB11,582 as compensation to the respective employee injured in the two accidents, and we believe that our compensation liabilities in connection with these two accidents have been fully paid off and discharged. Following these two accidents, we took proactive measures to address mining safety issues, including the installation of railcar stops, the installation of automatic safety gates and the strengthening of safety management practices. The third accident involved a roof fall during equipment installation of our mine in the Guangji Mining Area. This accident did not result in any injury or fatality. A detailed plan for clean up and support at the roof fall area has been developed and implemented. According to JT Boyd, the roof fall will not affect the long term development of our Guangji Mine. Except the aforementioned three accidents, we experienced no other accident during the past three years.

We have obtained all necessary production safety permits for our mining and production facilities in the Dahongshan Mining Area and the Guangji Mining Area.

Apart from compliance with relevant regulations and standards, we also provide necessary training to our employees which includes safety training and skill training. Our employees also attend external training.

Employees

The following table shows a breakdown of our employees by department as of June 30, 2009:

DEPARTMENT	NUMBER OF EMPLOYEES[1]
Chief Management	9
Administration and Human Resources	78
Product Development	5
Mine Development	5
Research & Development and Quality Control	23
Finance & Accounting	14
Marketing & Sourcing	31
Thenardite Production Unit	916
Underground Mining Unit	721
Total	1,802

Note:

(1) *This number excludes 12 staff members employed by Top Promise in Hong Kong as of June 30, 2009.*

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. Our employees are selected through a competitive process. We conduct periodic performance reviews of our employees, and their bonuses are performance-based. In addition, we have implemented training programs for different job requirements. We believe that these initiatives have contributed to increased employee productivity. We plan to hire additional employees as we expand.

The remuneration package for our employees generally is comprised of salary and bonuses. Employees also receive welfare benefits including medical care, housing subsidies, retirement benefits, occupational injury insurance and other miscellaneous items. We paid our employees an aggregate of RMB19.0 million, RMB25.9 million and RMB42.0 million (US$6.2 million) and RMB20.1 million (US$2.9 million), in wages, salaries and bonuses combined in the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Labor costs represented 13.7%, 11.5%, 7.9% and 8.2% of the total cost of sales in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

We believe we have fully complied with the PRC Labor Law (中華人民共和國勞動法) and the PRC Labor Contract Law (中華人民共和國勞動合同法) based on two confirmation letters dated May 11, 2009 issued by Meishan Labor and Social Insurance Bureau. Our PRC legal counsel has advised us that the PRC Labor Contract Law is intended to protect the legal rights of employees and to encourage long-term or fixed-term labor contracts rather than short-term labor contracts. Our PRC legal counsel has further advised us that as most of our employees are under long-term contracts, the PRC Labor Contract Law shall not have a material impact on the operation and financial position of our Company. For details and potential impact of the PRC Labor Contract Law on our Company's operation and financial position, please see "Risk Factors – Risks Relating to Conducting Business in the PRC – Our labor costs may increase". We have not been penalized for any labor disputes or experienced any labor disputes during the past three years.

We typically enter into standard confidentiality and non-competition agreements with our management and research and development personnel. These contracts include a covenant that prohibits any of these personnel from engaging in any activities that compete with our business during, and for 3 to 5 years after, the period of their employment with us.

None of our employees are members of any labor union and we are not party to any collective bargaining or similar agreement with our employees. We believe we maintain a good working relationship with our employees. We have not experienced any labor disputes or any difficulty in recruiting or retaining staff for our operations.

All employees who are unable to work due to illness or disability are entitled to receive certain benefits during their period of absence from the workplace. In addition, we are required to provide work-related injury insurance for each of our employees in accordance with applicable PRC regulations.

Welfare contributions

In accordance with applicable PRC regulations on social insurance, we participate in various employee benefit plans organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We are required under PRC law to make contributions to such employee benefit plans at specified percentages of the total salaries, bonuses and certain allowances made to our employees, up to a maximum amount specified by the local government and as adjusted from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at each member's retirement date. We have no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above. The total amount of contributions we made to employee benefit plans were RMB0.6 million, RMB1.3 million, RMB2.1 million (US$0.3 million) and RMB1.1 million (US$0.2 million) for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

As of June 30, 2009, we have fully paid the retirement pension, medical insurance, maternity insurance, industrial injury insurance, unemployment insurance and housing reserve fund for our employees pursuant to the applicable PRC laws and regulations. The corresponding percentage contributed by our Company and each individual employee for each social insurance fund is set forth below:

	Contributed by Our Company	Contributed by Individual Employee
Retirement pension	20.0%	8.0%
Medical insurance	6.5%	2.0%
Maternity insurance	0.6%	–
Industrial injury insurance	3.0%	–
Unemployment insurance	2.0%	1.0%
Housing reserve fund	5.0%	5.0%

We believe we have fully complied with both national and local laws and regulations on social insurance for all of our employees based on the confirmation letters dated May 11, 2009 issued by the Meishan Labor and Social Insurance Bureau.

Compliance

We believe we have obtained all licenses, permits, approvals and certificates necessary to conduct our mining and production operations as of June 30, 2009 except for certain land use rights in the Dahongshan and Guangji Mining Areas, building ownership rights, construction project completion approval for the aboveground buildings located on such lands. Except for the non-compliance disclosed hereto, our mining and production operations comply with relevant PRC rules and regulations in all material aspects. For our past operation in the Guangji Mining Area without mining rights and certain other relevant approvals, please see "Risk Factors – Risks Relating to Our Business and Our Industry – We operated in the Guangji Mining Area without mining rights and certain other relevant approvals".

As of June 30, 2009, we had obtained the necessary permits and approvals for the commencement of construction at the Muma Mining Area, save for the working permit on construction works and the planning permit on construction works. The other permits and approvals, some of which are set forth in the table above, cannot be obtained until we have reached a further stage of construction and development. We undertake that before we commence operations at the Muma Mining Area, we will apply for all such necessary permits and approvals for each stage of the construction, development and operation of our planned expansion at the Muma Mining Area in due course. The expected date of obtaining such permits and approvals is dependent on our construction, development and operation progress and the responsiveness of each relevant governmental authority. We further undertake that we will obtain the GMP Certification and Pharmaceutical Production Permit for the medical thenardite production facility at the Muma Mining Area in accordance with the prescribed application procedures before we commence the production of medical thenardite in the Muma Mining Area.

Legal Proceedings

We have not been involved in any material legal proceedings, regulatory inquiries or investigations during the past three years, and there are no legal proceedings, regulatory inquiries or investigations currently pending or, to our knowledge, threatened against us. We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business.

PRC LAWS AND REGULATIONS

This section presents a summary of the most significant government regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

Mineral Regulations

Mineral Resources Law of the People's Republic of China and its Implementation Provisions

In accordance with the Mineral Resources Law of the People's Republic of China promulgated on March 19, 1986 and revised on August 29, 1996 by the Standing Committee of the National People's Congress and the Implementation Rules of the Mineral Resources Law of the People's Republic of China promulgated by the State Council on March 26, 1994, mineral resources in the PRC are owned by the State, which adopts a licensing system for the exploration for and exploitation of mineral resources. Any party that is engaged in the exploration for and exploitation of mineral resources must satisfy criteria and acquire exploration and mining rights from the relevant authorities by applying for and registering such rights and paying usage fees.

The Ministry of Land and Resources of the PRC (中國國土資源部) is responsible for the supervision and administration of the exploration and development of mineral resources throughout the country. The departments of land and resources at the provincial level are responsible for supervising and administering the exploration for and exploitation of mineral resources in their jurisdictions. The PRC government adopts a unified registration system for mineral exploration areas. The Ministry of Land and Resources of the PRC is responsible for registering the exploration of mineral resources. The State Council may authorize relevant departments to be responsible for the registration of the exploration of special types of mineral resources.

Applicants seeking to establish new mining enterprises must satisfy certain criteria set out by the PRC government and they are subject to governmental approval. The applications must set out detailed descriptions of the limits of the mining area, the mine design or the mining plan, the production technique to be employed, and the safety and environmental protection measures to be implemented, among other things, and be accompanied by requisite supporting documents.

Measures for the Administration of the Use Fee and Purchase Price of Mineral Exploration and Mining Rights

In accordance with the Measures for the Administration of the Use Fee and Purchase Price of Mineral Exploration and Mining Rights (探礦權採礦權使用費和價款管理辦法) promulgated by the Ministry of Finance of the PRC (中國財政部) and the Ministry of Land and Resources on June 7, 1999, any party which conducts exploration and mining activities of mineral resources in the PRC is required to pay a mining usage fee and the mining purchase price. The mining usage fee for an exploration right is calculated on the basis of the exploration period and the size of the area and is payable annually. The annual rate is RMB100 per square kilometer for the first three exploration years, with an additional RMB100 per year from the fourth exploration year onwards up to a maximum of RMB500. The mining usage fee, which is RMB1,000 per square kilometer per year, is payable annually based on the size of the mining area. The purchase price for mineral exploration is the price that licensees of exploration rights are required to pay when the exploration rights of an exploration area funded by the State are transferred to the licensees by the State. The purchase price for mineral exploration and mining rights is determined by reference to the valuation price confirmed by the Ministry of Land and Resources of the PRC, and is paid as a lump-sum, or in installments within two years in the case of an exploration right and within six years in the case of a mining right from the grant of such rights. The mining usage fee and purchase price of mineral exploration and mining rights are collected by the relevant registration and administration departments during the registration of the mineral exploration and mining rights or their annual inspection and are pre-conditions to the grant and maintenance of exploration and mining right permit.

Provisions on the Administration of Collection of the Mineral Resources Compensation Fee

Pursuant to the Provisions on the Administration of Collection of the Mineral Resources Compensation Fee (礦產資源補償費徵收管理規定) promulgated on February 27, 1994 and revised on July 3, 1997 by the State Council, the mineral resources compensation fee is calculated on the basis of a ratio of the sales income from mineral products. The mineral resources compensation fee is treated as an administration cost of the enterprise and is calculated using the following formula:

Mineral resources compensation fee	–	Sales income of mineral products	x	Compensation fee rate	x	Coefficient of mining recovery rate

Any adjustment to the rate of a mineral resources compensation fee is determined by the Ministry of Finance, the Ministry of Land and Resources of the PRC and the National Development and Reform Commission (中華人民共和國國家發展和改革委員會) (the "NDRC"), and is subject to the approval of the State Council. Mineral resources compensation fees are collected by the departments of land and resources together with the departments of finance. Mineral resources compensation fee for the first half of each year is payable on or before July 31 of the same year, and the fee for the second half of the year is payable on or before January 31 of the following year.

In specific circumstances, certain parties may be partly or fully exempted from paying mineral resources compensation fees upon joint approval by the department of land and resources and the department of finance at provincial level. Approval from the provincial people's government is required if the mineral resources compensation fee is reduced by more than 50% of the amount payable. Any approval for the reduction of the mineral resources compensation fee must be reported to both the Ministry of Land and Resources and the Ministry of Finance of the PRC.

Provisional Regulations of the People's Republic of China on Resource Tax

In accordance with the Provisional Regulations of the People's Republic of China on Resource Tax (中華人民共和國資源稅暫行條例) promulgated by the State Council on December 25, 1993, all enterprises and individuals engaged in the exploitation of mineral products within the territory of the PRC are required to pay resource tax. Application resource tax rates are determined by the Ministry of Finance of the PRC in consultation with the relevant departments of the State Council based on the resource conditions of the taxable products exploited or produced by the relevant taxpayer. The prescribed tax rate range is set out in the "Table of Resource Tax Taxable Items and Tax Rates". The tax rate range for nonferrous metals ore mined is RMB0.4 to RMB30.0 per tonne.

Safety Regulations

Mine Safety Law of the People's Republic of China and Its Implementation Rules

Pursuant to the Mine Safety Law of the People's Republic of China (中華人民共和國礦山安全法) promulgated by the Standing Committee of the National People's Congress on November 7, 1992 and the "Implementation Rules for the Mine Safety Law of the People's Republic of China" (中華人民共和國礦山安全法實施條例) promulgated by the Ministry of Labor on October 30, 1996, the departments responsible for labor administration and the authorities in charge of the mining enterprises supervise and administer mine safety.

Mining enterprises must establish facilities that ensure safety in production, establish satisfactory safety management systems, take effective measures to improve working conditions, and strengthen safety control in mines in order to ensure safe production. The design of mine construction projects must comply with the safety rules and technological standards for the mining industry and is subject to the approval of the authorities responsible for mining enterprises. Mine construction projects must be constructed in accordance with the designs approved by the authorities responsible for mining enterprises. The design of safety facilities in mine construction projects must be examined by the departments in charge of labor administration, and these facilities must become operational at the same time as the principal parts of the project become operational. Upon completion, the safety facilities in mine construction projects are subject to inspection for approval by the authorities responsible for mining enterprises and the departments in charge of labor administration. Failure to comply with the safety rules and technological standards in the mining industry would result in the applications for approval and commencement of operations being rejected.

Mining exploitation must meet certain requirements to ensure safe production. Mining enterprises must observe various safety rules and adhere to various technological standards for the mining industry depending on the type of mineral exploited. They must establish and improve a safe production responsibility system, as well as provide safety education and training to their workers and staff. Managers of mines shall be responsible for safe production of the relevant enterprises.

Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises

Pursuant to the Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises promulgated by the PRC State Administration of Worker Safety (國家安全生產監督管理總局) (the "SAWS") on May 17, 2004 and the Regulations on Safety Production License (安全生產許可證條例) promulgated by the State Council on January 13, 2004, non-coal mine enterprises must obtain safety production licenses pursuant to relevant regulations. Companies without safety production licenses cannot conduct any production activities. The SAWS is responsible for guidance and supervision of the issue of safety production licenses for non-coal mine enterprises throughout the country. It is also responsible for issuing safety production licenses for non-coal mine enterprises under the central government's management (comprising group companies, corporations and listed companies) as well as off-shore petroleum and natural gas enterprises. The departments of work safety at provincial level are responsible for the issue and administration of safety production licenses for non-coal mine enterprises other than those mentioned above, as well as other non-mining enterprises which own non-coal mines or tailings facilities.

In order to obtain a production safety license, a non-coal mine enterprise must satisfy certain production safety requirements. The safety production license issuance and administration authorities issue safety production licenses to enterprises that meet the production safety requirements pursuant to the relevant provisions. For metal and non-metal enterprises, safety production licenses are issued to the enterprise in respect of its individual production systems. Safety production licenses are required to be renewed every three years through application to the safety production license issuance and administration authorities no later than three months prior to the expiration date. If a non-coal mine enterprise passes a safety condition review conducted by the safety production license issuance and administration authorities, a renewal safety production permit with a term of three years will be issued. If a non-coal mine enterprise could meet certain requirements set forth in the Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises Implementation Rules of Safety, a renewal safety production permit may be issued without a safety condition review.

Environmental Regulations

China has adopted extensive environmental laws and regulations, including on the exploitation and production of specialty metals, which have an impact on our operations. There are national and local standards applicable to land rehabilitation, reforestation, emissions control, discharges to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. To formulate national discharge limits, pursuant to the PRC Environmental Protection Law, the State Environmental Protection Administration of the PRC assessed the national environmental quality, economy and technical conditions. The PRC Government at provincial level and in the autonomous regions, and municipalities are able to formulate local standards on the discharge of pollutants for items not specified in the national standards. Local governments may subject polluting items included in the national standards to more stringent local standards. The local discharge standards should be reported to the State Environmental Protection Administration of the PRC. All enterprises are subject to the local discharge standards for discharging pollutants in those areas where local discharge standards apply.

The PRC Environmental Protection Law requires entities producing pollutants or other hazards to include environmental protection plans in their operations and to establish an environmental protection responsibility system. Such entities are required to adopt effective measures to control and prevent waste gases, waste water, waste residue, dust, malodorous gases, radioactive substances and noise, vibration, electromagnetic radiation produced in the course of production or other activities from polluting and damaging the environment.

Enterprises are required to register or file an environmental impact assessment with the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. The pollution control facilities should be designed, constructed and operated at the same time as the major facilities under construction. The construction project will not be permitted to commence operations unless the environmental protection administration department which approved the environmental impact assessment has determined the facilities are satisfactory.

Any units that discharge pollutants, whether in the form of emissions, water, noise, or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. The local environmental protection bureau will determine an amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge license, the local environmental protection bureau can fine the entity up to several times the discharge fees payable and require the offending entity take measures to remedy the problem within a prescribed time frame, or failing which close its operations.

According to the Provisional Implementation Rules on the Granting of the Major Water Pollutants Discharge Permit in Sichuan Province (四川省重點水污染物排放許可證發放實施辦法(暫行)) promulgated by the Sichuan Administration of Environmental Protection on April 13, 2007, a Major Water Pollutants Discharge Permit is required for discharge of waste water in each of our production facilities located at the Dahongshan and Guangji Mining Areas. A Major Water Pollutant Discharge Permit is required to be renewed every two years through application to the administration of environmental protection at the municipal level 30 days prior to its expiration date.

According to the Geological Environment Administrative Regulations for Sichuan Province (四川省地質環境管理條例) promulgated on August 14, 1999 and amended on March 27, 2009 by the Standing Committee of the People's Congress of Sichuan Province, a mining rights holder must protect the geological environment of the mining area and restore the geological environment damaged by mining activities in a timely manner. When mining activities are terminated, any damage to the geological environment caused by the mining activities must be rehabilitated and restored. The mining rights holder will be ordered to rehabilitate and restore the damaged area within a prescribed period by the local land and resources bureau if it has failed to do so voluntarily. The relevant land and resources bureau will undertake the restoration and rehabilitation work if the mining rights holder has failed to do so within the prescribed period. Any costs associated with such restoration and rehabilitation shall be borne by the mining rights holder, and the mining rights holder is subject to a fine of RMB10,000 to RMB100,000.

Pricing Regulations

According to the PRC Pricing Control Law and the Pricing Regulations of Sichuan Province (四川省價格管理條例), certain pharmaceutical products are subject to price controls. Pursuant to the Pricing Index of Sichuan Province (四川省定價口錄) and the Pharmaceutical Products Pricing Formula of Sichuan Province (四川省藥品價格公式表) issued by the Sichuan Commodity Price Control Bureau, medical thenardite is classified under the category of "other chemicals/medicines" and currently subject to a price ceiling of RMB4,500 per tonne until June 2010. If the price of medical thenardite sold by any business entity is higher than the price ceiling set by the Sichuan Commodity Price Control Bureau, such business entity may be ordered to suspend its business operation and subject to forfeiture of its revenue derived from medical thenardite and/or a fine of up to 5 times of such revenues.

Restriction on Foreign Businesses

The principal regulation governing foreign ownership of thenardite mining and production businesses in the PRC is the Foreign Investment Industrial Guidance Catalogue (effective as of December 1, 2007). Under the regulation, the thenardite mining and production business is permitted for foreign investment.

Taxation

PRC enterprise income tax is calculated based on taxable income determined under PRC GAAP.

Pursuant to the Provisional Regulations on Value-Added Tax and their implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay value-added tax at a rate of 17% of the gross sales proceeds received, less any deductible value-added tax already paid or borne by the taxpayer. Furthermore, when exporting goods, the exporter is entitled to the refund of some or all of the value-added tax that it has already paid or borne.

On March 16, 2007, the National People's Congress approved the draft PRC EIT Law, which became effective on January 1, 2008. The PRC EIT Law adopts a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revokes the tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. The PRC EIT Law also provides for transitional measures for enterprises established prior to the promulgation of the PRC EIT Law and eligible for lower tax rate preferential treatment in accordance with the then prevailing tax laws, up until March 16, 2007, and administrative regulations. Enterprises eligible for regular tax reductions or exemptions may continue to enjoy tax preferential treatments after the implementation of the PRC EIT

Law and until the respective terms of their preferential treatments expire. The preferential treatment period of enterprises which had not enjoyed any preferential treatment because they had failed to record any profit, however, was deemed to start from the implementation of the PRC EIT Law. As a result of the transitional measures, Chuanmei Mirabilite will continue to enjoy a preferential income tax rate of 12.5% for foreign-invested enterprises of a production nature through the end of 2009. Starting 2010, Chuanmei Mirabilite is expected to be subject to the regular enterprise income tax rate of 25%. Chuanmei Glauber Salt has been subject to the regular enterprise income tax rate of 25% since 2008.

In addition, under the PRC EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC may be considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its global income. The Implementation Rules for the EIT Law provide that the term "de facto management bodies" refers to management bodies with material management and control in all aspects over, without limitation, the production, operation, personnel, finance and assets of the enterprise.

In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. However, there have been no official implementation rules regarding the determination of "de facto management bodies" for enterprises that are not controlled by PRC enterprises, such as companies like us. We hold our shareholders' meetings and board meetings outside China, and we keep our shareholders' list outside China, and most financing decisions are made outside China. However, most of our directors and senior management are currently based inside China and we keep our books and account inside China. The above elements may be relevant for the tax authorities to determine whether we are a PRC resident enterprise for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

Although it is unclear under PRC tax law whether we have a "de facto management body" located in China for PRC tax purposes, our Company takes the position that we are not a PRC resident enterprise for tax purposes. However, there can be no assurance that the tax authorities will agree with our position. If our Company is deemed a PRC resident enterprise for tax purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our global income.

Furthermore, the exemption from the 20% withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the former tax laws is no longer available. Under the PRC EIT Law and the Implementation Rules for the PRC EIT Law, PRC income tax at the rate of 10% (or a lower treaty rate) is applicable to dividends paid by Chinese enterprises to "non-resident enterprises" (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax laws and treaties that the PRC has entered into. As we position ourselves and our non-PRC subsidiaries as "non-resident enterprises", any dividend that we or any such non-PRC subsidiary receives from our PRC subsidiaries may be subject to PRC taxation at the 10% rate (or lower treaty rate).

Foreign Currency Exchange

Foreign currency exchange in China is primarily governed by the Foreign Exchange Administration Rules (1996), as amended; and the Regulations of Settlement, Sale and Payment of Foreign Exchange (1996).

Under the Foreign Exchange Administration Rules, the Renminbi is freely convertible for current account items, including distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and investment repatriation, however, is still subject to the approval of the SAFE.

Under the Regulations of Settlement, Sale and Payment of Foreign Exchange, foreign-invested enterprises may only buy, sell and /or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and NDRC.

Dividend Distribution

The principal regulations governing distribution of dividends paid by foreign-invested enterprises include the Wholly Foreign-Owned Enterprise Law (1986), as amended; the Wholly Foreign-Owned Enterprise Law Implementation Rules (1990), as amended; and the Sino-Foreign Contractual Joint Venture Law (1988), as amended, and its implementation rules (1995); the Sino-Foreign Equity Joint Venture Law (1979), as amended, its implementation rules (1983) as amended and the Company Law of the PRC (中華人民共和國公司法), as amended.

Under these regulations, wholly foreign-owned enterprises in China ("WFOEs") may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC GAAP. In addition, a WFOEs enterprise in China is required to set aside at least 10% of its after-tax profit based on PRC GAAP each year to a general reserves until the accumulative amount of such reserves reach 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a foreign-invested enterprise has the discretion to allocate a portion of its after-tax profits to staff welfare and bonus funds, which may not be distributed to equity holders except in the event of liquidation.

Circular No. 75

On October 21, 2005, SAFE issued Circular No. 75, which became effective as of November 1, 2005. According to Circular No. 75 and the related clarifications issued since, prior registration with the local SAFE branch is required for PRC natural or legal person residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC and raising funds from overseas. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Circular No. 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Circular No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity. If any PRC shareholder of any offshore company fails to make the required SAFE registration and amendment, the PRC subsidiaries of that offshore company may also be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore company. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions. PRC residents who control our Company from time to time are required to register with the SAFE in connection with their investments in us.

In connection with Chuanmei Glauber Salt's SAFE registration, Mr. Suo Lang Duo Ji did not disclose his ownership of Top Promise and therefore Chuanmei Glauber Salt, and the Meishan Branch SAFE instructed him to pay a fine of RMB10,000 as a result of such inaccuracies. Mr. Suo Lang Duo Ji paid such fine in April 2008 and made the registration with the Sichuan Branch SAFE. Our PRC legal counsel, Grandall Legal Group (Shanghai), has advised us that despite his delayed registration, Mr. Suo Lang Duo Ji's registration is currently effective.

Regulations of Collectively-owned Lands

Collectively-owned land in the PRC is governed by the Land Administrative Law of the PRC and the implementation rules thereof. The main provisions are set out below:

1. Where collectively-owned land is contracted out for operation to an entity or individual that does not belong to the collective economic organizations of the village, it shall be conducted with the consent of at least two-thirds of the members of the villagers assembly or of the representatives of the villagers, and the matter shall be submitted to the township (town) people's government for approval.

2. Any entity or individual that needs land for construction purposes shall, in accordance with law, apply for the use of state-owned land.

3. Where a piece of agricultural land is used for construction purposes, such land must first be converted to state-owned land.

4. The right to use any collectively-owned land cannot be assigned, transferred or leased for non- agricultural construction purpose.

In case of violation of the foregoing provisions, the structures and other facilities built on the illegally occupied land shall be demolished within a certain time limit, and the original condition of the land shall be restored. If such violation happens to conform to the overall governmental plan for land utilization, the structures and installations built on the land shall be confiscated. The entity or individuals involved in each case may also be fined (up to RMB30 per m^2 of the area of illegally occupied land), and the persons directly responsible for the illegal occupation of the land shall be given administrative penalties in accordance with law and may be criminally liable.

The land administrative departments of the People's Governments at and above the county level are responsible for implementing the above penalties.

There is no separate regulation governing the lease of collectively-owned lands.

Manufacturing of Pharmaceutical Products

A manufacturer of pharmaceutical products must obtain a variety of permits and licenses before commencing operations. These include a business license, a Pharmaceutical Production Permit and GMP Certificate.

Pharmaceutical Production Permit and Business License

A manufacturer of pharmaceutical products must obtain a Pharmaceutical Production Permit from the provincial food and drug administration of the PRC government. The grant of such permit is subject to an inspection of the manufacturing facilities, and a finding that their sanitary condition, quality assurance systems, management structure and equipment meet the required standards as set forth in the Pharmaceutical Administrative Law. According to the Regulations of Implementation of the Law of the People's Republic of China on the Administration of Pharmaceuticals (中華人民共和國藥品管理法實施條例) effective on September 15, 2002, a Pharmaceutical Production Permit is valid for five years and may be renewed at least six months prior to its expiration date upon a reexamination by the relevant authority.

In addition, before commencing business, a pharmaceutical manufacturer must also obtain a business license from the relevant administration for industry and commerce.

Good Manufacturing Practices

Pursuant to the Good Manufacturing Practice Rules, manufacturers of pharmaceutical products and pharmaceutical materials must obtain GMP Certificate to produce pharmaceutical products and pharmaceutical materials in China. GMP comprises a set of detailed guidelines on practices governing the production of pharmaceutical products. GMP certification criteria include institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. Pursuant to the Administrative Measure for Certification of GMP Certificate, a GMP Certificate is valid for five years. The GMP Certificate may be renewed at least six months before its expiration date upon a reexamination by the relevant authority.

Formulated by the World Health Organization, the GMP guidelines were designed to protect consumers by minimizing production errors and the possibility of contamination. The concept of GMP was introduced in the PRC in 1982 and was published in the Guidelines on the Implementation of GMP Standards (藥品生產質量管理規範實施指南) in 1985. In 1988, the Ministry of Health promulgated the first version of GMP standards, which was subsequently amended in 1992 and 1999. On 18 June 1999, PRC State Food and Drug Administration (the "SFDA") published the current version of GMP standards (1998 revised edition), which became effective on August 1, 1999.

Continuing SFDA Regulation

A manufacturer of pharmaceutical products is subject to periodic inspection and safety monitoring by the SFDA to determine compliance with regulatory requirements. The SFDA has a variety of enforcement actions available to enforce its regulations and rules, such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and transfer to the relevant authority for criminal investigation.

MANAGEMENT

Directors

The board of directors of our Company consists of nine Directors, three of whom are independent non-executive Directors. The powers and duties of the Board include convening shareholders' meetings and reporting the Board's work at shareholders' meetings, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of share capital as well as exercising other powers, functions and duties as conferred by the articles of association of our Company. All the executive Directors have entered into service contracts with our Company.

The following table sets forth information regarding the current Directors:

Name	Age	Position
Suo Lang Duo Ji (索朗多吉)	46	Chairman and non-executive Director
Executive Directors		
Zhang Daming (張大明)	60	Executive Director and chief executive officer
Deng Xianxue (鄧憲雪).	35	Executive Director
Li Xudong (李旭東)	46	Executive Director
Non-executive Directors		
Zhang Songyi (張頌義)	54	Non-executive Director
Wang Chun Lin (王春林)	57	Non-executive Director
Independent non-executive Directors		
Patrick Logan Keen	60	Independent non-executive Director
Koh Tiong Lu John (許忠如).	54	Independent non-executive Director
Wong Chun Keung (王振強)	40	Independent non-executive Director

Executive Directors

ZHANG Daming (張大明), aged 60, is an executive Director and chief executive officer of our Company. Mr. Zhang Daming is a senior economist and holds a master degree in Integral Management from Tao University and a bachelor degree in Political Economics from Sichuan University (四川大學). Mr. Zhang Daming worked as the department head of Sichuan Provincial Economic System Reform Committee (四川省經濟體制改革委員會) from 1993 to 1996 and the deputy secretary general of the SPESRC from 1996 to 2001. In September 2001, Mr. Zhang Daming was appointed as the economic advisor of Chuanmei Mirabilite after his departure from the SPESRC. In August 2004, Mr. Zhang Daming was appointed as the general manager of Chuanmei Mirabilite and was reappointed in August 2007 with a three year tenure. In June 2007, he was appointed as the general manager of Chuanmei Glauber Salt. In February 2008, he was appointed as a director of Chuanmei Mirabilite. Currently, he is also the managing director of Top Promise and deputy chairman of Sichuan Mirabilite Association (四川省元明粉協會). Mr. Zhang Daming participated in the strategic business development of Chuanmei Mirabilite and is involved in the decision making regarding the operation of our business. He was appointed as an executive Director and chief executive officer in February 1, 2008.

DENG Xianxue (鄧憲雪), aged 35, is an executive Director. She holds a master degree in Business Administration from the University of Electronic Science and Technology of China (電子科技大學) and a high diploma in Accountancy from Guizhou College of Finance and Economics

(貴州省財經學院). Ms. Deng Xianxue is a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會), a member of the Chinese Certified Tax Agents Association (中國註冊稅務師協會) and a member of the China Appraisal Society (中國資產評估協會). Ms. Deng Xianxue has years of experience in accounting, taxation and corporate reorganization and is involved in making decisions regarding our business plans and financial reporting issues.

She joined our Company in March 2005 as the financial controller of Chuanmei Mirabilite and was also appointed as the financial controller of Top Promise in January 2007. She was appointed as the chief financial director of Chuanmei Glauber Salt in December 2007. She was appointed as an executive Director on February 1, 2008.

LI Xudong (**李旭東**), aged 46, is an executive Director and a senior engineer. He holds a master degree in Management Science and Engineering from University of Electronic Science and Technology of China (電子科技大學) and a high diploma in Management Engineering from Sichuan Light Chemical Industry College (四川輕化工學院) (now known as Sichuan University of Science & Engineering (四川理工學院). Mr. Li Xudong joined our Company in 1994 and worked as the deputy chief and the chief of our equipment department from July 1994 to June 2000, and assistant to the general manager of Chuanmei Mirabilite from June 2000 to July 2004. He was appointed as the deputy general manager and director of Chuanmei Mirabilite in July 2004 and the technical director of Top Promise in January 2007. He was appointed as an executive Director on February 1, 2008.

Non-executive Directors

SUO LANG Duo Ji (**索朗多吉**), aged 46, is the founder, chairman, a non-executive Director and a controlling shareholder of our Company and formerly known as Dominique Shannon (索朗多吉) and Li Yan (李炎). Mr. Suo Lang Duo Ji entered the thenardite industry through his indirect investment in Chuanmei Mirabilite through Sichuan Huatuo in 2004. Since then, Mr. Suo Lang Duo Ji has been providing strategic business guidance for Chuanmei Mirabilite, including the procurement of the GMP Certification and the production of specialty thenardite. Mr. Suo Lang Duo Ji has also been instrumental in the establishment of Chuanmei Glauber Salt and the making of key decisions of our Company through its inception, design, planning, construction and implementation. Mr. Suo Lang Duo Ji completed a postgraduate course in Enterprise Administration from Sichuan University (四川大學) in 2001 and a postgraduate course in Management Science and Engineering from University of Electronic Science and Technology of Sichuan (電子科技大學) in 2004. He is a senior engineer and senior economist. Mr. Suo Lang Duo Ji has been a part-time professor in the College of Economics and Management of Sichuan Normal University (四川師範大學) from 2006 and an adjunct professor in Sichuan Fine Arts Institute (四川美術學院) from 2005, respectively. Mr. Suo Lang Duo Ji has been a member of Zigong Committee of National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議 四川自貢市委員會) since 2003 and the deputy chairman of the third council of Zigong Overseas Friendship Association (自貢海外聯誼會) from 2005 onwards. Mr. Suo Lang Duo Ji is the chairman of Top Promise and the chairman of Haton Polymer & Fibre Corp, which is engaged in the production and development of PPS resin, PPS compounds and PPS fibre. He was appointed as a non-executive Director on January 2, 2008.

ZHANG Songyi (**張頌義**), aged 54, is a non-executive Director. Mr. Zhang Songyi joined our Company in January 2007. Mr. Zhang Songyi is experienced in corporate finance and mergers and acquisitions. Mr. Zhang Songyi served as a director of Suntech Power Holdings Co. Ltd., a company listed on the New York Stock Exchange, and currently serves in senior management and advisory capacities in several companies, including acting as the chairman of Mandra Capital Limited, a senior advisor of Morgan Stanley Asia Limited, a director of SINA Corporation, a company listed on the Nasdaq Stock Market, and an independent non-executive director of Hong Kong Energy (Holdings) Limited, a company listed on the Hong Kong Stock Exchange. Prior to joining our Company, Mr.

Zhang Songyi served as a managing director of Asia Merger, Acquisition and Divestiture Group, and the co-head of Asia Resources and Infrastructure Group of Morgan Stanley Asia Limited, and a senior associate of Milbank, Tweed, Hadley & McCloy LLP. Mr. Zhang Songyi obtained a Juris Doctor degree from Yale University in 1985. He was appointed as a non-executive Director on January 2, 2008.

WANG Chun Lin (王春林), aged 57, is a non-executive Director. Mr. Wang Chun Lin joined our Company in January 2007. Mr. Wang Chun Lin is experienced on corporate governance in the management structures and internal control procedures. Mr. Wang Chun Lin served as the chairman and an executive director of Temujin International Investments Limited (formerly known as Everest International Investments Limited), a company listed on the Stock Exchange until January 2007. During his term of appointment in Temujin International Investments Limited, he gained experience in investing in various companies, including a company principally engaged in the design, development and sales of telecommunications products and computer technology products. Mr. Wang Chun Lin obtained a bachelor degree in Computer Science from Fudan University (復旦大學) in 1977. He was appointed as a non-executive Director on January 2, 2008.

Independent non-executive Directors

KEEN Patrick Logan, aged 60, is an independent non-executive Director. Mr. Keen has over 30 years of business experience in Hong Kong and Greater China. He is the co-founder of the ChinaVest Private Equity Group and has been the managing director/partner of various investment funds in Greater China, including ChinaVest NV, TaiwanVest NV, ChinaVest II, ChinaVest IV and ChinaVest V. He served as the director of various portfolio companies, including AsiaInfo Holdings Limited, a company listed on the Nasdaq Stock Market, Prime Credit Limited and Tait Asia Limited, which are both private companies. Mr. Keen has been the member of the Fund Investment Committee and the chief financial officer of the ChinaVest Private Equity Group since 1985. Prior to co-founding the ChinaVest Private Equity Group, Mr. Keen worked as the chief financial officer of Dallas Pacific Limited, which was a private company, from 1981 to 1985 and worked for First National Bank in Dallas, a subsidiary of the First International Bancshares Inc., which was listed on the New York Stock Exchange, from 1973 to 1981 with the last position as the vice president of marketing and credit. Mr. Keen is a fellow of the Hong Kong Institute of Directors. Mr. Keen obtained a bachelor degree of Business Administration and a master degree of Business Administration from The University of Texas at Austin in 1971 and 1973, respectively. He was appointed as an independent non-executive Director on May 25, 2009.

KOH Tiong Lu, John (許忠如), aged 54, is an independent non-executive Director. Mr. Koh Tiong Lu, John has over 25 years of experience in investment banking and law. From 1999 to 2006, he was a managing director and a senior advisor to The Goldman Sachs Group. Prior to joining The Goldman Sachs Group, Mr. Koh spent 18 years as a lawyer at Paul Weiss Rifkind Wharton & Garrison LLP, Milbank Tweed Hadley & McCloy LLP, J. Koh & Co, a Singapore law firm founded by Mr. Koh Tiong Lu, John, and the Singapore Attorney General's office. Mr. Koh Tiong Lu, John has served as a member of the Economic Review Committee's sub- committee on Service Industries in Singapore. He is also chairman of the audit committee of the board of directors of NSL Ltd (formerly known as Natsteel Ltd), a publicly traded Singapore conglomerate, chairman of the Investment Committee and a director of the Mapletree Industrial Fund Ltd. and a director of Mandra Forestry Finance Limited, which are both private companies. Mr. Koh Tiong Lu, John holds a degree of Bachelor of Arts and a degree of Master of Arts from University of Cambridge and is a graduate of Harvard Law School. He was appointed as an independent non-executive Director on May 25, 2009.

WONG Chun Keung (**王振強**), aged 40, is an independent non-executive director. Mr. Wong Chun Keung is a practicing barrister in Hong Kong. He obtained a degree of Bachelor of Science and a degree of Master of Business Administration from the University of Hong Kong in 1991 and 1998 respectively. He also holds a degree of Bachelor of Laws from the University of London and the Postgraduate Certificate in Laws from the University of Hong Kong. He was called to the Bar in Hong Kong in 2002 and was in private practice since 2003. He was appointed as an independent non-executive Director on May 25, 2009.

Senior Management

Name	Age	Group Position
Zhu Ben Yu (朱本宇)	37	Chief financial officer and company secretary
Zhu Jimin (祝季敏).	56	Mining director of our Company
Li Chunxian (李春先)	64	Chief engineer of our Company
Gou Xingwu (苟興無).	42	Human resources and purchase director of our Company
Li Hongqing (李洪清).	37	Production director of our Company
Liu Qiru (劉啓儒).	54	Deputy chief engineer of our Company
Yu Man Chiu (余孟釗)	35	General Manager of our Company
Cao Bin (曹斌).	40	Deputy general manager of Chuanmei Mirabilite and Chuanmei Glauber Salt

ZHU Ben Yu (**朱本宇**), aged 37, is our chief financial officer, company secretary. Mr. Zhu Ben Yu has over 10 years of experience in accounting, asset management and corporate finance, and is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining our Company, Mr. Zhu Ben Yu worked in Ernst & Young for five years, and served as the financial controller and company secretary and qualified accountant for Topsearch International (Holdings) Limited (Stock code: 2323) and Hua Han Bio-Pharmaceutical Holdings Limited (Stock code: 587), both of which are listed on the Stock Exchange, from April 2004 to December 2004 and from November 2005 to December 2007, respectively. Mr. Zhu Ben Yu obtained a bachelor degree of Business Administration from the Chinese University of Hong Kong.

ZHU Jimin (**祝季敏**), aged 56, is the mining director of our Company. He is a senior economist and holds a high diploma in Economic Management from the Communist Party Institute of the Sichuan Province (中國共產黨四川省委黨校函授學院). Mr. Zhu Jimin has been working in Chuanmei Mirabilite since July 1987. He worked as Chuanmei Mirabilite's deputy mining facilities chief from July 1987 to February 1989, mining facilities chief from February 1989 to December 2006, and the deputy chief of business information department from March 1990 to June 2004. In June 2004, Mr. Zhu Jimin was appointed as the chief supervisor of Chuanmei Mirabilite and then in February 2006, he was appointed as the chairman of the board of directors of Chuanmei Mirabilite. Mr. Zhu Jimin is responsible for the overall management and supervision of the mining and operation of our Company.

LI Chunxian (**李春先**), aged 64, is the chief engineer of our Company. He is a senior engineer and a senior consultant in technology management and holds a bachelor degree in Non-metallic Mining from Beijing Architecture & Construction Industry College (北京建築工業學院). Mr. Li Chunxian joined Chuanmei Mirabilite in 1998 as the technical advisor to provide advice on various technical and engineering issues to our Company. From September 2004 to December 2006, he worked as the chief engineer of Chuanmei Mirabilite. In January 2007, he was appointed as the chief engineer of Top Promise. Before joining our Company, Mr. Li Chunxian was the president of Zigong Light Industry Design and Research Institute.

GOU Xingwu (**苟興無**), aged 42, is the human resources and purchase director of our Company. He is an engineer and holds a high diploma in Chemical Industrial Mechanics from Sichuan Luzhou Chemical Industry College (四川省瀘州化工學院). Mr. Gou Xingwu joined our Company for 20 years. He joined Chuanmei Mirabilite in 1987 and worked as the deputy head of the production department from January 1987 to December 1998, deputy factory director from December 1998 to January 2001, factory director from January 2001 to August 2004 and assistant to general manager of Chuanmei Mirabilite. In August 2004, he was appointed as the deputy general manager of Chuanmei Mirabilite. In December 2007, he was appointed as the deputy general manager of Chuanmei Glauber Salt.

LI Hongqing (**李洪清**), aged 37, is the production director of our Company. He is an engineer. He holds a bachelor degree in Business Administration from South Western University of Finance and Economics (西南財經大學) and a high diploma in Chemistry Technology and Engineering from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Li Hongqing has over 10 years experience in our production operations. Mr. Li Hongqing joined Chuanmei Mirabilite in September 1995. He worked as an operator from September 1995 to January 1996, a controller from January 1996 to October 1996, the deputy director of the thenardite production factory from November 1996 to November 2005, the director of the thenardite production factory from November 2005 to December 2007 of Chuanmei Mirabilite. In December 2007, he was appointed as the deputy general manager and the manager of production department of Chuanmei Mirabilite. In December 2007 he was appointed deputy general manager of Chuanmei Glauber Salt.

LIU Qiru (**劉啓儒**), aged 54, is the deputy chief engineer of our Company. He is a senior engineer and holds a high diploma in Mining from Kunming Industrial College (昆明工學院) (now known as Kunming University of Science and Technology (昆明理工大學)). Mr. Liu Qiru joined our Company for 10 years. He joined Chuanmei Mirabilite in 1997 and worked as the deputy mining chief from November 1997 to December 1999 and mining chief from December 1999 to October 2001. From October 2001 to May 2007, he worked as the head and manager of the production and technology department of Chuanmei Mirabilite. Mr. Liu Qiru was appointed as the chief engineer of Chuanmei Mirabilite and project manager for the construction of the Guangji production facility in January 2007.

YU Man Chiu (**余孟釗**), aged 35, is the general manager of our Corporate Development Department. He has 10 years of experience working in corporate finance and capital markets. Prior to joining our Company in 2009, Mr. Yu worked for BNP Paribas Peregrine Capital Limited from 1999 to 2008 and the equity capital markets group of Credit Suisse (Hong Kong) Limited from 2008 to 2009. Mr. Yu holds a master degree in international management from King's College, London and a bachelor degree in physics from Imperial College, London.

CAO Bin (**曹斌**), aged 40, is the deputy general manager of Chuanmei Mirabilite and Chuanmei Glauber Salt. He holds a bachelor degree of Foreign Economic and Trading from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Cao Bin joined Chuanmei Mirabilite in December 2003 as the deputy manager of its sales department. He was appointed as the deputy general manager of the sales and marketing department of Chuanmei Mirabilite in December 2004 and was responsible for the sales and marketing operations of our Company. In December 2007 he was appointed deputy general manager of Chuanmei Glauber Salt.

Company Secretary

ZHU Ben Yu (**朱本宇**) is the company secretary of our Company. His particulars are set forth in the paragraph headed "Senior Management" above.

Board Committees

Audit Committee

We have an audit committee in compliance with the Hong Kong Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Company. The audit committee is comprised of three members, namely, Mr. Patrick Logan Keen, Mr. Koh Tiong Lu John and Mr. Wong Chun Keung. They are all independent non-executive Directors. The audit committee is chaired by Mr. Patrick Logan Keen.

Remuneration Committee

We have a remuneration committee which consists of Mr. Wong Chun Keung, Mr. Patrick Logan Keen and Mr. Suo Lang Duo Ji and is chaired by Mr. Wong Chun Keung. The primary duties of the remuneration committee are to evaluate and make recommendations to the Board regarding the compensation of the chief executive officer and other executive Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of the senior management.

Nomination Committee

We have a nomination committee to make recommendations to the Board regarding candidates to fill vacancies on the Board. The current members of the nomination committee are Mr. Koh Tiong Lu John, Mr. Wong Chun Keung and Mr. Wang Chun Lin. The nomination committee is chaired by Mr. Koh Tiong Lu John.

Compliance Committee

We have a compliance committee to ensure compliance of regulatory matters and corporate governance requirements. Its primary duties are, including but not limited to holding meetings in each quarter to review, investigate and plan for our Company's legal and compliance matters, and to review and monitor the compliance and control environment of our Company. The current members of the compliance committee are Mr. Koh Tiong Lu John, Mr. Wong Chun Keung, Mr. Zhang Daming, Ms. Deng Xianxue and Mr. Zhu Ben Yu. The compliance committee is chaired by Mr. Koh Tiong Lu John.

Remuneration of Directors and Senior Management

Our Company reimburses the Directors for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in our Company's operations. When reviewing and determining the specific remuneration packages for the executive Directors and senior management, the remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment and services elsewhere in our Company and desirability of performance-based remuneration.

In each of the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, the total remuneration (comprising basic salaries, housing allowances, other allowances, pension and benefits) paid to the executive Directors was approximately RMB533,000, RMB2,151,000, RMB4,502,000 (US$659,000) and RMB2,757,000 (US$404,000), respectively. The aggregate remuneration payable to the executive Directors for the year ending December 31, 2009 is estimated to be RMB2,516,000. Our Company also expects to pay the independent non-executive Directors and non-executive Directors approximately RMB478,000 and RMB3,530,000, respectively, for their services, for the year ending December 31, 2009.

There was no directors' remuneration paid to Mr. Suo Lang Duo Ji, Mr. Zhang Songyi and Mr. Wang Chun Lin in the year ended December 31, 2006, as Mr. Suo Lang Duo Ji was appointed as director of Rich Light, a direct wholly-owned subsidiary of our Company in the BVI, and Top Promise, an indirect wholly-owned subsidiary of our Company in Hong Kong, since December 2006 while Mr. Wang Chun Lin and Mr. Zhang Songyi were appointed as directors of Rich Light International Limited in January 2007. No compensation was paid directly to Mr. Zhang Songyi in the year ended December 31, 2007.

In the year ended December 31, 2006, no contribution was made to pension plans for Mr. Zhang Daming as he is a retired employee of another entity in the PRC and no contribution was necessary.

Share Option Schemes

We have conditionally adopted the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on April 30, 2008. As at June 30, 2009, we granted options exercisable into 76,000,000 Shares under the Pre-IPO Share Option Scheme to 198 grantees including our Directors, senior managerial staff and employees. In July and August 2009, a total of 17,320,000 options granted under the Pre-IPO Share Option Scheme were exercised at HK$2.00 per Share.

We have also conditionally adopted the post-IPO share option scheme (the "Post-IPO Share Option Scheme") on May 26, 2009. The purpose of this scheme is to provide the people and the parties working for the interests of our Company with an opportunity to obtain an equity interest in our Company, thus linking their interest with the interest of our Company and thereby providing them with an incentive to work better for the interest of our Company. In July 2009, we had granted share options to certain eligible participants under the Post-IPO Share Option Scheme to subscribe for an aggregate of 103,200,000 Shares exercisable in three periods expiring on December 31, 2009, 2010 and 2011, respectively.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding Shares as of September 30, 2009 by those persons who beneficially own more than 5% of our outstanding Shares, as recorded in the register maintained by us pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Name of Shareholder	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding
Mr. Suo Lang Duo Ji(1)	Beneficial owner, deemed interest, interest of controlled corporations	787,797,400(2)	40.6%
Moonchu Foundation for Culture & Education Limited(3)	Deemed interest, interest of controlled corporations	252,350,000	13.0%
Woo Foong Hong Limited(3)	Deemed interest, interest of controlled corporations	252,350,000	13.0%
Nice Ace Technology Limited	Beneficial owner	786,197,400	40.5%
Mandra Mirabilite Limited	Beneficial owner	252,350,000	13.0%

Notes:

(1) Represents 786,197,400 Shares held by Nice Ace Technology Limited, a company wholly owned by Mr. Suo Lang Duo Ji, and share options granted to Mr. Suo Lang Duo Ji under our Post-IPO Share Option Scheme (as defined under "Management – Share Option Schemes") to subscribe for 1,600,000 Shares.

(2) In November 2008, Mr. Suo Lang Duo Ji and Nice Ace Technology Limited entered into a loan agreement with Investec Bank plc, pursuant to which Investec Bank plc may in its sole discretion, take delivery of the 55,714,286 Shares currently owned by Nice Ace Technology Limited in lieu of cash repayment of the loan if the Company completes an initial public offering within 18 months after the drawdown date. If Investec Bank plc elects to take delivery of the Shares, the percentage holding of Nice Ace Technology Limited will decrease accordingly.

(3) Represents 252,350,000 Shares held by Mandra Mirabilite Limited. Mandra Mirabilite Limited is a company wholly owned by Woo Foong Hong Limited. Woo Foong Hong Limited is a company wholly owned by Moonchu Foundation for Culture & Education Limited, a tax-exempt charity established and controlled by Mr. Zhang Songyi, one of our Directors, and his family.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our Company and our directors, executive officers and controlling shareholders and, in each case, the companies with whom they are affiliated during the three years ended December 31, 2008 and the six months ended June 30, 2009.

Acquisition of Minority Interest In Chuanmei Mirabilite

In August 2009, we entered into an equity transfer agreement with Sichuan First Silk, the minority shareholder of Chuanmei Mirabilite, to acquire the remaining 10% equity interest in Chuanmei Mirabilite for a consideration of RMB264.0 million. We have paid approximately RMB185.0 million as the first installment of the purchase price and are required to pay the balance within ten business days from the date on which all conditions precedent, including the receipt of governmental approvals, to the equity transfer agreement are satisfied. This transaction is expected to be completed by the end of 2009. Upon the completion of this transaction, Chuanmei Mirabilite will become a wholly-owned subsidiary of our Company.

Advances and Amounts with Affiliated Companies

During the three years ended December 31, 2008 and the six months ended June 30, 2009, we have made interest free advances to and received interest free advances from Mr. Suo Lang Duo Ji, one of our controlling shareholders and Directors, and Nice Ace Technology Limited, a company wholly owned by Mr. Suo Lang from time to time. These advances have been fully settled as of June 30, 2009.

Mandra Mirabilite Limited, Mandra Esop Limited, AAA Mining Limited and OSSF, four of our shareholders, have made certain interest free advances to us during the three years ended December 31, 2008 and the six months ended June 30, 2009. These advances have been fully settled as of June 30, 2009.

Other transactions with related parties

During the two years ended December 31, 2006 and 2007, we have paid consultancy fees of RMB0.3 million and RMB1.1 million, respectively, to Mandra Capital Limited, a company wholly owned by Mr. Zhang Songyi, one of our controlling shareholders and Directors.

Pursuant to a tenancy agreement and a related guarantee and indemnity agreement dated March 11, 2009, Haton Polymer & Fibre Corp., a company controlled by Mr. Suo Lang Duo Ji, agreed to provide an unconditional and irrevocable guarantee for certain of our rent payment to a third party landlord for a term of two years.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following is a summary only of the principal terms of our material indebtedness and does not purport to be complete. Refer to our consolidated financial statements and the notes thereto included elsewhere and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Indebetedness" for additional information with respect to our indebtedness.

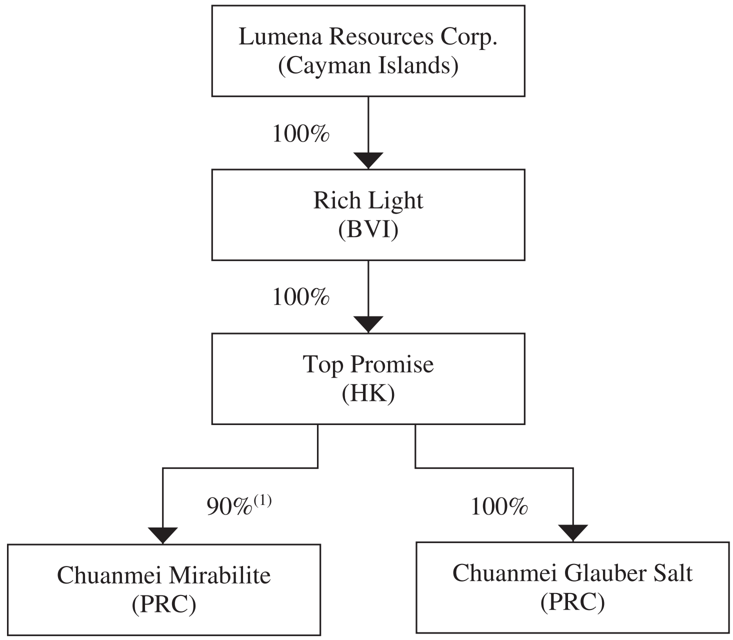
BOCI Facility Loan

Pursuant to a facility agreement dated August 4, 2009, BOCI Leveraged & Structured Finance Limited ("LSF") granted us a loan facility of US$120.0 million (the "LSF Loan"). The LSF Loan will be repaid by four monthly installments starting from the ninth month since the initial drawdown date and bears an rate at 10.0% per annum for the first six months and LIBOR plus 9.0% thereafter.

The LSF Loan is secured by (i) an account charge over all bank accounts of Lumena, Rich Light and Top Promise, (ii) a share charge over all shares of Rich Light and Top Promise, (iii) an equity pledge over equity interest in Chuanmei Mirabilite and Chuanmei Glauber Salt and (iv) subordination and assignment for all current or future inter-company loans owned to Lumena, Rich Light and Top Promise (the "LSF Security Package").

CORPORATE STRUCTURE

The following chart shows our current corporate structure.



Note:

(1) In August 2009, we entered into an agreement with Sichuan First Silk to acquire the remaining 10% equity interest in Chuanmei Mirabilite. This transaction is expected to be completed by the end of 2009. Upon completion of this transaction, Chuanmei Mirabilite will become our wholly-owned subsidiary. See "Business – Recent Developments".

Hong Kong, 9 October 2009

As at the date of this document, the executive Directors are Mr. Zhang Daming, Ms. Deng Xianxue and Mr. Li Xudong; the non-executive Directors are Mr. Suo Lang Duo Ji, Mr. Wang Chun Lin and Mr. Zhang Songyi; and the independent non-executive Directors are Mr. Patrick Logan Keen, Mr. Koh Tiong Lu John and Mr. Wong Chun Keung.