THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Lumena Resources Corp., you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Lumena Resources Corp.

Lumena

LUMENA RESOURCES CORP.
旭光資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 67)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) AN INCREASE IN AUTHORISED SHARE CAPITAL;
(4) ALLOTMENT AND ISSUE OF CONSIDERATION SHARES;
(5) SPECIFIC MANDATE FOR THE NEW ISSUE;
AND
(6) NOTICE OF EGM

Financial Adviser to Lumena Resources Corp.

交銀國際
BOCOM INTERNATIONAL

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ING

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular. A letter from the Independent Board Committee is set out on page 107 of this circular.

A letter from ING Bank N.V. containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 108 to 138 of this circular.

A notice of the EGM to be held at Bowen Room, 7/F, Conrad Hong Kong, 88 Queensway, Admiralty, Hong Kong on 30 December 2010, at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

14 December 2010

CONTENTS

CONTENTS

In this circular, the following expressions shall, unless the context requires otherwise, have the following meanings:

"Acceding Vendor(s)"	any or all of (i) any Warrant Holder that has been issued Target Shares and has acceded to the Sale and Purchase Agreement; (ii) BOCOM provided that it has been issued Target Shares and acceded to the Sale and Purchase Agreement; and (iii) any Non-Selling Shareholder that has acceded to the Sale and Purchase Agreement
"Acquisition"	the acquisition of the Sale Shares in accordance with the Sale and Purchase Agreement
"Additional Shares"	an aggregate number of (i) 1,023,086,128 new Shares (in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement), (ii) 986,470,921 new Shares (in the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement) or (iii) 1,056,327,390 new Shares (in the event that Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement), in each case representing 20% of the total number of issued Shares if enlarged by the issue of the Consideration Shares
"Announcement"	the announcement dated 7 November 2010 issued by the Company in relation to, among other things, the Acquisition and the Whitewash Waiver
"Ascend"	Ascend Concept Technology Limited, a company incorporated in the BVI with limited liability, which, as at the Latest Practicable Date, owns approximately 37.78% of the issued share capital of the Target at the Latest Practicable Date, which is ultimately beneficially owned by Mr. Suo Lang Duo Ji

"associate(s)"	has the same meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"BOCOM"	BOCOM International Holdings Company Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of Bank of Communications Co., Ltd. (交通銀行股份有限公司), whose H shares are listed on the Main Board of the Stock Exchange (stock code: 3328). BOCOM is principally engaged in securities proprietary trading and investment holding. BOCOM International (Asia) Limited, a wholly owned subsidiary of BOCOM, has been appointed as the financial adviser to the Company and is a licensed corporation registered under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) registered activities
"BVI"	the British Virgin Islands
"Cash Consideration"	an amount equal to 10% of the Consideration, being HKD1,105,302,791 in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, being HKD1,041,226,180 in the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement and being HKD1,163,475,000 in the event that Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement
"Combined Concert Group"	Mr. Suo Lang Duo Ji, the Concert Parties and the Concert Party Entities

"Company"	Lumena Resources Corp., a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	the date of Completion
"Concert Parties"	Mr. Zhang Songyi, Mr. Wang Chun Lin, Mr. Wan Keung, Mr. Zhang Yinghua, Li Feng, Liu Meifang, Li Bing, Chan Tim Shing, Jiang Guorong, Yang Huaijin, Cao Zhong, Zhang Weibing, Wu Chi Pan, Qin Ke Bo, Wang Jianfeng, Song Jifeng, Cheng Zai Zhong, Ho Ying, Chung Mei Chai and Chu Chuang Chieh
"Concert Party Entities"	Ascend, Nice Ace, Mandra Esop, Mandra Materials, Woo Foong Hong, Mandra Mirabilite Limited, Triple A Investments, AAA Mining Limited, Ying Mei, Fine Talent Group Limited, Unique Speed Investments Limited, Raybest Investment Ltd, Marble King Investment Ltd, Joint Peak Investments Limited, True Express Limited, Sino Reach Investments Limited, Orient Value Limited, Profuse Investments Holdings Limited and China-Land Biotech Holdings Limited
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Acquisition
"Consideration Shares"	the aggregate of up to 3,324,214,287 but not less than 2,974,931,943 Shares, to be allotted and issued by the Company to the Vendors as partial consideration for the purchase of the Sale Shares, and a "Consideration Share" shall be construed accordingly
"Convertible Notes"	six convertible notes which are convertible into Target Shares representing approximately 3.23% of the Target's fully diluted share capital, all issued on 11 November 2009 pursuant to a subscription agreement dated 30 October 2009, as amended by a supplemental subscription agreement dated 6 November 2009 and an amendment and waiver letter dated 5 November 2010, entered into between the Target, BOCOM and Mr. Suo Lang Duo Ji (each of the Convertible Notes having a principal amount of USD5,000,000 and the six Convertible Notes having an aggregate principal amount of USD30,000,000)

"CS Facility"	the USD160,000,000 loan facility granted to the Target pursuant to the facility agreement dated 6 November 2007 entered into between, among others, the Target (as borrower) and Credit Suisse AG, Singapore Branch and/or its affiliates (as lender), which matured on 9 November 2010 and was refinanced by the Secured Fixed Rate Term Notes
"Deyang Chemical"	四川得陽化學有限公司 (Sichuan Deyang Chemical Co., Ltd.), a company incorporated in the PRC
"Deyang Materials"	四川得陽特種新材料有限公司 (Sichuan Deyang Special New Materials Co., Ltd.), a company incorporated in the PRC
"Deyang Plastic"	四川得陽工程塑料開發有限公司 (Sichuan Deyang Engineering Plastic Development Co., Ltd.), a company incorporated in the PRC
"Deyang Technology"	Sichuan Deyang Science & Technology Co., Ltd. (四川得陽科技股份有限公司)
"Director(s)"	the directors of the Company
"EBITDA"	operating profit plus depreciation of property, plant and equipment plus amortisation of prepaid lease payment, adjusted for other non-operating income which included bank interests, government grant, rental and sales of scrap materials and non-recurring expenses which included written-off/impairment on property, plant and equipment related to the earthquake
"EGM"	extraordinary general meeting of the Company to be convened to approve the matter(s) referred to herein
"EIT"	PRC Enterprise Income Tax
"Enlarged Group"	the Group as enlarged by the Acquisition
"Executive"	shall have the meaning as defined in the Takeovers Code
"Existing Shareholders"	MS China, Mandra Esop, Mandra New Materials, Woo Foong Hong, Triple A Investments, Fine Talent Group Limited, Unique Speed Investments Limited and True Express Limited
"Filter Bag Committee"	the Filter Bag Committee of the PRC Association of the Environmental Protection Industry

"Group"	the Company and its subsidiaries from time to time
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Indenture"	the indenture dated 27 October 2009 between, among others, the Company, Citicorp International Limited as trustee and the entities listed in Schedule 1 to the sale and purchase agreement, in respect of the issuance by Company of USD250,000,000 12% senior notes, due 2014
"Independent Board Committee"	the independent board committee established by the Company to advise the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. The Independent Board Committee consists of Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung and Mr. Xia Lichuan, each an independent non-executive Director. Mr. Gao Zongze, an independent non-executive Director is a supervisor of the Target. Although he is not involved in the management of the Target, such position conflicts with that of the Independent Board Committee. He is therefore not included as a member of the Independent Board Committee. In addition, each of the non-executive Directors are shareholders of the Company and the Target and therefore have an interest in the Acquisition and are therefore not included in the Independent Board Committee
"Independent Financial Adviser"	ING Bank, N.V., a registered institution under the Securities and Futures Ordinance, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed by the Company

"Independent Shareholders"	the Shareholders other than (i) Mr. Suo Lang Duo Ji and the Concert Parties and the Concert Party Entities and their associates and parties acting in concert with any of them and (ii) any parties involved in or interested in the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver
"Independent Third Party"	party independent of the Company and its connected persons
"Issue Price"	HKD3.15 per Share
"Last Trading Day"	15 October 2010, being the last trading date prior to the signing of the Sale and Purchase Agreement
"Latest Practicable Date"	10 December 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Longstop Date"	30 May 2011 (or such other later date as the Company and Warrantors may agree in writing)
"Mandra"	Mandra Materials and Mandra Esop
"Mandra Esop"	Mandra Esop Limited, a company incorporated in the BVI with limited liability, being one of the Vendors and which, as at the Latest Practicable Date, owns approximately 1.42% of the issued share capital of the Target at the Latest Practicable Date, which is ultimately beneficially owned as to 50% by Mr. Zhang Songyi and as to 50% by Ms. Mui Bing How (who is Mr. Zhang Songyi's wife)

"Mandra Materials"	Mandra Materials Limited, a company incorporated in the BVI with limited liability, being one of the Vendors and which, as at the Latest Practicable Date, owns approximately 12.74% of the issued share capital of the Target at the Latest Practicable Date, which is ultimately beneficially owned as to 50% by Mr. Zhang Songyi and as to 50% by Ms. Mui Bing How (who is Mr. Zhang Songyi's wife)
"Mandra New Materials"	Mandra New Materials Limited, a company incorporated in the BVI with limited liability, which is ultimately beneficially owned as to 50% by Mr. Zhang Songyi and as to 50% by Ms. Mui Bing How (who is Mr. Zhang Songyi's wife), which up to 15 October 2010 held 9,181,820 Target Shares representing 11.48% of the issued share capital of the Target of which 6,506,185 shares were transferred to Sky Success on 15 October 2010 and the remaining 2,675,635 shares were transferred to Mandra Materials on 15 October 2010
"Memorandum and Articles of Association"	the memorandum and articles of association of the Company, as amended from time to time
"Moonchu"	Moonchu Foundation Limited, a tax exempt charity established by Mr. Zhang Songyi and his family
"Mr. Suo Lang Duo Ji"	Suo Lang Duo Ji (索郎多吉) (formerly known as Dominique Shannon (索郎多吉) and Li Yan (李炎)), being the founder, controlling Shareholder, chairman and non-executive Director, and being one of the Vendors, and the beneficial owner of Ascend (being one of the Vendors)
"Mr. Wan Keung"	Wan Keung
"Mr. Wang Chun Lin"	Wang Chun Lin, a non-executive Director
"Mr. Zhang Songyi"	Zhang Songyi, a non-executive Director

"MS China"	MS China 10 Limited, a Cayman Islands exempted company with limited liability, being one of the Vendors which owns approximately 7.66% of the issued share capital of the Target at the Latest Practicable Date, which is a wholly-owned subsidiary of Morgan Stanley Principal Investments, Inc., a wholly owned subsidiary of Morgan Stanley Fixed Income Ventures Inc., which in turn is wholly owned by Morgan Stanley
"New Investor(s)"	Credit Suisse AG and/or a group of financial institutions arranged by Credit Suisse AG
"New Issue"	the allotment and issue of Additional Shares
"New Shareholders"	Raybest Investment Ltd, Marble King Investment Ltd, Joint Peak Investments Limited, Sino Reach Investments Limited, Orient Value Limited, Profuse Investments Holdings Limited and China-Land Biotech Holdings Limited
"New Warrants"	the warrants created and issued by the Target on 9 November 2010 to the New Investors in connection with the Secured Fixed Rate Term Notes which entitle the Warrant Holders to subscribe for Target Shares representing up to 2.57% of the fully diluted share capital of Target
"Nice Ace"	Nice Ace Technology Limited, a company incorporated in the BVI with limited liability, which, as the Latest Practicable Date, owns approximately 37.91% of the issued share capital of the Company at the Latest Practicable Date, which is ultimately beneficially owned by Mr. Suo Lang Duo Ji
"Nice Ace Warrant Holders"	the warrant holders under the Nice Ace Warrant Instruments
"Nice Ace Warrant Instruments"	(i) the investor A warrant instrument and (ii) the investor B warrant instrument, both dated 29 July 2010 and entered into between Nice Ace and Mr. Suo Lang Duo Ji relating to warrants issued by Nice Ace

"Non-Selling Shareholders"	SBI Holding Inc., SBI BB Mobile Investment Lps, SBI Neo Technology A Investment Lp, SBI Life Science Technology Investment Lps, SBI Life Science Technology No. 2 Investment Lps and SBI Neo Technology B Investment Lps being shareholders of the Target which, as at the Latest Practicable Date, hold a total of 4,000,000 Target Share representing 5.00% of the share capital of the Target in issue as at the Latest Practicable Date
"Other Vendors"	the 10 shareholders of the Target, being all the other shareholders of the Target on the date of the Latest Practicable Date except for the Non-Selling Shareholders and other than Ascend, Mr. Suo Lang Duo Ji, Mandra, Woo Foong Hong, Triple A Investments, Sky Success, MS China and Ying Mei
"p-DCB"	p-dichlorobenzene
"Percentage Ratios"	the applicable percentage ratios under Rule 14.07 of the Listing Rules
"Post-IPO Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company pursuant to the written resolutions passed by the Shareholders on 26 May 2009
"PPS"	polyphenylene sulfide, a special engineering plastic
"PPS Market Research Report"	the market research report prepared by SRI Consulting entitled Polyphenylene Sulfide (PPS) Market Study dated 30 November 2010
"PRC"	People's Republic of China
"PRC Legal Opinion"	the legal opinion to be issued by a qualified PRC law firm to be agreed between the Vendors and the Company regarding PRC legal issues relating, among other things, the establishment and the legal standing of the subsidiaries of the Target which are established in the PRC
"Pre-IPO Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company pursuant to the written resolutions passed by the Shareholders on 30 April 2008

"Purchasers' Warranties"	the purchasers' warranties and representations given or made by the Company and contained in the Sale and Purchase Agreement
"Related Person"	any (i) Vendor; (ii) director or chief executive of the Company; (iii) person who was a director of the Company within the 12 months preceding the Completion Date; and (iv) associate (as defined in the Listing Rules) of any of the persons referred to in (i) through (iii)
"Related Transaction"	any agreement, arrangement or transaction to which any Target Group company on the one hand and any Related Person on the other hand are parties to and which, unless terminated or unwound on or before Completion, were to qualify as a connected transaction (as defined in the Listing Rules) of the Company
"Relevant Period"	the period commencing on 7 May 2010 (being the date falling six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 19 October 2010 entered into between the Company and the Vendors in connection with the sale of the Sale Shares as amended pursuant to a first supplemental agreement entered into between the Company and the Vendors on 4 November 2010 and a second supplemental agreement entered into between the Company and the Vendors on 12 November 2010
"Sale Shares"	the 76,002,119 Target Shares held by the Vendors as at the Latest Practicable Date (representing 95.00% of the issued and outstanding capital of the Target as at the Latest Practicable Date)
"Secured Fixed Rate Term Notes"	a USD90,000,000 senior secured fixed rate term notes currently issued by the Target (as issuer) and subscribed for by the New Investors on 5 November 2010 to refinance the CS Facility, under which the Target's obligations are to repay the principal and interest, and the other main terms are substantially the same as those under the CS Facility

"Share(s)"	ordinary share(s) of USD0.00001 each in the existing issued share capital of the Company
"Shareholder(s)"	any holder(s) of Share(s)
"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
"Sichuan Huatuo"	Sichuan Haton Enterprise Co., Ltd. (四川省華拓實業發展股份有限公司)
"Sichuan Tengzhong"	Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd. (四川騰中重工機械有限公司)
"Sky Success"	Sky Success Investments Ltd., a company incorporated in the BVI with limited liability, which, as at the Latest Practicable Date, owns approximately 8.70% of the issued share capital of the Target as at the Latest Practicable Date and which is ultimately beneficially owned by Wan Keung which is an Independent Third Party
"Sky Success Lenders"	Cinda International Holdings Limited, Wonderful Sky Investment Limited, China Cinda (HK) Investments Management Company Limited and Silver Grant International Industries Limited, which are all independent from the Company and all members of the Combined Concert Group and any party acting in concert with any of them and which, as at the Latest Practicable Date, do not hold any Shares
"Sky Success Loans"	(i) the loan agreement between Sky Success (as borrower) and Cinda International Holdings Limited (as lender) dated 19 October 2010 for a loan facility of up to USD2.4 million; (ii) the loan agreement between Sky Success (as borrower) and Wonderful Sky Investment Limited (as lender) dated 19 October 2010 for a loan facility of up to USD6 million; (iii) the loan agreement between Sky Success (as borrower) and China Cinda (HK) Investments Management Company Limited (as lender) dated 19 October 2010 for a loan facility of up to USD12.5 million; and (iv) the loan agreement between Sky Success (as borrower) and Silver Grant International Industries Limited (as lender) dated 19 October 2010 for a loan facility of up to USD14.1 million

"SRI Consulting"	SRI Consulting, IHS Inc., being a research service firm engaged by the Company to prepare the PPS Market Research Report and a research study to identify potential synergies for the Enlarged Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers in force from time to time
"Target"	Sino Polymer New Materials Co., Ltd. (formerly known as Haton Polymer & Fibre Corp.), a company incorporated in the Cayman Islands
"Target BVI"	Haton Polymer & Fibre Limited, a company incorporated in the BVI
"Target Group"	the group of companies consisting of the Target and all of its subsidiaries
"Target HK"	Haton Polymer Limited, a company incorporated in Hong Kong
"Target Shares"	shares of USD0.50 each in the capital of Target
"Triple A Investments"	Triple A Investments Limited, a company incorporated in the BVI, being one of the Vendors which is the beneficial owner of approximately 3.46% of the issued share capital of Target as at the Latest Practicable Date, which is ultimately beneficially owned as to 50% by Mr. Wang Chun Lin, a non-executive Director, and as to 50% by his wife, Ms. Caroline Chan Hiu Lai
"USD"	United States dollars, the lawful currency of the United States
"Vendor(s)"	the 19 shareholders of the Target which as at the Latest Practicable Date hold 95.00% of the issued share capital of the Target
"Vendors' Warranties"	the vendors' warranties and representations contained in the Sale and Purchase Agreement which are given or made by the Vendors on a several basis
"Warrant Holders"	the holders of the New Warrants

"Warrant Instrument"	the instrument constituting warrants dated 5 November 2010 in relation to the New Warrants between, among others, the New Investors and the Target
"Warrantors"	Mr. Suo Lang Duo Ji and Ascend
"Warrantors' Warranties"	the warranties and representations contained in the Sale and Purchase Agreement which are given or made by the Warrantors on a joint and several basis
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Mr. Suo Lang Duo Ji and parties acting in concert with him to make a mandatory general offer for all the securities of the Company not already owned by Mr. Suo Lang Duo Ji and parties acting in concert with him which would otherwise arise as a result of the issue of the Consideration Shares to Mr. Suo Lang Duo Ji and/or parties acting in concert with him
"Woo Foong Hong"	Woo Foong Hong Limited, a company incorporated in the BVI with limited liability, being one of the Vendors which owns approximately 5.72% of the issued share capital of the Target at the Latest Practicable Date, which is ultimately beneficially owned by Moonchu
"Ying Mei"	Ying Mei Group Limited, a company incorporated in the BVI with limited liability, which owns approximately 5.00% of the issued share capital of the Target as at the Latest Practicable Date and which is ultimately beneficially owned by an Independent Third Party
"%"	per cent

Lumena

LUMENA RESOURCES CORP.
旭光資源有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 67)

Executive Directors:
Mr. Zhang Daming
Mr. Yu Man Chiu Rudolf
Mr. Li Xudong

Non-executive Directors:
Mr. Suo Lang Duo Ji
Mr. Wang Chun Lin
Mr. Zhang Songyi

Independent non-executive Directors:
Mr. Koh Tiong Lu, John
Mr. Wong Chun Keung
Mr. Gao Zongze
Mr. Xia Lichuan

Registered office:
Appleby Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Principal place of business in Hong Kong:
Units 7503B, 7504 and 7505
Level 75 International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

14 December 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) AN INCREASE IN AUTHORISED SHARE CAPITAL;
(4) ALLOTMENT AND ISSUE OF CONSIDERATION SHARES;
(5) SPECIFIC MANDATE FOR THE NEW ISSUE;
AND
(6) NOTICE OF EGM

INTRODUCTION

We refer to the Announcement in relation to, among other things, the Acquisition, increase in authorised share capital of the Company, allotment and issue of the Consideration Shares, specific mandate for the New Issue and the Whitewash Waiver application.

On 19 October 2010, the Company entered into a conditional Sale and Purchase Agreement pursuant to which the Company will acquire the Sale Shares which, upon Completion, represent up to 95.00% but not less than 89.49% of the equity interest in the Target, subject to the terms of the Sale and Purchase Agreement.

Pursuant to the Sale and Purchase Agreement, the Consideration payable to each of the Vendors (or any Acceding Vendor) is calculated on the basis of (i) the number of Target Shares held by the relevant Vendor (or any Acceding Vendor) on Completion as a percentage of the entire share capital of the Target in issue on Completion; and (ii) a total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000. The Consideration payable to each of the Vendors will be satisfied (a) as to 90%, by way of the allotment and issue of Consideration Shares to the Vendors at an issue price of HKD3.15 for each Consideration Share upon Completion; and (b) as to the balance of the Consideration, by payment of the Cash Consideration by the Company to the Vendors within four months following the Completion.

The original purchase costs of the Target Shares to be transferred under the Sale and Purchase Agreement by Mr. Suo Lang Duo Ji, Ascend, Mandra, Triple A Investments and Woo Foong Hong, who are the connected persons of the Company, were approximately USD25,943,000, USD15,112,000, USD5,663,000, USD1,388,000 and USD8,613,000 respectively. In respect of the original purchase costs of Mandra as set out above, it represents the aggregate purchase costs of Mandra and their respective associates.

As Completion is subject to the fulfillment of a number of conditions precedent which are detailed in this circular, the Acquisition may or may not be completed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

The purpose of this circular is to provide you with (i) further details of the Acquisition; (ii) a letter from the Independent Board Committee advising the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and advising the Independent Shareholders on how to vote, taking into account the recommendations from the Independent Financial Adviser; (iii) a letter from the Independent Financial Adviser containing its recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Whitewash Waiver are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole; and (iv) a notice of the EGM and the form of proxy.

PART A – THE ACQUISITION

1. THE SALE AND PURCHASE AGREEMENT

Date

19 October 2010

Parties

Vendors: (i) Ascend and Mr. Suo Lang Duo Ji

(ii) Mandra

(iii) Woo Foong Hong

(iv) Triple A Investments

(v) MS China

(vi) Ying Mei

(vii) Sky Success

(viii) Other Vendors

Purchaser: the Company

Assets acquired under the Sale and Purchase Agreement

The Company has conditionally agreed to purchase the Sale Shares and the Vendors have conditionally agreed to sell the Sale Shares.

As at the Latest Practicable Date, the Vendors are the legal and beneficial owners and registered holders of 95.00% of the issued share capital of the Target. Assuming that no other Target Shares are issued before Completion, the aggregate Sale Shares will represent 95.00% of the share capital of the Target in issue on Completion.

On 9 November 2010 and in connection with the Secured Fixed Rate Term Notes, the Target has created and issued New Warrants to the New Investors which give the right to purchase Target Shares representing up to approximately 2.57% of the Target's fully diluted share capital before Completion, subject to the terms and conditions of the Warrant Instrument. Pursuant to the Warrant Instrument, the New Warrants will be automatically exercised prior to Completion, and settled with new Target Shares before Completion or cash (at the option of the Warrant Holders). No New Warrants will be outstanding after Completion.

If any of the subscription rights for Target Shares under the New Warrants is exercised and settled with new Target Shares before Completion, the shareholdings of each Vendor in the Target will be diluted on a pro-rata basis. If all subscription rights for Target Shares under the New Warrants are exercised but no other Target Shares are issued before Completion, the Sale Shares will represent approximately 92.56% of the entire share capital of the Target in issue on Completion.

Pursuant to a subscription agreement dated 30 October 2009, as amended by an amendment and waiver letter on 5 November 2010, the Target has issued the Convertible Notes which are convertible into Target Shares representing approximately 3.23% of the Target's fully diluted share capital. Pursuant to the Convertible Notes, BOCOM may exercise its conversion rights into Target Shares at any time prior to three days before the Completion Date. Upon any exercise of BOCOM's conversion rights prior to Completion, the Target will create and issue Target Shares to BOCOM representing up to approximately 3.23% of the Target's fully diluted share capital.

If BOCOM exercises its conversion rights into Target Shares under the Convertible Notes before Completion but no other Target Shares are issued before Completion, the aggregate Sale Shares will represent approximately 91.94% of the entire share capital of the Target in issue on Completion. If BOCOM does not elect to exercise its conversion rights before Completion, the Convertible Notes will mature on 31 May 2011. Pursuant to the Sale and Purchase Agreement, the Consideration will not be adjusted if the Convertible Notes are not exercised before Completion. There are no Convertible Notes holders other than BOCOM.

According to the Sale and Purchase Agreement, any Warrant Holder or shareholder of the Target not being a party to the Sale and Purchase Agreement as at the date of the Sale and Purchase Agreement (which may include BOCOM) may accede to the Sale and Purchase Agreement and become a party to it as a vendor on or before Completion by delivering a duly completed and signed deed of accession to the Company and the Company executing such deed of accession no later than one business day before Completion.

If Target Shares are issued to any Warrant Holder and/or BOCOM before Completion and any Warrant Holder and/or BOCOM delivers a duly completed and signed deed of accession to the Company, or if any Non-Selling Shareholder delivers a duly completed and signed deed of accession to the Company, the Board plans to execute such deed of accession as a result of which such Warrant Holder, BOCOM and/or Non-Selling Shareholder will accede to the Sale and Purchase Agreement and the Company will acquire the Target Shares held by such holder of Target Shares, subject to the terms and conditions of the Sale and Purchase Agreement.

Assuming that the Target does not issue any new Target Shares prior to Completion, the Sale Shares will comprise 95.00% of the issued share capital of the Target on Completion, of which (a) Ascend will hold approximately 37.78% and Mr. Suo Lang Duo Ji will hold less than 0.01%, (b) Mandra will hold approximately 14.16%, (c) Woo Foong Hong will hold approximately 5.72%, (d) Triple A Investments will hold approximately 3.46%, (e) MS China will hold approximately 7.66%, (f) Ying Mei will hold approximately 5.00%, (g) Sky Success will hold approximately 8.70%, and (h) the Other Vendors will hold approximately 12.53%.

Assuming that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, upon Completion the Company will hold 95.00% of the issued share capital of the Target. If Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, the Company will hold approximately 89.49% of the issued share capital of the Target upon Completion and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, and, if all Warrant Holders, BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the Company will hold 100% of the issued share capital of the Target upon Completion.

As detailed below, the Target is the holding company of the Target Group which is principally engaged in the production, development and sale of PPS resin, PPS compounds and PPS fibre.

Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration payable to each of the Vendors (or any Acceding Vendor) is calculated on the basis of (i) the number of Target Shares held by the relevant Vendor (or any Acceding Vendor) on Completion as a percentage of the entire share capital of the Target in issue on Completion and (ii) a total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000, and such Consideration payable to each of the Vendors (or any Acceding Vendor) is determined pursuant to the following formula:

C = D x A/B

Where:

C = Consideration

D = HKD11,634,750,000

A = Number of Sale Shares as held by the Vendor (or any Acceding Vendor)

B = Total number of Target Shares in issue on Completion

If, prior to Completion, Target Shares are issued to a Warrant Holder following the exercise of its subscription rights for Target Shares under the New Warrants pursuant to their terms, or a shareholder of the Target not being a party to the Sale and Purchase Agreement as at the Latest Practicable Date wishes to sell its shares pursuant to the terms of the Sale and Purchase Agreement, such Warrant Holder and/or such shareholder may accede to the Sale and Purchase Agreement and become a party to it as a vendor on or before Completion by delivering a duly completed and signed deed of accession to the Company and the Company executing such deed of accession no later than one business day before Completion.

If a Warrant Holder or shareholder of the Target not being a party to the Sale and Purchase Agreement as at the Latest Practicable Date (which may include BOCOM) accedes to the Sale and Purchase Agreement, the consideration payable by the Company shall be determined in accordance with the above formula. The number of Consideration Shares to be allotted and issued to each of the Vendors (and any Acceding Vendor) shall be determined and the cash amount to be paid to each of the Vendors (and any Acceding Vendor) shall be determined using the above formula.

Assuming that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the aggregate Consideration payable to all Vendors is calculated using the total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000, multiplying that with 95.0001324%, which equals to approximately HKD11,053,027,908 (rounded up to the nearest Hong Kong dollar).

If the Target issues Target Shares to any Warrant Holder and/or to BOCOM before Completion and none of the Warrant Holders nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, the aggregate Consideration payable to all Vendors will decrease accordingly, and in case Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, the aggregate Consideration payable to all Vendors (and the Acceding Vendors) is calculated using the total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000, multiplying that with 89.4927849%, which equals to approximately HKD10,412,261,795 (rounded up to the nearest Hong Kong dollar).

If Target Shares are issued to any Warrant Holder and BOCOM before Completion and all of such Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the aggregate Consideration payable to all Vendors (and the Acceding Vendors) is HKD11,634,750,000, which equals to the total consideration for 100% of the share capital of the Target in issue on Completion.

The Consideration payable to each of the Vendors (or any Acceding Vendor) is to be satisfied in the following manner:

(a) as to 90%, by way of the allotment and issue of Consideration Shares at Completion to the Vendors (or any Acceding Vendor) at an issue price of HKD3.15 for each Consideration Share; and

(b) as to the balance of the Consideration, by payment of the Cash Consideration by the Company to the Vendors (or any Acceding Vendor) within four months following Completion.

The Cash Consideration will be funded by internal resources of the Company or proceeds from fund raising exercises of the Company by issuing the Additional Shares. The Company has initiated discussions with potential investors regarding the issue of the Additional Shares but no agreements (including non-binding letters of intent) have been signed.

The original purchase costs of the Target Shares to be transferred under the Sale and Purchase Agreement by Mr. Suo Lang Duo Ji, Ascend, Mandra, Triple A Investments and Woo Foong Hong, who are the connected persons of the Company, were approximately USD25,943,000, USD15,112,000, USD5,663,000, USD1,388,000 and USD8,613,000 respectively. In respect of the original purchase costs of Mandra as set out above, it represents the aggregate purchase costs of Mandra and their respective associates. The original purchase costs of the Target Shares to be transferred under the Sale and Purchase Agreement by Mr. Suo Lang Duo Ji, Ascend, Mandra, Triple A Investments and Woo Foong Hong do not, in the Company's view, make much relevance to compare with the Consideration, given that (i) some of the Target Shares were acquired by such Vendors few years ago at costs lower than their current value and their value has increased over the years; (ii) the original purchase costs do not form part of the basis in the determination of the terms of the Sale and Purchase Agreement, including the Consideration; (iii) the background, rationale and settlement terms of the Consideration are different from that underlying the original purchases costs to the Vendors; and (iv) the Consideration was determined after arm's length negotiations amongst the Company and the Vendors and on normal commercial terms after taking into account a number of factors including recent valuations of listed companies operating in the specialty chemical industry, the business prospects, financial position and performance of the Target Group, the future synergies to be derived from the Group after the successful integration of the Target Group and the reasons and benefits to be derived from the Acquisition as described below.

The audited net asset value of the Target Group as of 30 June 2010 is RMB2,296,799,000. The profit from operation during the 12 months ended 31 December 2009 and the six months ended 30 June 2010 were RMB761.25 million and RMB623.26 million, respectively. The adjusted net profit of the Target Group for the 12 months ended 31 December 2009 and the six months ended 30 June 2010 excluding changes in fair value of financial instruments was approximately RMB638.6 million and RMB445.9 million respectively. The Target Group has generated EBITDA of RMB928.8 million and RMB722.7 million for the 12 months ended 31 December 2009 and the six months ended 30 June 2010, respectively.

The Consideration of the Target Group is approximately 11.2 times the annualised audited net profit of the Target Group for the six months ended 30 June 2010 excluding changes in fair value of financial instruments.

The Consideration was determined after arm's length negotiations amongst the Company and the Vendors and on normal commercial terms after taking into account a number of factors including recent valuations of listed companies operating in the specialty chemical industry as set out below, the business prospects, financial position and performance of the Target Group, the future synergies to be derived from the Group after the successful integration of the Target Group, the reasons and benefits to be derived from the Acquisition as described below, and also the agreed valuation of the Target Group.

As there are no pure play PPS manufactures and distributors listed on reputable exchanges including Hong Kong, a total of thirteen listed chemical companies (namely Tosoh Corp., DIC Corp., Kureha Corp., Victrex PLC, Solvay S.A., Celanese Corp., Toray Industries Inc., Hanwha Chemical Corp., Eastman Chemical Co., Albemarle Corp., Huntsman Corp., Sinopec Shanghai Petrochemical Co. Ltd. and Cytec Industries Inc.) with partial PPS business concentration were considered as the Target Group's comparables. Out of these thirteen companies, eight companies (namely Victrex PLC, Solvay S.A., Celanese Corp., Toray Industries Inc., Hanwha Chemical Corp., Tosoh Corp., DIC Corp. and Kureha Corp) were considered to be most comparable with the Target Group because: (i) they are primarily engaged in developing, manufacturing and distributing of PPS and its related products such as thermoplastics, resins, synthetic fibres, and specialty plastics and compounds; and (ii) their market capitalisations are close to or over the agreed consideration for 100% of the equity interest in the Target Group of USD1.5 billion.

Although the selection of these comparables is subject to a set of limitations including but not limited to their locations, products, business model, customers, size, and financial performance, etc., the Board believes that given the absence of any listed companies in the specialty chemical industry, particularly in the production of PPS and PPS related products, these comparables are fair and reasonable samples for assessing the valuation of the Target Group.

In assessing the valuation of the Target Group, the annualised trading price-to-earning ("P/E") and enterprise value to EBITDA ("EV/EBITDA") multiples were considered. As at 19 October 2010, when the Sale and Purchase Agreement was entered into, the range of P/E multiples of the eight most comparable companies were approximately 1.9 times to 27.6 times with the average being 14.4 times and the range of EV/EBITDA was approximately 6.3 times to 15.0 times with the average being 9.7 times.

Assuming that the Target does not issue any new Target Shares and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement prior to Completion, the Consideration Shares represent approximately 161.34% of the existing issued share capital of the Company and 61.73% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

If the Target issues Target Shares to any Warrant Holder and/or to BOCOM, the number of Consideration Shares will decrease accordingly and, if the Target issues Target Shares representing approximately 2.57% of the Target's fully diluted share capital to the Warrant Holders before Completion and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement before Completion, the Consideration Shares represent approximately 151.98% of the existing issued share capital of the Company and 60.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

If Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to any Warrant Holder and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all of such Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the Consideration Shares represent approximately 169.83% of the existing issued share capital of the Company and 62.94% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price for the Consideration Shares of HKD3.15 per Consideration Share represents:

– a premium of approximately 7.51% to the closing price of HKD2.93 per Share as quoted on the Stock Exchange on the Last Trading Day;

– a premium of approximately 4.72% to the average closing price of approximately HKD3.008 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

– a premium of approximately 4.93% to the average closing price of approximately HKD3.002 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day; and

– a premium of approximately 8.62% to the closing price of HKD2.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The following table sets out the number of Consideration Shares to be issued to the Vendors (and any Acceding Vendor), as well as the shareholding interest in the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, where:

- Scenario A applies in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement in which case the Company will acquire 95.00% of the issued share capital of the Target;

- Scenario B applies in the event that Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement in which case the Company will acquire approximately 89.49% of the issued share capital of the Target; and

- Scenario C applies in the event that Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement in which case the Company will acquire 100% of the issued share capital of the Target:

Beneficial Shareholders	Scenario A		Scenario B		Scenario C	
	No. of Consideration Shares	*Approximate %*	*No. of Consideration Shares*	*Approximate %*	*No. of Consideration Shares*	*Approximate %*
Mr. Suo Lang Duo Ji	1,255,786,415	24.55%	1,182,985,968	23.98%	1,182,985,968	22.40%
Mr. Zhang Songyi and his wife	470,585,001	9.20%	443,304,248	8.99%	443,304,248	8.39%
Morgan Stanley	254,504,329	4.98%	239,750,205	4.86%	239,750,205	4.54%
Ying Mei	166,210,716	3.25%	156,575,149	3.17%	156,575,149	2.96%
Mr. Wang Chun Lin and his wife	115,180,309	2.25%	108,503,077	2.20%	108,503,077	2.05%
Moonchu	190,008,095	3.71%	178,992,946	3.63%	178,992,946	3.39%
Sky Success	289,227,446	5.65%	272,460,353	5.52%	272,460,353	5.16%
Other Vendors	416,505,663	8.14%	392,359,997	7.95%	392,359,997	7.43%
Warrant Holders	–	–	–	–	85,478,841	1.62%
BOCOM	–	–	–	–	107,232,503	2.03%
Non-Selling Shareholders	–	–	–	–	156,571,000	2.96%
Total	3,158,007,974	61.73%	2,974,931,943	60.31%	3,324,214,287	62.94%

At the EGM, the Directors will seek, subject to the Independent Shareholders' approval, a specific mandate to allot, issue and deal with the Consideration Shares. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares then in issue including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Directors (excluding the Directors who form part of the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee on page 107 of this circular) consider that the Consideration is fair and reasonable and the Acquisition is on normal commercial terms and is in the interests of the Company and the Independent Shareholders as a whole.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

The Sale and Purchase Agreement and the obligations of the Company and the Vendors to effect Completion are conditional upon:

(a) the results of the due diligence exercise carried by the Company on the assets, liabilities, business and prospects of the Target Group being satisfactory to the Company;

(b) the passing of an ordinary resolution by the Shareholders (or by the Independent Shareholders where required by the Listing Rules and/or the Takeovers Code) at the EGM, with voting being taken by way of poll, approving the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder including (i) the acquisition by the Company of the Sale Shares; (ii) the increase of the authorised share capital of the Company to USD100,000 comprising shares of USD0.00001 each; (iii) the allotment and issue of the Consideration Shares; and (iv) the Whitewash Waiver;

(c) the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares;

(d) the Executive granting the Whitewash Waiver to Mr. Suo Lang Duo Ji and parties acting in concert with him and the satisfaction of any condition attached to the Whitewash Waiver granted;

(e) the current listing of the Shares not having been withdrawn, the Shares continuing to be traded on the Stock Exchange (save for any temporary suspension of not more than 10 consecutive trading days (as defined in the Listing Rules) or any suspension pending clearance of any announcement in connection with any announcement required to be made under Chapter 13, 14 or 14A of the Listing Rules (including but not limited to the Announcement)), the Stock Exchange and the Executive not having indicated that it shall object to such listing and there being no events or circumstances existing based on which the Stock Exchange or the Executive could raise such objection or that will adversely affect the listing status of the Company;

(f) the PRC Legal Opinion and such other legal opinions as the parties hereto may agree having been duly issued to the Company;

(g) the Company being satisfied that each of the Vendors' Warranties and the Warrantors' Warranties will remain true and correct and not misleading in all material respects (if such warranties are not qualified as to materiality) on and as of the Completion Date;

(h) the Vendors being satisfied that all the Purchaser's Warranties will remain true and correct and not misleading in all material respects (if such Warranties are not qualified as to materiality) as at the Completion Date;

(i) all requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) (including those from the relevant government, regulatory bodies, authorities or third parties (including banks)) having been obtained;

(j) the Secured Fixed Rate Term Notes having been executed and the New Warrants having been created, both on terms and conditions satisfactory to the Target and the Company on or before 9 November 2010, and the Secured Fixed Rate Term Notes, and, if necessary, the New Warrants, having been amended thereafter but before Completion, on terms and conditions satisfactory to the Company, to the effect that, upon Completion, the terms and conditions of the Secured Fixed Rate Term Notes or the New Warrants, respectively, as amended, do not conflict with the terms and conditions of the Indenture;

(k) any Related Transaction having been terminated, and any amounts due to the Company and any outstanding obligations under such Related Transaction having been paid and fulfilled in full;

(l) the consummation of the transactions contemplated pursuant to the Sale and Purchase Agreement shall not have been restrained, enjoined or otherwise prohibited by any applicable laws, including any order, injunction, decree or judgment of any court or other government;

(m) there being no material adverse change to the business and financial conditions of the Target Group; and

(n) there being no material adverse change to the business and financial conditions of the Group.

At any time before the Longstop Date, the Company may waive any of the conditions (a), (f), (g), (i), (j), (k), (l) and (m) above, and the Warrantors may waive any of the conditions (e), (h) and (n) above. Save for the conditions (b), (c) and (d) above, which cannot be waived by any party to the Sale and Purchase Agreement, if any of the above conditions shall not have been fulfilled or waived (as the case may be) at or before 5.00 p.m. on the Longstop Date, the Sale and Purchase Agreement shall terminate and be of no further effect and all rights and obligations of the parties to the Sale and Purchase Agreement shall cease and lapse without prejudice to the rights of any parties in respect of certain continuing provisions or any antecedent breach of the Sale and Purchase Agreement.

As at the Latest Practicable Date, conditions (a) and (f) have been fulfilled and no condition has been waived. As regards condition (j), the Secured Fixed Rate Term Notes have been executed on 5 November 2010 and the New Warrants have been created on 9 November 2010 on terms and conditions satisfactory to the Target and the Company. The Company currently intends that an intercreditor agreement will be entered into between the trustee under the Indenture on behalf of the holders of the high yield notes and the trustee under the Secured Fixed Rate Term Notes on behalf of the New Lenders on or before before Completion, pursuant to which the guarantees and security granted by the Group and the Target Group in favour of both the trustee under the Indenture and the security agent under the Secured Fixed Rate Term Notes will, to the extent practicable, be shared on a pari passu basis. Together with entry into the intercreditor agreement, various amendments will be made to the Secured Fixed Rate Term Notes so as to ensure that, upon Completion, the terms and conditions of the Secured Fixed Rate Term Notes and the New Warrants do not conflict with the terms and conditions of the Indenture.

Completion

Completion will take place on the fifth business day after all outstanding conditions precedent of the Sale and Purchase Agreement have been fulfilled or waived (or such other date as the Company and the Warrantors shall agree and notify to the other Vendors).

Lock-up Undertakings

Pursuant to the Sale and Purchase Agreement, each of the Vendors has agreed to lock-up undertakings with regard to the Consideration Shares for a period of 12 months (in the case of Mr. Suo Lang Duo Ji and Ascend) and six months (in the case of all other Vendors other than Mr. Suo Lang Duo Ji and Ascend) effective from Completion. Such lock-up undertakings can be waived with prior written consent by the Company and shall not apply to (i) transactions involving any Shares (other than the relevant Consideration Shares) held by the Vendors and/or its affiliates as at Completion or purchased by the Vendors and/or its affiliates subsequent to the Completion Date; (ii) transfers or distributions of the relevant Consideration Shares to any partners, members, shareholders or affiliates of the Vendor (provided that any transferee or counterparty (but not participant) shall provide a lock-up undertaking); and (iii) sales and transfers of the relevant Consideration Shares by any Vendor in connection with a top-up placement of Shares by the Company pursuant to which such Vendor is a party to a placing agreement with a placing agent appointed by the Company.

If any Warrant Holder, BOCOM and/or Non-Selling Shareholder accedes to the Sale and Purchase Agreement, such Warrant Holder, BOCOM and/or Non-Selling Shareholder will be subject to the same lock-up undertakings for a period of six months effective from Completion.

2. INCREASE IN AUTHORISED SHARE CAPITAL, ALLOTMENT AND ISSUE OF THE CONSIDERATION SHARES

As at the Latest Practicable Date, the authorised share capital of the Company is USD50,000 divided into 5,000,000,000 Shares of USD0.00001 each, of which 1,957,422,664 Shares have been issued and are fully paid up.

The Board proposes to increase the authorised share capital of the Company from USD50,000 to USD100,000 by the creation of an additional 5,000,000,000 Shares of USD0.00001 each.

At the EGM, an ordinary resolution will be proposed to approve the increase of the authorised share capital of the Company. The Board believes that the increase in the authorised share capital of the Company is necessary so that the Company shall have sufficient authorised share capital to issue the Consideration Shares. Depending on market conditions, the Group may also carry out future fund raising exercises of the Company by issuing the Additional Shares, the proceeds of which will be used for the Cash Consideration to the Vendors (and any Acceding Vendor) arising from the Acquisition, repayment of the USD90 million term notes issued to the New Investor(s), and future expansions of the Enlarged Group. The proposed increase in authorised share capital of the Company will facilitate the issue of the Additional Shares. In the event that Completion does not take place, a placing will not be carried out. No funds have been raised on any issue of equity securities in the 12 months immediately preceding the Latest Practicable Date.

At the EGM, ordinary resolutions will also be proposed to approve the allotment and issue of the Consideration Shares and the Additional Shares pursuant to Rule 13.36(1)(a) of the Listing Rules.

In relation to the proposal to approve the specific mandate for the New Issue, the Directors will be authorised to allot and issue the Additional Shares if certain conditions, as further described below, are satisfied. Assuming that the Target does not issue any new Target Shares prior to Completion, the maximum number of Additional Shares which may be allotted pursuant to the New Issue will represent approximately 52.27% of the Company's current registered issued share capital. Assuming Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, the maximum number of Additional Shares which may be issued and allotted pursuant to the New Issue will represent approximately 50.40% of the Company's current registered issued share capital. If Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all of such Warrant Holder and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the maximum number of Additional Shares which may be issued and allotted pursuant to the New Issue will represent approximately 53.97% of the Company's current registered issued share capital.

As the New Issue is conditional on the Acquisition and the Whitewash Waiver, Independent Shareholders interested in the Acquisition and the Whitewash Waiver will be required to abstain from voting on the ordinary resolution in relation to the specific mandate for the New Issue to be considered at the EGM.

Terms of the New Issue

Maximum number of the Additional Shares

Assuming that the Target does not issue any new Target Shares prior to Completion, the maximum number of Additional Shares which can be allotted and issued pursuant to the New Issue is 1,023,086,128 Shares which represents 20% of the total number of issued Shares if enlarged by the issue of the Consideration Shares.

Assuming Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM but none of the Warrant Holders, BOCOM nor the Non-Selling Shareholders accedes to the Sale and Purchase Agreement before Completion, the maximum number of Additional Shares which can be allotted and issued pursuant to the New Issue is 986,470,921 Shares which represents 20% of the total number of issued Shares if enlarged by the issue of the Consideration Shares.

If Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all of such Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the maximum number of Additional Shares which can be allotted and issued pursuant to the New Issue is 1,056,327,390 Shares which represents 20% of the total number of issued Shares if enlarged by the issue of the Consideration Shares.

Issue of the Additional Shares pursuant to the New Issue

If the specific mandate for the New Issue is approved, the Directors can allot and issue all or some of the Additional Shares at any time and from time to time before the expiry date of the New Issue as described below on such terms and conditions as the Directors consider to be appropriate and in the best interests of the Company and Shareholders as a whole and subject to the other conditions, including size, timing and price, as mentioned below.

The price at which any or all of the Additional Shares may be allotted and issued by the Directors under the New Issue will be determined by reference to the prevailing market price of the Shares at the time of offering and all other relevant market considerations. Such price will in any event not represent a discount of 20% or more to the benchmarked price (as set out in Rule 13.36(5) of the Listing Rules) of the Shares.

Approval of the Independent Shareholders

The specific mandate for the New Issue is subject to the approval being obtained from the Independent Shareholders by way of an ordinary resolution at the EGM.

Other conditions

Any allotment and issue of any Additional Shares pursuant to the New Issue is subject to the following conditions:

(a) any Additional Shares to be allotted and issued pursuant to the New Issue having been offered to investors who are independent of and not connected with the Company and the Directors, chief executive and substantial shareholder of the Company and its subsidiaries and/or any of their respective associates or any connected persons; and

(b) the listing of, and permission to deal in, any Additional Shares to be allotted and issued pursuant to the New Issue having been granted by the Stock Exchange.

Lapse of the specific mandate for the New Issue

The proposed specific mandate for the New Issue, if approved by the Independent Shareholders at the EGM, will lapse on the date falling six months after the passing of the ordinary resolution to approve the specific mandate for the New Issue at the EGM, irrespective of whether any Additional Shares covered by the New Issue have been allotted and issued in full or not.

Investors should be aware that any issue of Additional Shares pursuant to the New Issue is subject to the satisfaction of a number of terms and conditions which are more particularly set out above. There is no assurance that any of the conditions will be fulfilled. Investors should therefore exercise caution when dealing in the Shares.

The Directors (including the Directors who form part of the Independent Board Committee) consider that the proposed specific mandate for the New Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the New Issue.

3. RISKS FACTORS

You should carefully consider the following risk factors, in addition to the other information included in this circular, including the Target Group's consolidated financial statements and the accompanying notes, as well as the unaudited pro forma financial information of the Enlarged Group set forth in Appendix II and V respectively before making a voting decision at the EGM. You should pay particular attention to the fact that the business of the Target Group is located almost exclusively in the PRC and the Target Group is governed by a legal and regulatory environment that differs in certain respects from that which prevails in Hong Kong. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of the risks described below.

Risks Relating to the Acquisition

Policies and regulations

The business of the Target Group is subject to extensive governmental regulations, policies and controls in the PRC. There can be no assurance that the relevant government authorities (i) will maintain the existing laws and regulations or (ii) will not impose additional or more stringent laws or regulations. Failure to comply with the relevant laws and regulations may adversely affect the Group. In addition, the Company cannot rule out the possibility that any relevant PRC government agency would consider that PRC laws and regulations require the Company to obtain approval from it or them in connection with the Acquisition. In such an event, it cannot be ruled out that any such regulatory agency could impose penalties on the Company for not obtaining any such approval, and/or take actions requiring the Company to block, delay, alter (such as divestment obligations) or unwind the Acquisition or take other measures that could adversely affect the Company or the Enlarged Group.

Investment in new business sector for the Group

For the Group, the Acquisition constitutes an investment in a new business sector and the Enlarged Group may not be able to control certain risks related to the vertical expansion into this new downstream business. Such risks include but are not limited to risks related to the operation of a PPS business, risks related to the PPS market and demand for PPS products, risks of reliance on key management personnel who are familiar with the PPS business and the manufacturing of PPS products, the risk of failing to expand the PPS production capacity as scheduled. While the Target Group is currently in negotiations with certain suitable processing agents in Sichuan Province for the production of sodium sulfide, no agreements have been signed as at the Latest Practicable Date. In the event that the Group cannot set up strategic alliances with suitable processing agents located in Sichuan Province to convert sodium sulfate produced by the Group into sodium sulfide to be used by the Target Group for the production of PPS, the Group would seek to form strategic alliances with other suitable processing agents from nearby provinces in order to minimise transportation costs. If no strategic alliances can be formed with any processing agents, the Group and the Target Group would continue to independently operate their thenardite and PPS businesses as each of the Group and Target Group did prior to the Acquisition and accordingly will not be able to realise the envisaged strategic synergies and benefits arising from the Acquisition.

Risks Relating to the Business of the Target Group

Decrease in demand for PPS products or the decline in the growth in demand in light of the Target Group's planned expansion plans would materially and adversely affect the Target Group's financial condition and results of operations and limit its growth prospects.

The Target Group currently derives and expects to continue to derive substantially all of its turnover in the near future from sales of PPS resin, PPS compounds and PPS fibre. Demand for the Target Group's PPS products are dependent on the demand for the end products that incorporate its products, competition from other high performance materials, and continuous development of new usage for PPS products. Most of these end users are in the environmental, automotive, aviation, and electrical/electronic industries. In recent periods, these industries have experienced rapid growth in the PRC. Additionally, while PPS currently faces limited competition from other forms of high performance materials such as thermoplastics and metals already known to the market there can be no assurance that such level of competition will not increase in the future and that new substances with better characteristics will not be developed in a relevant industry or industries in the future to replace PPS.

The Target's expansion plans as described in the section headed "7. Information on the Target Group – Expansion plans" have been made on the assumption that demand for its PPS products will continue in the future and there will be limited competition in the foreseeable future from other high performance materials given PPS's unique and outstanding characteristics in chemical and heat resistance, thermal and dimensional stability, electric resistance, and overall product cost effectiveness. Although the Board believes that the Target Group is in a better position than other foreign competitors to benefit from the growth in demand for PPS products in the PRC, there can be no assurance that demand for PPS products will continue to grow at the same rate as in the past, or will not decrease. If there is any decrease in demand for the Target Group's products, the Target's financial condition and results of operations would be materially and adversely affected and its growth prospects will be limited.

Failure to manage the Target Group's growth and expansion could strain its management, administrative, operational, financial and other resources, which could materially and adversely affect its business, and growth potential.

The capital expenditure, development cost and the development schedule of the new PPS resin plant and the new PPS fibre plant are based on the Target Group's management plan and are subject to change in accordance with the actual development schedule and cost of the new PPS resin plant and new PPS fibre plant as well as the available funding to construct these plants. In conjunction with the management of the Target Group, the Directors will carefully monitor the development and construction schedule and consider contingent planning should the actual development schedule vary from the planned development schedule.

The Target Group has experienced a period of rapid growth and expansion that has placed and continues to place significant pressures on its management, administrative, operational, financial and other resources. The Target Group's future prospects will depend in part on the ability of its senior management to successfully manage its operations so that it is able to capitalise on any growth opportunities that arise. To manage its growth, the Target Group must ensure its operational and financial systems, procedures and controls are adequate, including its accounting and other internal management systems, and further expand, train and manage its employees. It may fail to adequately avoid or mitigate the risks frequently encountered by companies that experience a large increase in production capacity within a short period of time. In the event that the Target Group does not manage its growth effectively, its business and growth potential could be materially and adversely affected.

The loss of one or more major customers could have a material and adverse effect on the Target Group's financial condition and results of operations.

The Target Group has established close business relationships with its current quality customers and will continue to cultivate new quality customers as the Target Group's business further develops. For the three years ended 31 December 2009 and the six months ended 30 June 2010, sales from its top five customers for each of the respective financial periods, comprising a total of nine customers over the three years and six months period ended 30 June 2010, constituted 62.1%, 77.7%, 71.7% and 78.7% of the Target Group's total revenue respectively. Of these nine customers, seven have been customers of the Target Group since 2007, one has been a customer of the Target Group since 2009 and the remaining one was a customer of the Target Group for the two years ended 31 December 2008. As more than half of the Target Group's revenue is generated through its top five customers during the respective periods, the Target Group may continue to depend on a limited number of customers for the majority of its turnover in the foreseeable future. Due to the dependence on a limited number of customers, a reduction, delay or cancellation of orders or contracts, a reduction in price, or a failure or inability of customers to make timely payment may cause material fluctuation or decline in the Target's turnover and materially and adversely affect its business, financial condition and results of operations.

The Target Group operates in a competitive market and if it fails to compete successfully, its business, financial condition and results of operations would be materially and adversely affected.

The market for PPS products is global and competitive. The principal elements of competition in the PPS industry include (i) product features, quality and good manufacturing processes; (ii) depth of customer relationships, customer service and technical expertise; (iii) product pricing; (iv) ability to protect confidential information and intellectual property; (v) available capacity and ability to supply products in line with increased demand in a timely manner; and (vi) timely introduction of new products. With the increased production capacity of the Target Group in recent years, its close relationship and proximity to its customers and key suppliers, its strong focus in research and development capability and in developing new PPS applications, its continued focus on quality control, and its focused marketing efforts by the experienced management, the Target Group has maintained a competitive position in the PPS market.

The Target Group faces competition in the PPS market primarily from international producers. According to SRI Consulting, for U.S. and Japanese producers, demand growth in their domestic markets and Europe will not be able to absorb the major increased capacities of past years and the PRC is one of the main targets for their future growth. Thus, the Target Group is expected to face more foreign competition, not only in the traditional electrical and electronic, automotive and industrial markets but also in filter bag applications market. The Target Group's failure to maintain a competitive position with respect to market share and technological advances, adapt to changing market conditions or otherwise compete successfully with existing or new competitors from the PRC or abroad could have a material and adverse effect on its business, financial condition and results of operations.

The Target Group's insurance coverage may not cover certain material losses which could materially and adversely affect its business and financial condition

The insurance industry in the PRC is still at an early stage of development and insurance companies in the PRC offer limited business insurance products. As of 31 October 2010, the total insured amount in respect of the Target Group's buildings, vehicles and key production equipment was approximately RMB2.35 billion, or approximately 118.7% of its total fixed assets, which amounted to approximately RMB1.98 billion as of 31 October 2010. The Target Group's facilities are at risk from operating interruptions or shutdown from earthquake and other natural disasters, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining materials and equipment, unexpected maintenance problems, terrorist incidents, industrial accidents or other causes. Losses incurred as a result of these events may have a material adverse effect on the Target Group's business, prospects, financial condition and results of operations to the extent such losses are not insured or the insured amount is not adequate. The Board has assessed the current level of insurance coverage and believes that such insured level is sufficient to cover its normal course of business and operations. As such, the Board has no plan to further increase the insured amount in near future.

As earthquake insurance is not generally available in the PRC, none of the Target Group's onshore subsidiaries carries earthquake insurance. On 12 May 2008, an earthquake with a magnitude of 8.0, according to the State Seismological Bureau of the PRC, hit Sichuan Province, the PRC, severely affecting businesses and production operations in areas of Sichuan Province at or close to the earthquake epicentre. See the section headed "7. Information on the Target Group – Production facilities and capacity" for more information.

The Target Group does not have any insurance against product liability as PRC laws do not require to maintain product liability insurance. Given that the Target Group has adopted stringent safety precaution and quality control measures and has fully complied with the relevant rules and regulations in the PRC, the Target Group does not intend to maintain any insurance against product liability. The Target Group may therefore not have adequate resources to satisfy a judgment in the event of a successful claim against it. The Target Group cannot predict whether product liability claims will be brought against it in the future or the effect of any resulting negative publicity on its business. The successful assertion of product liability claims against the Target Group may result in potentially significant monetary damages and could have a material adverse effect on its business, financial condition and results of operations.

If the Target Group is unable to source raw materials in sufficient quantities or at favourable prices, its financial condition and results of operations could be materially and adversely affected.

p-DCB, sodium sulfide, NMP solvent and lithium chloride are the key raw materials for the Target Group's PPS production. These key raw materials accounted for approximately 42.2%, 50.9% and 50.0% of total cost of sales for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, respectively. While the factors affecting the prices of the Target Group's raw materials are difficult to predict, changes in the price of raw materials may have a significant impact on its cost of sales. Since inception, the Target Group has not experienced any significant fluctuation on its raw materials prices.

The Target Group has acquired all or substantially all of each of its raw materials from a limited number of external suppliers for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010. Through strategic alliances with processing agents, the Group plans to supply the Target Group with all sodium sulfide required for its PPS production and accordingly would become a major supplier to the Target Group. As for the other raw materials, although the Target Group has contacts with a number of suppliers and believes there are other sources of p-DCB, NMP solvent and lithium chloride readily available in the PRC, in the event of disruption of supply by its principal suppliers of those raw materials, the Target Group may not be able to acquire these raw materials in the amounts necessary for its business or at favourable prices. In the event that these raw material prices increase above certain levels and PPS products prices do not also increase, the continued production of PPS products by the Target Group may become uneconomical. The Target Group's inability to fully offset the effects of higher raw material costs or to obtain such raw materials on pricing and other terms satisfactory to it could have a material and adverse effect on its financial condition and results of operations.

In addition, some of the key raw materials, such as lithium chloride, are by-products of suppliers' main production processes. There can be no assurance that those suppliers will continue to use the same production processes which generate the same raw materials or in the amount the Target Group needs, or that they will continue to find it economical to sell such by-products. In the event that one or more of the third party suppliers for the Target Group's specialty chemicals are unable to deliver those chemical components in a timely manner at competitive pricing and at a sufficient quantity and quality level, the Target Group would have to source these raw materials from other third party suppliers that they have relationships with, which may cause some disruptions to the Target Group's production timetable. Such disruption could have an adverse effect on the Target Group's business, reputation and results of operations.

The Target Group is dependent on future cash flows generated from its business and obtaining continuing financing to support its business operations and expansion plans, and to continue as a going concern.

The Target Group is dependent upon its ability to generate profits and cash inflows from operations and its ability to obtain continuing bank and credit financing to finance its continuing operation and to meet the Target Group's future working capital and financing requirements.

As of 31 December 2008, 2009 and 30 June 2010, the Target Group had net current liabilities of approximately RMB1,835 million, RMB1,480 million and RMB266 million, respectively. The Board is not aware of any event occurred on or before the Latest Practicable Date that would affect the Target Group's ability to continue as a going concern and to generate sufficient revenue and cash from its operations and to obtain ongoing bank financing to finance its continuing operations. If however, if the Target Group is unable to generate sufficient revenue and cash from its operations or obtain ongoing bank financing, the Target Group may be forced to reduce expenditures and cancel or delay its expansion plans or not be able to continue as a going concern. Reduction of expenditures could have a negative impact on the Target Group's business.

In addition, the Target Group's financial statements included in this circular have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The Target Group's ability to continue as a going concern is substantially dependent on its ability to obtain working capital from turnover and cash flow from operations and to obtain continuing financing to meet its working capital and financing requirements. The Board believes that after taking into consideration the financial resources presently available to the Target Group, including the existing credit facilities available to the Target Group, the Target Group has sufficient working capital for its present requirement, that is, for at least the period ending 31 December 2011. If there is an adverse change to the Target Group's turnover, cash flow or its ability to obtain continuing financing, the Target Group's 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.

If the Target Group is unable to protect its intellectual property rights or becomes involved in costly litigation to protect its intellectual property rights, its ability to compete, to generate turnover and to grow its business could be materially and adversely affected.

Proprietary trademark, patent, trade secrets, know-how and other similar intellectual properties are critical to the Target Group's success. The Target Group seeks to protect its proprietary production processes, documentation and other written materials primarily through relevant intellectual property law and private agreements. Intellectual property laws in the PRC vary from those in other countries and enforcement may be uncertain. The Target Group also relies on trade secrets and other similar protections. The Target Group's employees and consultants with access to any of its proprietary information are required to enter into confidentiality agreements. However, its intellectual property rights are still exposed to the risks of infringement because other parties may misappropriate its products and/or technologies, enforcement under the relevant intellectual property law in the PRC may be ineffective, policing unauthorised use of the Target Group's intellectual property may be difficult and uneconomical, and reverse engineering or unauthorised copying of the Target Group's proprietary technologies may enable third parties to benefit from the Target Group's technologies without paying the Target Group for doing so.

If the Target Group is unable to effectively protect its intellectual property rights against the infringement by others or becomes involved in costly litigation, it could have a material negative impact on the Target Group's ability to compete, to generate turnover and to grow its business.

As of the Latest Practicable Date, the Target Group holds two registered trademarks, two registered patents and has sixteen patent applications pending in the PRC. It does not hold any patents outside the PRC and has not submitted any applications for any patents outside the PRC. The process of obtaining patent protection is expensive and time-consuming, and the Target Group may not be able to file and prosecute all necessary or desirable patent applications at reasonable costs or in a timely manner. Despite efforts to protect its proprietary rights, unauthorised parties may be able to obtain and use information that the Target Group regarded as proprietary. Changes in either the patent laws or in interpretations of patent laws in the PRC or other countries may diminish the value of the Target Group's intellectual property. Accordingly, there is a risk that the Target Group will be unable to fully enforce its patents because it may not be able to claim protection for all the necessary components of its patents. See the section headed "7. Information on the Target Group – Intellectual Property" for further details.

The Target Group's business is dependent on its experienced management team and operating personnel and if it loses its key executive officers, its business, financial condition and results of operations could be materially and adversely affected.

The Board believes that the Target Group's success to date has benefited from the contributions of its executive officers and key operating personnel including competent managers, engineers, and research and development staff and that its future success depends substantially on the continuing service of such persons. There is substantial competition in the PRC for qualified management and technical operations personnel, especially managers also with technical skills and there can be no assurance that the Target Group will be able to retain its qualified personnel. In order to incentivise the Target Group's directors, senior management and key employees for continued and improved services for the Enlarged Group, they will be granted share options under the Post-IPO Share Option Scheme upon Completion as described in more detail under the section headed "9. Possible Grant of Share Options to Certain Directors and Employees of the Target Group". If one or more of the Target Group's key executive officers or key operations personnel leave, the Target Group may not be able to find a suitable replacement and its business may be severely disrupted, its financial condition and results of operations may be materially and adversely affected, and it may incur additional expenses to recruit, train and retain personnel. If the Target Group's business grows rapidly, it may not be able to train and integrate new executive officers and operations staff into its operations in a timely manner to cope with the growing demands of its business.

The Target Group's business prospects may be difficult to evaluate due to its short operating history.

The Target Group commenced its PPS business, its major source of revenues, in 2006. Since then, the Target Group's PPS resin and fibre business has expanded rapidly. As of 30 June 2010, the Target Group had a combined PPS resin production capacity of 30,000 metric tons per annum, PPS compounds production capacity of 30,000 metric tons per annum and PPS fibre production capacity of 5,000 metric tons per annum. Sales of PPS fibre accounted for 2.2%, 19.0%, 22.2% and 17.2% of revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. The sales of the three grades of PPS resin accounted for approximately 33.8%, 24.0%, 13.5% and 11.2% of revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. As the Target Group's PPS business operating history is relatively short, there may be limited historical operational data available to establish long term trends to evaluate the performance and prospects of its PPS business.

Failure to produce products of the quality or in the quantity sought by the Target Group's customers could lead to turnover declines and could materially and adversely affect its financial condition and results of operations.

The production of PPS and PPS related products requires strict process controls. Satisfying customer requirements requires the constant development of additives and processes to produce PPS products that meet their needs. There can be no assurance that the Target Group will be successful in developing new uses for PPS which will expand demand for PPS related products or enable it to compete with other PPS producers. The Target Group's control systems may not be capable of fully handling the increased production capacity at its facilities and increased demands of its customers. Prior to entering into any PPS supply agreements, the Target Group's products undergo a quality testing process by prospective customers. There can be no assurance that the Target Group's PPS products will pass customers' quality testing on a consistent basis or at all. In the start up of new manufacturing lines or facilities, product quality may not be acceptable to customers. This may result in discounts in the form of credits against future purchases. If the Target Group experiences similar difficulties in the future or cannot produce in quantities or at a quality level satisfactory to its customers, its financial condition and results of operations could be materially and adversely affected.

The Target Group may face competition from new or existing domestic competitors

As at the Latest Practicable Date, there are two other small domestic manufacturers of PPS in China. Given the current scale and leading position of the Target Group, the time, resources, and capital requirements needed to build or expand production capacity, the sophisticated PPS production technology and the fact that no PPS producers in the world have licensed such technology to any third party, the Board believes that no new or existing domestic competitor may acquire or develop similar or better PPS production technology within a short time period. As such, the Board believes that competition arising from any new or existing domestic manufacturer is remote. However, if any new or existing domestic manufacturer does obtain or develop PPS manufacturing related technology and commence production successfully, the Target Group will face potential competition and the Target Group's PPS product price, market share, client base, and sales revenue may be negatively affected.

The Target Group's operations are subject to risks of mortgages on its real estate properties, land use rights and production facilities.

As of the Latest Practicable Date, certain production facilities and equipment of the Target Group and certain parcels of land with a total site area of approximately 504,173.74 sq.m. of the property and the building ownership rights of the buildings erected thereon with a total gross floor area of approximately 168,415.02 sq.m. located in Sichuan Province, the PRC, have been mortgaged as security for repayment of loans granted to the Target Group. The mortgaged properties and land are currently occupied by the Target Group for production, office and storage purposes. In the event that the Target Group defaults by failing to renew or obtain refinancing for such loans, the production facilities, equipment, real estate properties and the relevant land use rights mortgaged by it may be subject to, among other things, seizures and auctions, as provided in the Security Law of PRC (中華人民共和國擔保法). As such, the Target Group's business operations and financial position may be materially and adversely affected.

The Target Group is subject to risks in relation to the operation of its production facilities

The Target Group's production operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of its products, increase the cost of production at its production facilities or result in accidents in its production facilities. Such risks can include unexpected maintenance or technical problems, periodic interruptions due to inclement and natural disasters, industrial accidents, critical equipment failure, fires, earthquakes and flooding. Such operational risks cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met. Further, in order to maintain safety standards and operational efficiency, the Target Group may conduct maintenance, inspections and technology advancements to its production facilities and suspend its productions and operations accordingly.

Any breakdown or suspension of production or failure to supply products to the Target Group's customers in a timely manner according to the provisions of its supply contracts may result in breach of contracts, loss of revenue, as well as expose the Target Group to liability and the requirement to pay compensation under the relevant contracts, lawsuits and damage to its reputation. Consequently, the Target Group's business, financial condition and results of operations may be adversely affected.

Risks Relating to Conducting Business in China

Changes in the PRC's economic, political and social conditions and government policies may have an adverse effect on the Target Group

Substantially all of the Target Group's assets and operations are located in the PRC and a substantial portion of its revenue is derived from the PRC. Accordingly, the Target Group's business operations and prospects are subject, to a significant degree, to the economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in a number of respects, including structure, degree of government involvement, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources. The Target Group's products can be used across several industries, and each industry may experience different changes in government policies and regulations at any time.

Before its adoption of reform and open door policies in the late 1970s, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and the government itself. These reforms have resulted in significant economic growth and social progress. However, despite such transformation, the PRC government continues to play a significant role in regulating various industries by imposing industrial policies and continually adjusting economic reform measures. As such, the Board cannot assure that the Target Group may be able to benefit from all, or any, of the measures that are under continuous adjustments. In addition, the Board cannot predict whether changes in the political, economic and social conditions in the PRC or changes in the laws, regulations and policies promulgated by the PRC government will have any adverse effect on the Target Group's current or future business, financial condition and results of operations.

Any significant change in, or promulgation of, laws and regulations may increase the Target Group's costs of production, and its failure to comply with any of these developments could result in legal liabilities for the Target Group.

The Target Group's operations are subject to the PRC laws and regulations, which include, but are not limited to, laws and regulations governing product safety, chemical manufacturing business, foreign investment, labour and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. As at the Latest Practicable Date, the Board is not aware of any proposed legislative amendments that may have a material impact on the business of the Target Group. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may increase the Target Group's costs of production and profit margins (as the case may be) and have an adverse effect on its financial condition and results of operations.

Further, the production safety and environmental regulations and their implementation regulations govern the operations of the Target Group's business. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of any licences, penalties or lawsuits. There can also be no assurance that the PRC government will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that the Target Group may not be able to pass on to its customers.

The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to the Target Group's business and its shareholders.

Most if not all of the Target Group's business and operations are governed by the legal system of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be used for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations that had the effect of enhancing the protections afforded to corporate organisations and their governance, as well as various forms of foreign investments in the PRC. However, since these laws and regulations are relatively new and as the PRC legal system continues to evolve rapidly, the interpretation and enforcement of these laws, regulations and rules involves significant uncertainty and different degrees of inconsistency, limiting potentially the available legal protections to the Target Group's business operations. In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms. Therefore, it is difficult to evaluate the outcome of administrative and court proceedings and the actual level of legal protection the Target Group enjoys. These uncertainties may affect the Target Group's judgment on the relevance of legal requirements and its decisions on the measures and actions to be taken to fully comply therewith, and may affect its ability to realise its contractual and tort rights.

Further, the Board cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-exemption of local regulations by national laws. The Board cannot therefore assure that the Target Group will enjoy the same level of legal protection in the future, nor such new laws and regulations will not affect its operations, causing adverse effects on its financial condition and results.

The Target Group's operations may be adversely affected by the existing or future PRC laws and regulations.

The Target Group operates in an industry that is heavily regulated by the PRC laws and regulations and is required to maintain various licences and permits in order to commence and operate its business at each of its production plants in the PRC. The Target Group is also required to have approval from the competent governmental authorities in the PRC for its production of PPS. The revocation of or failure to obtain or renew its licences and permits could force the Target Group to temporarily or permanently suspend some or all of its production activities, which could disrupt its operations and adversely affect its business.

Moreover, the operations of the Target Group are also subject to several environmental and safety approvals from the PRC government. Failure to comply with such regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of its licences or permits to conduct its business. These approval processes are potentially time consuming and may require significant financial resources. The Board cannot assure that the PRC will not impose additional or stricter laws or regulations, the compliance of which may cause the Target Group to incur further significant expenses which it may be unable to pass on to its customers, and may take significant time which may delay its project construction and operation schedule in relation to its expansion plans.

In addition, any regulatory change that may affect the price of PPS will potentially increase the Target Group's production costs, and as a result, it may suffer from lower profitability, leading to poor performances or financial distress.

The outbreak of any severe contagious diseases, natural disasters, acts of war, political unrest and other related events in the PRC, if uncontrolled, could adversely affect the Target Group's business and results of operations.

The outbreak of any severe communicable disease in the PRC could have severe effects on the overall business sentiments and environment in the PRC, and may in turn lead to a slower economic growth in the PRC economy. Examples of such contagious diseases may include Severe Acute Respiratory Syndrome ("SARS"), and also more recently, the H1N1 Influenza (originally referred to as the swine flu), as discovered in April 2009. As evident from past events, the outbreak of such major diseases, especially SARS in 2003 has caused significant damage to the global economy, slowing down economic growth in the whole world. As such, recurrence or outbreak of any types of similar diseases may cause such damage to the global market, causing a worldwide slowdown in the levels of economic activity, and may in turn adversely affect the Target Group's results of operations and the price of the Shares.

Moreover, political unrests, acts of war, terrorist attacks and natural disasters may cause damage or disruption to the PRC economy as a whole, and/or the Target Group's operations, employees and production facilities, and in turn causing adverse effects on its sales, costs of raw materials, its financial condition and results of operations. This is evident from previous events of terrorist attacks globally, the 8.0 magnitude earthquakes in Sichuan Province and also the 2004 tsunami events. The Board cannot control the occurrence of these catastrophic events and the Target Group's business operations will at all times be subject to the risks of these uncertainties.

Risks Relating to this Circular

Certain statistics and other information relating to the economy and the industry contained in this circular were derived from various official sources and government publications and may not be reliable.

Statistics, industry data and other information relating to the economy and the industry contained in this circular have been derived from various official government publications with information provided by Chinese and other government agencies. Although the Board believes that the sources of the information and statistics are appropriate sources for such information and statistics and has taken reasonable care in extracting and reproducing such information and statistics, and has no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, no guarantee can be made as to the accuracy or completeness of such information and statistics. None of the Company, or their respective directors, agents or advisors have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. Careful consideration should be given as to how much weight or importance should be attached or placed on such statistics, projected industry data and other information relating to the economy and the industry.

Forward looking statements contained in this circular are subject to risks and uncertainties

This circular contains statements that are forward-looking and uses words typically used for forward-looking statements such as "will", "expect", "estimate", "anticipate", "plan", "believe", "may", "intend", "ought to", "continue", "project", "should", "seek", "potential" and other similar terms. Reliance on any forward-looking statements involves risks and uncertainties in this regard, including those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Board that the Company's plans and objectives will be achieved.

4. INDUSTRY OVERVIEW

Report commissioned from SRI Consulting

The Company has been requested by the Stock Exchange that this circular provides an enhanced disclosure with regard to, among other things, the industry which the Target Group operates in. The Target Group is principally engaged in the production, development and sale of PPS resin, PPS compounds and PPS fibre.

There are no statistics or reports providing up-to-date and detailed data and information on the PPS industry, such as past, existing and projected capacities of PPS producers or estimates for past, existing and projected PPS demand in the PRC and globally, readily available. The Company has therefore commissioned SRI Consulting to prepare the PPS Market Research Report, the scope of which was to verify the market conditions and to estimate demand growth in all PPS major end-use markets. Accordingly, certain information relating to the PPS industry set out in this circular is extracted and derived from the PPS Market Research Report.

SRI Consulting is an independent third party industry consulting firm. The PPS Market Research Report is not an official government publication and is prepared in the ordinary course of business of SRI Consulting. SRI Consulting has been providing market reports and advising companies on the global chemical industry for over 40 years and has conducted numerous client-sponsored research projects. In particular, SRI Consulting has conducted several market studies in relation to acquisitions, initial public offerings and the licensing of PPS and other polymers and chemicals in recent years. SRI Consulting also publishes regular research reports covering more than 300 chemical products and over 3,000 chemical processes in major geographic regions of the world. SRI Consulting has its headquarters in Menlo Park, California and has offices located in Houston, Beijing, Tokyo, Zurich, New Delhi, Riyadh, and Seoul.

In conducting market researches, SRI Consulting employs consultants who specialise in different sectors of the chemical industry and who will be responsible for (i) conducting research on the developments in those sectors and (ii) conducting market analysis to advise its clients on industry trends and developments. Each consultant maintains contacts with individuals and associations within his particular sectors. The research process usually involves both primary and secondary research:

Primary research – this involves the consultants using his contacts to derive industry intelligence. Where necessary, SRI Consulting will send out teams of field researchers to collect information which are not available to the public for subsequent analysis. This includes conducting interviews with different specialty chemical companies to obtain data such as production capacity, production volume and revenue figures; and

Secondary research – this involves desk research of publicly-available data from industry, government and other published sources. SRI Consulting would verify such data through its research channels for verification and corroboration. SRI Consulting will then analyse the data it has received to provide an independent, objective assessment of the market. SRI Consulting takes multiple data sources and then subjects those data to scrutiny and evaluation.

For the PPS Market Research Report the Company had commissioned SRI to produce, a mixture of data derived from interviews with the Target Group's management to verify sales and capacity, interviews with PPS distributors to assess the demand growth rate in each end use applications, discussions with industry associations to assess demand, and trends, discussions with US and Japanese producers to get the global supply/demand balance, as well as SRI Consulting's internally-developed research databases.

The Board is of the view that SRI Consulting, as one of the oldest and most established business research firms for the global chemical industry, offers the breadth and depth of coverage in the global chemical industry, particularly in specialty chemicals such as PPS in the downstream market. The Board has reviewed the biographies of the authors of the PPS Market Research Report and believes that such authors have appropriate expertise and experience in preparing market research reports on the chemical industry. The Board is therefore of the view that the information in the PPS Market Research Report and sources of such information are appropriate and the Board has taken reasonable care in extracting and reproducing such information in this circular. The Board has no reason to believe that the information extracted from the PPS Market Research Report and reproduced in this circular is false or misleading or that any fact contained in the PPS Market Research Report has been omitted in this circular that would render such information false or misleading.

Introduction to Polyphenylene Sulfide

PPS is a crystalline and wholly aromatic polymer characterised by outstanding chemical resistance, thermal and dimensional stability, flame retardance and electrical properties. PPS belongs to a group of high performance thermoplastics (HPTPs), which are high-priced, low-volume polymers that are sold for use in specialised applications that require a combination of extraordinary properties. Thermoplastics for amorphous and semicrystalline materials are separated by different price/performance sectors: commodity thermoplastics, engineering thermoplastic compounds (with ABS compounds included) and high performance thermoplastics. PPS belongs to the last group, along with PSU, PEI, PES, PA46, and PEEK.

PPS competes with a wide variety of materials, including metals (e.g., stainless steel, brass, aluminum and alloys), thermoplastic polyesters (PBT and PCT), nylons, epoxies, and other high performance thermoplastics (LCPs, polyphthalamides, and nylon 46). However, PPS stands out among HPTPs on a price/performance basis, especially when flame or chemical resistance is required. PPS's chemical resistance distinguishes it from other competitors. Few materials can match PPS's ability to tolerate hot, humid and corrosive conditions. The polymer is specified for many demanding applications because of its chemical resistance, excellent heat deflection temperature (HDT), good electrical properties, light weight and ease of fabrication relative to metals. Thus, PPS is often the material of choice in various industries where there is a hot and corrosive environment. It is most often selected to replace metals. PPS is widely used in electrical and electronic applications, automotive applications, industrial applications, coatings, filters and filter bags and aerospace applications.

Global PPS Supply and Demand

According to SRI Consulting, the PRC is the largest PPS consuming country in the world, representing about approximately 57.1% of world consumption in 2009. According to SRI Consulting, global demand is expected to reach 69,400 metric tons in 2010 and is forecasted to grow at an average annual growth rate of 11% to reach 115,500 metric tons by 2015 while the PRC is expected to remain the largest market for PPS products and to have the highest average demand growth rate at 16% in the same period due to strong growth in industrial production and favourable government policy. Total PPS demand in the PRC is forecasted to grow from 39,900 metric tons in 2010 to 78.7 thousand metric tons in 2015 while PPS production capacity in the PRC is forecasted to grow from 30,500 metric tons to 55,300 metric tons during the same period, according to SRI Consulting.

Chinese PPS demand by segment 2007-2015

The following table presents total PPS demand estimates in the PRC by major market segment on a neat resin basis:

Total PPS Demand in the PRC
(metric tons, neat resin basis)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
E&E	6,450	6,627	7,290	8,019	8,660	9,353	10,101	10,909	11,782
Automotive	2,650	7,358	8,462	9,731	10,899	12,207	13,671	15,312	17,149
Industrial	1,350	2,753	3,083	3,453	3,730	4,028	4,350	4,698	5,074
Filter Bags	5,000	10,500	11,280	12,200	14,650	17,600	21,100	25,400	30,500
Aerospace	2,750	1,587	2,422	3,706	4,447	5,337	6,404	7,685	8,837
Coatings	500	575	1,856	2,794	3,213	3,695	4,249	4,887	5,375
Total	18,700	29,400	34,393	39,903	45,599	52,219	59,876	68,891	78,718

Source: SRI Consulting

According to SRI Consulting, global PPS production capacity exceeded total demand in 2009. On a regional basis, Japan had the highest total capacity of 37,500 metric tons, accounting for 36.6% of the total, followed by the United States at 34.1%, and the PRC at 29.3%. The PRC had the highest estimated total demand of 34,400 metric tons, far surpassing the markets in Japan, Europe and the United States in 2009.

Global PPS capacity 2005-2015

According to SRI Consulting, global PPS capacity grew dramatically from approximately 43,900 metric tons in 2005 to 107,800 metric tons in 2010. According to SRI Consulting, by 2015, global capacity is forecast to reach 133,300 metric tons with SK Chemicals in the Republic of Korea and Idemitsu Kosan in Japan as possible new market entrants. The following table presents global PPS producers and their year-end capacities for 2005-2010 as well as projected capacities for 2011-2015 based on announced plans:

	Annual Year-End Nameplate Capacity[a] (thousands of metric tons, resin)										
Company and Plant Location	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
United States											
Chevron Philips Chemical Company Borger, TX	10.0	10.0	10.0	10.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Fortron Industries (owned jointly by Ticona LLC and Kureha Chemical [Japan]) Wilmington, NC	7.3	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total	17.5	20.0	25.0	25.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Japan											
DIC EP, Inc.											
Kashima, Ibaraki Prefecture	4.0	6.0	6.0	6.0	9.5	12.0	12.0	12.0	12.0	12.0	12.0
Sodegaura, Chiba Prefecture	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Idemitsu Kosan[a]	0	0	0	0	0	0	0	0	(10.0)	(10.0)	(10.0)
Kureha Chemical Industry Co., Ltd.											
Iwaki, Fukushima Prefecture	6.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Toray Industries, Inc.											
Tokai, Aichi Prefecture	9.0	9.0	9.0	11.5	11.5	14.0	14.0	14.0	14.0	14.0	14.0
Tosoh Corporation											
Yokkaichi, Mie Prefecture	2.0	2.5	2.5	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.0
Total[b]	25.0	31.3	31.3	33.8	37.5	42.5	43.0	43.0	43.0	43.0	43.0

Company and Plant Location	Annual Year-End Nameplate Capacity[a] (thousands of metric tons, resin)										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Korea, Republic of											
SK Chemicals[a]											
na	0	0	0	0	0.03	0.03	0.03	0.03	(20.0)	(20.0)	(20.0)
PRC											
Chengdu Letian Plastics Co., Ltd.											
Chengdu, Sichuan	0	0.05	0.05	0.05	0.05	0.2	0.2	0.2	0.2	0.2	0.2
Sino Polymer & Fibre											
Chengdu, Sichuan	0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Deyang, Sichuan	1.3	1.3	4.0	24.0	24.0	24.0	24.0	49.0	49.0	49.0	49.0
Southwest China Haohua Chemical Co., Ltd.											
Zigong, Sichuan	0	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Total	1.3	7.4	10.1	30.1	30.1	30.25	30.25	55.25	55.25	55.25	55.25
World Total[b]	43.8	58.7	66.4	88.9	102.6	107.8	108.3	133.3	133.3	133.3	133.3

a. Idemitsu and SK Capacity Expansion are still in the planning stage.

b. Total does not include Idemitsu and SK possible future expansion since no decision has been made.

Source: News releases, press articles, SRI Consulting

Global demand is expected to reach 69,400 metric tons in 2010 and is forecast to grow at 11% per annum to reach 115,500 metric tons by 2015, according to SRI Consulting. U.S., Europe, and Japan are expected to grow at an average annual rate of 2%, 3%, and 7%, respectively from 2010 to 2015, where global demand is expected to reach 9,400, 7,300, and 18,100 metric tons respectively in 2015 while the PRC is expected to grow at an average of 16% per year in the same period due to strong growth in industrial production and favorable government policy, where global demand is expected to reach 78,700 metric tons in 2015.

Global PPS demand 2008-2015

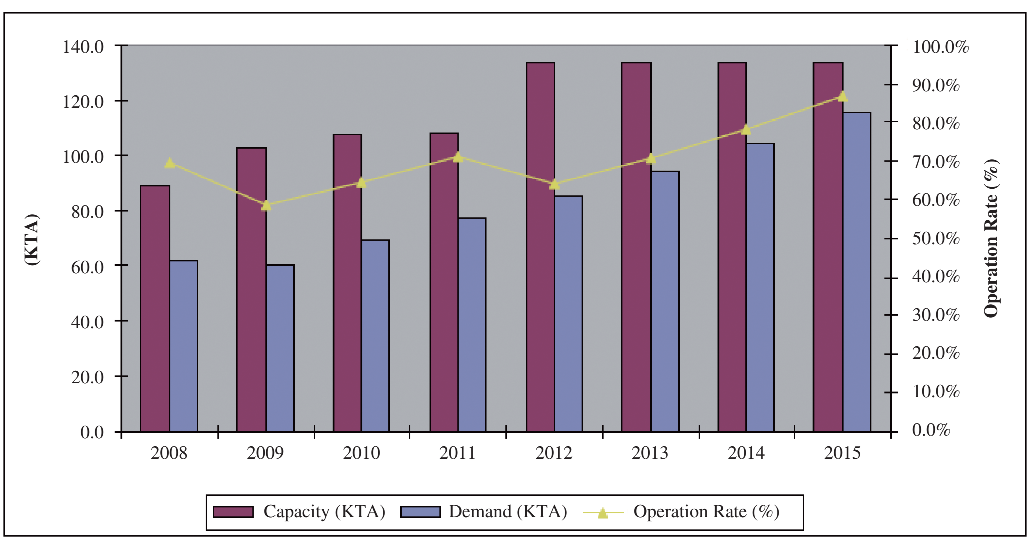
The following tables present global demand for PPS by region for 2008-2009 as well as projected demand for 2010-2015 on a resin basis:

World Demand for PPS By Region
(thousands of metric tons, resin)

	2008	2009	2010	2011	2012	2013	2014	2015
United States	10.1	7.0	8.5	8.7	8.8	9.0	9.2	9.4
Europe	6.5	5.5	6.3	6.5	6.7	6.9	7.1	7.3
Japan	13.8	12.3	13.2	14.8	15.9	16.6	17.3	18.1
PRC	29.2	34.4	39.9	45.6	52.2	59.8	68.9	78.7
Rest of the World	2.0	1.0	1.5	1.6	1.7	1.8	1.9	2.0
Total	61.6	60.2	69.4	77.2	85.3	94.1	104.4	115.5

Source: SRI Consulting

World Capacity and Demand with Projected Operation Rate for PPS
(resin basis)

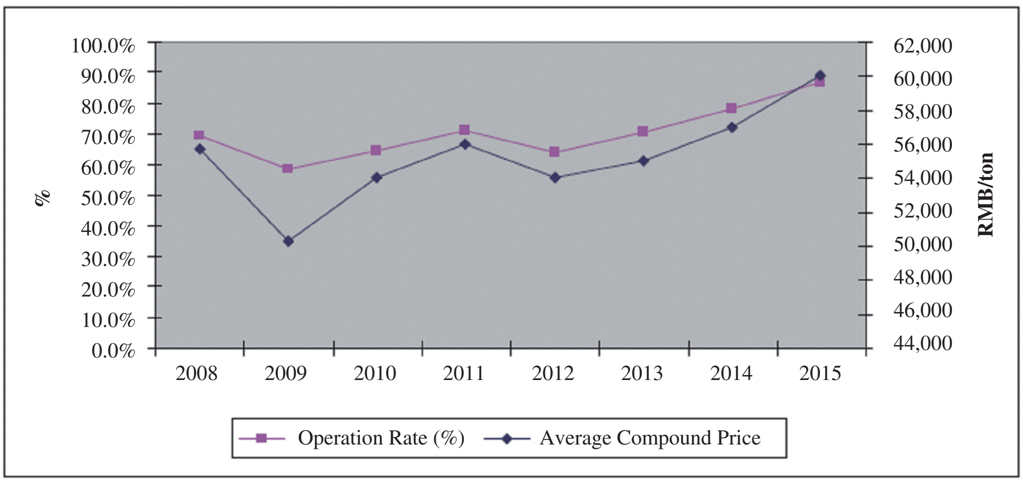


Source: SRI Consulting

Global PPS Prices

The U.S. and Japanese producers, with their capacity exceeding their domestic demand, are expected to market their products more aggressively in one of the faster growing markets such as the PRC. Due to the global overcapacity and expected competition, prices are expected to remain under pressure but may fluctuate according to the global operating rate. However, it is expected that most players will continue to adjust production and exert price discipline to avoid significant price erosion to their margins, according to SRI Consulting.

World Operating Rates and Price Projection for PPS



Source: SRI Consulting

The Board believes, that the PPS demand outlook in the PRC will be driven by the following end-use market segments:

Electrical and Electronic Applications

PPS has wide uses in electrical and electronic (E&E) markets. In the PRC, PPS is widely used in electrical appliance components. In recent years, an important trend in manufacturing electronic components is the use of lead-free solder, which requires plastic parts involved in the soldering process to withstand temperatures between 240-260°C. PPS not only satisfies the high-temperature requirement but also its inherent flame resistance and electrical properties make it a preferred and most cost-effective choice in this application. Another increasing requirement for PPS in E&E applications is low chlorine content. Chlorine in PPS comes from two sources – sodium chloride impurity left as a polymerisation by-product and bound chlorine which still bonds to the polymer molecules. High chlorine may cause corrosion in electronic circuits. Also, the European WEEE regulation specifies a limit of less than 900 ppm in E&E plastic components.

According to the "Notice of Economic Operation in the Electronic Information Industry 2009" published by the Ministry of Industry and Information Technology of the People's Republic of China dated 3 February 2010, PRC's continuously growing economy is contributing to the electronic industry in 2010. It is expected that there will be 100 million new mobile phone users in 2010 while the total domestic demand for mobile phones is expected to be up to 250 million. In addition, the integrated circuits market is expected to grow by more than 15% in 2010 due to the expanding markets of mobile phones and TV.

Even with the recent rise in labour costs, due to its immense domestic market and superior infrastructure, the Board believes that the PRC will continue to be the manufacturing center for electrical and electronic parts in the years to come. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 8% from 2010 to 2015, reaching 11,782 metric tons in 2015.

Automotive Applications

PPS is increasingly used in the automotive industry where resistance to fuel, antifreeze and transmission and brake fluids at high under-the-hood temperatures is required.

According to the China Association of Automobile Manufacturers, the automotive industry has benefited from China's fast growing economy, rapid urbanization and series of government policies promoting automotive sales. The PRC's automotive production and sales volume reached 13.79 million units and 13.64 million units in 2009 respectively, representing a tremendous increase of 48% and 46% respectively from 2008. According to the "Annual Report on Automotive Industry in China 2010" prepared by the Development Research Center of the State Council, the Society of Automotive Engineers of China and Volkswagen Group China released in July 2010, the PRC's automotive production will remain above 15 million units per annum during the 12th "5 Year Plan" period and is expected to exceed 20 million by 2015 when China will rank 1st in the automotive industry in the world in terms of production and sales volume. In June 2010, the PRC government announced a trial program to subsidise environmentally friendly vehicles in five cities as part of efforts to reduce emissions and save energy.

The Board believes that PPS demand will benefit from the overall growth in auto production and the drive to improve fuel economy requires more plastics usage per vehicle. In particular, the Board believes that hybrid vehicles, due to higher under-the-hood temperatures will demand higher usage of PPS. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 12% from 2010 to 2015, reaching 17,149 metric tons in 2015.

Industrial Applications

Industrial applications include oil field equipment, machine and appliance parts, pumps, valves and pipe fittings. These parts serve a mechanical function with heat or chemical resistance but no electrical function. PPS has benefited from the overall industry trend of replacing metals with plastics for weight reduction or better corrosion resistance. The Board believes that there are two potential bright spots for PPS demand in this market segment. First, PPS is increasingly used in making the carousel supporting ring for microwave ovens for its high-temperature and flame resistance. Secondly, PPS is replacing copper in valves and fittings for solar-powered water heaters. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 8% from 2010 to 2015, reaching 5,074 metric tons in 2015.

Coatings

Coatings are used primarily for corrosion protection of ferrous metals in the chemical and construction industries. PPS coatings can be applied by slurry coating, electrostatic coating on cold or hot surfaces, powder flocking or fluidised bed coating. The industry has developed various coating processes such as suspension coating, powder coating, flame deposition and fusion deposition processes to accommodate a wide variety of coating parts. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 14% from 2010 to 2015, reaching 5,375 metric tons in 2015.

Filters and Filter Bags

Major filter and filter bag applications include coal boilers at coal thermal power stations and dust chamber filters for use in incinerators. On the one hand, PPS competes with other high-end fibres such as aramid, PTFE, polyimides and other special fibres. PPS can withstand a temperature range of 160-180°C, and the prevailing temperature and acidic environment in coal-fired power plants, at a significantly lower cost. On the other hand, PPS competes with low-cost glass fibre or other organic fibres. PPS offers better heat and chemical resistance and longer service life. Typically PPS filter bags have a three-year service life versus six months for glass fibre. It significantly reduces maintenance costs and downtime in power and heat generation plants and PPS fibre has been found to be a preferred filter material for reducing dust emission in coal-fired power plants which represent the majority of power generation in the PRC.

According to the "2008 Development Report" published by the Bag Filter Committee of China Association of the Environmental Protection Industry, the total production value of filter bags reached RMB16.79 billion in 2008, a 40% increase from 2007 and the industry is expected to continue to grow in the next 15 to 20 years. The PRC government issued the new Standard for Air Pollutants Discharge in Coal-Fired Power Plants (GB13223-2003) in 2003 where it reduced the discharge limits of particulates from 200 mg/Nm^3 to 50 mg/Nm^3. In July 2009, the PRC government announced a draft new standard, GB13223-2010, for comments to further reduce the discharge limit of particulates from 50 mg/Nm^3 to 30 mg/Nm^3. The Board believes that the new regulation will provide continuing impetus for PPS demand in the filter bags application in the next years. Moreover, since the average life for PPS filter bags is about three years, the Board believes that there will be additional demand for replacing the bags installed in the previous years. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 20.1% from 2010 to 2015, reaching 30,500 metric tons in 2015.

Aerospace Applications

Due to its unique combination of properties, PPS qualifies for a number of defence or aerospace related applications. PPS composites have been used in making rudders and elevation in jets and fuselage and wing in airplanes. The Board believes that PPS composites will find greater use in airplane manufacturing in the PRC. In addition, PPS finds many other applications where its price/performance ratio makes sense to replace metal parts for weight reduction in military equipment. According to SRI Consulting, PPS demand in the PRC for this segment is expected to grow at an average annual rate of 19% from 2010 to 2015, reaching 8,837 metric tons in 2015.

Competition

According to SRI Consulting, the PRC had the highest estimated total demand of PPS of approximately 34,400 metric tons on a neat resin basis in 2009, far surpassing the markets in Japan, Europe and the United States at approximately 12,300, 5,500 and 7,000 metric tons respectively. According to SRI Consulting, the apparent market share for the Target Group in the PRC at the end of 2009 is estimated at about 52% on a neat resin basis. Japanese producers, notably DIC, Kureha and Toray, accounted for approximately 32%, and U.S. producers Chevron Phillips and Fortron accounted for about 16% of the market share.

Although there is no stringent regulatory requirement to operate the Target Group's business in the PRC, the high capital expenditure required to establish an PPS plant, PPS production technology requirements and the importance of securing reliable supply of raw materials pose significant barriers to entry for new competitors.

5. INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands as an exempted company with limited liability on 12 April 2007. The Group is primarily engaged in the mining, processing and manufacturing of natural thenardite products. Thenardite is an important raw material used to manufacture chemical and light industrial products. The Group is focused on the production and sale of medical and specialty thenardite.

6. SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION

The following table sets out the shareholding interests in the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion (assuming that (a) none of the outstanding share options of the Company granted under the Share Option Schemes are exercised; (b) none of the Vendors (and their associates) sell their Shares; (c) the Company does not issue any new Shares other than the Consideration Shares; and (d) the Target does not issue any new Target Shares prior to Completion), where:

- Scenario A applies in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement in which case the Company will acquire 95.00% of the issued share capital of the Target;

- Scenario B applies in the event that Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement in which case the Company will acquire approximately 89.49% of the issued share capital of the Target; and

- Scenario C applies in the event that Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and all Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement in which case the Company will acquire 100% of the issued share capital of the Target.

Beneficial Shareholder	Notes	As at the Latest Practicable Date		Immediately after Completion – Scenario A		Immediately after Completion – Scenario B		Immediately after Completion – Scenario C	
		No. of issued Shares	*Approximate %*	*No. of issued Shares*	*Approximate %*	*No. of issued Shares*	*Approximate %*	*No. of issued Shares*	*Approximate %*
Mr. Suo Lang Duo Ji and parties acting in concert with him (including the Concert Parties)	*1*	892,156,114	45.58%	3,795,659,758	74.20%	3,627,337,851	73.54%	3,627,337,851	68.68%
Morgan Stanley	2	–	–	254,504,329	4.98%	239,750,205	4.86%	239,750,205	4.54%
Non-Selling Shareholders		–	–	–	–	–	–	156,571,000	2.96%
BOCOM		–	–	–	–	–	–	107,232,503	2.03%
Warrant Holders		–	–	–	–	–	–	85,478,841	1.62%
Other public shareholders	*3*	1,065,266,550	54.42%	1,065,266,550	20.82%	1,065,266,550	21.6%	1,065,266,550	20.17%
Total		1,957,422,664	100.00%	5,115,430,638	100.00%	4,932,354,607	100.00%	5,281,636,951	100.00%

Notes:

(1) The shareholdings of Mr. Suo Lang Duo Ji and parties acting in concert with him (including the Concert Parties) and their respective associates are as follows:

Beneficial Shareholders	Notes	As at the Latest Practicable Date		Immediately after Completion					
				Scenario A		Scenario B		Scenario C	
		No. of issued Shares	Approximate %	No. of issued Shares	Approximate %	No. of issued Shares	Approximate %	No. of issued Shares	Approximate %
Mr. Suo Lang Duo Ji	a	742,063,114	37.91%	1,997,849,530	39.06%	1,925,049,082	39.03%	1,925,049,082	36.45%
Mr. Wang Chun Lin and his wife	b	36,131,000	1.85%	151,311,309	2.96%	144,634,077	2.93%	144,634,077	2.74%
Mr. Zhang Songyi and his wife	c	27,664,000	1.41%	498,249,000	9.74%	470,968,248	9.55%	470,968,248	8.92%
Moonchu	d	86,298,000	4.41%	276,306,095	5.40%	265,290,946	5.38%	265,290,946	5.02%
Mr. Wan Keung	e	–	–	289,227,446	5.65%	272,460,353	5.52%	272,460,353	5.16%
Yang Huaijin and Cao Zhong	f	–	–	122,678,125	2.40%	115,566,229	2.34%	115,566,229	2.19%
Li Feng, Liu Meifang, Li Bing, Chan Tim Shing, Jiang Guorong	g	–	–	86,775,235	1.70%	81,744,701	1.66%	81,744,701	1.55%
Wu Chi Pan	h	–	–	69,017,129	1.35%	65,016,069	1.32%	65,016,069	1.23%
Qin Ke Bo	i	–	–	62,742,883	1.23%	59,105,552	1.20%	59,105,552	1.12%
Song Jifeng	j	–	–	34,134,871	0.67%	32,156,004	0.65%	32,156,004	0.61%
Cheng Zai Zhong	k	–	–	15,685,721	0.31%	14,776,388	0.30%	14,776,388	0.28%
Ho Ying	l	–	–	9,411,432	0.18%	8,865,833	0.18%	8,865,833	0.17%
Wang Jianfeng	m	–	–	9,411,432	0.18%	8,865,833	0.18%	8,865,833	0.17%
Zhang Weibing	n	–	–	6,648,419	0.13%	6,262,997	0.13%	6,262,997	0.12%
Zhang Yinghua	o	–	–	416	0.00%	391	0.00%	391	0.00%
Chung Mei Chai and Chu Chuang Chieh	p	–	–	166,210,716	3.25%	156,575,149	3.17%	156,575,149	2.96%

(a) The 37.91% interest of Mr. Suo Lang Duo Ji as at the Latest Practicable Date is held through Nice Ace, a company which is ultimately beneficially wholly-owned by Mr. Suo Lang Duo Ji. In Scenario A, the 39.06% interest of Mr. Suo Lang Duo Ji immediately after Completion is held as to 14.51% through Nice Ace, 24.55% through Ascend, and less than 0.01% through his personal holding. In Scenario B, the 39.03% interest of Mr. Suo Lang Duo Ji immediately after Completion is held as to 15.04% through Nice Ace, 23.98% through Ascend, and less than 0.01% through his personal holding. In Scenario C, the 36.45% interest of Mr. Suo Lang Duo Ji immediately after Completion is held as to 14.05% through Nice Ace, 22.40% through Ascend, and less than 0.01% through his personal holding.

(b) The 1.85% interest of Mr. Wang Chun Lin and his wife, Ms. Caroline Chan Hiu Lai, as at the Latest Practicable Date is held through AAA Mining Limited, a company which is ultimately beneficially owned as to 50% by Mr. Wang Chun Lin and as to 50% by his wife. In Scenario A, the 2.96% interest of Mr. Wang Chun Lin and his wife immediately after Completion is held as to 0.71% through AAA Mining Limited and 2.25% through Triple A Investments. In Scenario B, the 2.93% interest of Mr. Wang Chun Lin and his wife immediately after Completion is held as to 0.73% through AAA Mining Limited and 2.20% through Triple A Investments. In Scenario C, the 2.74% interest of Mr. Wang Chun Lin and his wife immediately after Completion is held as to 0.68% through AAA Mining Limited and 2.05% through Triple A Investments.

(c) The 1.41% interest of Mr. Zhang Songyi and his wife, Ms. Mui Bing How, as at the Latest Practicable Date is held through Mandra Esop, a company which is ultimately beneficially owned as to 50% by Mr. Zhang Songyi and as to 50% by his wife. In Scenario A, the 9.74% interest of Mr. Zhang Songyi and his wife, immediately after Completion is held as to 1.46% through Mandra Esop and 8.28% through Mandra Materials. In Scenario B, the 9.55% interest of Mr. Zhang Songyi and his wife, immediately after Completion is held as to 1.46% through Mandra Esop and 8.09% through Mandra Materials. In Scenario C, the 8.92% interest of Mr. Zhang Songyi and his wife, immediately after Completion is held as to 1.36% through Mandra Esop and 7.55% through Mandra Materials.

(d) The interest of Moonchu as at the Latest Practicable Date is held through Mandra Mirabilite Limited, a company which is wholly owned by Woo Foong Hong which in turn is wholly owned by Moonchu. In Scenario A, the 5.40% interest of Moonchu immediately after Completion is held as to 3.71% through Woo Foong Hong (excluding its indirect holding through Mandra Mirabilite Limited) and as to 1.69% through Mandra Mirabilite Limited. Moonchu is a tax exempt charity established by Mr. Zhang Songyi and his family. In Scenario B, the 5.38% interest of Moonchu immediately after Completion is held as to 3.63% through Woo Foong Hong (excluding its indirect holding through Mandra Mirabilite Limited) and as to 1.75% through Mandra Mirabilite Limited. In Scenario C, the 5.02% interest of Moonchu immediately after Completion is held as to 3.39% through Woo Foong Hong (excluding its indirect holding through Mandra Mirabilite Limited) and as to 1.63% through Mandra Mirabilite Limited.

(e) The interest of Mr. Wan Keung immediately after Completion is held through Sky Success, a company which is ultimately beneficially wholly-owned by Mr. Wan Keung.

(f) The interest of Yang Huaijin and Cao Zhong immediately after Completion is held through Fine Talent Group Limited, a company which is owned by Yang Huaijin and Cao Zhong as to 94.00% and 6.00% respectively.

(g) The interest of Li Feng, Liu Meifang, Li Bing, Chan Tim Shing and Jiang Guorong immediately after Completion is held through Unique Speed Investments Limited, a company which is owned by Li Feng, Liu Meifang, Li Bing, Chan Tim Shing and Jiang Guorong as to 41.92%, 23.98%, 17.96%, 11.97% and 4.17% respectively.

(h) The interest of Wu Chi Pan immediately after Completion is held through Raybest Investment Ltd, a company which is ultimately beneficially wholly-owned by Wu Chi Pan.

(i) The interest of Qin Ke Bo immediately after Completion is held through Marble King Investment Ltd, a company which is ultimately beneficially wholly-owned by Qin Ke Bo.

(j) The interest of Song Jifeng immediately after Completion is held through Joint Peak Investments Limited, a company which is ultimately beneficially wholly-owned by Song Jifeng.

(k) The interest of Cheng Zai Zhong immediately after Completion is held through Sino Reach Investments Limited, a company which is ultimately beneficially wholly-owned by Cheng Zai Zhong.

(l) The interest of Ho Ying immediately after Completion is held through Orient Value Limited, a company which is ultimately beneficially wholly-owned by Ho Ying.

(m) The interest of Wang Jianfeng immediately after Completion is held through Profuse Investment Holding Limited, a company which is ultimately beneficially wholly-owned by Wang Jianfeng.

(n) The interest of Zhang Weibing immediately after Completion is held through True Express Limited, a company which is ultimately beneficially wholly-owned by Zhang Weibing.

(o) The interest of Zhang Yinghua immediately after Completion is held through China-Land Biotech Holdings Limited, a company which is ultimately beneficially wholly-owned by Zhang Yinghua.

(p) The interest of Chung Mei Chai and Chu Chuang Chieh immediately after Completion is held through Ying Mei, a company which is ultimately beneficially owned by Chung Mei Chai and Chu Chuang Chieh as to 60% and 40% respectively.

(2) The interest of Morgan Stanley immediately after Completion is held through MS China. MS China is a wholly-owned subsidiary of Morgan Stanley Principal Investments, Inc., a wholly owned subsidiary of Morgan Stanley Fixed Income Ventures Inc., which in turn is wholly owned by Morgan Stanley.

(3) As at the Latest Practicable Date, the Company had 132,922,002 outstanding share options granted under the Share Option Schemes, carrying rights to subscribe for 132,922,002 Shares. Mr. Suo Lang Duo Ji, Mr. Zhang Songyi, and Mr. Wang Chun Lin held outstanding share options under the Post-IPO Share Option Scheme to subscribe for 800,000, 9,200,000 and 5,000,000 Shares respectively. Save for the aforesaid share options, the Company did not have any outstanding warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date. The shareholding structure shown in the above table has assumed no exercise of such share options.

(4) Due to rounding, the percentages of shareholding interests held in the Company as set out above are approximate figures.

7. INFORMATION ON THE TARGET GROUP

Pursuant to the Sale and Purchase Agreement, the Company will acquire from the Vendors the Sale Shares which, upon Completion, represent up to 95.00% but not less than 89.49% of the equity interest in the Target, subject to the terms of the Sale and Purchase Agreement.

If Target Shares are issued to any Warrant Holder and/or BOCOM before Completion and all of such Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the Company will acquire from the Vendors the Sale Shares and from such Warrant Holders, BOCOM and Non-Selling Shareholders the Target Shares held by them, and, accordingly, the Company will acquire 100% of the equity interest in the Target, subject to the terms of the Sale and Purchase Agreement.

Target Group Structure

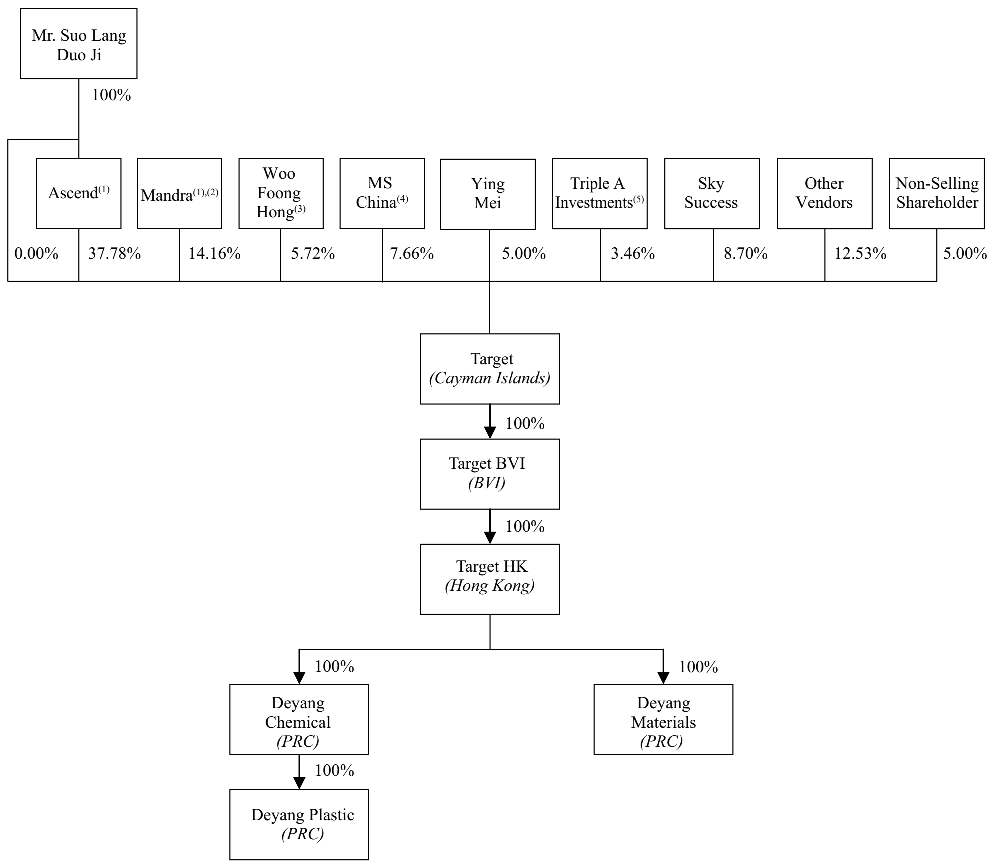
Target is a company incorporated in the Cayman Islands on 22 August 2006. The principal business of Target is investment holding. The Target is the holding company of the Target Group.

The sole asset of Target is the entire issued share capital of Target BVI, a company incorporated in the BVI on 16 August 2006, which is also an investment holding company, and in turn through Target HK, a company incorporated in Hong Kong on 6 September 2007, holds the principal investments of the Target Group in the PRC, being the entire equity interests of each of Deyang Chemical and Deyang Materials, and, through Deyang Chemical, the entire equity interests of Deyang Plastic.

Deyang Chemical, Deyang Materials and Deyang Plastic were established in the PRC on 28 April 2006, 21 June 2007 and 14 March 2008, respectively. As at the Latest Practicable Date, the business scope of Deyang Chemical is the development, production and sales of PPS products, including PPS coating and PPS compounding products, the business scope of Deyang Materials is production of PPS resin, PPS fibre and sales of related products, and the business scope of Deyang Plastic is development of industrial plastic materials, provision of promotional services, intermediary services and technical examination of related technologies. However, other than the necessary business to maintain its corporate existence, Deyang Plastic has not been engaged in any substantial business activities since its date of incorporation.

The shareholding structure of the Target Group before and after Completion

The following diagram illustrates the shareholding of the Target Group immediately before Completion (assuming that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accede to the Sale and Purchase Agreement):



Notes:

(1) As at the Latest Practicable Date, Ascend owns approximately 37.78% of the issued share capital of the Target. Pursuant to a share sale and transfer agreement dated 15 October 2010, it had been agreed by Ascend and Mandra for Ascend to transfer to Mandra 7,517,157 ordinary shares in the Target representing 9.40% of the share capital of the Target in issue on the Latest Practicable Date ("Ascend's Transfer"). The Ascend's Transfer was completed on 10 November 2010.

(2) Mandra comprises (i) Mandra Esop, which, as at the Latest Practicable Date, owns approximately 1.42% of the issued share capital of the Target and (ii) Mandra Materials, which as at the Latest Practicable Date owns approximately 12.74% of the issued share capital of the Target. Each of Mandra Esop and Mandra Materials is ultimately beneficially owned as to 50% by Mr. Zhang Songyi and as to 50% by Ms. Mui Bing How, Mr. Zhang Songyi's wife.

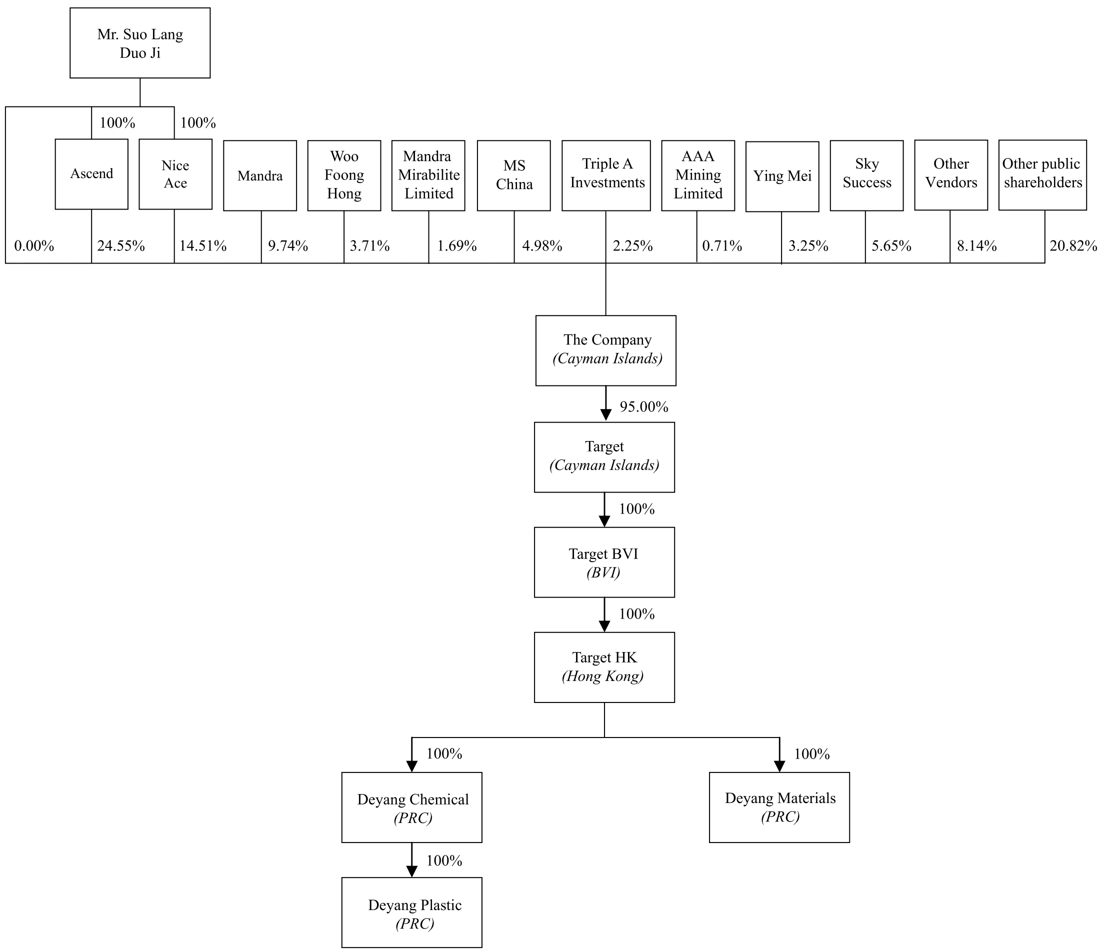
(3) Woo Foong Hong is ultimately beneficially owned by Moonchu, a tax exempt charity established by Mr. Zhang Songyi and his family.

(4) MS China is a wholly-owned subsidiary of Morgan Stanley Principal Investments, Inc., a wholly owned subsidiary of Morgan Stanley Fixed Income Ventures Inc., which in turn is wholly-owned by Morgan Stanley.

(5) Triple A Investments is ultimately beneficially owned as to 50% by Mr. Wang Chun Lin, a non-executive Director, and as to 50% by his wife, Ms. Caroline Chan Hiu Lai.

(6) Due to rounding, the shareholding interests held in the Target as set out above are approximate figures.

The following diagram illustrates the shareholding structure of the Target Group immediately after Completion (assuming that (a) none of the outstanding share options of the Company granted under the Share Option Schemes are exercised; (b) none of the Vendors (and their associates) sell their Shares; (c) the Company does not issue any new Shares other than the Consideration Shares; and (d) the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accede to the Sale and Purchase Agreement):



Note:

(1) Due to rounding, the shareholding interests held in the Company as set out above are approximate figures.

Business Overview

According to SRI Consulting, the Target Group is the largest PPS resin producer in terms of production capacity in the world as of 31 December 2009, accounting for approximately 29.2% of the world's total production capacity and 99.7% of the PRC's total production capacity.

Products

The Target Group produces PPS resin, compounds and fibre. PPS compounds and fibre are produced using PPS resin. PPS compounds have been a major component of turnover for the Target Group, accounting for approximately 64.0%, 56.0%, 63.9%, 57.3% and 71.6% for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively. The Target Group began commercial production of PPS fibre in 2007 and sales of PPS fibre accounted for 2.2%, 19.0%, 22.2%, 30.9% and 17.2% of turnover for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively. The sales of the three grades of PPS resin accounted for approximately 33.8%, 24.0%, 13.5%, 11.2% and 11.2% of turnover for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively. Thenardite is the principal raw material for the production of PPS.

Currently, the Target Group produces three main grades of PPS resin (namely injection moulding-grade, coating-grade and fibre-grade). The ranges of chemical properties of these three grades of PPS resin are as follows:

		Coating-grade	Injection moulding-grade	Fibre-grade
Weight average molecular weight, $x10^4$		≤3.0	≥3.0	≥4.5
Ash content. %	≤	2.5	2.5	0.5
Water content. %	≤	0.5	0.5	0.3
Melting Point, ˚C	≥	275	280	280
Melt flow rate (2.095mm, 318˚C, 5kg), g/10min		≥1000	≤1000	≤400

The Target Group's injection moulding PPS resin is used to produce PPS compounds, which are primarily used to replace metals and other materials in a number of applications. The Target Group's coating-grade PPS resin is primarily used to coat metal components and equipment primarily to resist corrosion. The Target Group's fibre-grade PPS resin is primarily used to produce stable PPS fibre and filament PPS fibre which in turn is produced into PPS filter cloth, which are primarily used by the customers of the Target Group to produce bags to filter smokestack emissions from coal-fired power plants, thermal plants and incinerators. The Target Group's film-grade PPS resin is supplied to a major company in the Republic of Korea for use in electronic applications and to a Chinese producer of solar cells.

PPS resin has broad applications in the following areas:

- **Industrial** – compared with conventional metal materials, PPS is more durable and more cost efficient in extreme environments and thus the need for alloys and stainless steel in mechanical parts boosts the consumption of PPS;

- **Electrical/electronics** – increased sales of home appliances and further application of circuit board miniaturisation and automation, and the need for parts suitable to surfaced mounted technology or parts made of aluminium and hot setting resin boosts the consumption of PPS;

- **Automotive/transportation** – PPS is more widely used for large-sized automotive injection moulding components as the development of die cast aluminium, hot setting resin and other substitutes to high performance engineering thermoplastics products continues;

- **Environmental protection** – one of the key applications of PPS fibre, an application of PPS with high value, is filter bags production as PPS fibre reduces dust emission in coal plants; and

- **Aeronautics/astronautics** – the aeronautics and astronautics industry requires equipment to withstand harsh working environments and high temperatures, thus boosting the demand for PPS resin.

Most of the customers of the Target Group are in the electrical/electronic, automotive/transportation, mechanical, chemical, aviation and environmental industries in the PRC. In 2009, Sino Polymer's sales volume by market segments was 27% in automotive, 25% in filter bags, 14% in aerospace, 14% in electrical and electronic, 10% in coatings, 4% in industrials and 6% in others. Sales volume of PPS products in the first half of 2010 by major end-use applications was approximately 31% in automotive market, 20% in filter bags, 17% in aerospace, 15% in electrical and electronics, 13% in coatings, 3% in industrials; and 1% in others. Domestic PRC sales have accounted for substantially all of the Target Group's sales revenue. In the PPS industry in general, electrical/electronics, automotive/transportation and industrial/machinery are ready markets in which end-use applications for PPS products are well established. The Board believes that the environmental (filter bags) industry represents a large growth opportunity for the Target Group, since the Target Group intends to increase its production volume of both PPS fibre and fibre-grade PPS resin upon Completion. For further details see the section headed "Expansion plans" below. The products of the Target Group are sold under the brand name "Haton" and the trademark "Deyang".

Research and development capabilities and core technologies

The Target Group's independent research and development capabilities have led to the industrialisation of its production technologies of PPS related products and ultimately its large scale production of fibre-grade PPS resin, which in turn have enabled it to maintain its position in the market and its long-term competitiveness. As at the Latest Practicable Date, the Target Group has developed more than 100 PPS related products, and is the registered owner of two patents and has applied for sixteen invention patents which are PPS related production technologies. The Target Group has collaborated with large domestic end users and industry associations to develop new PPS products, and enhance existing PPS products. As at the Latest Practicable Date, the Target Group has a total of 27 staff in the research and development department, of which 12 are from Deyang Materials and 15 are from Deyang Chemical. The Target Group's expenses for research and development mainly consist of the salary costs of the staff in the research and development department (amounting to RMB385,000, RMB828,000, RMB1,078,000 and RMB576,000 for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively) and depreciation of housing provided to the staff in the research and development department (amounting to nil, RMB2,111,000, RMB2,544,000 and RMB1,272,000 for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively).

PPS production patents and proprietary technologies of the Target Group include the following:

- fibre grade polyphenylene sulfide resin polymerisation process;
- high toughness polyphenylene sulfide composite granulate production process;
- product purification process in polyphenylene sulfide production; and
- recovery and utilisation of toxic medium of hydrogen sulfide waste in polyphenylene sulfide production.

The Board believes that new PPS demand could be generated by developing new products and the Target Group has been developing new products and applications with high profit margins. The Board believes that the Target Group has successfully produced low chlorine PPS and a new film-grade PPS resin, developed PPS filter cloth which is derived from PPS fibre, and developed new applications of PPS compound for subway insulators. The Board believes that demand for the Target Group's applications of PPS compounds for subway insulators will increase as a result of the guidelines of the PRC government to build subway systems in cities with a population of more than six million. Moreover, the Target Group is currently involved in research and development projects relating to the application of PPS in solar panels and the application of PPS profiles in the areas of petroleum and chemical engineering.

The Board believes that the Target Group's research and development enables future growth in new applications, such as use of PPS chemical compounds in subway insulators, use of PPS applications in solar panels and use of PPS profiles in the petroleum and chemical industry, beyond the traditional automotive, electrical and electronics, and machinery markets where foreign producers have stronger historical presence. The Board believes that, while the Target Group has demonstrated competitiveness in these traditional markets, focusing on such new applications can further differentiate the Target Group from foreign competitors as well as achieving higher profit margins.

Intellectual property rights

As at the Latest Practicable Date, the Target Group has two registered trademarks, two registered patents, and 16 pending invention patent applications. The bulk of the Target Group's production expertise is in the form of technical know-how derived from industry experience, research and development, and recent experience with the expansion of the Target Group's production capacity. The Target Group has registered domain names at www.chinapps.com, www.haton.hk and www.haton.cn. The Target Group's ability to successfully compete with other market players relies on the protection of these intellectual property rights. To safeguard its proprietary know-how and information, the Target Group strictly controls its systems and production processes and restricts access to such proprietary know-how and information to all personnel except (a) to a few senior technical positions within the Target Group; and (b) for such portion of information which the relevant employee would be required to know based on his/her role within the production cycle. All employees of the Target Group are required to enter into confidentiality agreements pursuant to which employees have given non-compete undertakings in favour of the Target Group for a period of two years after the termination of their employment. Since its incorporation and start of operations, the Target Group did not violate any third party intellectual property rights and its intellectual property rights had not been infringed by any third parties.

Further details of the intellectual property rights of the Target Group are set out in the section headed "Part F Additional Information – 4. Intellectual property rights of the Target Group".

Directors, senior management and key employees of the Target Group

With industry experience ranging from 3 to 25 years, the management team of the Target Group has extensive experience in China's PPS and chemical industries. It has 3 to 25 years of experience in China's PPS and chemical industries, which facilitates focused marketing efforts, strategic relationships with key industry participants, superior quality assurance, stringent cost controls and an in-depth knowledge of the Chinese market and regulatory environment. For biographical details of directors, senior management and key employees of the Target Group see the section headed "Part F Additional Information – 3. Directors, senior management and key employees of the Target Group".

In order to incentivise these Target Group's directors, senior management and key employees for continued and improved services for the Enlarged Group, they will be granted share options under the Post-IPO Share Option Scheme upon Completion as described in more detail under the section headed "9. Possible Grant of Share Options to Certain Directors and Employees of the Target Group". In addition, the Company offers various employment benefits which the Board believes help to incentivise the experienced staff of the Target Group (including, among others, the directors, senior management and key employees) to continue their services for the Enlarged Group. These benefits include competitive compensation packages and housing allowances, as well as assistance with employees' families. The Company also offers awards and promotions for those employees who excel in their duties.

Employees of the Target Group

As at the Latest Practicable Date, the Target Group has 708 employees in Hong Kong and the PRC. A breakdown of the number of employees of the Target Group by function is as follows:

	Number of employees
Production	562
Research and development	27
Marketing	24
Administration	95
Total	708

The Target Group considers its employees as its most important resources. Employee remuneration is based on individual performance, working experience, qualifications and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit schemes, employee compensation includes discretionary bonus. The management believes its success and long-term growth depend upon the quality, performance and commitment of its employees. To this end, the Target Group sponsored a number of training and development programmes for its employees at various levels. As at the Latest Practicable Date, none of the Target Group companies had experienced any strikes or any labour disputes with its employee which had any material impact on its business nor had the Target Group experienced any difficulties in the recruitment and retention of experienced staff.

Property interests

Jones Lang LaSalle Sallmanns Limited, an independent valuer, has valued the property interests of the Target Group as of 30 September 2010 at approximately RMB626,280,000 million. See the property valuation report set out in Appendix VI to the circular for further details.

The Target Group possesses the land use rights of two parcels of land located in Shuangliu County, Sichuan Province and the ownership of the buildings thereon. The aggregate areas of such parcels of land and the buildings thereon are approximately 323,180.18 square meters, and approximately 103,910.75 square meters respectively. The land use rights of the property have been granted for terms of 50 years with the expiry dates on 29 June 2056 and 16 May 2057 for industrial use. The Target Group is in the process of obtaining the building ownership certificates of 7 buildings with an aggregate area of approximately 11,383.21 square meters.

The Target Group also possesses the land use rights of two parcels of land located at Deyang City, Sichuan Province and the ownership of the buildings thereon. The aggregate areas of such parcels of land and the buildings thereon is approximately 299,461 square meters and approximately 33,865 square meters, respectively. The land use rights of the property have been granted for terms of 50 and 70 years with the expiry dates on 21 June 2057 for industrial use and 21 June 2077 for residential use respectively.

Production facilities and capacity

The Target Group owns and operates PPS resin production facilities at two plants located in Sichuan Province in the PRC. The following table summarises the production facilities of the Target Group as of 30 June 2010:

Name	Location	Product Types	Capacity (metric tons per annum)
Deyang Materials	Deyang City, Sichuan Province, PRC	injection moulding; coating-grade or fibre-grade PPS resin, as required	20,000
		injection moulding; coating-grade or fibre-grade PPS resin, as required	4,000
		PPS fibre	5,000
Deyang Chemical	Chengdu City, Sichuan Province, PRC	injection moulding; coating-grade or fibre-grade PPS resin, as required	6,000
		PPS compounds	30,000

In the PPS production facilities, major equipment and machineries are by large categorized into two different components, transmission or moving components, and stationary components. Designed useful lives on these components are normally between 10 to 15 years, while actual useful lives in operation can be much longer through regular check-up and maintenance. As such, the Target Group conducts weekly, monthly, or quarterly periodic check-up and maintenance on these components to ensure maximum useful lives, operational efficiency and utilization rates of the production facilities.

As of 30 June 2010, the Target Group had a combined PPS resin production capacity of 30,000 metric tons per annum, PPS compounds production capacity of 30,000 metric tons per annum and PPS fibre production capacity of 5,000 metric tons per annum.

The Board believes that the Target Group has proven its capability in constructing and increasing PPS resin, compounds, and fibre production capacity. In 2006, the Target Group completed a new plant in Shuangliu, Chengdu with a PPS resin production capacity of 6,000 metric tons per annum. In 2007, the Target Group completed a facility at a new site in Deyang with a PPS resin production capacity of 4,000 metric tons per annum. The new facility replaced an old line in Deyang with a production capacity of 1,300 metric tons per annum. In early 2008, the Target Group completed and started production at a new PPS fibre plant, also at the new site in Deyang, with a production capacity of 5,000 metric tons per annum, of which 1,000 metric tons is for long fibres and 4,000 metric tons is for short fibres. The Target Group has achieved fibre capacity of 200, 2,500 and 4,500 metric tons in 2007, 2008 and 2009 respectively. The plant capacity was built based on producing PPS fibres with a density of 2.5 deniers, which is an industry measure of fibre thickness. In early 2008, the Target Group completed the construction of a new plant in Deyang with a production capacity of 20,000 metric tons per annum.

The Target Group uses its own PPS resin to produce PPS compounds and fibre. According to SRI Consulting, different from its competitors, the Target Group is one of the most vertically integrated PPS products producers in the world.

In May 2008, the Sichuan Province experienced an earthquake with a magnitude of 8.0 according to the State Seismological Bureau of China. The Target Group's primary facilities were approximately 57 kilometres away from the earthquake epicentre and sustained material but not catastrophic impact, and production was significantly disrupted. There were no worker-related injuries resulting from the earthquake and aftershocks. The Target Group formed an emergency response team after the earthquake. As a direct result of the Sichuan earthquake, the Target Group incurred an impairment loss on its property, plant and equipment of approximately RMB167.1 million and a limited amount of raw material, work in progress and inventory losses included in the cost of sales in the financial year 2009. In December 2008, the Target Group has fully restored its production capacity.

Expansion plans

Upon Completion, the Company plans to increase the Target Group's production capacity with two construction projects in 2011 in light of the expected increasing demand of PPS in the PRC: (i) a PPS resin plant with an annual capacity of 25,000 metric tons and (ii) a PPS fibre plant with an annual capacity of 15,000 metric tons.

The Company intends to start the construction of the PPS resin plant in April 2011 and to start production in October 2012. Together with the existing production capacity of 30,000 metric tons, the Board believes that the Target Group's PPS resin production capacity will reach 36,250 metric tons in 2012 and 55,000 metric tons in 2013 and 2014.

The Company intends to start construction of the PPS fibre plant in October 2011 and to start production in 2012. Together with the existing production capacity of 5,000 metric tons, the Board believes that the Target Group's PPS fibre production capacity will reach 7,500 metric tons in 2012 and 20,000 metric tons in 2013 and 2014.

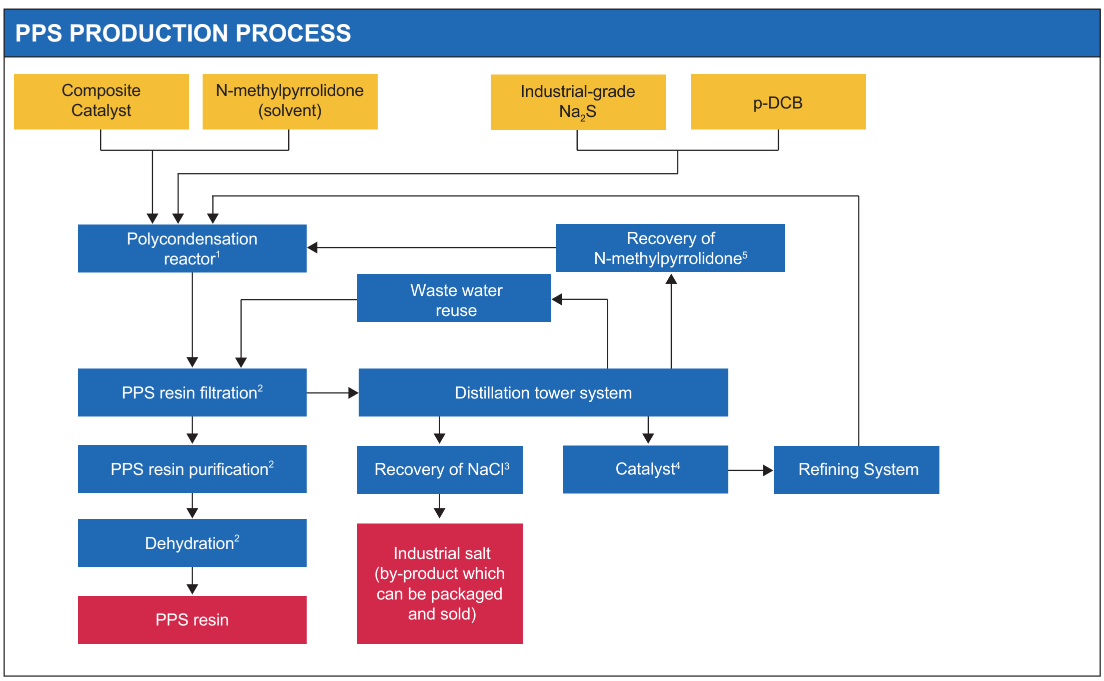
The capital expenditure on the PPS facility is expected to total RMB1,512 million (2011: RMB706 million and 2012: RMB806 million). The capital expenditure on the fibre facility is expected to total RMB480 million (2011: RMB120 million and 2012: RMB360 million).

Production

Mass production of PPS resin involves a very complicated production process. Requirements for raw material purity, reaction process and control of reaction conditions have further increased the complexity of industrial production of PPS resin.

PPS is produced through three major production processes. The Target Group has self-developed PPS production technology with registered intellectual property rights for each of the three production processes in the PRC. The Target Group's volume production process is based on the raw materials of p-DCB and sodium sulfide and a composite catalyst system, and production of molecular weight PPS through controlled reaction conditions.

The diagram below summarises the Target Group's PPS resin production process:



Notes:

1. Raw materials are combined into a reactor in a specific ratio and in a certain sequence as the reaction proceeds to produce PPS resin. When the reaction is complete, PPS resin is produced. During the reaction stage, certain reaction parameters including temperature, pressure and reaction time are adjusted to produce different grades of PPS resin. To control the polymerisation process and ensure a consistent level of PPS resin quality and to avoid the production of undesirable by-products, a series of strict controls are taken, including maintaining a certain level of reaction temperature through electric heating and pipeline cooling, controlling reaction pressure through adjustment of valves, and controlling of reaction time by managing the cooling process of reactor.

2. After the reaction is complete, the mixture is purified and dried to produce PPS resin products. During this process, PPS resin is washed with water to remove both the lithium chloride and NMP solvent.

3. NaCl is crystallised in the distillation tower system followed by filtering and drying, and later used to produce industrial salt.

4. After catalyst precipitates in the distillation tower, it is then filtered and sent to refining system.

5. N-methylpyrrolidone is purified and recovered through distillation process in the distillation tower system.

PPS resin can be made into PPS compounds or PPS fibre. PPS compounds are customised based on customer specifications, and produced by combining injection-moulding grade PPS resin with fibre, fillers, and other additives. This combination process is electrically heated, water cooled and involves various combinations of different screw auger and rotation speed of the twin screw extruder, a key production equipment of PPS resin, to reach and maintain the desired result. The output is then processed into pellets for packaging and transportation. PPS fibre can be in the form of fibre filaments and staple fibre. For fibre filaments, fibre-grade PPS resin is first dried and then extruded into crude fibre. Oil is added and the crude fibre is wound onto a spool. The fibre is then run from the spool through a hot extruder and molded into fine fibre that is spun onto a spool. For staple fibre, fibre-grade PPS resin is first dried, then pulled out into crude fibre. Oil is added and the fibre is placed on a creel (a spinning frame) and run through a hot extruder. Oil is added a second time and the fibre is crimped, cut, roughened and blown dry.

Sales and Marketing

During the past few years, the Target Group adopted the "pull" production strategy where PPS products are manufactured upon confirmation of a sales order. In the recent year, with the demand of domestic customers in PPS products exceeding the production capacity of the Target Group, the Target Group started to gradually shift toward the "push" production strategy, where the Target Group would first manufacture PPS products without having confirmed sales orders and then actively sell its PPS products to the best quality customers it can find.

With the "push" production strategy, the Target Group markets PPS products through a team of experienced sales and marketing professionals. The responsibilities of the sales and marketing team include the promotion of PPS products to potential and existing customers, market research and analysis, implementation of marketing and sales strategies, customer visits and provision of after-sale services.

Inventory Control

The Target Group's inventories mainly consist of raw materials, which are mostly chemicals including sodium sulfide, p-DCB, other auxiliary materials, and finished PPS products. During the past couple of years, the Target Group's inventory levels were determined according to the need of sales plans as the Target Group adopted the "push" production strategy. In the recent year, with the shifting of the Target Group's production strategy, the Target Group's inventory levels are now determined both by the needs of sales and production plans. The Target Group's inventory levels had improved following the change of production strategy. Inventory turnover days decreased from 41.0 days as at 31 December 2008 to 20.3 days as at 30 June 2010. The Target Group's inventory levels are actively monitored by production, procurement and sales departments to maintain an optimal level at all times.

Product quality and environmental certification

The Target Group has established a strict quality control system and a set of quality control standards. It has obtained ISO9001:2000 quality management system certification for its PPS resin and compounds products. In addition, its products have passed UL and ROHS certification. The Target Group has established its own laboratory to perform quality assurance tests. Inspection and quality control are being carried out by its staff at each production stage, including (a) inspection of raw materials prior to acceptance for use; (b) examination of the product at each stage of production to ensure satisfactory production quality; (c) daily performance of an in-process test; and (d) conducting of a properties test on finished products to determine consistency and quality.

The Target Group has also obtained ISO14001:2004 environmental management system certification and OHSAS18001:1999 occupational health and safety management system certification with regard to its production and distribution of PPS resin and compound and other related management activities.

Insurance policies

The Target Group has taken out insurance on its production plants, equipment, machinery and vehicles. The Target Group also provides social insurance for its employees, covering retirement, medical, unemployment, injury and maternity. The PRC laws do not require the Target Group to maintain any insurance in relation to its business operation, product liability or disruption of operation. The Target Group has not taken out any insurance on wars or acts of terrorism.

Taking into account that (i) the Target Group has adopted stringent safety precaution and quality control measures and has fully complied with the relevant rules and regulations in the PRC; and (ii) there had not been any major work accidents causing material health or safety issues since the establishment of each of the members of the Target Group, the Board is of the view that the Target Group has maintained sufficient insurance coverage for its current operations based on their knowledge of the industry practice and experience.

Up to the Latest Practicable Date, the Target Group has not made or been the subject of any insurance claims which are material to the Target Group.

The Target Group will continue to review and assess the risks and make necessary adjustments to its insurance practice in line with the operation needs and industry practice.

Logistics and transportation

All PPS products of the Target Group are delivered to its customers by freight. As the Target Group does not generally provide free delivery services to customers, all transportation costs are borne by the customers. Some of the Target Group's customers will arrange their own transportation arrangements while at times the Target Group will assist its customers to arrange transportation services from transportation services providers.

Future plan

For the three years ended 31 December 2009 and the six months ended 30 June 2010, export sales of the Target Group constituted approximately 0%, 0.9%, 0.9%, and 1.2% of its total turnover, respectively. With the demand of PPS in China expected to remain strong in the coming years due to growth from various applications including electrical and electronic, automotive, industrial, coatings, filter and filter bags, and aerospace, the Board believes the Target Group will place more emphasis on the development of customer base in the domestic PRC market while at the same time actively searching for quality customers from overseas markets.

Licenses and permits

The Target Group has obtained all licenses, permits, approvals and certificates necessary for its operations in the PRC as of the Latest Practicable Date. The Target Group's operations in the PRC comply in all material aspects with all applicable PRC laws and regulations.

The table below sets out all licenses, permits and approvals required for the Target Group's operations in respect of safe production and environment protection in the PRC, together with the corresponding issuing authority with respect to each permit and approval.

License/Permit/Approval	Issuing authority	Issuing date/Validity period
Deyang Chemical		
Pollutant discharge permit (排放污染物許可證)	Environmental Protection Bureau, Shuangliu County (雙流縣環境保護局)	15 April 2009 – 14 April 2012
Production safety certificate (安全生產證明)[1]	Shuangliu County Safety Production Supervision and Administration (雙流縣安全生產監督管理局)	11 October 2010
Certificate (證明)[2]	Shuangliu County Safety Production Supervision and Administration (雙流縣安全生產監督管理局)	15 June 2010
Certificate (證明)[3]	Environmental Protection Bureau, Shuangliu County (雙流縣環境保護局)	15 June 2010
Certificate on environmental protection (環保證明)[4]	Environmental Protection Bureau, Shuangliu County (雙流縣環境保護局)	13 October 2010

License/Permit/Approval	Issuing authority	Issuing date/Validity period
Deyang Materials		
High-tech enterprise certificate (高新技術企業證書)	Science and Technology Department of Sichuan Province (四川省科學技術廳) Finance Bureau of Sichuan Province (四川省財政局) Bureau of Local Tax of Sichuan Province (四川省地方稅務局) Sichuan Provincial Office, SAT (四川省國家稅務局)	16 July 2009 – 15 July 2012
Certificate (證明)[5]	Environmental Protection Bureau, Deyang City (德陽市環境保護局)	12 October 2010
Production safety certificate (安全生產證明)[6]	Deyang Economic and Technological Development District Safety Production Supervision and Administration (德陽經濟技術開發區安全生產監督管理局)	11 October 2010

Notes:

1. Pursuant to this production safety certificate (安全生產證明), Shuangliu County Safety Production Supervision and Administration (雙流縣安全生產監督管理局) confirmed that, in accordance with the applicable laws and regulations on production safety, Deyang Chemical's industrial project on PPS new materials with an annual capacity of 6,000 tonnes/year does not require the following permits: (i) production license of hazardous chemicals (危險化學品經營許可證); (ii) safety production permit of hazardous chemicals (危險化學品安全生產許可證); and (iii) approval of the storage of hazardous chemicals (危險化學品儲存批准書).

2. Pursuant to this certificate (證明), Shuangliu County Safety Production Supervision and Administration (雙流縣安全生產監督管理局) confirmed that Deyang Chemical was (i) in compliance with all applicable laws and regulations in relation to production safety; (ii) not subject to any penalties imposed by Shuangliu County Safety Production Supervision and Administration (雙流縣安全生產監督管理局); and (iii) not involved in any incidents in relation to production safety.

3. Pursuant to this certificate (證明), the Environmental Protection Bureau, Shuangliu County (雙流縣環境保護局) confirmed that up to and until 15 June 2010, (i) Deyang Chemical's production facilities in Shuangliu County and its operations are in compliance with the applicable laws and regulations in relation to environmental protection; and (ii) Deyang Chemical was not involved in any pollution incident illegitimate acts in relation to environmental protection.

4. Pursuant to this certificate on Environmental Protection (環保證明), the Environmental Protection Bureau, Shuangliu County, (雙流縣環境保護局) confirmed that up to and until 13 October 2010, Deyang Chemical (i) has been in compliance with the assessment, registration and reporting procedures in accordance with the applicable laws and regulations in relation to environmental protection; (ii) has been in strict compliance in all material aspects of all applicable laws, regulations, restrictive documents in relation to environmental protection since 1 January 2007; (iii) has adequate facilities in relation to environmental protection; (iv) has made timely payment on discharge of pollutants; (v) was not involved in any illegitimate acts in relation to environmental protection; and (vi) was not subject to any potential and actual complaints and penalties in relation to environmental protection.

5. Deyang Materials does not have a pollutant discharge permit. However, pursuant to this Certificate on Environmental Protection (環保證明), the Environmental Protection Bureau, Deyang City, (德陽市環境保護局) confirmed that Deyang Materials' production do not involve any noise pollution nor external sewage discharge, waste gas emission and waste deposition and a discharge permit (排放污染物許可證) is being processed for Deyang Materials.

6. Pursuant to this production safety certificate (安全生產證明), Deyang Economic and Technological Development District Safety Production Supervision and Administration (德陽經濟技術開發區安全生產監督管理局) confirmed that there are no requirements in Sichuan Province for an enterprise to apply for approval certificate on the use and storage of dangerous chemical (危險化學品批准證書(使用、儲存)), registration certificate on the use of dangerous chemicals (危險化學品使用單位登記證), and registration certificate on the storage of dangerous chemicals (危險化學品儲存單位登記證).

Repayment of loans

For the three years ended 31 December 2009, and the six months ended 30 June 2010, the Target Group had successfully repaid all loans in full amounts on time and renewed all loans as needed.

While the Target Group has not defaulted in payment of principal or interest on any of its loans during the respective periods, the Target Group had breached certain covenants contained in the CS Facility including failing to (i) provide historical audited financial statements in time; and (ii) comply with certain historical financial covenants. The Target Group, upon agreement to certain conditions, and the payment of a one-off USD2,800,000 consent fee, obtained the necessary waivers and amendments to address such breaches, by way of waiver letters dated 10 March 2010 and 7 July 2010 from the facility agent, acting on the instructions of the lenders of the CS Facility. The CS Facility was fully repaid on 9 November 2010 and all obligations of the Target under the CS Facility discharged.

The Target Group also breached the subscription agreement for the Convertible Notes dated 30 October 2009. Such breaches were related to (i) a net profit warranty for the period 1 May 2009 to 30 April 2010; and (ii) certain undertakings and covenants relating to the proposed listing of the Target in South Korea and Hong Kong. The Target Group obtained waivers from BOCOM in respect of these breaches by way of a waiver letter dated 5 November 2010.

No loans were called back by any lenders prior to maturity during the respective periods. The Target maintained constant communication with the lenders of the CS Facility (through the facility agent) and Convertible Note throughout the period of non-compliances. Accordingly the above breaches did not have a material impact on the Target on an ongoing basis.

8. REASONS FOR AND BENEFITS OF THE ACQUISITION TO THE GROUP

As disclosed in the Group's 2010 Interim Report, the Group has a strategy to "vertically integrate business by exploring downstream business expansion opportunities". The Board believes that the vertical integration of the Group and the Target Group, each being one of the leading players in their respective industry sectors, is in line with the Group's strategy and would allow the Enlarged Group to achieve additional growth and maximise shareholders' return.

With increased focus on high-end high performance specialty downstream products, the Board believes that the Acquisition will enable the Group to make a meaningful step in its stated strategic direction to focus on downstream thenardite products. The Board believes that the Acquisition will enable the Group to become one of the world's leading producers of high-end specialty materials, with a balanced product offering of approximately 49% thenardite and 51% PPS based on the revenues of the respective groups in the first half of 2010. In particular, it is the intention of the Board that the business of the Enlarged Group will focus on high performance applications. Other than the Acquisition, the Board has no intention to introduce any changes to the existing business of the Group, including any redeployment of the fixed assets of the Group or to discontinue the employment of the Group's employees.

The Board believes that the Group will broaden its sources of income from capturing a larger part of the business chain. The vertical integration will also strengthen the Group's ability to produce higher quality products and reduce cost through operational synergies. Lastly, the Board believes that the resulted diversification of the Group's business portfolio will also enhance the Group's resilience to fluctuations in the business environment.

Strength of the Target Group

The Board believes that the Target Group is able to compete effectively and to capitalise on the long-term growth in the PPS industry due to the Target Group's competitive strengths described in more detail below:

A leading and focused PPS producer

The Target Group is the largest PPS resin producers globally in terms of production capacity as of 31 December 2009. According to SRI Consulting, different from its competitors, the Target Group is a pure-play PPS producer and one of the most vertically integrated PPS producers having the capability to produce various grades of resins, compounds, fibres, films, papers, and composites. The Board believes that the Target Group's economies of scale, leading market share, advanced technology as well as focused and integrated operations ensures the Target Group's competitive advantage in the PPS industry in the PRC.

Competitive advantages as a domestic producer

The Target Group mainly competes with foreign PPS producers in the PRC. The Board believes that being a domestic producer provides the Target Group with easy access to a steady supply of raw materials from local suppliers, which facilitates the timely delivery of its products to customers, of which more than 95% are located in the PRC, reduces transportation expenses and enhances its understanding of customer needs, PRC market developments and the PRC regulatory environment. The Board believes that the Target Group with its large-scale production capacity and close proximity to its customer base and key raw materials suppliers, is in a better position than other foreign competitors to benefit from the growth in demand for PPS products in the PRC.

Proprietary technology and strong research and development capabilities

As at the Latest Practicable Date, the Target Group has two registered trademarks, two registered patents and sixteen pending invention patent applications. The Target Group has filed 12 process patents on manufacturing methods with the Chinese Patent Office, of which four were on PPS fibres or surface treatment of fibres, five were on preparation of PPS compounds, one was on PPS paper, and two were on PPS composites. Six of these applications are in the examination stage and the other six have been accepted for examination. The Target Group has focused on collaborative research and development with large domestic end users (including Kingfa Sci. and Tech. Co., Ltd., Samsung, Hebei Bazhou Jinyu Plastics Factory, Xuzhou Yuntai Automotive Electrical Equipment Co., Ltd., Ningbo Shuanglin Electronics Co., Ltd., Suzhou Benteng Plastic Industry Co., Ltd, Ningbo Fourstar Tooling & Plastic Pty. Ltd. and Hangzhou Riyue Electronic Stock Co. Ltd.) and industry associations (including China Textile Academy, Chongqing Technology and Business University, Sichuan University, Shandong University, China Bluestar Chengrand Chemical Co., Ltd. and Bag Filter Committee of China Association of Environmental Protection Industry), which has helped it to capture domestic customers and develop new applications. The Board believes that while the Target Group has demonstrated its competitiveness in traditional PPS applications, focusing on new applications based on its research and development can further differentiate it from foreign competitors.

Experienced management with proven track record

The management team of the Target Group has years of experience in the PRC's PPS and chemical industries, which facilitate focused marketing efforts, strategic relationships with key industry participants, superior quality assurance, stringent cost controls and an in-depth knowledge of the PRC market and regulatory environment. Although the Target Group is a relatively new PPS producer compared to its foreign competitors, it has built up its manufacturing capacities within four years, and has demonstrated its capability in producing high quality PPS resins, compounds and fibres. It has also been rapidly growing its market share in the PRC in competition with its foreign competitors. The Board believes the Target Group is led and managed by a group of highly competent managers and engineers, which form a key part of the Target Group's competitive strengths.

Vertical integration synergies of the Enlarged Group

It is the intention of the Directors that, following Completion, the Group will continue its current business, i.e., the mining, processing and manufacturing of natural thenardite products, in parallel with the business of the Target Group, i.e. the production of PPS. However, one of the two principal feedstocks necessary to produce PPS is sodium sulfide. Through a de-oxidation process, sodium sulfide can be produced directly from sodium sulfate, which is a purified form of thenardite which is currently produced by the Group.

The Board therefore believes that the Acquisition will enable the Group, through a strategic alliance with a processing agent, to supply the Target Group with sodium sulfide and thereby generate synergies through a vertical integration of the Enlarged Group, as described in more detail below:

Supply of sodium sulfide by the Group to the Target Group

As at the Latest Practicable Date, the Group does not supply any sodium sulfate to the Target Group, although the Group has an annual production capacity for sodium sulfate of 2.2 million tons as at 30 June 2010. The reason is that neither the Group nor the Target Group has the ability to convert sodium sulfate into sodium sulfide. Following Completion, the Group plans to set up strategic alliances with processing agents located in Sichuan Province to convert sodium sulfate produced by the Group into sodium sulfide, which can be then used by the Target Group to produce PPS. The Board believes that this will enable the Enlarged Group to internally source all sodium sulfide required for PPS production and ensure optimal product quality and operational efficiency.

Production of higher purity PPS

The Target Group produces regular grades of PPS using regular grades of sodium sulfide feedstock. There is a small part of the PPS business that is based on processing PPS resin as a thin film, and using it in the electronics business for lithium ion battery separators, in membranes, and laminating film for photovoltaic modules. These premium applications require higher purity PPS, which also commands a much higher price. The Board believes that the Target Group will be able to produce higher purity PPS used in electronics applications if a higher quality of sodium sulfide were sourced, which mainly depends on high quality sodium sulfate. Following Completion, the Group plans to supply high quality sodium sulfate, through the planned strategic alliances with processing agents, to the Target Group which the Board believes will help the Target Group to produce higher purity PPS and achieve premium prices.

Reducing the Target Group's logistics cost for purchase of sodium sulfide

Currently, the Target Group purchases sodium sulfide from an external sodium sulfide processing agent located in Shaanxi Province. The sodium sulfide purchased is transported from Shaanxi Province to Sichuan Province. As both the Target Group and the Group are located in Sichuan, the Board believes that the Acquisition would enable the Enlarged Group, through planned strategic alliances with processing agents located in Sichuan Province, to reduce the Target Group's logistics costs for purchase of sodium sulfide.

Based on the above, the Directors (excluding the Directors who form part of the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee on page 107 of this circular) consider that the terms and conditions of the Acquisition are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

9. POSSIBLE GRANT OF SHARE OPTIONS TO CERTAIN DIRECTORS AND EMPLOYEES OF THE TARGET GROUP

As provided in the Sale and Purchase Agreement, subject to and at Completion, the Company shall deliver to each of the Vendors a true copy of the Board's resolutions in effect at Completion, approving, among others, the granting of the share options under the Post-IPO Share Option Scheme to subscribe for an aggregate of 175,920,000 Shares (representing approximately 9.0% of the total issued share capital of the Company as at the Latest Practicable Date) to certain directors and employees of members of the Target Group (the "Proposed Grantees") on either (A) the Completion Date; or (B) in case the Completion Date falls within the period (the "Black-out Period") as referred to in Rule 17.05 of the Listing Rules during which the Company is not permitted to grant any share options, the date immediately after the expiry date of the Black-out Period; or (C) in case the Stock Exchange raises any objection to the Company's proposed grant of share options on the Completion Date, such date as determined by the Board to be the earliest practicable date and agreed upon by the Stock Exchange (if any) or such other date as directed by the Stock Exchange (the "Date of Grant").

As at the Latest Practicable Date, there were outstanding share options to subscribe for an aggregate of 132,922,002 Shares under the Share Option Schemes (representing approximately 6.79% of the total issued share capital of the Company as at the Latest Practicable Date). The existing scheme limit under the Post-IPO Share Option Scheme is 194,417,750 Shares which was re-set pursuant to the resolution passed by the Shareholders at the annual general meeting of the Company held on 15 June 2010. No share option has been granted by the Company since then. As such, the Company may grant share options to subscribe for up to 194,417,750 Shares under the existing scheme limit of the Post-IPO Share Option Scheme, which is sufficient to cater for the share options that may be granted to the Proposed Grantees on the Date of Grant. The Stock Exchange already granted to the Company its listing approval for such Shares on 21 June 2010. Save for the aforesaid share options, the Company did not have any outstanding warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

Should the Acquisition proceed to Completion, the Company shall be obliged to grant the share options to the Proposed Grantees on the Date of Grant. The exercise price for such share options shall be fixed on the Date of Grant pursuant to the terms of the Post-IPO Share Option Scheme. The share options shall be subject to a three-year vesting period in which 50%, 25% and 25% will vest in the first, second and third year respectively. Among the 175,920,000 share options to be granted, 31,800,000 of which will be granted to directors of members of the Target Group and the remaining 144,120,000 share options will be granted to employees. The Company will make an announcement as soon as possible upon granting of the share options on the Date of Grant pursuant to Rule 17.06A of the Listing Rules.

The Proposed Grantees comprise directors, managers, engineers and other employees of the Target Group who have extensive experience in PRC's PPS and chemical industries and have contributed to the success of the Target Group. Following Completion, the Company will rely heavily on the performance of such experienced personnel or experts on operating the PPS production business. The Board therefore considers that the Proposed Grantees should be rewarded in a timely manner upon Completion so as to incentivise them for continued and improved services with the Enlarged Group.

10. FINANCIAL AND TRADING PROSPECTS

The Group

For the six months ended 30 June 2010, the Group recorded a significant growth in revenue of RMB1,022.4 million, representing an increase of 72.6% compared with a revenue of RMB592.3 million for the same period in 2009. Gross profit was RMB736.5 million for the six months ended 2010, representing a 71.8% increase from RMB428.8 million for the same period in 2009. The increase in gross profit was mainly attributable to the increase in the sales of the Group's high end products, namely specialty thenardite and in particular medical thenardite. The profit attributable to the owners of the Company was RMB356.9 million for the six months ended 30 June 2010, representing a 40.1% increase from RMB254.7 million for the same period in 2009.

The increase in the Group's revenue was attributable to the commencement of commercial operation of its new medical thenardite production facility in the Muma Mining Area with a capacity of 200,000 tons per annum in January 2010, and the Group's focus on the production and sales of medical and specialty thenardite which have higher average price and more stable pricing. As a result, the sales of the medical and specialty thenardite increased and the Group's aggregate sales grew during the first half of 2010.

In the wake of industrialisation and continuous economic expansion as a result of a gradual recovery of the global economy after the financial crisis, demand for thenardite, an important raw material used in chemical and light industries and extensively used in the manufacture of powder detergents, textiles, glass, kraft pulp, chemical feedstock and pharmaceutical products, is expected to increase. The Board believes that thenardite products of the PRC have competitive advantages in terms of quality and price as compared to other thenardite products in the Asian market and the proximity to high growth Asian markets provide the PRC thenardite producers with great potentials of business opportunities. The thenardite market has been volatile in 2009 as with all non-ferrous commodities in the PRC, but in the first half of 2010 the Group has witnessed gradual restoration of stability in the market. In addition, the niche high-end segment of the market has proved to be robust and unaffected by the volatilities in the commodities market.

Looking ahead, the Board believes that the areas of application of thenardite products will continue to expand and so thenardite will become applicable in more industries. The Board believes that prospect and future growth potential of the thenardite industry is highly promising.

The Enlarged Group

Upon Completion, the Target Group will become subsidiaries of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the revenue, operating profit, net profit of the Group for the year ended 31 December 2009 were approximately RMB1,344.0 million, RMB877.4 million and RMB544.9 million respectively and the unaudited pro forma revenue, operating profit of the Enlarged Group would increase to approximately RMB2,881.2 million, RMB1,443.9 million, respectively, after Completion, regardless of the scenarios as set out in Letter from the Board.

The unaudited pro forma profit attributable to the owners of the Company would be approximately RMB964.0 million and the unaudited pro forma earnings per share attributable to the owners of the Company would be approximately RMB19.65 cents and RMB19.57 cents on basic and diluted basis, respectively, in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement. In the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, the unaudited pro forma profit attributable to Owners of the Company would be approximately RMB958.0 million, and the unaudited pro forma earnings per share attributable to the owners of the Company would be approximately RMB20.28 cents and RMB20.20 cents on basic and diluted basis, respectively.

Moreover, as at 30 June 2010 the net debt (after deducting pledged bank deposit and cash and cash equivalent) of the Group would be approximately RMB1,311.6 million; and its equity would be approximately RMB2,158.0 million after Completion, regardless of the scenarios as set out in Letter from the Board. The net debt and equity of the Enlarged Group would be approximately RMB1,729.8 million and RMB8,027.0 million respectively, in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, and RMB1,532.8 million and RMB7,924.1 million, respectively, in the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement.

After Completion, the Enlarged Group will continue with the existing principal business of the Group in the mining, processing and manufacturing of natural thenardite products while the Acquisition will enable the Enlarged Group to vertically integrate into downstream business with an increased focus on high-end, high performance specialty products.

Having considered the future prospects of the PPS industry, the Board believes that the Acquisition will (i) enhance the earnings and assets base of the Group; (ii) create attractive business opportunities for the Group through higher quality products; (iii) reduce costs through integration and operation synergies; and (iv) broaden and diversify its business portfolio thereby providing additional growth potential.

The Group will ride on the favourable PPS industry fundamentals and its strong and experienced management team to scale new heights via the Acquisition. The Board believes that the Enlarged Group, being one of the world's leading producers of high-end specialty materials, will be strategically positioned to take up new opportunities and to capture the benefits from the growth in the PPS market in the PRC.

11. FINANCIAL IMPACT OF THE ACQUISITION ON THE GROUP

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the total assets of the Group as at 30 June 2010 were approximately RMB4,523.8 million, the total liabilities of the Group were approximately RMB2,365.8 million, and the net assets of the Group were approximately RMB2,158.0 million. In the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2010 would be approximately RMB13,705.1 million, the unaudited pro forma total liabilities of the Enlarged Group would be approximately RMB5,678.0 million, and the unaudited pro forma net assets of the Enlarged Group would be approximately RMB8,027.0 million.

In the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, the unaudited pro forma total assets of the Enlarged Group as at 30 June 2010 would be approximately RMB13,101.2 million, the unaudited pro forma total liabilities of the Enlarged Group would be approximately RMB5,177.2 million, and the unaudited pro forma net assets of the Enlarged Group would be approximately RMB7,924.1 million.

In the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the unaudited pro forma net profit attributable to the owners of the Enlarged Group for the year ended 31 December 2009 would be approximately RMB964.0 million.

In the event Target Shares representing 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, the unaudited pro forma net profit attributable to the owners of the Enlarged Group for the year ended 31 December 2009 would be approximately RMB958.0 million. Under both scenarios, the net profit attributable to the owners of the Enlarged group would be lower than the net profit attributable to the owners of the Group of approximately RMB533.0 million for the year ended 31 December 2009. It is expected that the Acquisition will have a mixed effect on the financial position and earnings of the Group.

Set out below is a summary of the unaudited pro forma financial information of the Enlarged Group the full text of which is set out in Appendix V of this circular, where:

- Scenario A applies in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement in which case the Company will acquire 95.00% of the issued share capital of the Target; and

- Scenario B applies in the event that Target Shares representing approximately 2.57% of the Target's fully diluted share capital are issued to the Warrant Holders and Target Shares representing approximately 3.23% of the Target's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement in which case the Company will acquire approximately 89.49% of the issued share capital of the Target.

Summary of Consolidated Statement of Financial Position

As at 30 June 2010

RMB'000, unless otherwise specified	*Notes*	**The Group**	**Pro Forma Enlarged Group Scenario A**	**Pro Forma Enlarged Group Scenario B**
Property, plant and equipment		2,126,955	5,299,629	5,299,629
Goodwill	*i*	8,386	3,573,164	2,961,914
Other intangible asset	*ii*	17,588	671,588	671,588
Inventories		11,720	57,699	57,699
Trade and other receivables		800,018	1,222,033	1,222,033
Cash and cash equivalents		669,159	1,309,390	1,316,816
Total assets		**4,523,833**	**13,705,067**	**13,101,243**
Trade and other payables		208,671	1,809,341	1,498,101
Bank borrowings		455,000	815,000	815,000
Borrowing with derivative financial instruments		–	616,852	616,852
Convertible notes		–	189,616	–
Fixed rate senior notes		1,606,864	1,606,864	1,606,864
Total debt		2,061,864	3,228,332	3,038,716
Total liabilities		**2,365,806**	**5,678,021**	**5,177,165**
Net assets		**2,158,027**	**8,027,046**	**7,924,078**
Number of shares in issue	*iii*	**1,957,422,664**	**5,115,430,638**	**4,932,354,607**
Net asset value per share (RMB)		**1.1**	**1.6**	**1.6**
Working capital	*iv*	*603,067*	*(529,609)*	*(218,369)*
Net debt	*v*	*1,392,705*	*1,918,942*	*1,721,900*
Gearing ratio (Net debt/Net assets)	*vi*	*0.65x*	*0.24x*	*0.22x*

Notes:

(i) In regards to the preparation of the pro forma financial information of the Enlarged Group, the goodwill disclosed in the scenarios A and B is estimated based on the following:

(i) the total cost of the Acquisition which includes cash and Consideration Shares. The fair value of the Consideration Shares is estimated based on the published market price of the Company as at 30 June 2010 (i.e. as if the Acquisition had taken place on 30 June 2010); and

(ii) the carrying amount of the identifiable assets and liabilities of the Target Group as at 30 June 2010, assuming the Acquisition had taken place on 30 June 2010.

Accordingly, the fair values of the identifiable assets and liabilities and Consideration Shares of the Target Group on the date of Completion will have to be reassessed.

The management of the Group performed review on the preliminary impairment testing on the estimated goodwill arising from the Acquisition in the scenarios A and B. For the purpose of the testing, the estimated amount of goodwill is allocated to the cash-generating unit which engages in the production, development and sale of PPS resin, PPS compounds and PPS fibre. Its recoverable amount is determined based on a value in use calculation, covering a detailed 4-year budget plan. The discount rate applied to the cash flow projection is 14.97%. Cash flow beyond the 4-year period is extrapolated using the estimated growth rate of 2% which does not exceed the projected long-term average growth rate the PPS industry in the PRC. Based on the results of the testing, the management considers that there is no impairment of the cash generating unit of the production, development and sale of PPS resin, PPS compounds and PPS fibre attributed to the estimated goodwill as at 30 June 2010.

(ii) In accordance with the Group's accounting policy, the acquired intangible assets with finite useful lives are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for use. The following useful lives will be applied:

Customer relationships	10 years
Patents	15 years

After Completion, the other intangible assets with finite useful life are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable. An impairment loss is recognised as an expense immediately for the amount by which the assets' carrying amount exceeds its recoverable amount.

The management of the Group performed review on the preliminary impairment testing, for the purpose of the pro forma financial information, on the amount of the other intangible assets. The fair value of the other intangible assets is estimated as if the Acquisitions had taken place on 30 June 2010. The management estimated the recoverable amount of the other intangible assets based on the value in use calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to the year 2014. The discount rate applied to the cash flow projections is 14.97%. Cash flow beyond the 4-year period is extrapolated using the estimated growth rate of 2% which does not exceed the projected long-term average growth rate the PPS industry in the PRC. Based on the results of the impairment testing, the management considers that there is no impairment of the cash-generating unit of the production, development and sale of PPS resin, PPS compounds and PPS fibre attributed to the customer relationships and patents.

Same as for goodwill, the fair value of the other intangible assets will have to be reassessed upon Completion.

(iii) The amount represents the number of shares in issue as at the Latest Practicable Date, and immediately after Completion, includes the Consideration Shares under Scenario A and Scenario B.

(iv) Working capital is calculated based on the inventories plus trade and other receivables, minus the trade and other payables.

(v) Net debt is calculated based on the total debt, minus cash and cash equivalents.

(vi) Gearing ratio is calculated based on the net debt, divided by the net assets.

Summary of Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

RMB'000, unless otherwise specified	**The Group**	**Pro Forma Enlarged Group Scenario A**	**Pro Forma Enlarged Group Scenario B**
Revenue	1,344,032	2,881,200	2,881,200
EBITDA	927,945	1,824,777	1,824,777
Net profit for the year	544,905	1,009,438	1,043,962
Net profit attributable to owners of the Company	532,966	964,006	958,009
Weighted average number of ordinary shares for the purpose of calculating the pro forma diluted earnings per share ('000)	1,766,813	4,924,821	4,741,745
Pro forma diluted earnings per share (cents)	30.17	19.57	20.20

Upon Completion, the Target Group will become subsidiaries of the Company. Consolidated financial statements of the pro forma Enlarged Group have been prepared to consolidate the financial information of the Target Group.

On Completion, the fair value of the net identifiable assets, liabilities and contingent liabilities of the Group will have to be reassessed. As a result of such reassessment, the assets and liabilities of the Group upon Completion may be different from the estimations based on the basis stated for the purpose of preparation of the unaudited pro forma financial information.

PART B – IMPLICATIONS OF THE ACQUISITION UNDER THE LISTING RULES

1. VERY SUBSTANTIAL ACQUISITION

As one or more of the applicable Percentage Ratios in respect of the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will accordingly be subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder who is required to abstain from voting in respect of the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver; and (ii) no obligation or entitlement of any Shareholder who is required to abstain from voting in respect of the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver as at the Latest Practicable Date, whereby they have or may have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares to a third party, either generally or on a case-by-case basis.

2. CONNECTED TRANSACTIONS

In addition, Mr. Suo Lang Duo Ji is a non-executive Director. Nice Ace is principally an investment holding company ultimately beneficially wholly-owned by Mr. Suo Lang Duo Ji. As at the Latest Practicable Date, Nice Ace owns approximately 37.91% of the total share capital of the Company in issue as at the Latest Practicable Date. Mr. Suo Lang Duo Ji is therefore a controlling shareholder of the Company as at the Latest Practicable Date.

Ascend is principally an investment holding company ultimately beneficially wholly-owned by Mr. Suo Lang Duo Ji. Ascend owns, as at the Latest Practicable Date, approximately 37.78% of the total issued share capital of the Target. Therefore, Nice Ace and Ascend are each an associate of Mr. Suo Lang Duo Ji and each of Nice Ace, Ascend and Mr. Suo Lang Duo Ji are a connected person of the Company for the purposes of the Listing Rules.

In addition, Mr. Wang Chun Lin is a non-executive Director. AAA Mining Limited is principally an investment holding company ultimately beneficially wholly-owned as to 50% by Mr. Wang Chun Lin and as to 50% by his wife, Ms. Caroline Chan Hiu Lai. As at the Latest Practicable Date, AAA Mining owns approximately 1.85% of the total share capital of the Company in issue as at the Latest Practicable Date.

Triple A Investments is principally an investment holding company ultimately beneficially wholly-owned by Mr. Wang Chun Lin. Triple A Investments owns, as at the Latest Practicable Date, approximately 3.46% of the total issued share capital of the Target. Therefore, AAA Mining Limited and Triple A Investments are each an associate of Mr. Wang Chun Lin and each of AAA Mining Limited and Triple A Investments and Mr. Wang Chun Lin are a connected person of the Company for the purposes of the Listing Rules.

In addition, Mr. Zhang Songyi is a non-executive Director. Mandra Esop is principally an investment holding company ultimately beneficially wholly-owned as to 50% by Mr. Zhang Songyi and as to 50% by his wife, Ms. Mui Bing How. As at the Latest Practicable Date, Mandra Esop owns approximately 1.41% of the total share capital of the Company in issue as at the Latest Practicable Date.

Mandra Materials is principally an investment holding company ultimately beneficially wholly-owned by Mr. Zhang Songyi. Mandra Materials owns, as at the Latest Practicable Date, approximately 12.74% of the total issued share capital of the Target. Therefore, Mandra Esop and Mandra Materials are each an associate of Mr. Zhang Songyi and each of Mandra Esop and Mandra Materials and Mr. Zhang Songyi are a connected person of the Company for the purposes of the Listing Rules.

Accordingly, the transactions contemplated under the Sale and Purchase Agreement also constitutes connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Mr. Suo Lang Duo Ji is, through Nice Ace, ultimately beneficially interested in 742,063,114 Shares, being approximately 37.91% of the total issued share capital of the Company. In addition, as at the Latest Practicable Date, Mr. Suo Lang Duo Ji is ultimately beneficially interested in 104 Target Shares, being less than 0.01% of the total issued share capital of the Target.

As at the Latest Practicable Date, Mr. Suo Lang Duo Ji is also, through Ascend, ultimately beneficially interested in 30,222,248 Target Shares, being approximately 37.78% of the total share capital of the Target in issue as at the Latest Practicable Date.

Mr. Suo Lang Duo Ji is therefore the controlling shareholder of the Company and the controlling shareholder of the Target. Mr. Suo Lang Duo Ji and his associates (including Nice Ace), which, as at the Latest Practicable Date, in aggregate hold 742,063,114 Shares, being approximately 37.91% of the total issued share capital of the Company, are required to abstain from voting on the resolutions relating to the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver to be considered at the EGM.

As at the Latest Practicable Date, Mr. Wang Chun Lin, a non-executive Director, and his wife Ms. Caroline Chan Hiu Lai, each owns 50% of the issued capital of Triple A Investments. As at the Latest Practicable Date, Triple A Investments owns 2,771,984 Target Shares, being approximately 3.46% of the total issued share capital of the Target. As at the Latest Practicable Date, Triple A Investments also wholly owns AAA Mining Limited, which in turn owns 36,131,000 Shares, being approximately 1.85% of the Company. Accordingly, Mr. Wang Chun Lin and his associates (including AAA Mining Limited) which in aggregate hold 36,131,000 Shares, being approximately 1.85% of the total issued share capital of the Company, are also required to abstain from voting on the resolutions relating to the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver to be considered at the EGM.

As at the Latest Practicable Date, Mr. Zhang Songyi, a non-executive Director, and his wife Ms. Mui Bing How, each own 50% of the issued capital of Beansprouts Ltd., which in turn wholly owns Mandra Esop. As at the Latest Practicable Date, Mandra Esop owns 27,664,000 Shares and 1,132,530 Target Shares, being approximately 1.41% and 1.42% of the total issued share capital of the Company and the Target respectively.

Mandra Materials, which, as at the Latest Practicable Date, owns 10,192,792 Target Shares, being approximately 12.74%, of the share capital of the Target in issue as at the Latest Practicable Date, is owned by Mr. Zhang Songyi and his wife/family. Accordingly, Mr. Zhang Songyi and his associates (including Mandra Esop), which, as at the Latest Practicable Date, in aggregate hold 27,664,000 Shares, being approximately 1.41% of the total issued share capital of the Company, are also required to abstain from voting on the resolutions relating to the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver to be considered at the EGM.

As at the Latest Practicable Date, Mandra Mirabilite Limited, which owns 86,298,000 Shares, being approximately 4.41% of the total issued share capital of the Company, is wholly owned by Woo Foong Hong which in turn is wholly owned by Moonchu, a tax exempt charity established by Mr. Zhang Songyi and his family. As at the Latest Practicable Date, Woo Foong Hong owns 4,572,825 Target Shares, being approximately 5.72% of the total issued share capital of the Target. Accordingly, Moonchu and its associates (including Mandra Mirabilite Limited) which in aggregate hold 86,298,000 Shares, being approximately 4.41% of the total issued share capital of the Company, are also required to abstain from voting on the resolutions relating to the Acquisition, the specific mandate for the New Issue and the Whitewash Waiver to be considered at the EGM.

3. ENVISAGED CONTINUING CONNECTED TRANSACTIONS

The Target has entered into the following lease agreements, which upon Completion, will become continuing connected transactions for the Enlarged Group:

- Tenancy agreement dated 1 January 2010 (as amended on 24 January 2010 and 12 October 2010) between Deyang Chemical (as lessor), which is a wholly-owned subsidiary of the Target, and Sichuan Tengzhong (as lessee) for the lease of 10 buildings of the property with a total gross floor area of approximately 60,285.38 sq.m. located in Shuangliu County, Sichuan Province with a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at an annual rent of RMB8,000,000. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Sichuan Tengzhong, upon Completion Sichuan Tengzhong will become a connected person of the Enlarged Group and the continuing transaction under the tenancy agreement will become a continuing connected transaction for the Enlarged Group.

- Tenancy agreement dated 1 January 2010 (as amended on 12 October 2010) between Sichuan Huatuo (as lessor), and Deyang Chemical (as lessee), a wholly-owned subsidiary of the Target, for the lease of a property located in Chengdu City, Sichuan Province, with a total gross floor area of approximately 1,220 sq.m. for a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at an annual rent of RMB1,830,000. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Sichuan Huatuo, upon Completion Sichuan Huatuo will become a connected person of the Enlarged Group and the continuing transaction under the tenancy agreement will become a continuing connected transaction for the Enlarged Group.

- Tenancy agreement dated 2 February 2010 (as amended on 12 October 2010) between Sichuan Huatuo (as lessor) and Deyang Materials (as lessee), a wholly-owned subsidiary of the Target, for the lease of a property located in Chengdu City, Sichuan Province, with a total gross floor area of approximately 2,280 sq.m. for a term from 1 February 2010 and expiring on 31 December 2012 at an annual rent of RMB3,146,400. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Sichuan Huatuo, upon Completion Sichuan Huatuo will become a connected person of the Enlarged Group and the continuing transaction under the tenancy agreement will become a continuing connected transaction for the Enlarged Group.

Deyang Materials, a wholly-owned subsidiary of the Target, has also entered into a commission transportation agreement with Sichuan Tengzhong on 8 January 2008 (as renewed on 10 January 2010 and amended on 12 October 2010) for the provision of transportation service by Sichuan Tengzhong to Deyang Materials with a term of 3 years commencing on 1 January 2010 and expiring on 31 December 2012. The transportation fee is RMB90 per ton, and the proposed annual caps for the years ending 31 December 2010, 2011 and 2012 are RMB2,004,000, RMB2,404,800 and RMB3,006,000, respectively. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Sichuan Tengzhong, upon Completion Sichuan Tengzhong will become a connected person of the Enlarged Group and the continuing transaction under the commission transportation agreement will become a continuing connected transaction for the Enlarged Group.

In addition, Sichuan Chuanmei Special Glauber Salt Co., Ltd. (as lessee), which is a wholly-owned subsidiary of the Company, has entered into a tenancy agreement dated 2 February 2010 with Sichuan Huatuo (as lessor) for the lease of a property with a gross floor area of approximately 2,280 sq.m. located in Chengdu City, Sichuan Province for a one-year term commencing from 1 February 2010 and expiring on 31 January 2011 at an annual rent of RMB3,556,800. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Sichuan Huatuo, upon Completion Sichuan Huatuo will become a connected person of the Enlarged Group and the continuing transaction under the tenancy agreement will become a continuing connected transaction for the Enlarged Group.

The above listed envisaged continuing connected transactions will, upon Completion, qualify as a series of connected transactions that need to be treated as if they were one transaction because they are entered into with parties connected or otherwise associated with one another. However, each of the applicable percentage ratios in respect of the above listed envisaged continuing connected transactions (on an aggregate basis) are expected to be more than 0.1% but less than 5%. Accordingly, upon Completion, these continuing connected transactions will be subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement, under the Listing Rules.

In addition, Deyang Chemical (as licensee), a wholly-owned subsidiary of the Target, has also entered into a trademark license agreement dated 9 May 2006 with Deyang Technology under which Deyang Technology authorized Deyang Chemical to use its trademark from 10 July 2006 to 13 April 2018 on a royalty free basis. As one of the directors of the Target, Mr. Zhang Zhigang, indirectly holds more than 30% of the equity interest in Deyang Technology, upon Completion Deyang Technology will become a connected person of the Enlarged Group and the continuing transaction under the trademark license agreement will become a continuing connected transaction for the Enlarged Group. As the trademark licence is granted on a royalty free basis and on normal commercial terms (or better for the Enlarged Group), upon Completion, the continuing connected transaction under the trademark licence agreement will constitute a de minimis transaction and will be exempted from the reporting, annual review, announcement requirements and approval by the Independent Shareholders pursuant to Rule 14A.33(3) of the Listing Rules.

As at the Latest Practicable Date, Mr. Zhang Zhigang does not hold any Shares.

PART C – IMPLICATIONS OF THE ACQUISITION UNDER THE TAKEOVERS CODE AND WHITEWASH WAIVER

Mr. Suo Lang Duo Ji and the Concert Parties together with their respective associates and parties acting in concert with any of them (including the Concert Party Entities) have not entered into any agreement or understanding (whether formal or informal) to actively cooperate to obtain or consolidate control of the Company through the acquisition of the Consideration Shares. In view of, among other things, the agreements described below, Mr. Suo Lang Duo Ji and the Concert Parties and their respective associates and parties acting in concert with any of them (including the Concert Party Entities) have, however, been deemed as parties acting in concert by the Executive.

Pursuant to a share transfer agreement entered into between Mandra New Materials (as seller) and Sky Success (as purchaser) on 15 October 2010, Mandra New Materials transferred 6,506,185 Target Shares to Sky Success. On 15 October 2010, Ascend (as seller) and Mandra Materials (as purchaser) entered into a share sale and purchase agreement regarding the sale and transfer of 7,517,157 Target Shares. Such share transfer was completed on 10 November 2010.

As regards 6,506,185 Target Shares, the business rationale for these share transfers is to provide an indirect share loan to Mr. Suo Lang Duo Ji for a limited period of time which can be used as collateral to procure financing for a payment to be made by Mr. Suo Lang Duo Ji to MS China under various agreements entered into in March 2010 between Mr. Suo Lang Duo Ji and MS China.

Currently, part of Ascend's Target Shares are pledged as collateral to secure the CS Facility. The CS Facility has matured and was refinanced through the Secured Fixed Rate Term Notes on 9 November 2010. Under the Secured Fixed Rate Term Notes, only certain parts of Ascend's Target Shares has been provided as collateral. Accordingly, since 9 November 2010, Ascend is able to sell or pledge certain parts of its Target Shares to a third party.

Against this background, Mandra New Materials, Mandra Materials, Ascend and Sky Success entered into the share transfer agreements described above which allowed Sky Success to procure the Sky Success Loans from the Sky Success Lenders secured by pledges over the Target Shares acquired from Mandra New Materials, and Sky Success agreed to provide funds to Mr. Suo Lang Duo Ji for him to settle the amount outstanding to MS China. Upon Completion, Sky Success is obliged to procure that the Sky Success Loans are secured by pledges over the Shares held by Sky Success if the Sky Success Loans have not been repaid before Completion.

Immediately following the release of certain of Ascend's Target Shares following the refinancing of the CS Facility on 9 November 2010, Ascend has, as a repayment of the share loan provided by Mandra New Materials, transferred 7,517,157 Target Shares to Mandra Materials in lieu of the Target Shares transferred by Mandra New Materials Limited to Sky Success. Mr. Suo Lang Duo Ji and Sky Success have agreed that any interests and principal payments payable under the loan agreement procured by Sky Success are paid by Mr. Suo Lang Duo Ji, and that the 6,506,185 Target Shares transferred from Mandra New Materials to Sky Success (or following Completion, an equivalent number of Shares) should, upon repayment of the loan procured by Sky Success, be returned to Mr. Suo Lang Duo Ji or Ascend.

As regards the difference of 1,010,972 Target Shares between the number of Target Shares transferred from Mandra New Materials to Sky Success and the number of Target Shares to be transferred from Ascend to Mandra Materials the business rationale for the transfer of these additional 1,010,972 Target Shares by Ascend to Mandra Materials is to fulfil an outstanding obligation of Mr. Suo Lang Duo Ji to transfer such number of Target Shares to Mr. Zhang Songyi. which arises out of an agreement entered into between Mr. Suo Lang Duo Ji and Mr. Zhang Songyi in connection with a capital increase of Target in March 2010.

In March 2010, the Target's shareholders agreed on an increase of the share capital of the Target. The new Target Shares should be issued at par value. Mr. Suo Lang Duo Ji agreed with the Existing Shareholders, which intended to subscribe for Target Shares in the capital increase of Target, that Mr. Suo Lang Duo Ji would pay the subscription amounts for the Target Shares for and on behalf of the Existing Shareholders. Such payment of the subscription amounts was made as compensation because certain profit targets for the year 2008 set out in the Target's memorandum and articles were not met. At the same time, Mr. Suo Lang Duo Ji agreed with the New Shareholders that he would pay for the subscription amounts of the Target Shares to be acquired by the New Shareholders. Mr. Suo Lang Duo Ji and each of the New Shareholders have agreed that each New Shareholder will pay to Mr. Suo Lang Duo Ji on or before 30 June 2011 the subscription amounts paid by Mr. Suo Lang Duo Ji.

Pursuant to the agreement among the Target's shareholders, Mr. Zhang Songyi and his associates were entitled to subscribe for 1,010,972 Target Shares in the capital increase and Mr. Suo Lang Duo Ji had agreed that he would pay the subscription amount for such shares for and on behalf of the subscribing shareholder Mr. Zhang Songyi. Mr. Zhang Songyi and Mr. Suo Lang Duo Ji further agreed that Mr. Zhang Songyi would waive its entitlement to these 1,010,972 Target Shares on the condition that such shares are issued as consideration to a consultant which was intended to be engaged by the Target. As the Target decided not to engage such consultant, Mr. Zhang Songyi and Mr. Suo Lang Duo Ji finally agreed that such 1,010,972 Target Shares should instead be acquired by a new shareholder of Target, Marble King Investment Limited, and that Mr. Suo Lang Duo Ji should procure the transfer of an equivalent number of Target Shares from Ascend to any of Mr. Zhang Songyi's associates. Accordingly, pursuant to such agreement entered into between Mr. Suo Lang Duo Ji and Mr. Zhang Songyi in March 2010, Mr. Suo Lang Duo Ji was obliged to procure the transfer of 1,010,972 Target Shares to Mr. Zhang Songyi's associates.

Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion and no new Target Shares will be issued by the Target prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the interests in the Company held by Mr. Suo Lang Duo Ji and the Concert Parties and their respective associates and parties acting in concert with any of them (including the Concert Party Entities), will increase from approximately 45.58% to approximately 74.20% of the issued share capital of the Company as enlarged by the Consideration Shares.

Mr. Suo Lang Duo Ji and the Concert Parties and parties acting in concert with any of them (including the Concert Party Entities) will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Suo Lang Duo Ji and the Concert Parties have applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code on the basis that, among other things, the Consideration Shares will be issued as the consideration for the Acquisition pursuant to the Sale and Purchase Agreement and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote to be taken by way of a poll whereby Mr.

Suo Lang Duo Ji, the Concert Parties, their associates and parties acting in concert with any of them including the Concert Party Entities and any others who are involved in or interested in the Acquisition and the Whitewash Waiver will either abstain from voting or not vote because they are not a shareholder on the resolutions relating to the Acquisition and the Whitewash Waiver at the EGM.

After Completion of the Acquisition, the Combined Concert Group will hold more than 50% of the issued share capital of the Company. As such, any further acquisition of interest in the Company by the Combined Concert Group may not be subject to the obligation to make a general offer under the Takeovers Code.

The Concert Parties have made an application to the Executive for the Whitewash Waiver, the Executive has agreed, subject to, among other things, approval by the Independent Shareholders in respect of the Acquisition and the Whitewash Waiver at the EGM by way of poll, to waive any obligations to make a general offer which might result from the Acquisition.

Mr. Suo Lang Duo Ji and the Concert Parties have confirmed that they and/or the parties acting in concert with any of them and their respective associates (including the Concert Party Entities) have not acquired any voting rights in the Company within the six months prior to the date of the Announcement and up to and including the Latest Practicable Date.

As at the Latest Practicable Date, the Company had 132,922,002 outstanding share options granted under the Share Option Schemes, carrying rights to subscribe for 132,922,002 Shares. Mr. Suo Lang Duo Ji, Mr. Wang Chun Lin and Mr. Zhang Songyi held outstanding share options under the Post-IPO Share Option Scheme to subscribe for 800,000 Shares, 5,000,000 Shares and 9,200,000 Shares respectively.

Save for the above, neither Mr. Suo Lang Duo Ji, the Concert Parties nor any of the Concert Party Entities and parties acting in concert with any of them were interested in any Shares, warrants, options, derivatives or securities convertible into the Shares as at the Latest Practicable Date nor had they dealt in any Shares, warrants, options, derivatives or securities convertible into the Shares during the period commencing on the date falling six months prior to the Announcement and up to and including the Latest Practicable Date. Mr. Suo Lang Duo Ji, the Concert Parties and the Concert Party Entities have undertaken that they will not deal in the Shares, warrants, options, derivatives or securities convertible into the Shares during the period up to and including the Completion Date.

As at the Latest Practicable Date, (i) neither Mr. Suo Lang Duo Ji, the Concert Parties nor the Concert Party Entities have received an irrevocable commitment to vote in favour of the Sale and Purchase Agreement (including the Acquisition and the procurement of the Company to issue the Consideration Shares) and the Whitewash Waiver; (ii) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Acquisition and the Whitewash Waiver; (iii) there are no agreements or arrangements to which Mr. Suo Lang Duo Ji or any of the Concert Parties or the Concert Party Entities are party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition or the Whitewash Waiver (other than conditions precedent to the Agreement); and (iv) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which Mr. Suo Lang Duo Ji or any of the Concert Parties and any of the Concert Party Entities have borrowed or lent.

PART D – EGM

The EGM will be held at Bowen Room, 7/F, Conrad Hong Kong, 88 Queensway, Admiralty, Hong Kong on 30 December 2010 at 10:00 a.m. to consider and, if thought fit, approve, among other matters, the Acquisition and the Whitewash Waiver, the increase in the authorised share capital of the Company from USD50,000 to USD100,000 by the creation of an additional 5,000,000,000 Shares of USD0.00001 each and the allotment and issue of the Consideration Shares and the Additional Shares pursuant to Rule 13.36(1)(a) of the Listing Rules.

A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish.

In accordance with the Listing Rules, the vote of the Independent Shareholders taken at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, the specific mandate for the New Issue, the Whitewash Waiver and the increase in the authorised share capital of the Company from USD50,000 to USD100,000 by the creation of an additional 5,000,000,000 Shares of USD0.00001 each, will be taken by poll. The voting results will be announced after the EGM.

Mr. Suo Lang Duo Ji and the Concert Parties and their respective associates and parties acting in concert with any of them (including the Concert Party Entities) will either abstain from voting, or not vote because they are not a Shareholder, on the resolutions at the EGM in connection with, among other things, the Acquisition and the Whitewash Waiver.

PART E – RECOMMENDATION

The Company has established the Independent Board Committee, comprising of three independent non-executive Directors, namely Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung and Mr. Xia Lichuan, to advise the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. Mr. Gao Zongze, an independent non-executive Director, is a supervisor of the Target. Although he is not involved in the management of the Target, such position conflicts with that of the Independent Board Committee. Therefore he is not included as a member of the Independent Board Committee. The non-executive Directors, namely Mr. Suo Lang Duo Ji, Mr. Wang Chun Lin and Mr. Zhang Songyi, each are shareholders of the Company and the Target, and accordingly have a direct interest in the Acquisition and are therefore not included as members of the Independent Board Committee. None of the members of the Independent Board Committee has any direct or indirect interest in the Acquisition and the Whitewash Waiver.

In this connection, with the approval of the Independent Board Committee the Company has appointed ING Bank N.V. as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote. Your attention is drawn to the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out in its letter on pages 108 to 138 of this circular.

On the basis of the information set out in this circular, the Board considers that the terms and conditions of the Sale and Purchase Agreement and the Whitewash Waiver and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board therefore recommends the Independent Shareholders to vote in favour of the resolutions relating to the aforesaid matters as set out in the notice of the EGM.

You are advised to read carefully the letters from the Independent Board Committee and the Independent Financial Adviser contained in this circular before deciding whether or not to vote in favor of the ordinary resolutions approving the Acquisition and the Whitewash Waiver at the EGM.

PART F – ADDITIONAL INFORMATION

1. INFORMATION ON THE VENDORS

The principal business of Ascend is investment holdings, and Mr. Suo Lang Duo Ji, who is the ultimate beneficial owner of Ascend which as at the Latest Practicable Date holds approximately 37.78% of the issued share capital of the Target, is also the registered and ultimate beneficial owner of less than 0.01% of the issued share capital of the Target.

The principal business of Triple A Investments is investment holdings, and Triple A Investments, which, as at the Latest Practicable Date, is the beneficial owner of approximately 3.46% of the issued share capital of the Target, is ultimately beneficially owned as to 50% by Mr. Wang Chun Lin, an non-executive Director of the Company, and as to 50% by his wife, Ms. Caroline Chan Hiu Lai.

The principal business of Mandra Materials is investment holdings, and Mandra Materials, which, as at the Latest Practicable Date, is the beneficial owner of approximately 12.74% of the issued share capital of the Target, is ultimately beneficially owned as to 50% by Mr. Zhang Songyi, a non-executive Director of the Company, and as to 50% by his wife, Ms. Mui Bing How.

The principal business of Mandra Esop is investment holdings, and Mandra Esop, which, as at the Latest Practicable Date, is the beneficial owner of approximately 1.42% of the issued share capital of the Target and approximately 1.41% of the issued share capital of the Company, is ultimately beneficially owned as to 50% by Mr. Zhang Songyi, a non-executive Director of the Company, and as to 50% by his wife, Ms. Mui Bing How.

The principal business of Woo Foong Hong is investment holdings, and Woo Foong Hong, which, as at the Latest Practicable Date, owns approximately 5.72% of the issued share capital of the Target, is ultimately beneficially owned by Moonchu, a tax exempt charity established by Mr. Zhang Songyi and his family.

The principal business of MS China is investment holdings, and MS China, which, as at the Latest Practicable Date, holds approximately 7.66% of the issued share capital of the Target, is ultimately beneficially owned by Morgan Stanley.

The principal business of China-Land Biotech Holdings Limited is investment holdings, and China-Land Biotech Holdings Limited, which as at the Latest Practicable Date owns less than 0.01% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Zhang Yinghua.

The principal business of Unique Speed Investments Limited is investment holdings, and Unique Speed Investments Limited, which as at the Latest Practicable Date owns approximately 2.61% of the issued share capital of the Target, is ultimately beneficially owned by Li Feng, Liu Meifang, Li Bing, Chan Tim Shing, Jiang Guorong as to 41.92%, 23.98%, 17.96%, 11.97% and 4.17% respectively.

The principal business of Fine Talent Group Limited is investment holdings, and Fine Talent Group Limited, which as at the Latest Practicable Date owns approximately 3.69% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Yang Huaijin and Cao Zhong as to 94% and 6% respectively.

The principal business of True Express Limited is investment holdings, and True Express Limited, which as at the Latest Practicable Date owns approximately 0.20% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Zhang Weibing.

The principal business of Raybest Investment Limited is investment holdings, and Raybest Investment Limited, which as at the Latest Practicable Date owns approximately 2.08% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Wu Chi Pan.

The principal business of Marble King Investment Ltd. is investment holdings, and Marble King Investment Ltd., which as at the Latest Practicable Date owns approximately 1.89% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Qin Ke Bo.

The principal business of Profuse Investment Holdings Limited is investment holdings, and Profuse Investment Holdings Limited, which as at the Latest Practicable Date owns approximately 0.28% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Wang Jianfeng, a vice president of the Target.

The principal business of Joint Peak Investments Limited is investment holdings, and Joint Peak Investments Limited, which as at the Latest Practicable Date owns approximately 1.03% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Song Jifeng.

The principal business of Sino Reach Investments Ltd. is investment holdings, which as at the Latest Practicable Date owns approximately 0.47% of the issued share capital of the Target, is ultimately beneficially by Cheng Zai Zhong, a vice president of the Target.

The principal business of Orient Value Limited is investment holdings, and Orient Value Limited, which as at the Latest Practicable Date owns approximately 0.28% of the issued share capital of the Target, is ultimately beneficially wholly-owned by Ho Ying, a deputy general manager of the Group.

The principal business of Ying Mei is investment holdings, and Ying Mei, which as at the Latest Practicable Date owns approximately 5.00% of the issued share capital of the Target, is ultimately beneficially owned by Chung Mei Chai and Chu Chuang Chieh as to 60.00% and 40.00% respectively.

The principal business of Sky Success is investment holdings, and Sky Success, which as at the Latest Practicable Date owns approximately 8.70% of the issued share capital of the Target, is ultimately beneficially owned by Mr. Wan Keung.

Each of the Vendors (other than Ascend and Mr. Suo Lang Duo Ji, Triple A Investments, Mandra, Woo Foong Hong) and their respective ultimate beneficial owners is an Independent Third Party.

Save as disclosed above, the Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiry, the Vendors are third parties independent of (a) the Company and (b) connected persons of the Company for the purposes of the Listing Rules.

2. PRC REGULATORY OVERVIEW

Substantially all of the Target Group's business operations are based in the PRC and the Target Group is required to comply with a range of laws and regulations concerning establishment of manufacturing facilities, production safety, hazardous chemicals and industrial products. The laws and regulations concerning the Target Group's business and operations in the PRC mainly include the following:

Environmental Protection

Environmental Protection Law

Under the Environmental Protection Law of the PRC《中華人民共和國環境保護法》 implemented on 26 December 1989, all enterprises producing environmental pollution and other public hazards should incorporate environmental protection works into their plans and establish a responsibility system for environmental protection. These enterprises should adopt effective measures to prevent and control pollution and damage from waste gas, sewage, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities to the environment. Facilities for preventing and controlling pollution in construction projects should be designed, built and operated with the main construction works simultaneously. Such projects can commence operation or be used after passing the examination for acceptance conducted by the environmental protection administrative department in charge which reviewed and approved the original environmental impact reports.

Regulation on the Administration of Construction Projects Environmental Protection

Pursuant to the Regulation on the Administration of Construction Projects Environmental Protection《建設項目環境保護管理條例》issued and implemented on 29 November 1998 by the State Council and the Law of Environmental Impact Assessment of the PRC《中華人民共和國環境影響評價法》implemented on 1 September 2003, the State has conducted an assessment of environmental impact for construction projects. The State organises the projects into different categories according to the level of harm such projects could cause to the environment. If the construction projects will have a significant impact on the environment, environmental impact reports should be prepared, and full assessment of the impact should also be conducted. Projects with smaller environmental impact are required to compile environmental impact report statements and conduct analysis or special assessment on environmental impact. For those projects with minor environment impact, and which are not required to conduct an environment impact assessment, an environmental impact registration form is required to be filled out . The aforesaid environmental impact assessment documents as submitted by the construction units will be approved by the environmental protection administrative department in charge, which possess the right of approval in accordance with the national rules. For projects which have not gone through this examination process or have not received approval after such examination, the project approval department must not approve such projects and construction units cannot commence construction.

Law on the Prevention and Control of Water Pollution

According to the Law of the PRC on the Prevention and Control of Water Pollution《中華人民共和國水污染防治法》amended on 28 February 2008 and with effect from 1 June 2008, construction projects or other water facilities which are newly constructed, reconstructed and expanded, discharge pollutants into the water directly or indirectly should conduct an environmental impact assessment in accordance with relevant laws. Enterprises which discharge industrial sewage directly or indirectly into water system should obtain pollutant discharge permits. Enterprises which discharge pollutants directly or indirectly into the water system should report to and register with the environmental protection administrative department in charge which is above county level in relation to the facilities which they own for discharging and treating water pollutants, as well as the types, quantities and concentrations of water pollutants discharged under normal operating conditions. These enterprises are also required to provide relevant technical information about how to prevent and control water pollution. Enterprises which discharge pollutants directly into the water should pay pollutant discharge fee according to the types and quantities of their water pollutants and the levy standard.

Law on Prevention and Control of Air Pollution

The Law of the PRC on Prevention and Control of Air Pollution《中華人民共和國大氣污染防治法》which was amended on 29 April 2000 and took effect from 1 September 2000 requires newly constructed, expanded or reconstructed projects which discharge pollutants into the atmosphere to comply with certain regulations relating to environmental protection. Units that discharge pollutants into the atmosphere should report to the local environmental protection administrative department in charge in relation to the facilities which they own for the discharge and treatment of pollutants, as well as the types, quantities and concentrations of the pollutants discharged under normal operating conditions. They are also required to provide relevant technical information about how to prevent and control atmospheric pollution. The PRC government has implemented a system on levying fees for discharging pollutants into the atmosphere based on the type and quantity of pollutants discharged. The standards on levying pollution discharge fees that the government has put in place have been based on the requirements for strengthening the prevention and control of atmospheric pollution as well as the national economic and technological conditions.

Law on Prevention and Control of Environmental Pollution Caused by Solid Waste

According to the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste《中華人民共和國固體廢物污染環境防治法》amended on 29 December 2004 and with effect from 1 April 2005, enterprises producing industrial solid wastes should form and improve an accountability system in preventing and controlling environmental pollution, and adopt measures to prevent and control such wastes from polluting the environment. The State has implemented a reporting and registration system for industrial solid pollutants. In accordance with the relevant requirements, units producing industrial solid pollutants must provide relevant information to the local environmental protection administrative department in charge which is above county level, where such information includes the type, quantity, flow, storage and treatment of the industrial solid wastes.

Law on Prevention and Control of Environmental Noise Pollution

Under the Law of the PRC on Prevention and Control of Environmental Noise Pollution《中華人民共和國環境噪聲污染防治法》, effective from 1 March 1997, industrial enterprises producing environmental noise pollution as a result of using their fixed facilities in industrial production must report to the local environmental protection administrative department in charge in relation to their facilities that produce noise pollution by category, quantity, and noise pollution level under normal operating conditions as well as the conditions of their noise pollution preventive facilities. They should also provide technical information about how to prevent and control noise pollution. Units producing environmental noise pollution should adopt remedial measures and pay discharge fees for exceeding the standards according to the PRC regulations.

Labour

Labour Contract Law

In accordance with the Labour Contract Law of the PRC《中華人民共和國勞動合同法》, effective from 1 January 2008, employers and employees should enter into written employment contracts to establish their employment relationship. When hiring employees, employers are required to inform the employees about their job duties, working conditions, working places, occupational hazards, production safety conditions, remuneration and other matters which employees may be concerned with. Employers and employees should fully perform their respective obligations in accordance with the commitments set forth in the employment contracts. Employers should pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contract and the PRC regulations, strictly adhere to the working quota standards, and are prohibited from compelling employees to work overtime. At the time of terminating an employment contract, the employers should provide evidence for such termination and arrange for the worker to transfer his/her file and social insurance relations within 15 days.

Employment Promotion Law

Pursuant to the Employment Promotion Law of the PRC《中華人民共和國就業促進法》with effect from 1 January 2008, recruitment units should provide equal employment opportunities and fair employment conditions when recruiting employees. No employment discrimination will be allowed. The State protects female workers in that men and women have equal employment rights. Except as required by the State, employers must not refuse to employ women due to their gender or raise the employment standard for women. Additionally, employers are not allowed to include any restrictions regarding the marital status or pregnancy of female employees in employment contracts. Employers should also provide suitable care to workers from minority ethnic groups in accordance with the laws, and not discriminate against the disabled. Furthermore, they are not permitted to reject employment on the basis of the employees having a contagious disease or discriminate against workers from rural areas.

Other Laws and Regulations

According to the Regulation on Occupational Injury Insurance《工傷保險條例》which took effect from 1 January 2004, employers should pay occupational injury insurance fees for their employees.

Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees《企業職工生育保險試行辦法》, effective from 1 January 1995, employers should pay maternity insurance fees for their employees.

Under the Interim Regulations Concerning the Levy of Social Insurance Fees《社會保險費徵繳暫行條例》implemented from 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance《社會保險登記管理暫行辦法》adopted since 19 March 1999, employers in the PRC should register social insurance with the local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.

According to the Regulation Concerning the Administration of Housing Fund《住房公積金管理條例》implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management centre. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.

Production Safety

Production Safety Law

The Production Safety Law of the PRC (the "Production Safety Law") was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002.

The Production Safety Law was adopted to strengthen the supervision and administration of production safety, prevent and reduce production accidents, protect people's life and property and promote economic development.

The Production Safety Law applies to enterprises engaged in production activities within the PRC and provides that enterprises engaged in production activities shall meet the production safety requirements prescribed by relevant laws, administrative regulations and national or industrial standards, failure of which will result in prohibition of engaging in production activities. Such enterprises are also required to strengthen the production safety management, establish the responsibility system for production safety, improve work conditions and ensure safe production.

The Production Safety Law in particular stipulates the responsibilities of the person in charge of the production safety, including the responsibilities to establish and improve the system of attributing responsibility for production safety, formulate the safe production and operation rules, ensure the effective investment in production safety areas, oversee and inspect production safety work and eliminate the potential danger of production accidents timely, formulate and execute the emergency rescue plans for production accidents, and report production accidents honestly and timely. If an enterprise fails to meet the requirements as provided by the Production Safety Law and other relevant laws, administrative regulations and national or industrial standards, it may be ordered to suspend business and rectify the violations. Failure to rectify the violations within a prescribed period of time may lead to shutdown of the enterprise and revocation of the relevant licences.

Regulations on Safety Production Permit

The Regulations on Safety Production Permit were promulgated by the State Council and became effective on 13 January 2004.

The Regulations on Safety Production Permit were adopted to strictly regulate the conditions for safe production, further strengthen the supervision and administration of safe production, prevent and reduce production accidents.

The Regulations on Safety Production Permit stipulate that hazardous chemical manufacturing enterprises shall obtain a safety production permit. Enterprises without the safety production permit are not allowed to engage in hazardous chemical production activities. The administrative department of work safety under the State Council is responsible for the issuance and administration of safety production permits for hazardous chemical production enterprises, while local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for enterprises not under the administration of the central government. The safety production permit shall be valid for three years. To obtain a safety production permit, an enterprise shall satisfy certain safety-related conditions, mainly including:

(1) establishing the responsibility system for production safety, and formulating a whole set of safe production regulations and operating rules;

(2) ensuring that the investment in safe production complies with the production safety requirements;

(3) setting up administrative departments for production safety and employing full-time administrative personnel in charge of production safety;

(4) ensuring that the operational staff completed the production safety education and training;

(5) ensuring that the production premises, worksites, safety facilities, equipment and technologies comply with the requirements of the relevant production safety laws, regulations, standards and rules; and

(6) conducting safety evaluation in accordance with the law.

Regulations on the Safety Administration of Hazardous Chemicals

The Regulations on the Safety Administration of Hazardous Chemicals were promulgated by the State Council on 26 January 2002 and became effective on 15 March 2002.

The Regulations on the Safety Administration of Hazardous Chemicals were adopted to strengthen the safety control over hazardous chemicals, safeguard people’s life and property and protect the environment.

The Regulations on the Safety Administration of Hazardous Chemicals prescribe that the production, operation, storage, transportation and usage of hazardous chemicals and disposal of disused hazardous chemicals within the PRC must comply with the provisions of the aforesaid regulations. Hazardous chemical production enterprises must apply to the relevant department of the State Council for the production licence of hazardous chemicals, failure of which will result in prohibition against commencing the production. Any entity or individual shall not be engaged in the sale and operation of hazardous chemicals without permission. Hazardous chemical production and storage enterprises as well as entities using highly toxic chemicals and other hazardous chemicals, the quantity of which constitutes major hazard sources shall register the hazardous chemicals with competent authorities.

Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises

The Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises were formulated according to the Regulations on Safety Production Permit, and were promulgated by the State Administration of Work Safety of the PRC and State Administration of Coal Mine Safety of the PRC and became effective on 17 May 2004.

According to the aforesaid measures, hazardous chemical production enterprises must obtain the safety production permit. The local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for local hazardous chemical production enterprises.

Taxation

The key taxes applicable to the Company in the PRC are enterprises income tax and value added tax.

Enterprise Income Tax Law of the PRC

Pursuant to the Enterprise Income Tax Law of the PRC《中華人民共和國企業所得税法》 and its implementation regulations implemented since 1 January 2008, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. If an organisation or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the above-mentioned permanent establishment, will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》("Tax Arrangement"), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Pursuant to Notice 81, residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counter-parties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties For Trial Implementation《非居民享受稅收協定待遇管理辦法(試行)》("Administrative Measures") which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from PRC resident enterprises needs to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax benefits provided in the tax arrangements. Accordingly, if the provisions of Notice 81 are satisfied and approvals under the Administrative Measures are obtained, the payments of dividends by the PRC subsidiaries to the Hong Kong subsidiaries shall be subject to a PRC withholding tax at the rate of 5% as stipulated in the Tax Arrangement. However, if the application for enjoying the favorable withholding tax under the Tax Arrangement is not approved, an enterprise may not enjoy the favorable withholding tax under the Tax Arrangement . Furthermore, according to Notice 81, if the primary purpose of the transactions or arrangements in relation to the reorganisation of the PRC subsidiaries is deemed by the competent authorities as for enjoying a favorable tax treatment, such favorable withholding tax enjoyed by an enterprise may be adjusted by the competent authorities in the future.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise(《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》)(Circular 698) issued by the State Administration of Taxation on 10 December 2009, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly via disposing the equity interests of a overseas holding company ("Indirect Transfer") and such overseas holding company locates in a tax jurisdiction that: (i) is of an effective tax rate less than 12.5% or (ii) does not tax foreign incomes of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise of this Indirect Transfer. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor adopts abusive arrangement in order to avoid PRC tax, they will disregard the existence of the overseas holding company and re-characterise the Indirect Transfer and as a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority is of the power to adjust the taxable income under this transaction reasonably.

Provisional Regulations of the PRC on Value-Added Tax

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax《中華人民共和國增值稅暫行條例》and the implementation regulations as amended on 5 November 2008 by the State Council and implemented since 1 January 2009, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

Foreign Exchange

Pursuant to the Regulations on the Administration of Foreign Exchange of the PRC《中華人民共和國外匯管理條例》as amended on 1 August 2008 by the State Council and implemented since 5 August 2008, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained. Under the Administration Rules of Settlement, Sale and Payment of Foreign Exchange（結滙、售滙及付滙管理規定）promulgated by the People's Bank of China on 20 June 1996, foreign investment enterprises in the PRC generally may purchase foreign exchange without the approval or review of SAFE, if such purchases are trade and service related foreign exchange transactions and commercial documents evidencing these transactions are produced. They may also retain foreign exchange, subject to a cap approved by SAFE, under current account items.

Law of Wholly Foreign-Invested Enterprises

Pursuant to the Law of the PRC on Wholly Foreign-invested Enterprises《中華人民共和國外資企業法》as amended and implemented by the Standing Committee of the National People's Congress on 31 October 2000 and the Rules for the Implementation of the Law of the PRC on Wholly Foreign-invested Enterprises《中華人民共和國外資企業法實施細則》as amended and implemented by the State Council on 12 April 2001, a wholly foreign-invested enterprise shall retain a certain amount from its profits after income tax has been paid in accordance with PRC tax law as reserve funds, bonus and welfare funds for staff members. The amount retained for the reserve funds shall not be less than 10% of the profits (profits after income tax has been paid), and the withdrawal may stop when the accumulated amount withdrawn reaches 50% of the registered capital of the enterprise. The amount retained for bonus and welfare funds for staff members shall be determined by the wholly foreign-invested enterprise itself. No wholly foreign-invested enterprise may distribute its profits unless and until its deficits for the previous fiscal years have been recovered. Further, undistributed profits for the previous fiscal years may be distributed together with the distributable profits for the current fiscal year.

The Product Quality Law

Pursuant to the Product Quality Law of the PRC《中華人民共和國產品質量法》as amended by the Standing Committee of the National People's Congress on 8 July 2000 and implemented since 1 September 2000, a producer shall establish its own proper internal regulatory system for the management of product quality, strictly implementing position-oriented quality standards, quality responsibilities and relevant measures for their assessment. A producer should be responsible for the quality of the products produced by it. The quality of the products is required to pass standard examinations. The State has implemented a supervision and inspection system based on random inspection which aims at testing those products that may cause injury to the health or safety of the human body and properties, important industrial products that significantly affect the national economy and those products that have been reported by consumers or relevant organisations as defective in quality.

Proposed legislative amendments

The Board is not aware of any proposed legislative amendments that may have material impact on the business of the Target Group.

3. DIRECTORS, SENIOR MANAGEMENT AND KEY EMPLOYEES OF THE TARGET GROUP

Mr. SUO LANG Duo Ji (索郎多吉), aged 48, a non-executive Director, is the founder of the Target Group and a director of each of Target, Target BVI and Target HK. 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 is also the founder, chairman and a non-executive director of the Company.

Mr. ZHANG Songyi (張頌義), aged 55, a non-executive Director, is a director of each of Target, Target BVI and Target HK and joined the Target Group in 2006. 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, a senior advisor of Morgan Stanley Asia Limited, a director of SINA Corporation, a company listed on the Nasdaq Stock Market, an independent non-executive director of Hong Kong Energy (Holdings) Limited, a company listed on the Stock Exchange and an independent non-executive director of China Longyuan Power Group Corporation Limited, a company listed on the Stock Exchange. Prior to joining the Target Group, 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.

Mr. WANG Chun Lin (王春林), aged 58, a non-executive Director, is a director of each of Target, Target BVI and Target HK and joined the Target Group in 2006. Mr. Wang Chun Lin obtained a bachelor degree in Computer Science from Fudan University (復旦大學) in 1977. 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.

Mr. ZHANG Zhigang (張志剛), aged 48, is a director of each of Target, Target HK, Deyang Chemical, Deyang Materials and Deyang Plastic, and the chief executive officer of the Target Group. He joined the Target Group in 2006. Mr. Zhang has over 10 years of experience in PPS production and 25 years of experience in chemical production management. He has been the chairman of Sichuan Hua Tong Special Plastic Research Centre Co., Ltd. (四川華通特種工程塑料研究中心有限公司) and Sichuan Haton Enterprise Co., Ltd. (四川省華拓實業發展股份有限公司) since 2003 and 2006, respectively. Mr. Zhang was the deputy manager of Sichuan Haton Enterprise Co., Ltd. from 2000 to 2003, which is engaged in chemical production including PPS production. He worked as the general manager in Sichuan Huatong Wood Co., Ltd. (四川華通木業有限公司) from 1998 to 2000 and the manager of securities department in Sichuan Polymer Co., Limited (四川聚酯股份有限公司) from 1996 to 1998. Mr. Zhang was also the manager of the enterprise management department of Zigong Dongxin Electrical Carbon Co., Ltd. (自貢東新電碳股份有限公司) from 1982 to 1996.

Mr. TAN Jianyong (譚建勇), aged 40, is a director of each of Target, Target HK, Deyang Chemical and Deyang Materials. He has also been the chairman of Deyang Chemical and Deyang Materials since 28 January 2010 and 25 January 2010, respectively. Mr. Tan joined the Target Group on 10 June 2008. Prior to this, he worked as the deputy general manager in Sichuan Deyang Science & Technology Co., Ltd. (四川得陽科技股份有限公司), a company engaged in chemical production including PPS production since 2004. He also worked with Cheng Du Aeroplane Industry Company (成都飛機工業公司) from 1996 to 2004 and was responsible for production management. With his current and previous positions in the Target Group and other companies, Mr. Tan has over 10 years of experience in machinery and chemical production, which is relevant to the management of the Target Group. Mr. Tan received a bachelor's degree in Huabei Aero Industrial Academy in June 1996.

Mr. LAI Ming Wai (黎明偉), aged 51, is a director of each of Target BVI and Target HK, a position he has held since 1 April 2010. Prior to joining the Target Group, he worked as the vice president of Bank of America and has more than 16 years of extensive experience in commercial banking, investment banking and direct investment. Mr. Lai also worked for a number of local and international financial institutions and investment companies, and a listed company in Hong Kong. With his current and previous positions in the Target Group and other companies, Mr. Lai has over 20 years of experience in corporate finance, direct investment, mergers and acquisitions and other investment banking services, which is relevant to the operation and management of the Target Group. Mr. Lai received a bachelor's degree of social sciences in management and economics from the University of Hong Kong in 1982.

Mr. LOUIS Arthur, aged 51, is a director of Target HK and Target BVI. Mr. Louis joined the Target Group on 1 April 2010. Prior to this, Mr. Louis was an executive director at China Sun Fund Management Limited and a financial consultant at Millennium Finance Corporation from 2007 to 2009. From 2002 to 2006, he worked as an executive vice president at A-1 Technology Inc. and from 1999 to 2001, he was also a director and an executive vice president at HK Global Investment Ltd. He was also a director, executive vice president and a co-founder of CC Johnson International Co., Ltd. from 1995 to 1997 and was a technology investment analyst at Richardson Green Shields Limited from 1992 to 1995. With his current and previous positions in the Target Group and other companies, Mr. Louis has over 18 years of experience in corporate finance, management, mergers and acquisitions and investment services, which is relevant to the management and operation of the Target Group. Mr. Louis received a bachelor's degree of science in electrical science and engineering from the University of National Defense Science and Technology in 1982 and a master's degree in business administration (MBA) from Southwestern Union College.

Mr. GOU Liangwu (苟梁武), aged 39, is the chief engineer of Deyang Chemical. Mr. Gou has also been a director of Deyang Chemical and Deyang Materials since 28 January 2010 and 25 January 2010, respectively. He joined the Target Group in September 2003. Prior to this, he was the deputy general manager of Sichuan Deyang Science & Technology Co., Ltd. from January 2004 to December 2007. Mr. Gou also worked with Zigong Honghua Co., Ltd (自貢鴻鶴化工股份有限公司) from 1993 to 2004, where he participated in the research of PPS technology and production and was also responsible for the operation and engineering management of the chlorine and alkali systems. He was the head of the equipment department and the production technology department from 2000 to 2004. With his current and previous positions in the Target Group and other companies, Mr. Gou has over 15 years of experience in the PPS industry. Mr. Gou received a bachelor's degree in engineering from Wuhan Institute of Technology in 1992.

Ms. WANG Jianfeng (王劍鋒), aged 39, is the vice president of the Target. She is responsible for the internal control of the Target. Ms. Wang joined the Target Group in February 2007. Prior to this, she was a partner at Wanlon Accounting Firm from 2000 to 2007. Ms. Wang worked as the finance manager for Du Pont Medical Equipment Company from 1996 to 2000, and she also served as an accountant at Chinalco and Pacific Insurance from 1992 to 1996. With her current and previous positions in the Target Group and in other companies, Ms. Wang has 18 years of extensive experience in accounting and financial management, which is relevant to the management of the Target Group. Ms. Wang received a master's degree in business administration from Macau University of Science and Technology in 2006. She is a Certified Public Accountant, a member of the Association of Chartered Certified Accountants, as well as a certificate holder of Assets Valuation.

Mr. LUO Hua (羅華), aged 36, is a director of each of Deyang Chemical, Deyang Materials and Deyang Plastic, and the chief financial officer of the Target Group. Mr. Luo is responsible for Target's financial matters. Prior to joining the Target Group in June 2008, Mr. Luo worked with Sichuan Huaqiang Accounting Firm since 2000, where his last position was the chief auditor from 2006 to 2008. With his current and previous positions in the Target Group and in Sichuan Huaqiang Accounting Firm, Mr. Luo has over 10 years of experience in accounting and auditing, which is relevant to the management of the Target Group.

Mr. YANG Jian (楊建), aged 26, is a director of each of Deyang Chemical, Deyang Materials and Deyang Plastic. He is also a deputy general manager of Deyang Chemical. Mr. Yang is mainly responsible for the administration of the Target Group. Before his current appointments, Mr. Yang served as an office director in Deyang Chemical and Deyang Materials from July 2008 to January 2010. Mr. Yang joined the Target Group on 27 November 2007. Prior to this, he worked with Shenzhen Huibang Law Firm from July 2006 to June 2007. With his current and previous positions in the Target Group and other institutions, Mr. Yang has over 3 years of experiences in general management and administration, which is relevant to the management of the Target Group. Mr. Yang received a bachelor's degree from Huazhong University of Science & Technology in 2006.

Ms. LIN Lan (林蘭), aged 45, is a deputy general manager of Deyang Materials and is responsible for after-sales services. Ms. Lin joined the Target Group on 21 June 2007. Prior to this, she worked as the sales manager at Deyang Technology from 2003 to 2007. Ms. Lin also worked with Sichuan Zhengguang Industry (四川正光實業) from 2000 to 2003 and Suzhou Han Nuo Xing Co., Ltd. (蘇州漢諾星有限公司) from 1999 to 2000, mainly responsible for sales. In addition, she was the marketing manager of Zhonglan Chenguang Chemical Research Institution Co., Ltd (中藍晨光化工研究院有限公司) from 1986 to 1999. With her current and previous positions in the Target Group and other companies, Ms. Lin has over 15 years of experience in sales and marketing. Ms. Lin received a bachelor's degree from Chengdu University of Science and Technology in July 1986.

Ms. DAI Xiaohui (代曉徽), aged 45, is a deputy general manager of Deyang Materials and is responsible for supervising the production department. Ms. Dai joined the Target Group on 21 June 2007. Prior to this, she worked with Deyang Textile Factory (德陽市紡織廠) (formerly Deyang Textile Production Factory) from 1984 to 2007 as the factory director. With her current and previous positions in the Target Group and other companies, Ms. Dai has over 26 years of experience in the textile industry. Ms. Dai received a diploma from China Textile University in 1994.

Mr. LIU Jun (劉軍), aged 41, is a deputy general manager of Deyang Materials and is responsible for equipment technology. Mr. Liu joined the Target Group on 28 April 2007. Prior to this, he worked as the head of production department of Deyang Technology from 2003 to 2007. Mr. Liu also worked with Chongqing Changfeng Chemical Factory (重慶長風化工廠) from 2000 to 2003 and Zigong Chemical Reagents Factory (自貢化學試劑廠) from 1990 to 2000. With his current and previous positions in the Target Group and other companies, Mr. Liu has over 20 years of experience in PPS production. Mr. Liu received a diploma from Luzhou Chemical Academy in July 1990.

Mr. SHAN Tong (單彤), aged 50, is the marketing director of both Deyang Chemical and Deyang Materials. He joined the Target Group in 2008. Prior to this, Mr. Shan worked with Sichuan Jiuda Salt Group Co., Ltd. (四川久大鹽業集團有限公司) from 1996 to 2008, where his last position was the director of the logistics and transportation department. In addition, he served as regional sales manager in Zigong Honghua Co., Ltd. from 1991 to 1995. With his current and previous positions in the Target Group and other companies, Mr. Shan has over 18 years of experience in sales and marketing.

4. INTELLECTUAL PROPERTY RIGHTS OF THE TARGET GROUP

(a) Trademarks

As at the Latest Practicable Date, the Target Group has registered or has applied for the registration of the following intellectual property rights which are material to the Target Group's operations:

	Trademark	Registered Owner	Place of Registration	Class	Registration number	Duration of validity
1	lilaton®	Deyang Chemical	PRC	2	4958008	21 May 2009 to 20 May 2019
2	lilaton®	Deyang Chemical	PRC	17	4958009	21 September 2009 to 20 September 2019
3	lilaton®	Deyang Chemical	PRC	23	4958010	7 September 2009 to 6 September 2019
4	lilaton®	Deyang Chemical	PRC	24	4958011	28 July 2009 to 27 July 2019
5	DYKJGF	Deyang Technology[1]	PRC	1 and 17	1, 4451550; 17, 4451551	14 April 2008 to 13 April 2018

Note:

1 Pursuant to the agreement on the general use of trademark dated 9 September 2005, Deyang Technology has licensed this trademark for Deyang Chemical's use from 10 July 2006 to 13 April 2018.

(b) Registered patents

	Patent	Proprietor	Serial No.	Announcement Date	Status
1	含芳雜環高阻燃性芳綸纖維層壓板的製造方法	Deyang Chemical	ZL200710050007.4	18 August 2010	Valid
2	纖維級聚苯硫醚樹脂聚合工藝	Deyang Plastic	ZL200510022437.6	25 July 2010	Valid

(c) Patent applications

	Patent	Applicant	Serial No.	Filing date of the application	Status
1	高性能聚苯硫醚纖維層壓板的製造方法	Deyang Chemical	200610021883.X	18 September 2006	Examination in progress
2	含玻璃纖維的聚苯硫醚複合粒料的製造方法	Deyang Chemical	200710048751.0	28 March 2007	Examination in progress
3	聚苯硫醚造絲工藝	Deyang Chemical	200710050004.0	13 September 2007	Examination in progress
4	聚苯硫醚纖維複合層壓板材的製造方法	Deyang Chemical	200710050008.9	14 September 2007	Examination in progress
5	聚苯硫醚纖維表面塗敷無機強化層的工藝方法	Deyang Chemical	200710049680.6	6 August 2007	Examination in progress
6	聚苯硫醚纖維表面覆蓋矽塗層的工藝方法	Deyang Chemical	200710049680.6	9 August 2007	Examination in progress
7	聚苯硫醚瓷粉合金複合粒料的製造方法	Deyang Chemical	200710049503.8	12 July 2007	Examination in progress
8	含導電材料的聚苯硫醚複合材料的製造方法	Deyang Chemical	200710049504.2	12 July 2007	Examination in progress
9	高性能聚苯硫醚纖維紙的製造方法	Deyang Chemical	200610143009.3	28 September 2007	Examination in progress
10	高韌性聚苯硫醚複合粒料的製造方法	Deyang Chemical	200710050119.X	27 September 2007	Examination in progress
11	含耐磨材料聚苯硫醚複合粒料的製造方法	Deyang Chemical	200710050120.2	27 September 2007	Examination in progress
12	高性能聚苯硫醚纖維除塵毛氈布的製造方法	Deyang Chemical	200610021884.4	18 September 2006	Examination in progress
13	含玻璃纖維聚苯硫醚複合粒料的製造方法	Deyang Chemical	200710048751.0	28 March 2007	Examination in progress
14	橋梁用氣動翼板製造技術	Deyang Chemical	200910265051.6	30 December 2009	Examination in progress
15	低氯聚苯硫醚樹脂的合成工藝	Deyang Chemical	201010284506.1	17 September 2010	Examination in progress
16	聚苯硫醚生產工藝廢氣處理系統	Deyang Materials	200910265046.5	30 November 2009	Examination in progress

5. CIRCULAR

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully,
By order of the Board of
Lumena Resources Corp.
Zhang Daming
Chief Executive Officer and
Executive Director

The following is the full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular:

Lumena

LUMENA RESOURCES CORP.
旭光資源有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 67)

14 December 2010

To the Independent Shareholders

Dear Sir/Madam

VERY SUBSTANTIAL ACQUISITION, CONNECTED TRANSACTIONS AND THE WHITEWASH WAIVER

We refer to the circular issued by the Company to the Shareholders dated 14 December 2010 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the terms and conditions of the Acquisition and the Whitewash Waiver and to advise the Independent Shareholders in connection therewith. ING Bank N.V. has been appointed as the Independent Financial Adviser to advise us in this regard.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms and conditions of the Acquisition and the Whitewash Waiver are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the ordinary resolutions approving the Acquisition and the Whitewash Waiver at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee of
Lumena Resources Corp.

Mr. Koh Tiong Lu, John **Mr. Wong Chun Keung** **Mr. Xia Lichuan**

Independent non-executive Directors

The following is the text of the letter prepared by ING setting out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.

ING

36/F One International Finance Centre,
1 Harbour View Street, Central, Hong Kong

14 December 2010

To the Independent Board Committee and
Independent Shareholders of Lumena Resources Corp.

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and application for the Whitewash Waiver (together, the "**Transactions**"), details of which are set out in the circular dated 14 December 2010 to the Shareholders (the "**Circular**"), of which this letter forms part.

This letter sets out our evaluation of the Transactions and our recommendation in relation thereon to the Independent Board Committee and the Independent Shareholders, and is prepared for inclusion in the Circular. Unless otherwise defined, all terms defined in the Circular shall have the same meanings herein.

On 19 October 2010, Lumena Resources Corp. ("**Lumena Resources**" or the "**Company**") entered into the Sale and Purchase Agreement pursuant to which the Company will acquire the Sale Shares which, upon Completion, represent up to 95.00% but not less than 89.49% of the equity interest in Sino Polymer New Materials Co., Ltd. ("**Sino Polymer**" or the "**Target**").

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will accordingly be subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

In addition, Mr. Suo Lang Duo Ji, a controlling shareholder and non-executive Director of the Company, indirectly owns approximately 37.78% of the total issued share capital of Sino

Polymer. Mr. Wang Chun Lin and Mr. Zhang Songyi, each a non-executive Director of the Company, indirectly owns approximately 3.46% and 14.16%, respectively, of Sino Polymer. Accordingly, the Acquisition also constitutes connected transactions under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and approval by the Independent Shareholders, by way of poll, at the EGM.

The Company will settle part of the Consideration by way of issuance of Consideration Shares. Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion and no new Target Shares will be issued by the Target prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the interests in the Company held by Mr. Suo Lang Duo Ji and the Concert Parties and their respective associates and parties acting in concert with any of them (including the Concert Party Entities) will increase from approximately 45.58% to approximately 74.20% of the issued share capital of the Company as enlarged by the Consideration Shares. In the absence of the Whitewash Waiver, Mr. Suo Lang Duo Ji and the Concert Parties and parties acting in concert with any of them (including the Concert Party Entities) will be obliged pursuant to Rule 26 of the Takeovers Code to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them. Mr. Suo Lang Duo Ji and the Concert Parties have applied to the Executive for the Whitewash Waiver and the Executive has indicated that it would grant the Whitewash Waiver subject to, inter alia, approval of the Whitewash Waiver by the Independent Shareholders, by way of poll, at the EGM.

We were neither a party to the negotiations entered into by Lumena Resources in relation to the Transactions, nor were we involved in the deliberations leading up to the decision of the Directors to enter into the Transactions. We do not, by this letter, warrant the merits of the Transactions, other than to form an opinion, for the purpose of the Listing Rules and the Takeover Code, on whether the terms and conditions of the Transactions are fair and reasonable and in the interests of Lumena Resources and its Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote.

BASIS OF ADVICE

In formulating our opinion and recommendation with regards to the Transactions, we have reviewed, among others, the Circular, the Sale and Purchase Agreement and annual and interim reports of Lumena Resources. We have considered information, statements, opinions and representations, given in writing and orally, by the management of Lumena Resources (the "**Management**"). We also reviewed research studies, market data and publicly available information as we deemed necessary. We have relied, without assuming any responsibility for independent verification, on the information and the facts about the Transactions, the Target Group and Lumena Resources as supplied by the Management, as well as research studies, market data and publicly available information. We have assumed that all statements, information, opinions and representations made to us or contained or referred to in the Circular provided by Lumena Resources are true, accurate, and complete in all material respects at the time they were made and continue to be so as at the date hereof and that we have relied on the same.

We have been advised by the Management that all material relevant information has been supplied to us and believe that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We have assumed that all statements of belief, opinion and intention made by the Management as set forth in the Circular were reasonably made after due and careful enquiries and that there are no other facts or representations, the omission of which would make any statement, information, opinion or representation in the Circular, including this letter, misleading in any material respects.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion and recommendation. We are not aware of, and have no reason to suspect that, any facts or circumstances, which would render the information provided or the representations made to us untrue, inaccurate or misleading in any material respects, nor do we suspect that any material facts have been omitted or withheld from the information supplied in the Circular. We have not, however, carried out any independent verification of the information provided to us by the Management, or conducted any form of investigation into the commercial viability or the future prospects of the businesses and affairs of Lumena Resources and Sino Polymer. We have further assumed that all material governmental, regulatory, or other consents and approvals necessary for the effectiveness and implementation of the Transactions have been or will be obtained without any delay, limitation, restriction or condition or otherwise which may have any adverse effect on the business of Lumena Resources or the contemplated benefits of Lumena Resources.

We have not commented on the merits or otherwise of the Transactions other than to form an opinion, solely from a financial point of view, as to the fairness and reasonableness of the Transactions for the purpose of making a recommendation to the Independent Board Committee and the Independent Shareholders. We have not assumed any responsibility for any aspect of the work that any professional advisers have produced regarding the Transactions and we have assumed as true and accurate and not misleading any work produced by such advisers. We have not provided, obtained or reviewed any tax, regulatory, accounting, actuarial or other advice and as such assume no liability or responsibility in connection therewith. Accordingly, in providing our opinion, we have not taken into account the possible implications of any such advice.

In connection with the formulation and delivery of our opinion to the Independent Board Committee and the Independent Shareholders, we have performed a variety of commonly used financial, comparative, and valuation analyses. The formulation of a fairness and reasonableness opinion involves various determinations as to the most appropriate and relevant methods of financial, comparative and valuation analyses, and the application of those methods to the particular circumstances. Furthermore, in arriving at our opinion, we did not attribute any particular weight to any analysis or factor, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, we believe that our analyses must be considered as a whole and that considering any portion of such analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying our opinion.

Our opinion is necessarily based upon the financial, economic, market, regulatory, legal and other conditions as they exist on, and the facts, information and opinions made available to us as of the date of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transactions, we have taken into account the following principal factors and reasons:

1. Overview of the Transactions

A. The Transactions

On 19 October 2010, the Company and the Vendors entered into a conditional Sale and Purchase Agreement pursuant to which the Company will acquire the Sale Shares which, upon Completion, represent up to 95.00% but not less than 89.49% of the equity interest in the Target, subject to the terms of the Sale and Purchase Agreement. The Vendors are the 19 shareholders of the Target which, as at the Latest Practicable Day, hold 95.00% of the issued share capital of the Target.

The Target has outstanding New Warrants and Convertible Notes (further details are described in the "Letter from the Board" in the Circular). If all of the subscription rights for the Target Shares under the New Warrants are exercised and the Convertible Notes are converted into Target Shares prior to Completion, the Vendors will hold 89.49% of the equity interest in the Target.

According to the Sale and Purchase Agreement, holders of the New Warrants or shareholder of the Target not being a party to the Sale and Purchase Agreement ("Acceding Vendors") as at the date of the Sale and Purchase Agreement may accede to the Sale and Purchase Agreement before Completion.

Pursuant to the Sale and Purchase Agreement, the Consideration payable to each of the Vendors (or any Acceding Vendor) is calculated on the basis of (i) the number of Target Shares held by the relevant Vendor (or any Acceding Vendor) on Completion as a percentage of the entire share capital of the Target in issue on Completion and (ii) a total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000.00 which is the agreed HKD equivalent of USD1,500,000,000.00.

The Consideration payable to each of the Vendors (or any Acceding Vendor) is to be satisfied (a) as to 90%, by way of the allotment and issue of Consideration Shares at Completion to the Vendors (or any Acceding Vendor) at an issue price of HKD3.15 for each Consideration Share; and (b) as to the balance of the Consideration, by payment of the Cash Consideration by the Company to the Vendors (or any Acceding Vendor) within four months following Completion.

B. Lumena Resources

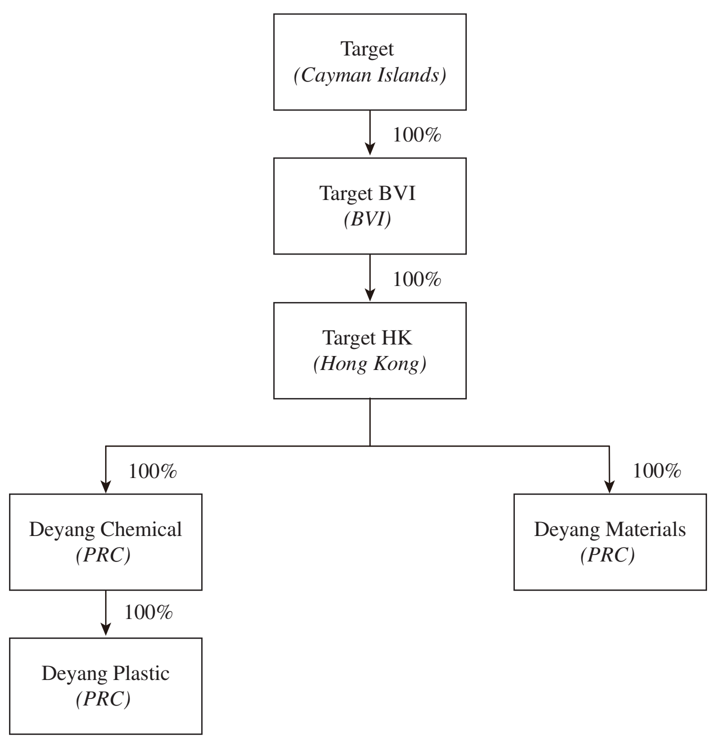
The Company is a company incorporated in the Cayman Islands. The Group is primarily engaged in the mining, processing and manufacturing of natural thenardite products. Thenardite is an important raw material used to manufacture chemical and light industrial products. The Company is focused on the production and sale of medical and specialty thenardite.

C. Sino Polymer

Sino Polymer is a company incorporated in the Cayman Islands. The principal business of Target is investment holding. Its sole asset is the entire issued share capital of Target BVI, a company incorporated in the BVI, which is also an investment holding company, and in turn through Target HK, a company incorporated in Hong Kong, holds the principal investments of the Target Group in the PRC, being the entire equity interest of each of Deyang Chemical and Deyang Materials, and, through Deyang Chemical, the entire equity interests of Deyang Plastic.

The following diagram illustrates the organisation structure of the Target Group:

Chart 1: Organisation structure of the Target Group



Source: The "Letter from the Board" of the Circular

Products

The Target Group is principally engaged in the production, development and sales of PPS resin, PPS compounds and PPS fibre. PPS compounds have been a major component of turnover for the Target Group. For the six months ended 30 June 2010, PPS compounds, PPS fibre and PPS resin accounted for 71.6%, 17.2% and 11.2%, respectively, of the Target Group's turnover.

PPS is a crystalline and wholly aromatic polymer characterised by outstanding chemical resistance, thermal and dimensional stability, flame retardance and electrical properties. PPS is widely used in electrical and electronic applications, automotive applications, industrial applications, coatings, filters, filter bags and aerospace applications.

Most of the customers of the Target Group are in the electrical/electronic, automotive/transportation, mechanical, chemical, aviation and environmental industries in the PRC. As stated in the "Letter from the Board" in the Circular, Sino Polymer's sales volume in 2009 by market segments was 27% in automotive, 25% in filter bags, 14% in aerospace, 14% in electrical and electronic, 10% in coatings, 4% in industrials and 6% in others. Domestic PRC sales have accounted for substantially all of the Target Group's sales revenue. The products of the Target Group are sold under the brand name "Haton" and the trademark "Deyang".

Production

The Target Group owns and operates PPS resin production facilities at two plants located in Sichuan Province in the PRC. The following table summarises the production facilities of the Target Group as of 30 June 2010:

Table 1: Production facilities of the Target Group as of 30 June 2010

Name	**Location**	**Product Types**	**Capacity (metric tons per annum)**	**Year of Commencement of Production**
Deyang Materials	Deyang City, Sichuan Province, PRC	injection moulding; coating-grade or fibre-grade PPS resin, as required	20,000	Early 2008
		injection moulding; coating-grade or fibre-grade PPS resin, as required	4,000	End 2007
		PPS fibre	5,000	Beginning 2008
Deyang Chemical	Chengdu City, Sichuan Province, PRC	injection moulding; coating-grade or fibre-grade PPS resin, as required	6,000	End 2006
		PPS compounds	30,000	In stages from end 2006 *(Note)*

Source: Company

Note: The production of PPS fibre and PPS compounds require fibre-grade PPS resin and injection moulding PPS resin, respectively, which are produced by the Target Group

As of 30 June 2010, the Target Group had a combined PPS resin production capacity of 30,000 metric tons per annum, PPS compounds production capacity of 30,000 metric tons per annum and PPS fibre production capacity of 5,000 metric tons per annum.

Utilisation rate

The following table summarises utilisation of production facilities since 2007:

Table 2: Utilisation rate of production facilities

	For the year ended 31 December 2007	For the year ended 31 December 2008	For the year ended 31 December 2009	For the six months ended 30 June 2010
Effective capacity (tonnes) *(Note)*				
Resin (all – 4K)	667	4,000	4,000	2,000
Resin (all – 6K)	6,000	6,000	6,000	3,000
Resin (all – 20K)	–	20,000	20,000	10,000
Total PPS effective capacity	**6,667**	**30,000**	**30,000**	**15,000**
Total PPS fibre effective capacity	**417**	**5,000**	**5,000**	**2,500**
Production volume (tonnes)				
Coating class PPS resin	385	1,118	1,474	642
Fibre class PPS resin	1,046	4,066	4,458	2,302
Injection class PPS resin	3,008	6,167	12,126	8,007
Total PPS resin production	**4,439**	**11,351**	**18,058**	**10,951**
Total PPS fibre production	**200**	**2,921**	**4,208**	**2,285**
Utilisation (PPS resin)	67%	38%	60%	73%
Utilisation (PPS fibre)	48%	58%	84%	91%

Source: Company

Note: The effective capacity accounts for number of months in which capacity is available for production during the financial period. A small volume of PPS fibre was produced in late 2007 prior to formal commencement of production of the PPS fibre production facilities in beginning 2008

As shown in the table above, the utilisation of PPS resin and PPS fibre, measured by production volume over effective capacity in the relevant year/period, reached 73% and 91%, respectively, for the six months ended 30 June 2010. Following Completion, the Board plans to expand the annual capacity of the Target Group by establishing a PPS resin facility with an annual capacity of 25,000 metric tons and a PPS fibre facility with an annual capacity of 15,000 metric tons. The capital expenditure on the PPS resin facility is expected to total RMB1,512 million and the construction of the PPS resin facility is planned to commence in April 2011. The capital expenditure on the PPS fibre facility is expected to total RMB480 million and the construction of the PPS fibre facility would commence in October 2011. The Company expects both PPS resin facility and PPS fibre facility to commence operations in 2012.

Financial information

The following sets out the summary consolidated financial information of the Target Group for the two years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010:

Table 3: Summary consolidated financial information of Target Group

	For the year ended 31 December 2008	For the year ended 31 December 2009	For the six months ended 30 June 2009	For the six months ended 30 June 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	audited	audited	unaudited	audited
Financial results				
Revenue	991,326	1,537,168	411,938	1,063,671
Cost of sales	(517,604)	(710,223)	(252,003)	(397,924)
Gross profit	473,722	826,945	159,935	665,747
Operating profit	194,278	761,251	133,539	623,260
EBITDA(1)	488,330	928,832	219,807	722,696

	For the year ended 31 December 2008	For the year ended 31 December 2009	For the six months ended 30 June 2009	For the six months ended 30 June 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	audited	audited	unaudited	audited
Net (loss)/profit	(8,727)	146,081	(207,940)	273,160
Adjustments:				
Change in fair value of embedded derivative instruments	20,297	7,672	8,673	(6,084)
Change in fair value of convertible note	–	(1,898)	–	(20,461)
Change in fair value of convertible redeemable preference shares	74,883	486,700	277,795	199,328
Adjusted net profit excluding changes in fair value of financial instruments(2)	86,453	638,555	78,528	445,943
Assets and liabilities				
Property, plant and equipment	2,047,385	2,112,480	N/A(3)	2,049,948
Cash and cash equivalents	1,763	272,723	N/A(3)	538,238
Total assets	2,633,538	3,220,599	N/A(3)	4,372,555
Bank borrowings	220,000	355,000	N/A(3)	360,000
Borrowing with derivative financial instruments	1,309,109	989,187	N/A(3)	652,608
Convertible notes	–	205,865	N/A(3)	199,670
(Net liabilities)/Net assets	(315,655)	(162,331)	(516,327)	2,296,799

Source: Appendix II of the Circular; "Letter from the Board" in the Circular

Note:

(1) EBITDA = operating profit + depreciation of property, plant and equipment + amortization of prepaid lease payments, adjusted for other non-operating income which included bank interests, government grant, rental and sales of scrap materials and non-recurring expenses which included written-off/impairment on property, plant and equipment related to earthquake

(2) Adjusted net profit excluding changes in fair value of financial instruments is calculated based on the net profit or loss, adjusted for the change in fair value of embedded derivative instruments, change in fair value of convertible note and change in fair value of convertible redeemable preference shares

(3) "N/A" denotes that the information is not available to us

Target Group's PPS revenue increased for the two years ended 31 December 2009 and for the six months ended 30 June 2010, which reflects both the result of recovery of the global economy and the normalisation of business operation. During the same period, the Target Group's gross profit also increased. The significant increase of the gross profit was primarily due to increasing demand of PPS products, decreasing cost of raw materials and recovery of global economy. Net profit attributable to equity shareholders for the six months ended 30 June 2010 also improved from net loss attributable to equity shareholders for the year ended 31 December 2008 and the six months ended 30 June 2009 as a result of the normalization of business operations, one-off expense item of RMB167 million in Wenchuan earthquake and decrease of negative fair value impacts from the financial instruments, as detailed below.

Revenue for the six months ended 30 June 2010 was approximately RMB1,064 million, representing approximately 158.2% increase over the same period in 2009. The significant sales improvement was due to the normalization of business operation, as the Target Group underwent a distressed half year operations for the six months ended 30 June 2009 owing to the financial crisis and recovery from Wenchuan earthquake. Revenue for the year ended 31 December 2009 was approximately RMB1,537 million, representing approximately 55.1% growth from approximately RMB991 million in 2008. It was mainly due to the substantial recovery of the global economy towards the later half of 2009, which led to an approximately 66.0% increase in sales volume comparing with that in 2008.

The Target Group's cost of sales is primarily composed of raw materials, utility expenses and labor cost. For the years ended 31 December 2008, 2009 and the six months ended 30 June 2009, 2010, cost of sales were approximately RMB518 million, RMB710 million, RMB252 million and RMB398 million, respectively. The 57.9% increase in cost of sales for the six months ended 30 June 2010 was smaller than the 158.2% increase in sales over the same period, which is mainly due to decreasing raw material cost as the average raw materials cost per unit sold decreased from approximately RMB19.9 per kg for the period ended 30 June 2009 to approximately RMB16.7 per kg for the period ended 30 June 2010. Cost of sales for the year ended 31 December 2009 was approximately RMB710 million, representing approximately 37.2% increase from approximately RMB518 million from 2008. The relatively smaller increase was primarily due to the Target Group's gradual realisation of economies of scale towards year end in 2009.

The Target Group's gross profit increased from approximately RMB160 million for the six months ended 30 June 2009 to approximately RMB666 million over the same period in 2010, representing an increase of approximately 316.3%. The significant increase of the gross profit was primarily due to increasing demand of PPS products and decreasing cost of raw materials. Gross profit increased from approximately RMB474 million for the year ended 31 December 2008 to RMB827 million for the year ended 31 December 2009, representing an increase of approximately 74.6%. The increase in gross profit was primarily due to recovery of global economy towards the later half 2009 which led to increased sales.

The Target Group's operating profit increased from approximately RMB134 million for the six months ended 30 June 2009 to approximately RMB623 million over the same period in 2010, representing an increase of approximately 366.7%. The significant increase of the operating profit was primarily due to increasing demand of PPS products and decreasing cost of raw materials. Operating profit increased from approximately RMB194 million for the year ended 31 December 2008 to RMB761 million for the year ended 31 December 2009, representing an increase of approximately 291.8%. The increase in operating profit was primarily due to recovery of global economy towards the later half 2009 which led to increased sales.

The Target Group's EBITDA increased from approximately RMB220 million for the six months ended 30 June 2009 to approximately RMB723 million over the same period in 2010, representing an increase of approximately 228.8%. The significant increase of the EBITDA was primarily due to increasing demand of PPS products and decreasing cost of raw materials. EBITDA increased from approximately RMB488 million for the year ended 31 December 2008 to RMB929 million for the year ended 31 December 2009, representing an increase of approximately 90.2%. The increase in EBITDA was primarily due to recovery of global economy towards the later half 2009 which led to increased sales.

Net profit for the six months ended 30 June 2010 was RMB273 million, improved from a loss of approximately RMB208 million for the same period in 2009. The substantial improvement was due to both the increase of revenue as a result of the normalization of business operations and decrease of negative fair value impacts from the financial instruments. Net profit during year ended 31 December 2009 was approximately RMB146 million comparing with a loss of approximately RMB9 million over the same period in 2008. The improvement was primarily due to recovery of global economy towards the later half 2009 which led to increased sales and the one-off expense item of RMB167 million form Wenchuan earthquake in 2008.

The net profit/(loss) of the Target Group has been impacted by changes in fair values of certain embedded derivative instruments, convertible notes and convertible redeemable preference shares. The outstanding embedded derivative instruments will be exercised mandatorily upon Completion of the Acquisition. If BOCOM exercises its conversion rights under the outstanding convertible notes before Completion, the notes will be converted into ordinary shares before Completion. If BOCOM decides not to exercise its conversion rights before Completion, the convertible notes will become a straight debt and will mature on 31 May 2011. The convertible redeemable preference shares have all been converted into common shares. As at 30 June 2010, there were no outstanding convertible redeemable preference shares.

Change in fair value of embedded derivative instruments was incurred since Target Group entered into a term loan facility agreement with Credit Suisse on 6 November 2007. Pursuant to the term loan facility agreement, warrants exercisable into Target Company's shares were issued to Credit Suisse. As warrants are derivative instruments by nature, any change in its fair value was recognised in profit or loss.

Change in fair value of convertible note was recognised since the Target Company issued convertible notes to BOCOM on 30 October 2009. The fair value of the derivative portion of the convertible note is measured at the end of each reporting period with changes in the fair value recognised in profit or loss.

Change in fair value of convertible redeemable preference shares is measured since the Target Group issued convertible promissory notes to TB Investment, Trustees of Columbia University of the City and MS China 10 Limited during the period from April to July 2007. These convertible promissory notes were subsequently converted into series A and series B convertible redeemable preference shares on 20 July 2007. Fair value of convertible redeemable preference shares is measured at the end of each reporting period with change in the fair value recognised in profit or loss. As at 30 June 2010, there are no outstanding convertible preference shares.

Adjusted net profit excluding changes in fair value of financial instruments for the six months ended 30 June 2010 was RMB446 million, improved from approximately RMB79 million for the same period in 2009. Similar to that of net profit, the substantial improvement was due to the increase of revenue as a result of the normalization of business operations. Adjusted net profit excluding changes in fair value of financial instruments during the year ended 31 December 2009 was approximately RMB639 million comparing with a gain of approximately RMB86 million over the same period in 2008. The improvement was primarily due to recovery of global economy towards the later half 2009 which led to increased sales.

Target Group's net asset value is RMB2,297 million as of 30 June 2010, which shows a significant improvement from its net liability value of RMB316 million as of 31 December 2008. According to the Management, it was mainly due to the conversion of the convertible redeemable preference shares to ordinary shares and issuance of new shares, which increased the reserve.

2. Reasons for the Acquisition

Reasons for and benefits of the Acquisition to the Group are set out in the "Letter from the Board" in the Circular. As stated in the "Letter from the Board", the Board believes that the vertical integration of the Group and the Target Group, each being one of the leading players in their respective industry sectors, is in line with the Group's strategy to focus on high-end high performance specialty downstream products, enable the Group to become one of the world's leading producers of high-end specialty materials, which would allow the Enlarged Group to achieve additional growth and maximize shareholders' return.

We note that the Acquisition is in line with the Group's stated strategy. As disclosed in the Group's 2010 Interim Report, the Group has a strategy to vertically integrate business by exploring downstream business expansion opportunities. One of the two principal feedstocks necessary to produce PPS is sodium sulfide. Via a de-oxidation process, sodium sulfide can be produced directly from sodium sulfate, which is a purified form of thenardite and is currently produced by the Group. Although the Group does not currently supply any sodium sulfate to the Target Group because neither the Group nor the Target Group has the ability to convert sodium sulfate into sodium sulfide, following Completion, the Group plans to supply high quality sodium sulfate, through the planned strategic alliances with processing agents, to the Target Group which the Board believes will help the Target Group to produce higher purity PPS and achieve premium prices. According to the Management, the Company has commenced discussions with a number of processing agents although no formal agreement has yet been entered into. Furthermore, because both the Target Group and the Group are located in Sichuan Province, the supply by the Group to the Target Group may reduce the Target Group's logistics cost for purchase of sodium sulfide.

We note that the Acquisition will enable the Company to enter into a high performance thermoplastics business, the demand of which will be driven by the end-use market segments, mainly electrical and electronic applications, automotive applications, industrial applications, coatings, filters and filter bags and aerospace applications and development of new uses and applications for PPS. The Board believes that the PPS demand will benefit from the overall growth in auto production, airplane production and the drive to improve fuel economy requires more plastics usage per vehicle. The environmental (filter bags) industry represents a large growth opportunity for the Target Group, since the Target Group intends to increase its production volume of both PPS fibre and fibre-grade resin upon Completion.

3. Consideration

Pursuant to the Sale and Purchase Agreement, the Consideration payable to each of the Vendors (or any Acceding Vendor) is calculated on the basis of (i) the number of Target Shares held by the relevant Vendor (or any Acceding Vendor) on Completion as a percentage of the entire share capital of the Target in issue on Completion and (ii) a total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000.

On 9 November 2010 and in connection with the Secured Fixed Rate Term Notes, the Target created and issued New Warrants to the New Investors which give the right to purchase Target Shares representing up to approximately 2.57% of the Target's fully diluted share capital, subject to the terms and conditions of the Warrant Instrument. Pursuant to the Warrant Instrument, the New Warrants will automatically be exercised prior to Completion, and settled with new Target Shares or cash (at the option of the Warrant Holders). No New Warrants will be outstanding after Completion.

Pursuant to a subscription agreement dated 30 October 2009, as amended by an amendment and waiver letter on 5 November 2010, the Target has issued the Convertible Notes which are convertible into Target Shares representing approximately 3.23% of the Target's fully diluted share capital. Pursuant to the Convertible Notes, BOCOM may exercise its conversion rights into Target Shares at any time prior to three days before the Completion Date. Upon any exercise of BOCOM's conversion rights, the Target will create and issue Target Shares to BOCOM representing up to approximately 3.23% of the Target's fully diluted share capital.

The final Consideration depends on the equity interest of the Target to be acquired by the Company on Completion. Assuming that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the Company will have acquired approximately 95% equity interest in the Target on Completion and the aggregate Consideration payable to all Vendors will be HKD11,053,027,908, representing approximately 95% of HKD11,634,750,000 ("**Scenario A**"). If the Target issues Target Shares to any Warrant Holder and to BOCOM before Completion and none of the Warrant Holders nor BOCOM nor any Non-Selling Shareholder accedes to the Sale and Purchase Agreement, the Company will have acquired approximately 89.49% equity interest of the Target and the aggregate Consideration payable to all Vendors will be HKD10,412,261,795, representing approximately 89.49% of HKD11,634,750,000 ("**Scenario B**"). If Target Shares are issued to any Warrant Holders and/or BOCOM before Completion and all of such Warrant Holders and BOCOM as well as all Non-Selling Shareholders accede to the Sale and Purchase Agreement, the Company will have acquired 100% equity interest of the Target and the aggregate Consideration payable to all Vendors (and the Acceding Vendors) is HKD11,634,750,000 ("**Scenario C**").

As stated in the "Letter from the Board", the Consideration was determined after arm's length negotiations amongst the Company and the Vendors on normal commercial terms.

A. *Comparable Companies*

In our assessment of the valuation of the Acquisition, we have considered the following commonly used valuation multiples:

- Price-to-earnings ratio ("**P/E**"); and
- Enterprise value to EBITDA ("**EV/EBITDA**");

As there are no pure play PPS manufacturers and distributors listed on the Stock Exchange, we have extended our research into companies listed on other stock exchanges to provide illustrative comparable companies valuation. We have selected a list of comparable companies (the "**Comparable Companies**") to the Target for our comparison analysis based on the selection criteria that these companies: (a) are primarily engaged in production, development and sales of chemical products, plastics and polymers, especially PPS resin, PPS compounds and PPS fibre, based on the latest published annual report prior to the Latest Practicable Date; (b) had a market capitalisation of not less than approximately USD1.0 billion and not more than approximately USD10.0 billion, which we consider as a sensible benchmark as it is reasonably close to the implied equity value of the Target Group. The implied equity value of the Target Group is calculated on the basis of a total consideration for 100% of the share capital of the Target in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000; and (c) give reasonably sufficient samples for comparison purpose.

While Comparable Companies analysis can reflect current market sentiment towards the sector and provide guidance on company valuation multiples such as P/E and EV/EBITDA, we note that the analysis does not take into account differences in accounting policies and standards, different interim financial reporting periods as well as differences in business models and/or tax treatments, nor does it take into account possible unique characteristic(s) of different companies. No adjustments have been made to account for these differences.

We have identified 12 companies based on the abovementioned selection criteria that we consider to be the closest Comparable Companies to the Target Group's business. The Comparable Companies listed in Table (4) below are exhaustive based on our selection criteria. We set out in the table below the relevant valuation multiples of the Comparable Companies based on their respective share prices as at the Last Trading Date, latest publicly disclosed financial positions of balance sheet items, and financial information for the twelve months ended 31 December 2009 and six months ended 30 June 2010.

Table 4: Comparable Companies

	Place	Market Capitalisation[1] *(USD million)*	Enterprise Value *(USD million)*	P/E[3] 2009	P/E[3] 1H2010[2]	EV/EBITDA[4] 2009	EV/EBITDA[4] 1H2010[2]
Asian Comparables							
Toray Industries, Inc.[5]	Japan	9,334	15,737	nm	27.3	11.0	8.9
Tosoh Corporation[5]	Japan	1,675	6,104	nm	5.7	8.4	6.3
DIC Corporation[5]	Japan	1,682	6,450	53.4	12.0[10]	8.1	7.0
Kureha Corporation[5]	Japan	995	1,557	40.1	nm	7.2	10.5
Mitsui Chemicals, Inc.[5]	Japan	3,099	9,215	nm	5.4	13.8	7.7
Hanwha Chemical Corporation	Korea	3,509	6,107	11.4	na	8.7	na
Average				34.9	12.6	9.6	8.1
Median				40.1	8.8	8.6	7.7
Non-Asian Comparables							
Victrex Plc[6]	United Kingdom	1,740	1,691	40.5[9]	20.2	23.5[9]	12.7
Celanese Corporation	United States	5,299	7,679	11.7[7]	15.0	11.0	13.2
Eastman Chemical Company	United States	5,662	6,874	41.6	11.4	8.7	5.9
Albemarle Corporation	United States	4,440	4,938	24.9	15.3	15.9	10.4
Huntsman Corporation	United States	2,933	6,134	26.4	nm[8]	11.7	8.4
Cytec Industries Inc.	United States	2,924	3,268	nm	16.9	15.1	7.1
Average				29.0	15.8	14.3	9.6
Median				26.4	15.3	13.4	9.4
Total							
Average				31.2	14.3	11.9	8.9
Median				33.3	15.0	11.0	8.4
Target Company							
Sino Polymer New Materials Co., Ltd.	China	1,500[12]	1,601	15.6[11]	11.2[11]	11.5	7.4

Source: Bloomberg, companies

Note:

(1) Based on the closing share prices on the Last Trading Day, being 15 October 2010

(2) Based on annualised first half of 2010 financial result

(3) P/E are calculated based on the market capitalisation (using the respective share prices as at the Last Trading Day in the case of the Comparable Companies), divided by the respective profit attributable to shareholders for the 12-month period ended 31 December 2009 and the 6-month period ended 30 June 2010

(4) EV/EBITDA multiples are calculated based on the market capitalisation (using the respective share prices as at the Last Trading Day in the case of the Comparable Companies) plus net debt (or less net cash) plus minority interests, divided by the respective EBITDA for the 12-month period ended 31 December 2009 and the 6-month period ended 30 June 2010

(5) The 2009 multiples are based on financial results for 12-months ended 31 December 2009 extracted from the annual reports for the year ended 31 March 2009 and 2010. The 1H2010 multiples are based on financial results for the six months ended 30 June 2010 extracted from the annual report for the year ended 31 March 2010 and interim results ended 30 September 2010

(6) The 2009 multiples are based on financial results for 12-months ended 31 December 2009 extracted from the annual report for the year ended 30 September 2009 and interim results ended 31 March 2010. The 1H2010 multiples are based on financial results for the six months ended 30 June 2010 extracted from the annual report for the year ended 30 September 2010

(7) Excluding net gain on disposition of business of USD40 million resulting from the sale of the company's polyvinyl alcohol business to Sekisui Chemical

(8) Excluding income from discontinued operations of USD49 million. It was resulted principally from a pretax gain recognised in the second quarter of 2010 in connection with the final settlement of its insurance claims related to the 2006 fire at Port Arthur

(9) Poor business performance in 2009 due to reduced demand across all major industrial markets. Revenue and sales volume dropped by 26% and 41% in 2009

(10) Company forecasts 2010 financial result to rebound due to improving demand for electronics-related product

(11) Based on the consolidated adjusted net profit of the Target Group for the year ended 31 December 2009 and the annualised net profit of the Target Group for the period ended 30 June 2010 excluding changes in fair value of financial instruments

(12) The implied equity value of the Target Company based on the Consideration

(13) USD/EUR 0.7155; USD/GBP:0.6253; USD/HK$:7.7571; USD/RMB:6.6411; USD/JPY:81.4500; USD/TWD:30.6530; USD/KRW:1,111.5000

(14) "na" denotes not applicable; "nm" denotes not meaningful

i. P/E Approach

The Consideration of the Target Group is approximately (1) 15.6 times the consolidated adjusted net profit of the Target Group for the year ended 31 December 2009; and (2) 11.2 times the annualised adjusted net profit of the Target Group for the period ended 30 June 2010, which were RMB639 million and RMB446 million respectively, as shown in the Table 3: Summary financial information of the Target Group. The change in fair value of embedded derivative instruments, convertible note and convertible redeemable preference shares for the year ended 31 December 2009 of RMB(8) million, RMB2 million and RMB(487) million respectively and those for the period ended 30 June 2010 of RMB6 million, RMB20 million and RMB(199) million respectively are excluded in the calculation of adjusted net profit.

The average P/E multiples of the Comparable Companies are (1) 31.2 times for the year ended 31 December 2009; and (2)14.3 times the period ended 30 June 2010. Therefore, the P/E multiples of the Target Group implied by the Consideration are lower than the average P/E multiples of the Comparable Companies.

ii. EV/EBITDA Approach

The implied enterprise value of the Target Group is approximately (1) 11.5 times the consolidated EBITDA of the Target Group for the year ended 31 December 2009; and (2) 7.4 times the annualised EBITDA of the Target Group for the period ended 30 June 2010, which were RMB929 million and RMB723 million respectively, as shown in the Table 3: Summary financial information of the Target Group.

The average EV/EBITDA multiples of the Comparable Companies are (1) 11.9 times for the year ended 31 December 2009; and (2) 8.9 times the period ended 30 June 2010. Therefore, the EV/EBITDA multiples of the Target Group implied by the Consideration are lower than the average EV/EBITDA multiples of the Comparable Companies.

We wish to point out that the above comparison with the Comparable Companies is for illustrative purpose only as each of the Comparable Companies may not be entirely comparable to the Target Group.

B. Comparable Transactions

Regarding the Comparable Transactions, we have considered the following commonly used valuation multiples in our assessment of the valuation of the Acquisition:

- Price-to-earnings ratio ("**P/E**"); and

- Enterprise value to EBITDA ("**EV/EBITDA**");

We have selected a list of comparable transactions (the "**Comparable Transactions**") to the Acquisition for our comparison analysis based on the selection criteria that these transaction targets: (a) were primarily engaged in production, development and sales of chemical products, plastics and polymers, especially PPS resin, PPS compounds and PPS fibre, based on the historical published annual report; (b) had deal size more than USD100 million to give a reasonable size of samples; and (c) had acquired stake larger than 50%, which we consider as a benchmark as it is reasonably close to deal size and majority stake transfer of the Target and it gives reasonably sufficient samples for comparison purpose.

While Comparable Transactions analysis can reflect historical market sentiment towards the sector and provide guidance on valuation, we note that the analysis does not take into account differences in accounting policies and standards, different interim financial reporting periods as well as differences in business models and/or tax treatments, nor does it take into account possible unique characteristic(s) of different companies. No adjustments have been made to account for these differences.

We have identified five Comparable Transactions based on the abovementioned selection criteria that we consider to be the closest Comparable Transactions to the Target business. The Comparable Transactions listed in Table (5) below are exhaustive based on our selection criteria. We set out in the table below the relevant valuation multiples of the Comparable Transactions based on their respective deal values.

Table 5: Comparable Transactions

Date	Target	Target region	Acquiror	Acquired stake	Deal value	Implied equity value	Enterprise value	P/E[2]	EV/ EBITDA[3]
				(%)	*(USD million)*	*(USD million)*	*(USD million)*		
1-Sep-09	Quadrant AG	Switzerland	Mitsubishi Plastics, Inc.	58.5	121.9[6]	208.3	302.3	21.8	5.6
8-Apr-09	CI Kasei Co., Ltd.	Japan	Itochu Corporation	64.1	101.2[6]	158.0	450.7	19.6	29.6
22-Apr-08	Polynt SpA	Italy	InvestIndustrial LP	100.0	546.7	546.7	575.9	23.8	8.0
30-Nov-07	Suzano Petroquimica S.A.	Brazil	Petróleo Brasileiro S.A.	76.5	1,117.3	1,460.9	2,079.9	nm[1]	12.8
15-Dec-06	BorsodChem	Hungary	VCP Vienna Capital Partners, Permira	100.0	1,120.5	1,120.5	1,190.8	14.3	6.6
Average								19.9	12.5
Median								20.7	8.0
	Target Company								
	Sino Polymer	PRC	– Based on 2009A	89.49%-100%[5]	1,342.4-1,500.0[5]	1,500.0	1,601.4	15.6[4]	11.5
			– Based on 1H2010					11.2[4]	7.4

Source: Dealogic, companies

Notes:

(1) "nm" denotes not meaningful

(2) P/E are calculated based on the implied equity value, divided by the respective profit attributable to shareholders for the previous 12-month period

(3) EV/EBITDA multiples are calculated based on the implied equity value plus net debt (or less net cash) plus minority interests, divided by the respective EBITDA for the previous 12-month period

(4) Based on the consolidated adjusted net profit of the Target Group for the year ended 31 December 2009 and the annualised net profit of the Target Group for the period ended 30 June 2010 excluding changes in fair value of financial instruments

(5) The final Consideration depends on the equity interest of the Target to be acquired by the Company on Completion. Please refer to the section headed "Consideration" above

(6) We include these Comparable Transactions despite their relatively smaller deal values as compared to the Acquisition deal value because they fall in the selection criteria as set out above and are recent transactions

i. *P/E Approach*

The Consideration of the Target Group is approximately (1) 15.6 times the consolidated adjusted net profit of the Target Group for the year ended 31 December 2009; and (2) 11.2 times the annualised adjusted net profit of the Target Group for the period ended 30 June 2010, which were RMB639 million and RMB446 million respectively, as shown in the Table 3: Summary financial information of the Target Group. The change in fair value of embedded derivative instruments, convertible note and convertible redeemable preference shares for the year ended 31 December 2009 of RMB(8) million, RMB2 million and RMB(487) million respectively and those for the period ended 30 June 2010 of RMB6 million, RMB20 million and RMB(199) million respectively are excluded in the calculation of adjusted net profit.

The average P/E multiple of the Comparable Transactions is 19.9 times. Therefore, the P/E multiple of the Target Group implied by the Consideration is lower than the average P/E multiple of the Comparable Transactions.

ii. *EV/EBITDA Approach*

The implied enterprise value of the Target Group is approximately (1) 11.5 times the consolidated EBITDA of the Target Group for the year ended 31 December 2009; and (2) 7.4 times the annualised EBITDA of the Target Group for the period ended 30 June 2010, which were RMB929 million and RMB723 million respectively, as shown in the Table 3: Summary financial information of the Target Group.

The average EV/EBITDA multiple of the Comparable Transactions is 12.5 times. Therefore, the EV/EBITDA multiple of the Target Group implied by the Consideration is lower than the average EV/EBITDA multiple of the Comparable Transactions.

We wish to point out that the above comparison with the Comparable Transactions is for illustrative purpose only as each of the Comparable Transaction may not be entirely comparable to the Acquisition.

We also noted that the Target Group's financial performance has significantly improved in the first half year of 2010.

The Target Group's revenue for the six months ended 30 June 2010 was approximately RMB1,064 million, representing approximately 158.2% increase over the same period in 2009. As the Target Group underwent a distressed half year operations owing to the financial crisis and recovery from the Wenchuan earthquake, a normalization of business operation provides the Company with a significant improvement in financial results.

The consolidated adjusted net profit of the Target Group for the six months ended 30 June 2009 and 2010 excluding changes in fair value of financial instruments are RMB79 million and RMB446 million respectively. According to the Management, the improvement reflects the full restoration of its production capacity since the Wenchuan earthquake in May 2008 and the decrease of the negative fair value impacts from the financial instruments.

In light of the fact that the average valuation multiples of the Target Group implied by the Consideration are lower than those of the Comparable Companies and the Comparable Transactions, we considered that the Consideration amount is fair and reasonable so far as the Independent Shareholders are concerned.

4. Financing of the Consideration

The Consideration payable to each of the Vendors (or any Acceding Vendor) will be satisfied:

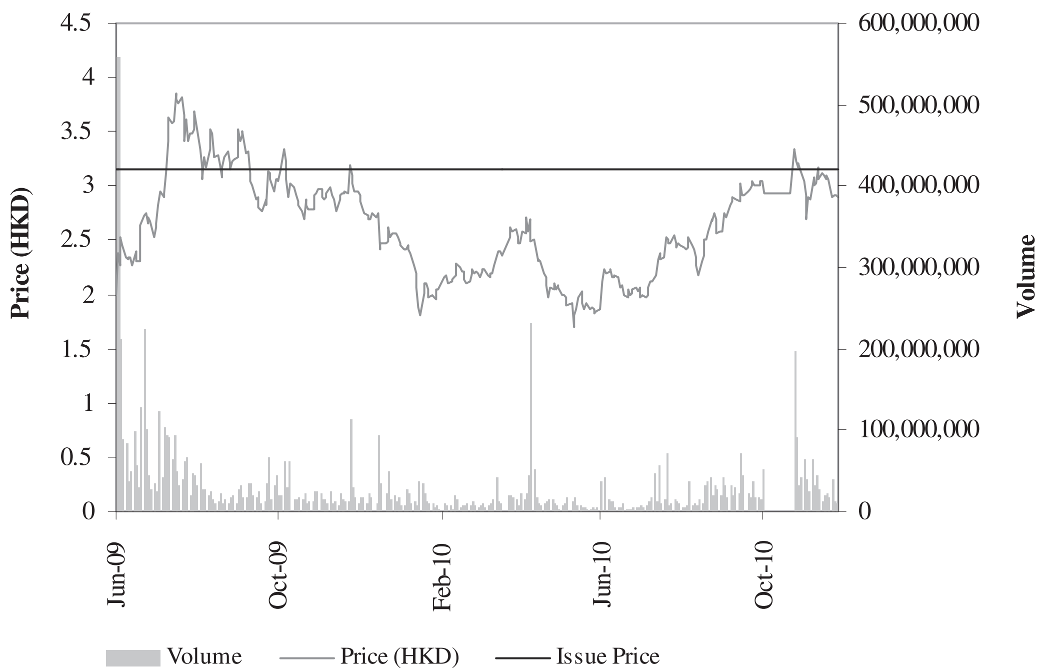
- as to 90%, by way of the allotment and issue of Consideration Shares at Completion to the Vendors (or any Acceding Vendor) at an issue price of HKD3.15 for each Consideration Share upon Completion; and
- as to the balance of the Consideration, by payment of the Cash Consideration by the Company to the Vendors (or any Acceding Vendor) within four months following the Completion.

A. Issue price of the Consideration Shares

The issue price of the Consideration Shares of HKD3.15 (the "Issue Price") was determined by the parties after arm's length negotiation and having taken into account the prevailing market price of the Shares. To assess the reasonableness of the Issue Price, we have reviewed the share performance of the Company since 15

June 2009, being the date of listing of the Company, to 15 October 2010, being the Last Trading Day (the "**Pre-announcement Period**"), and from 8 November 2010 to 10 December 2010, being the Latest Practicable Date (the "**Post-announcement Period**") (together, the "**Review Period**"). A chart of the historical closing price and trading volume of the Shares during the Review Period is set out below:

Chart 2: Historical Closing Price and Trading Volume of the Shares during the Review Period



Source: Bloomberg

We note that the issue price of the Consideration Shares of HKD3.15 represents:

- a premium of approximately 7.51% to the closing share price of HKD2.93 per Share on the Stock Exchange on the Last Trading Day;

- a premium of approximately 4.72% to the average closing share price of approximately HKD3.01 per share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

- a premium of approximately 4.93% to the average closing share price of approximately HKD3.00 per share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

- a premium of approximately 21.29% to the average closing share price of approximately HKD2.60 per share as quoted on the Stock Exchange for the Pre-announcement Period;

- a premium of approximately 8.62% to the closing share price of approximately HKD2.90 per share as quoted on the Stock Exchange on the Latest Practicable Day;

- a discount of approximately 18.18% to the highest closing share price of approximately HKD3.85 per share as quoted on the Stock Exchange for the Pre-announcement Period;

- a premium of approximately 86.39% to the lowest closing share price of approximately HKD1.69 per share as quoted on the Stock Exchange for the Pre-announcement Period; and

- a premium of approximately 67.23% to the unaudited pro forma net assets per Share of approximately HKD1.89 per share (Note).

Note: Based on the unaudited pro forma net assets of the Enlarged Group shown in Appendix VI and 5,115,430,638 Shares in issue upon Completion

Based on the trading statistics shown above, we note that other than discounts to the highest closing share price, the Issue Price of the Consideration Shares represents a premium to various benchmarks.

The Issue Price represents premium of 4.72% to 21.29% to the average closing prices for the different periods described above.

Pursuant to the Sale and Purchase Agreement, each of the Vendors (or any Acceding Vendor) has agreed to lock-up undertakings with regard to the Consideration Shares for a period of 12 months (in case of Mr. Suo Lang Duo Ji) and 6 months (in case of all other Vendors other than Mr. Suo Lang Duo Ji and Ascend) effective from Completion.

10% of the Consideration payable by the Company to each of the Vendors (or any Acceding Vendor) will be satisfied by payment of the Cash Consideration, being HKD1,105,302,791 in the event that the Target does not issue any new Target Shares prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement. As set out in "Letter from the Board", the Group may carry out future fund raising exercises of the Company by issuing the Additional Shares, the proceeds of which will be used for a number of purposes, including financing the Cash Consideration.

B. Dilution effect arising from the issue of the Consideration Shares

Under Scenario A, the Consideration Shares represent approximately 161.34% of the existing share capital of the Company and approximately 61.73% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. Under Scenario B, the Consideration Shares represent approximately 151.98% of the existing issued share capital of the Company and 60.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. Under Scenario C, the Consideration Shares represent approximately 169.83% of the existing share capital of the Company and 62.94% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Immediately after the issue of the Consideration Shares and assuming that there will be no other changes in the shareholding of the Company up to and including the Completion Date (other than the issue of the Consideration Shares), the shareholding of the existing Independent Shareholders in the Company will be diluted from approximately 54.42% to approximately 20.17% to 21.60%.

The decrease of approximately 32.82 to 34.25 percentage points in shareholding of the Company held by the existing Independent Shareholders is material in magnitude. However, we consider that the benefits of the Acquisition as set out in "Reasons for and Benefits of the Acquisition to the Group" section of the Circular should also be considered as a whole, which the Board believes includes (1) increased focus on high-end high performance specialty downstream products enabling the Group to become one of the world's leading producers of high-end specialty materials; (2) broadening the Group's source of income from capturing a larger part of the business chain; (3) strengthening the Group's ability to produce higher quality products and reducing cost through operational synergies; and (4) enhancing the Group's resilience to fluctuations in the business environment. We are of the view that the level of dilution is acceptable as the dilution of the Enlarged Group's pro forma diluted earnings per share is smaller. As stated in the section headed "Financial Impact of the Acquisition on the Group" below, the Enlarged Group's pro forma diluted earnings per share for the year ended 31 December 2009 under Scenario A and B, of approximately RMB19.57 cents and RMB20.20 cents respectively, would be lower than the Group's pro forma diluted earnings per share of approximately RMB30.17 cents.

We also note that the interest of Morgan Stanley immediately after Completion is 4.54% to 4.98%. Acceding Vendors will hold 6.61% interest in the Target under Scenario C. Together with the 20.17% to 21.60% stake held by the existing Independent Shareholders in the Company, the percentage of public float would be equal to 25.80% to 31.32% after the Acquisition, which would fulfill the minimum requirement on percentage of public float of 25.00% under Listing Rules.

5. Financial Impact of the Acquisition on the Group

Set out below is the summary of the unaudited pro forma financial information of the Enlarged Group in Scenario A (acquiring approximately 95% equity interest in the Target) and Scenario B (acquiring approximately 89.49% equity interest in the Target). The unaudited pro forma financial information of the Enlarged Group have been prepared for the purpose of illustrating the financial impact of the acquisition of equity interest in the Target as if the Acquisition had taken place on 30 June 2010 for the unaudited pro forma consolidated statement of financial position and on 1 January 2009 for the unaudited pro forma consolidated statement of comprehensive income. For further details, please refer to Appendix V of the Circular – Unaudited pro forma financial information of the Enlarged Group.

Table 6: Summary of Unaudited Pro Forma Financial Information of the Enlarged Group

Summary of Unaudited Pro Forma Consolidated Statement of Financial Position As at 30 June 2010 *RMB'000, unless otherwise specified*	**The Group**	**Pro Forma Enlarged Group Scenario A**	**Pro Forma Enlarged Group Scenario B**
Property, plant and equipment	2,126,955	5,299,629	5,299,629
Inventories	11,720	57,699	57,699
Trade and other receivables	800,018	1,222,033	1,222,033
Cash and cash equivalents	669,159	1,309,390	1,316,816
Other assets	915,981	5,816,316	5,205,066
Total assets	**4,523,833**	**13,705,067**	**13,101,243**
Bank borrowings	455,000	815,000	815,000
Borrowing with derivative financial instruments	–	616,852	616,852
Convertible notes	–	189,616	–
Fixed rate senior notes	1,606,864	1,606,864	1,606,864
Total debt	2,061,864	3,228,332	3,038,716
Trade and other payables	208,671	1,809,341	1,498,101
Other liabilities	95,271	640,348	640,348
Total liabilities	**2,365,806**	**5,678,021**	**5,177,165**
Net assets	**2,158,027**	**8,027,046**	**7,924,078**
Number of shares in issue(1)	**1,957,422,664**	**5,115,430,638**	**4,932,354,607**
Net asset value per share (RMB)	**1.1**	**1.6**	**1.6**
Working capital(2)	603,067	(529,609)	(218,369)
Net debt(3)	1,392,705	1,918,942	1,721,900
Gearing ratio (Net debt/Net assets)(4)	0.65x	0.24x	0.22x

Summary of Consolidated Statement of Comprehensive Income For the year ended 31 December 2009 *RMB'000, unless otherwise specified*	**The Group**	**Pro Forma Enlarged Group Scenario A**	**Pro Forma Enlarged Group Scenario B**
Revenue	1,344,032	2,881,200	2,881,200
Operating profit	877,379	1,443,854	1,443,854
EBITDA	927,945	1,824,777	1,824,777
Net profit for the year	544,905	1,009,438	1,043,962
Net profit attributable to owners of the Company	532,966	964,006	958,009
Weighted average number of ordinary shares for the purpose of calculating the pro forma diluted earnings per share ('000)	1,766,813	4,924,821	4,741,745
Pro forma diluted earnings per share (cents)	30.17	19.57	20.20

Source: Appendix V of the Circular – Unaudited pro forma financial information of the Enlarged Group, "Letter from the Board" of the Circular

Note:

(1) The amount represents the number of shares in issue as at the Latest Practicable Date, and immediately after Completion, includes the Consideration Shares under Scenario A and Scenario B.

(2) Working capital is calculated based on the inventories plus trade and other receivable, minus the trade and other payables

(3) Net debt is calculated based on the total debt, minus cash and cash equivalents

(4) Gearing ratio is calculated based on the net debt, divided by the net assets

Upon Completion of Transaction, the Target Group will be become subsidiaries of the Company. Pro forma consolidated financial statements of the Enlarged Group have been prepared to illustrate how the Acquisition might have affected the results of the Group on a pro forma basis for the year ended 31 December 2009 and the financial position of the Group on a pro forma basis as at 30 June 2010.

A. Earnings

The operating profit of the Group for the year ended 31 December 2009 of approximately RMB877 million would increase to that of the Enlarged Group for the year ended 31 December 2009 of approximately RMB1,444 million under both Scenario A and B.

The EBITDA of the Group for the year ended 31 December 2009 of approximately RMB928 million would increase to that of the Enlarged Group for the year ended 31 December 2009 of approximately RMB1,825 million under both Scenario A and B.

The Enlarged Group's pro forma net profit attributable to the Shareholders for the year ended 31 December 2009 under Scenario A and B, of approximately RMB964 million and RMB958 million respectively, would be higher than the Group's profit attributable to the Shareholders of approximately RMB533 million, mainly due to the contribution from the Target Group.

The Enlarged Group's pro forma diluted earnings per share for the year ended 31 December 2009 under Scenario A and B, of approximately RMB19.57 cents and RMB20.20 cents respectively, would be lower than the Group's pro forma diluted earnings per share of approximately RMB30.17 cents, mainly due to the increase in weighted average number of ordinary shares for the purpose of calculating the pro forma diluted earnings per share.

B. Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, the total assets of the Group as at 30 June 2010 were approximately RMB4,524 million and the unaudited pro forma total assets of the Enlarged Group would amount to approximately RMB13,705 million and RMB13,101 million for Scenario A and B respectively.

The total liabilities of the Group as at 30 June 2010 were approximately RMB2,366 million and the unaudited pro forma liabilities of the Enlarged Group as at 30 June 2010 would amount to approximately RMB5,678 million and RMB5,177 million for Scenario A and B respectively.

The net assets of the Group as at 30 June 2010 were approximately RMB2,158 million. The unaudited pro forma net assets of the Enlarged Group would increase to approximately RMB8,027 million and RMB7,924 million for Scenario A and B respectively.

The Group's net asset value per share as at 30 June 2010 was RMB1.1 and the Enlarged Group's unaudited pro forma net asset value per share was RMB1.6 for both Scenario A and B, representing the enhancement of the net asset value per share.

C. Gearing and working capital

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular, the working capital of the Group as at 30 June 2010 was approximately RMB603 million and the unaudited pro forma working capital of the Enlarged Group would amount to approximately negative RMB530 million and negative RMB218 million for Scenario A and B respectively. The decrease in working capital is mainly contributed by the increase in trade and other payables due to the Cash Consideration payable within four months of Completion.

The net debt of the Group as at 30 June 2010 were approximately RMB1,393 million and the unaudited pro forma net debt of the Enlarged Group would amount to approximately RMB1,919 million and RMB1,722 million for Scenario A and B respectively. However, the gearing ratio of the Group would decrease from 0.65x to that of the Enlarged Group of 0.24x and 0.22x for Scenario A and B respectively due to a result of the issue of Consideration Shares.

We note that although the Enlarged Group would have higher turnover, operating profit, EBITDA and pro forma net profit attributable to the Shareholders than the Group, its earnings per share for the year ended 31 December 2009 would be lower due to increase in number of ordinary shares. We further note that the working capital of the Enlarged Group would also decrease. However, the pro forma net asset value per share would be enhanced and the gearing ratio would be reduced after Completion.

On Completion, in accordance with International Financial Reporting Standards, the fair value of the net identifiable assets, liabilities and contingent liabilities of the Group will have to be reassessed. As a result of such reassessment, the assets and liabilities of the Group upon Completion may be different from the estimations based on the basis stated for the purpose of preparation of the unaudited pro forma financial information, which are prepared using historical financials.

6. The Whitewash Waiver

Assuming no further Shares will be issued by the Company prior to the allotment and issue of the Consideration Shares upon Completion and no new Target Shares will be issued by the Target prior to Completion and none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the interests in the Company held by Mr. Suo Lang Duo Ji and the Concert Parties and their respective associates and parties acting in concert with any of them (including the Concert Parties Entities) will increase from approximately 45.58% to approximately 74.20% of the issued share capital of the Company as enlarged by the Consideration Shares.

Mr. Suo Lang Duo Ji and the Concert Parties and parties acting in concert with any of them (including the Concert Party Entities) will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Takeovers Code. Mr. Suo Lang Duo Ji and the Concert Parties have applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Takeovers Code on the basis that, among other things, the Consideration Shares will be issued as the consideration for the Acquisition pursuant to the Sale and Purchase Agreement and the Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the EGM on a vote to be taken by way of a poll whereby Mr. Suo Lang Duo Ji, the Concert Parties, their associates and parties acting in concert with any of them (including the Concert Party Entities) and any others who are involved in or interested in the Acquisition and the Whitewash Waiver will either abstain from voting or not vote because they are not Shareholders on the resolutions relating to the Acquisition and the Whitewash Waiver at the EGM.

Given that the Whitewash Waiver is a condition precedent for Completion and in view of the analysis of the Acquisition as above, we are of the view that the approval of the Whitewash Waiver by Independent Shareholders is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

7. Increase in Authorised Share Capital, Allotment and Issue of the Consideration Shares

The Board proposes to increase the authorised share capital of the Company from USD50,000 to USD100,000 by the creation of an additional 5,000,000,000 Shares of USD0.00001 each. At the EGM, an ordinary resolution will be proposed to approve the increase of the authorised share capital of the Company.

At the EGM, ordinary resolutions will also be proposed to approve the allotment and issue of the Consideration Shares and the Additional Shares pursuant to Rule 13.36(1) (a) of the Listing Rules.

8. The PPS Market Research Report

As stated in the "Letter from the Board", the Company has been requested by the Stock Exchange that the Circular should provide an enhanced disclosure with regards to, among other things, the industry in which the Target Group operates. There are no readily available statistics or reports which could provide up-to-date and detailed data and information on the PPS industry, such as past, existing and projected capacities of PPS producers or estimates for past, existing and projected PPS demand in the PRC and globally. Hence, the only way to obtain the necessary comparable data would be to commission a comparable market research report from another market research consultant. The Company has commissioned SRI Consulting to prepare the PPS Market Research Report, the scope of which was to verify the market conditions and to estimate demand growth in all PPS major end-use markets. Certain information of the PPS Market Research Report has been summarised on pages 42 to 43 in the "Letter of the Board" of the Circular. Shareholders who wish to find out more information about the PPS product features, global supply and demand, global PPS prices and the applications of PPS products may refer to the "Letter of the Board". A copy of the PPS Market Research Report will also be available for public inspection. Please refer to Appendix VII for the details of inspection.

The "Letter from the Board" sets out certain background information about SRI Consulting and how SRI Consulting conducts the PPS Market Research Report. In order to assess the relevant expertise and experience of SRI Consulting, we have checked against its website and some other publicly available information.

The "Letter from the Board" contains estimates of the demand growth in all PPS major end-use markets quoted from the PPS Market Research Report. As stated in the "Letter from the Board", reliance on any forward-looking statements involves risks and uncertainties. Other than this, nothing has come to our attention that information extracted in the "Letter from the Board" from the PPS Market Research Report, of which we have received a copy and thoroughly reviewed, cannot be relied upon. However, we have not independently verified the information extracted from the PPS Market Research Report and have not relied on the information in it in formulating our opinion.

CONCLUSIONS AND RECOMMENDATION

Having analysed and considered the principal factors as set out in this letter above, we would draw your attention to the following key factors, which should be read in conjunction with, and interpreted in, the full context of the Circular, in arriving at our conclusion:

– The Group is primarily engaged in the mining, processing and manufacturing of natural thenardite products. The Target Group is principally engaged in the production, development and sales of PPS resin, PPS compounds and PPS fibre which are high-end high performance specialty downstream products;

– The Target Group has steadily increased its revenue and underlying profit for the three years ended 31 December 2009 and the six months ended 30 June 2010. Reflecting the recovery of global economy, the revenue and operating profit of the Target Group increased by 158.2% and 366.7%, respectively, for the six months ended 30 June 2010 as compared to those for the six months ended 30 June 2009;

– the Acquisition is in line with the Group's strategies of (1) vertical integration on exploring downstream business; and (2) looking for expansion opportunities in a fast growing market;

– the Consideration payable to Vendors (or any Acceding Vendor) comprises of Consideration Shares and Cash Consideration. The Issue Price for the Consideration Shares represents a premium of approximately 21.29% to the average closing share price of approximately HKD2.60 per share as quoted on the Stock Exchange for the Pre-announcement Period and 67.23% to the unaudited pro forma net assets per Share of approximately HKD1.89 per share respectively. The Cash Consideration is payable within four months of Completion;

- the shareholding of the existing Independent Shareholders in the Company will be diluted from approximately 54.42% to approximately 20.17% (if 100% of the Target is acquired) and 21.60% (if approximately 89.49% of the Target is acquired). However, the benefits of the Acquisition should also be considered as a whole, which the Board believes includes (1) increased focus on high-end high performance specialty downstream products enabling the Group to become one of the world's leading producers of high-end specialty materials; (2) broadening the Group's source of income from capturing a larger part of the business chain; (3) strengthening the Group's ability to produce higher quality products and reducing cost through operational synergies; and (4) enhancing the Group's resilience to fluctuations in the business environment;

- although the Enlarged Group would have higher turnover, operating profit, EBITDA and pro forma net profit attributable to the Shareholders than the Group, its earnings per share for the year ended 31 December 2009 would be lower due to increase in number of ordinary shares. We further note that the working capital of the Enlarged Group would also decrease. However, we note that the pro forma net asset value per share would be enhanced and the gearing ratio would be reduced after Completion; and

- the Whitewash Waiver is a condition precedent for Completion and is subject to the approval by the Independent Shareholders.

Based on the above, we are of the opinion that the Acquisition is on normal commercial terms and the terms of the Acquisition and the Whitewash Waiver are fair and reasonable and in the interests of Lumena Resources and the Shareholders as a whole so far as the Independent Shareholders are concerned. Therefore, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in relation to the Acquisition and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
ING BANK N.V.

Wang Chang Hong	**Andrew Lau**
Managing Director	*Director*

I. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the financial results and assets and liabilities of the Group as extracted from the prospectus of the Company dated 4 June 2009, the annual report of the Company for the year ended 31 December 2009 and the interim report of the Company for the six months ended 30 June 2010:

No qualification was made in the issued statutory accounts for the years ended 31 December 2007, 2008 and 2009 and in the interim financial accounts for the six months period ended 30 June 2010.

Consolidated Statement of Comprehensive Income

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010:

	For the six months ended 30 June	For the year ended 31 December		
	2010	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,022,409	1,344,032	1,140,354	371,530
Cost of sales	(285,931)	(364,427)	(343,794)	(151,295)
Gross profit	736,478	979,605	796,560	220,235
Other revenue and gains	7,711	5,766	3,128	5,324
Selling and distribution expenses	(4,247)	(6,709)	(11,147)	(6,912)
Other operating expenses	(59,059)	(101,283)	(76,158)	(69,223)
Finance costs	(120,405)	(105,913)	(98,800)	(34,521)
Profit before income tax	560,478	771,466	613,583	114,903
Income tax expense	(203,569)	(226,561)	(171,503)	(25,901)
Profit for the period/year	356,909	544,905	442,080	89,002
Other comprehensive income				
Exchange (loss)/gain on translation of financial statements of foreign operations	11,283	(828)	40,792	22,260
Other comprehensive income for the period/year, net of tax	11,283	(828)	40,792	22,260
Total comprehensive income for the period/year	368,192	544,077	482,872	111,262

	For the six months ended 30 June	For the year ended 31 December		
	2010	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the period/year attributable to:				
Owners of the Company	356,909	532,966	429,739	78,950
Minority interests	–	11,939	12,341	10,052
	356,909	544,905	442,080	89,002
Total comprehensive income attributable to:				
Owners of the Company	368,192	532,138	470,531	101,210
Minority interests	–	11,939	12,341	10,052
	368,192	544,077	482,872	111,262
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*
Earnings per share for profit attributable to the owners of the Company during the period/year				
– Basic	18.34	30.49	28.27	5.19
– Diluted	18.32	30.17	N/A	N/A
Dividends	89,227	–	–	–

On 31 August 2010, the Directors declared an interim dividend of HKD5.2 cents per Share (equivalent to approximately RMB4.589 cents per Share), amounting to RMB89,227,000 for the six months ended 30 June 2010 and no dividends were declared for the three years ended 31 December 2007, 2008 and 2009.

Except for the interim dividend for the six months ended 30 June 2010, no exceptional items were incurred for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010.

Consolidated Statement of Financial Position

As at 31 December 2007, 2008 and 2009 and 30 June 2010:

	As at 30 June	As at 31 December		
	2010	2009	2008	2007
	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	2,126,955	1,607,383	806,214	611,885
Land use rights	56,433	57,084	57,709	56,400
Goodwill	8,386	8,386	8,386	8,386
Mining rights	384,039	390,850	404,470	245,070
Other intangible asset	17,588	17,588	17,588	17,588
Deposits	368,432	402,997	309,741	–
	2,961,833	2,484,288	1,604,108	939,329
Current assets				
Inventories	11,720	13,560	8,270	7,929
Trade and other receivables	800,018	515,338	258,298	248,728
Pledged bank deposits	81,103	170,646	32,394	46,988
Cash and cash equivalents	669,159	929,467	827	71,057
	1,562,000	1,629,011	299,789	374,702
Current liabilities				
Trade and other payables	208,671	305,197	360,795	330,486
Bank borrowings	383,000	236,500	258,947	12,600
Tax payable	38,697	15,989	34,995	11,026
	630,368	557,686	654,737	354,112
Net current assets/(liabilities)	931,632	1,071,325	(354,948)	20,590
Total assets less current liabilities	3,893,465	3,555,613	1,249,160	959,919

	As at 30 June 2010 (Unaudited) *RMB'000*	As at 31 December 2009 (Audited) *RMB'000*	2008 (Audited) *RMB'000*	2007 (Audited) *RMB'000*
Non-current liabilities				
Bank borrowings	72,000	120,000	423,618	631,049
Fixed rate senior notes	1,606,864	1,616,755	–	–
Deferred tax liability	56,574	30,616	–	–
	1,735,438	1,767,371	423,618	631,049
Net assets	2,158,027	1,788,242	825,542	328,870
EQUITY				
Share capital	143	143	113	77
Reserves	2,157,884	1,788,099	785,187	300,892
Equity attributable to the owners of the Company	2,158,027	1,788,242	785,300	300,969
Minority interests	–	–	40,242	27,901
Total equity	2,158,027	1,788,242	825,542	328,870

II. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

Set out below are the audited financial statements of the Group for the year ended 31 December 2009 together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2009:

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Lumena Resources Corp. 旭光資源有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Lumena Resources Corp. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out in pages 43 to 102, which comprise the consolidated and company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

21 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
Revenue	*6*	1,344,032	1,140,354
Cost of sales		(364,427)	(343,794)
Gross profit		979,605	796,560
Other revenue and gains	*7*	5,766	3,128
Selling and distribution expenses		(6,709)	(11,147)
Other operating expenses		(101,283)	(76,158)
Finance costs	*8*	(105,913)	(98,800)
Profit before income tax	*9*	771,466	613,583
Income tax expense	*10*	(226,561)	(171,503)
Profit for the year		544,905	442,080
Other comprehensive income			
Exchange (loss)/gain on translation of financial statements of foreign operations		(828)	40,792
Other comprehensive income for the year, net of tax		(828)	40,792
Total comprehensive income for the year		544,077	482,872
Profit for the year attributable to:			
Owners of the Company	*11*	532,966	429,739
Minority interests		11,939	12,341
		544,905	442,080
Total comprehensive income attributable to:			
Owners of the Company		532,138	470,531
Minority interests		11,939	12,341
		544,077	482,872
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company during the year	*12*		
– Basic		30.49	28.27
– Diluted		30.17	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	1,607,383	806,214
Land use rights	*16*	57,084	57,709
Goodwill	*17*	8,386	8,386
Mining rights	*18*	390,850	404,470
Other intangible asset	*19*	17,588	17,588
Deposits	*20*	402,997	309,741
		2,484,288	1,604,108
Current assets			
Inventories	*22*	13,560	8,270
Trade and other receivables	*23*	515,338	258,298
Pledged bank deposits	*25*	170,646	32,394
Cash and cash equivalents	*26*	929,467	827
		1,629,011	299,789
Current liabilities			
Trade and other payables	*27*	305,197	360,795
Bank borrowings	*28*	236,500	258,947
Tax payable		15,989	34,995
		557,686	654,737
Net current assets/(liabilities)		1,071,325	(354,948)
Total assets less current liabilities		3,555,613	1,249,160
Non-current liabilities			
Bank borrowings	*28*	120,000	423,618
Fixed rate senior notes	*29*	1,616,755	–
Deferred tax liability	*31*	30,616	–
		1,767,371	423,618
Net assets		1,788,242	825,542
EQUITY			
Share capital	*32*	143	113
Reserves	*33*	1,788,099	785,187
Equity attributable to the owners of the Company		1,788,242	785,300
Minority interests		–	40,242
Total equity		1,788,242	825,542

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	21	725,759	728,974
		725,759	728,974
Current assets			
Other receivables	23	67,902	6,885
Loans to subsidiaries	24	1,190,843	–
Pledged bank deposits	25	170,646	32,355
Cash and cash equivalents	26	165,056	–
		1,594,447	39,240
Current liabilities			
Other payables	27	99,944	124,916
Bank borrowings	28	–	169,447
		99,944	294,363
Net current assets/(liabilities)		1,494,503	(255,123)
Total assets less current liabilities		2,220,262	473,851
Non-current liabilities			
Bank borrowings	28	–	423,618
Fixed rate senior notes	29	1,616,755	–
Net assets		603,507	50,233
EQUITY			
Share capital	32	143	113
Reserves	33	603,364	50,120
Total equity		603,507	50,233

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Cash flows from operating activities		
Profit before income tax	771,466	613,583
Adjustments for:		
Interest income	(2,266)	(1,300)
Interest expense	105,913	98,800
Depreciation of property, plant and equipment	41,424	41,228
Gain on disposals of property, plant and equipment	–	(364)
Amortisation of land use rights	1,288	1,274
Amortisation of mining rights	13,620	4,236
Write-off of inventories	–	913
Write-off of property, plant and equipment	430	–
Share-based payments	37,965	13,800
Foreign exchange differences	(830)	3,011
Operating profit before working capital changes	969,010	775,181
Increase in trade and other receivables	(257,040)	(9,570)
Increase in inventories	(5,290)	(1,254)
(Decrease)/Increase in trade and other payables	(173,170)	134,687
Cash generated from operations	533,510	899,044
Income tax paid	(214,951)	(147,534)
Net cash generated from operating activities	318,559	751,510
Cash flows from investing activities		
Interest received	2,266	1,300
(Increase)/Decrease in pledged bank deposits	(138,252)	14,594
Purchase of property, plant and equipment	(843,023)	(225,894)
Proceeds from disposal of property, plant and equipment	–	880
Deposits paid for acquisition of property, plant and equipment	(245,752)	(309,741)
Deposits paid for acquisition of mining rights	(115,982)	–
Deposits paid for acquisition of land use rights	(26,801)	–
Acquisition of minority interests	(184,800)	–
Other deposits paid	(4,462)	–
Refund of deposits paid for acquisition of property, plant and equipment	299,741	–
Payment for purchase of land use rights	(663)	(31,583)
Payment for acquisition of mining rights	–	(249,411)
Net cash used in investing activities	(1,257,728)	(799,855)

	2009	2008
	RMB'000	*RMB'000*
Cash flows from financing activities		
Proceeds from issuance of share capital	759,645	–
Share issue expenses	(114,987)	–
Proceeds from new borrowings	1,311,207	106,400
Repayment of borrowings	(1,637,272)	(29,500)
Proceeds from fixed rate senior notes	1,614,319	–
Interest paid	(65,103)	(98,800)
Net cash generated from/(used in) financing activities	1,867,809	(21,900)
Net increase/(decrease) in cash and cash equivalents	928,640	(70,245)
Cash and cash equivalents at 1 January	827	71,057
Effect of foreign exchange rate changes, on cash held	–	15
Cash and cash equivalents at 31 December	929,467	827

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Attributable to owners of the Company										
	Share capital *RMB'000*	**Share premium*** *RMB'000*	**Employee share-based compensation reserve*** *RMB'000*	**Capital contribution*** *RMB'000*	**General reserve*** *RMB'000*	**Statutory reserves*** *RMB'000*	**Translation reserve*** *RMB'000*	**Retained profits*** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2008	77	27,872	–	103,539	–	30,150	26,804	112,527	300,969	27,901	328,870
Issue of new shares upon capitalisation issue *(note 32(iii))*	36	(36)	–	–	–	–	–	–	–	–	–
Recognition of share-based payments	–	–	13,800	–	–	–	–	–	13,800	–	13,800
Transactions with owners	36	(36)	13,800	–	–	–	–	–	13,800	–	13,800
Profit for the year	–	–	–	–	–	–	–	429,739	429,739	12,341	442,080
Other comprehensive income											
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	40,792	–	40,792	–	40,792
Total comprehensive income for the year	–	–	–	–	–	–	40,792	429,739	470,531	12,341	482,872
Transfer to statutory reserves	–	–	–	–	–	88,309	–	(88,309)	–	–	–
At 31 December 2008 and 1 January 2009	113	27,836	13,800	103,539	–	118,459	67,596	453,957	785,300	40,242	825,542
Issue of new shares arising from listing *(note 32(iv))*	28	712,628	–	–	–	–	–	–	712,656	–	712,656
Expenses of share issues	–	(114,987)	–	–	–	–	–	–	(114,987)	–	(114,987)
Exercise of share options	2	59,147	(12,160)	–	–	–	–	–	46,989	–	46,989
Recognition of share-based payments	–	–	37,965	–	–	–	–	–	37,965	–	37,965
Acquisition of minority interests *(note 35)*	–	–	–	–	(211,819)	–	–	–	(211,819)	(52,181)	(264,000)
Transactions with owners	30	656,788	25,805	–	(211,819)	–	–	–	470,804	(52,181)	418,623
Profit for the year	–	–	–	–	–	–	–	532,966	532,966	11,939	544,905
Other comprehensive income											
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	–	(828)	–	(828)	–	(828)
Total comprehensive income for the year	–	–	–	–	–	–	(828)	532,966	532,138	11,939	544,077
Transfer to statutory reserves	–	–	–	–	–	108,055	–	(108,055)	–	–	–
Lapse of share options	–	–	(6,164)	–	–	–	–	6,164	–	–	–
At 31 December 2009	143	684,624	33,441	103,539	(211,819)	226,514	66,768	885,032	1,788,242	–	1,788,242

* The total of these reserve accounts amounts to approximately RMB1,788,099,000 (2008: RMB785,187,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

1. GENERAL INFORMATION

Lumena Resources Corp. (the "Company") is a limited liability incorporated in the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and its principal place of business is situated at Suite 2801, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2009.

Details of the Group reorganisation prior to the listing of the Company's shares on the Main Board of the Stock Exchange are disclosed in the Company's prospectus dated 4 June 2009.

The Company and its subsidiaries (collectively the "Group") are principally engaged in processing and sale of powder thenardite, specialty thenardite and medical thenardite.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 21 April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group on pages 43 to 102 have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standards Board ("IASB"), and all applicable individual International Accounting Standards ("IAS") and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared on the historical cost convention. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 2.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

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

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

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

2.3 Subsidiaries

Subsidiaries are an entities (including special purpose entity) over which the Group has power to govern its financial and operating polices so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal. Goodwill relating to business combinations prior to 1 January 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

2.5 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

Depreciation on property, plant and equipment, other than CIP is provided, using the straight-line method, to write off the cost or revalued amounts over their estimated useful lives, as follows:

Building and mining structures (including leasehold improvements)	4 to 30 years
Furniture, machinery and equipment	5 to 20 years
Motor vehicles	5 to 12 years

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

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of land and building.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.6 Land use rights

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

2.7 Operating leases

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

2.8 Foreign currencies

The functional currency of the Company is Hong Kong dollars ("HKD"). The financial statements are presented in Renminbi ("RMB"), since the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB.

In preparing the financial statements of individual group entity, transactions in currencies other than the group entity's functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

For the purpose of the consolidated financial statements, the assets and liabilities of the foreign entities which functional currency is not RMB are translated into RMB at the exchange rates ruling at the reporting date, and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. Foreign exchange gains and losses arising thereon are dealt with in the translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

2.9 Mining rights

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

2.10 Intangible asset (other than goodwill)

Trademark acquired in a business combination

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

Subsequently to initial recognition, trademark with indefinite useful life is carried at cost less any subsequent accumulated impairment losses. It is tested for impairment as described below in note 2.11.

2.11 Impairment of non-financial assets

The followings assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Other intangible asset;
- Property, plant and equipment;
- Land use rights; and
- The Company's interests in subsidiaries

Goodwill and other intangible asset with an indefinite useful life is 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 asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of its fair value, reflecting market conditions less costs to sell and its value in use. 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.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2.12 Inventories

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

2.13 Financial assets

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

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

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

– Significant financial difficulty of the debtor;

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

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– 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 costs.

Loss events in respect of a group of financial assets included 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 recognised as follows:

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs.

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

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and at banks including term deposits, which are not restricted as to use.

2.15 Financial liabilities

The Group's financial liabilities comprise bank borrowings, fixed rate senior notes and trade and other payables including amounts due to related parties. They are included in the line items in the statement of financial position as borrowings under current or non-current liabilities or trade and other payables.

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the year of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of statement of financial position.

Trade and other payables are recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.16).

Financial liabilities are derecognised 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, and the difference in the respective carrying amount is recognised in profit or loss.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.16 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.17 Government grants

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

2.18 Provision and contingent liabilities

A provision is recognised 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 recognised for a provision is the present value at the reporting 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 profit or loss.

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

2.19 Income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on all temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, 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, unused tax credits and unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition (other than in a business combination) of assets or liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided that they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and the use by others of the Group's assets yielding interest, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

2.21 Research and development costs

All research costs are charged to profit or loss as incurred.

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

2.22 Share capital

Ordinary shares with discretionary dividends are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

2.23 Retirement benefits costs

The Group's contributions to the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HKD1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

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

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

2.24 Share-based payment transactions

Equity-settled share-based payment

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

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

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

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

2.25 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they are share a majority of these criteria.

2.26 Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. ADOPTION OF NEW OR AMENDED IFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new IFRSs") issued by the IASB, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

IAS 1 (Revised 2007)	Presentation of financial statements
IAS 23 (Revised 2007)	Borrowing costs
IAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
IFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
IFRS 7 (Amendments)	Improving disclosures about financial instruments
IFRS 8	Operating segments
Various	Annual improvements to IFRSs 2008

Other than as noted below, the adoption of the new IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial 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 recognised directly in equity are now recognised in other comprehensive income, for example exchange difference on translation of financial statements of foreign operations. IAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

IAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are 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 the Company's accounting policy on impairment of non-financial assets.

For the current year, the Company did not receive any dividends from its subsidiaries. The new accounting policy has been applied prospectively as required by the amendments to IAS 27, and therefore no comparatives have been restated.

IFRS 2 (Amendments) 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 the financial position or performance of the Group.

IFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

IFRS 8 Operating segments

The adoption of IFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is 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 the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended IFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

IFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interests) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

IFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

IAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

Annual improvements 2009

The IASB has issued Improvements to IFRSs 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to IAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in IAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, which are described in note 2, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgements that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the financial statements are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the estimates used in assessing impairment for goodwill are set out in note 17.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for indefinite life intangible assets are set out in note 19.

Impairment of receivables

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

Useful lives of property, plant and equipment

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

Provision for reclamation and closure cost

Provision for reclamation and closure cost is estimated based on management's interpretation of current regulatory requirements and their past experiences. Provision set up, if any, is reviewed regularly by management to ensure it properly reflects the obligation arising from mining and exploration activities.

5. SEGMENT INFORMATION

On adoption of IFRS 8 Operating segments, the Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in internal reporting to the executive directors, which is the processing and sales of powder thenardite, specialty thenardite and medical thenardite.

The directors consider that the adoption of IFRS 8 has not changed the identified operating segment of the Group compared to 2008 annual financial statements.

Under IFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors. The executive directors assess segment profit or loss using a measure of operating profit. The measurement policies the Group uses for reporting segment results under IFRS 8 are the same as those used in its financial statements prepared under IFRSs, except that certain items are not included in arriving at the operating results of the operating segment (expenses relating to share-based payments, income tax and corporate income and expenses).

Segment assets include all assets with the exception of corporate assets which are not directly attributable to the business activities of operating segment as these assets are managed on a group basis.

Segment liabilities include trade and other payables and fixed rate senior notes attributable to the manufacturing and sales activities of the business segment. Certain other payables are managed on a group basis.

The revenue, profit, assets and liabilities generated by the Group's operating segment are summarised as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Reportable segment revenue *(note)*	1,344,032	1,140,354
Reportable segment profit	828,728	652,033
Interest income	1,937	66
Interest expense	(105,913)	(98,800)
Depreciation and amortisation	(55,487)	(45,730)
Reportable segment assets	3.650,322	1,861,130
Additions to non-current segment assets	1,246,682	712,253
Reportable segment liabilities	(2,237,149)	(958,883)

Note: All of the segment revenue reported above is from external customers.

Reconciliation of reportable segment profit, assets and liabilities

	2009	2008
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	828,728	652,033
Share-based payment expense	(37,965)	(13,800)
Depreciation	(845)	(1,008)
Corporate income	1,565	1,239
Corporate expenses	(20,017)	(24,881)
Profit before income tax	771,466	613,583
Assets		
Reportable segment assets	3,650,322	1,861,130
Corporate assets	462,977	42,767
Group assets	4,113,299	1,903,897
Liabilities		
Reportable segment liabilities	2,237,149	958,883
Corporate liabilities	87,908	119,472
Group liabilities	2,325,057	1,078,355

The Group's revenues from external customers and its non-current assets are divided into the following geographical areas:

	Revenue from external customers		**Non-current assets**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Local (country of domicile):				
– The PRC, other than Hong Kong	1,343,054	1,129,863	2,482,087	1,601,399
New Zealand	695	5,009	–	–
Hong Kong	–	–	2,201	2,709
Others	283	5,482	–	–
	978	10,491	2,201	2,709
	1,344,032	1,140,354	2,484,288	1,604,108

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the non-current assets is based on the physical location of the asset.

The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have any activities, the Group has the majority of its operations and workforce in the PRC, and therefore, PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by IFRS 8 "Operating Segments".

Revenue of approximately RMB339,170,000 (2008: RMB265,984,000) was derived from sales to a single customer, being the largest customer of the Group in 2009. As at 31 December 2009, approximately RMB122,951,000 (2008: RMB44,028,000) was due from this customer.

6. REVENUE

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

	2009	2008
	RMB'000	*RMB'000*
Revenue		
– powder thenardite	126,659	154,486
– medical thenardite	335,729	192,163
– specialty thenardite	881,644	793,705
	1,344,032	1,140,354

7. OTHER REVENUE AND GAINS

	2009	2008
	RMB'000	*RMB'000*
Interest income on bank balances stated at amortised cost	2,266	1,300
Gain on disposals of scrap materials	1,007	1,530
Government subsidy	1,085	–
Net foreign exchange gain	1,235	–
Others	173	298
	5,766	3,128

Government grants were received from the PRC government for encouraging the Group's registered trademark "Chuanmei" as a "China Well-known Trademark" recognised by the State Administration for Industry and Commerce. There are no unfulfilled conditions or contingencies relating to these grants.

8. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expenses on bank borrowings wholly repayable within five years	66,238	119,593
Interest expenses on fixed rate senior notes	37,237	–
Amortisation of fixed rate senior notes	2,438	–
Less: Amount included in the cost of qualifying assets	–	(20,793)
	105,913	98,800

Borrowing costs included in the cost of qualifying assets have been capitalised at rate of 19.54% for the year ended 31 December 2008.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting) the following items:

	2009 *RMB'000*	**2008** *RMB'000*
Auditors remuneration	971	1,274
Amortisation of land use rights *(note (i))*	1,288	1,274
Amortisation of mining rights *(note (i))*	13,620	4,236
Cost of inventories recognised as an expense	364,427	256,471
Depreciation of property, plant and equipment *(note (ii))*	41,424	41,228
Repair expenses arising from earthquake	–	8,280
Gain on disposals of property, plant and equipment	–	(364)
Write-off of property, plant and equipment	430	–
Net foreign exchange loss	–	47
Operating lease charges on rented premises	3,174	2,284
Staff costs (including directors' remuneration)		
– Wages, salaries and bonus	40,722	42,012
– Equity-settled share-based payments *(note 34)*	37,965	13,800
– Contribution to defined contribution pension plans	2,469	2,093
	81,156	57,905

Notes:

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

(ii) Depreciation of RMB38,113,000 (2008: RMB37,930,000), RMB251,000 (2008: RMB251,000) and RMB3,060,000 (2008: RMB3,047,000) has been charged to cost of sales and selling and distribution expenses and other operating expenses respectively, for the year ended 31 December 2009.

10. INCOME TAX EXPENSE

	2009 *RMB'000*	**2008** *RMB'000*
Current tax		
– Provision for PRC income tax	195,945	171,503
Deferred tax *(note 31)*	30,616	–
Total income tax expense	226,561	171,503

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the year (2008: Nil).

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong during the year (2008: Nil).

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

(iv) On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC ("new EIT Law"), which became effective on 1 January 2008. According to the new EIT Law, the income tax rate applicable to the Group's PRC subsidiaries is unified at 25%. Pursuant to the grandfathering arrangement under the new tax law, the Group's subsidiaries will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. Thereafter, the normal tax rate applicable to the Group's PRC subsidiaries is unified at 25%. For the year ended 31 December 2009, Chuanmei Mirabilite is subject to EIT tax rate of 12.5% (2008: 12.5%).

(v) Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), another subsidiary of the Company, is subject to EIT tax rate of 25% for the year ended 31 December 2009 (2008: 25%).

(vi) For the year ended 31 December 2009, the Group did not have any material unrecognised deferred tax assets.

Pursuant to the new EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate is enjoyed by the Group because there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated for the year ended 31 December 2009.

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

	2009	**2008**
	RMB'000	*RMB'000*
Profit before income tax	771,466	613,583
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	209,340	164,848
Effect of tax holidays of the PRC subsidiaries	(33,274)	(17,799)
Tax effect of expenses not deductible	22,030	24,658
Tax effect of income not taxable	(2,151)	(204)
Effect of withholding tax at 5% on distributable profits of the Group's PRC subsidiaries	30,616	–
Income tax expense	226,561	171,503

11. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of RMB532,966,000 (2008: RMB429,739,000), a loss of RMB128,497,000 (2008: RMB120,935,000) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB532,966,000 (2008: RMB429,739,000) and the weighted average number of ordinary shares of 1,748,179,236 (2008: the number of ordinary shares of 1,520,000,000, which has been determined after taking into consideration of the share subdivision, and 520,000,000 shares issued pursuant to the capitalisation issue of the Company on 25 April 2008, as if the shares were in issue since 1 January 2008) in issue during the year, which has been determined after taking into consideration of the shares issued to the public by way of global offering and the exercise of share options.

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to owners of the Company of RMB532,966,000 and the weighted average number of ordinary shares of 1,766,813,424 outstanding during the year, after adjusting for the effects of all dilutive potential ordinary shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average number of ordinary shares of 1,748,179,236 in issue during the year as used in calculation of basic earnings per share plus the number of ordinary shares of 18,634,188 deemed to be issued at no consideration as if all the Company's shares options had been exercised.

The Company assumed the outstanding share options under the pre-IPO share option scheme approved by the Company's shareholders on 30 April 2008 ("Pre-IPO Share Option Scheme") had been exercised upon the grant date of the share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from the listing date on 16 June 2009 to 31 December 2009).

No diluted earnings per share for the year ended 31 December 2008 is presented as its inclusion, for the purpose of this report is not considered meaningful.

13. DIVIDENDS

No dividends were approved and paid during the year (2008: Nil).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	Directors' fees *RMB'000*	Salaries and allowance *RMB'000*	Discretionary bonus *RMB'000*	Contribution to pension plans *RMB'000*	Equity-settled share-based payment expenses *RMB'000*	Total *RMB'000*
2009						
Executive directors						
Zhang Daming	–	917	–	11	3,152	4,080
Deng Xianxue	–	917	–	11	3,111	4,039
Li Xudong	–	630	–	13	2,968	3,611
Non-executive directors						
Suo Lang Duo Ji	–	1,146	–	11	383	1,540
Zhang Songyi	–	1,146	–	11	383	1,540
Wang Chun Lin	–	1,237	–	11	2,394	3,642
Independent non-executive directors						
Patrick Logan Keen	206	–	–	–	–	206
Koh Tiong Lu John	154	–	–	–	–	154
Wong Chun Keung	154	–	–	–	–	154
	514	5,993	–	68	12,391	18,966

	Directors' fees *RMB'000*	Salaries and allowance *RMB'000*	Discretionary bonus *RMB'000*	Contribution to pension plans *RMB'000*	Equity-settled share-based payment expenses *RMB'000*	Total *RMB'000*
2008						
Executive directors						
Zhang Daming	–	925	–	11	792	1,728
Deng Xianxue	–	930	–	25	750	1,705
Li Xudong	–	454	–	15	600	1,069
Non-executive directors						
Suo Lang Duo Ji	–	1,156	–	11	–	1,167
Zhang Songyi	–	1,156	–	11	–	1,167
Wang Chun Lin	–	1,249	–	11	–	1,260
	–	5,870	–	84	2,142	8,096

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2008: Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

The value of share options granted to directors is measured according to the Group's accounting policy for share-based compensation set out in Note 2.24. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading 'share options' in the directors' report.

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2008: five) directors whose emoluments are reflected in the analysis presented above.

15. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress *RMB'000*	Buildings and mining structures *RMB'000*	Furniture, machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2008					
At cost	38,200	129,482	473,918	4,191	645,791
Accumulated depreciation	–	(4,949)	(28,076)	(881)	(33,906)
Net book amount	38,200	124,533	445,842	3,310	611,885
Year ended 31 December 2008					
Opening net book amount	38,200	124,533	445,842	3,310	611,885
Additions	226,825	8,550	891	25	236,291
Disposal	–	(516)	–	–	(516)
Depreciation	–	(6,558)	(33,905)	(765)	(41,228)
Reclassifications	(59,054)	44,717	14,210	127	–
Exchange alignment	–	(50)	(55)	(113)	(218)
Closing net book amount	205,971	170,676	426,983	2,584	806,214
At 31 December 2008					
At cost	205,971	182,108	488,951	4,190	881,220
Accumulated depreciation	–	(11,432)	(61,968)	(1,606)	(75,006)
Net book amount	205,971	170,676	426,983	2,584	806,214
Year ended 31 December 2009					
Opening net book amount	205,971	170,676	426,983	2,584	806,214
Additions	755,703	30,103	56,682	535	843,023
Depreciation	–	(8,903)	(31,782)	(739)	(41,424)
Write-off	–	(430)	–	–	(430)
Reclassifications	(657,572)	537,658	119,871	43	–
Closing net book amount	304,102	729,104	571,754	2,423	1,607,383
At 31 December 2009					
At cost	304,102	749,061	665,504	4,768	1,723,435
Accumulated depreciation	–	(19,957)	(93,750)	(2,345)	(116,052)
Net book amount	304,102	729,104	571,754	2,423	1,607,383

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

Certain buildings and mining structures, machinery and equipment are pledged to secure bank borrowings granted to the Group as disclosed in note 30.

16. LAND USE RIGHTS – GROUP

	2009	**2008**
	RMB'000	*RMB'000*
Net carrying amount at 1 January	57,709	56,400
Additions	663	2,583
Amortisation charge	(1,288)	(1,274)
Net carrying amount at 31 December	57,084	57,709

The Group's interests in land use rights represent prepaid operating lease payments in respect of land located in the PRC. The land use rights were acquired with the lease period from 43 years to 50 years and are amortised over their lease periods. As at 31 December 2009, the land use rights have remaining lease periods from 32 to 49 years.

17. GOODWILL – GROUP

	RMB'000
Net carrying amount at 1 January 2008 and 31 December 2008	8,386
Net carrying amount at 31 December 2009	8,386

Goodwill as at 31 December 2009 arose from the acquisition of Chuanmei Mirabilite in 2004. For the annual impairment test, the carrying amount of goodwill belongs to the cash generating unit which engages in processing and sale of powder and medical thenardite. Its recoverable amount was determined based on a value in use calculation, covering a detailed three-year budget plan. The discount rate applied to the cash flow projections was 22.89% (2008: 22.89%). Cash flow beyond the three-year period is extrapolated using the estimated growth rate of 2% (2008: 2%). The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC. Based on the results of the impairment testing, management determines that there is no impairment of the cash-generating unit of processing and sale of powder and medical thenardite attributed to the goodwill.

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

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

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

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

18. MINING RIGHTS – GROUP

	RMB'000
At 1 January 2008	
Cost	245,427
Accumulated amortisation	(357)
Net book value	245,070
Year ended 31 December 2008	
Opening net book amount	245,070
Additions	163,636
Amortisation charge	(4,236)
Closing net book amount	404,470
At 31 December 2008	
Cost	409,063
Accumulated amortisation	(4,593)
Net book value	404,470
Year ended 31 December 2009	
Opening net book amount	404,470
Amortisation charge	(13,620)
Closing net book amount	390,850
At 31 December 2009	
Cost	409,063
Accumulated amortisation	(18,213)
Net book value	390,850

Notes:

(i) The Group started mining at the Dahongshan Mining Area in 2005 and obtained the mining right certificate in April 2005 which was expired in October 2008. The mining right is amortised over the contractual period of 3.5 years. During the year ended 31 December 2008, the Group paid a sum of approximately RMB51,046,000 to renew the mining right of Dahongshan Mining Area for the period from September 2008 to September 2038.

(ii) On 10 September 2007, the Group entered into an agreement to acquire the mining right of the Muma Mining Area at a total consideration of approximately RMB240,000,000 of which approximately RMB154,225,000 had been paid by the Group in 2007. The remaining balance of RMB85,775,000 was paid in 2008. During the year ended 31 December 2008, borrowing costs of approximately RMB20,793,000 were capitalised and included in the cost incurred for acquisition of mining right of the Muma Mining Area.

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

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

(v) Details of the Group's mining rights pledged to secure the Group's bank borrowings are set out in note 30 below.

19. OTHER INTANGIBLE ASSET – GROUP

	Trademark
	RMB'000
At 1 January 2008, 31 December 2008	
Cost	17,588
Impairment loss recognised	–
Net book value	17,588
At 31 December 2009	
Cost	17,588
Impairment loss recognised	–
Note book value	17,588
Year ended 31 December 2008 and 2009	
Opening net book amount	17,588
Closing net book amount	17,588

Trademark as at 31 December 2009 arose from the acquisition of Chuanmei Mirabilite in 2004. The Group assessed the useful life and economic life of the trademark and concluded that the trademark have no foreseeable limit to the period which it is expected to generate net cash inflow for the Group and regarded the trading right as having indefinite useful life.

The carrying amount of trademark at each reporting date is tested for impairment by the management by estimating its recoverable amount based on the value in use calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to the year 2012. The discount rate applied to the cash flow projections was 19.84% (2008: 19.84%). Cash flow beyond the three-year period is extrapolated using the estimated growth rate of 2% (2008: 2%). The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC.

Based on the results of the impairment testing, management determines that there is no impairment of the cash-generating unit of processing and sale of thenardite attributed to the trademark.

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

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

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

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

20. DEPOSITS – GROUP

	2009	2008
	RMB'000	*RMB'000*
Deposits paid for acquisition of property, plant and equipment	255,752	309,741
Deposits paid for acquisition of land use right	26,801	–
Deposits paid for acquisition of mining right	115,982	–
Other deposits	4,462	–
	402,997	309,741

21. INTERESTS IN SUBSIDIARIES – COMPANY

	2009	2008
	RMB'000	*RMB'000*
Investment in subsidiaries	113,014	113,014
Amounts due from subsidiaries	612,745	615,960
	725,759	728,974

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

The Company's interests in certain subsidiaries are pledged as securities for the Company's issued fixed rate senior notes as shown in note 29.

As at 31 December 2009, the particulars of the principal subsidiaries in which the Company has direct or indirect interests are set out as follows:

Name	Country/Place of incorporation/ establishment and type of legal entity	Particulars of issued and fully paid share capital/registered capital	Effective Interest held by the Company	Principal activities
Interests held directly				
Rich Light International Limited	Incorporated in the BVI, limited liability company	U.S. dollars ("USD") 100	100%	Investment holding
Interests held indirectly				
Top Promise Resources Limited ("Top Promise")	Incorporated in Hong Kong, limited liability company	HKD1	100%	Investment holding
Sichuan Chuanmei Mirabilite Co., Ltd. 四川省川眉芒硝有限責任公司	Established in the PRC, foreign investment enterprise	RMB142,077,000	100%	Processing and sale of powder thenardite and medical thenardite
Sichuan Chuanmei Special Glauber Salt Co., Ltd. 四川川眉特種芒硝有限公司	Established in the PRC, wholly foreign-owned enterprise	USD75,000,000	100%	Processing and sale of powder thenardite and specialty thenardite

22. INVENTORIES – GROUP

	2009	2008
	RMB'000	*RMB'000*
Raw materials	8,913	5,394
Finished goods	4,647	2,876
	13,560	8,270

23. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	361,015	137,478	–	–
Less: provision for impairment	(9,146)	(9,146)	–	–
Trade receivables, net	351,869	128,332	–	–
Other receivables	103,379	63,565	67,659	–
Bills receivables	80	80	–	–
Deposits and prepayments	60,010	65,784	243	6,885
Amounts due from related parties*	–	537	–	–
	515,338	258,298	67,902	6,885

* The balances due from related parties were unsecured, interest-free and fully settled during the year.

Trade receivables are non-interest bearing. Credit terms normally granted to the trade customers ranged from 45 days to 100 days depending on the customers' relationship with the Group, its creditworthiness and settlement record.

Ageing analysis of trade receivables, net of impairment provision, is as follows:

	2009	2008
	RMB'000	*RMB'000*
Outstanding balances with ages:		
– 90 days or below	334,483	115,465
– 91 – 180 days	11,945	8,675
– 181 – 365 days	251	3,789
– Over 365 days	5,190	403
	351,869	128,332

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

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

	2009	2008
	RMB'000	*RMB'000*
At 1 January and 31 December	9,146	9,146

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed.

The individually impaired receivables mainly relate to management assessment that the entire amount of the receivable balances is unlikely to be recovered. The Group did not hold any collateral as security or other credit enhancements over the impaired receivables. The ageing analysis of trade receivables which were impaired and were provided for as at 31 December 2009 is as follows:

	2009	2008
	RMB'000	*RMB'000*
Over 365 days	9,146	9,146

The ageing analysis of trade receivables that are past due as at the reporting date but are not considered impaired based on due date is as follows:

	2009	2008
	RMB'000	*RMB'000*
– 1 – 90 days past due	11,945	–
– 91 – 180 days past due	9	–
– 181 – 365 days past due	242	3,789
– Over 365 days past due	5,190	403
	17,386	4,192

As at 31 December 2009, trade receivables of RMB334,483,000 (2008: RMB124,140,000) that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

24. LOANS TO SUBSIDIARIES – COMPANY

	2009	2008
	RMB'000	*RMB'000*
Loans to subsidiaries	1,190,843	–

The loans to subsidiaries are unsecured, interest-free and repayable on demand. The directors considered that the carrying amounts of the balances approximate to their fair values.

25. PLEDGED BANK DEPOSITS

As at 31 December 2009, pledged bank deposits were denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– HKD *(note)*	–	39	–	–
– USD *(note)*	170,646	32,355	170,646	32,355
	170,646	32,394	170,646	32,355

Notes:

Certain bank deposits of the Company have been pledged to secure RMB bank loan (note 28(i)) as at 31 December 2009. The effective interest rate per annum on the pledged bank deposits of the Company was 0.92%. It will be released upon the settlement of relevant bank borrowing.

Certain bank balances of Top Promise and the Company pledged to secure the USD bank loan had been released upon the settlement of relevant borrowing on 7 August 2009. The effective interest rate per annum on the pledged bank deposits of Top Promise and the Company were nil and 2.98% respectively.

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

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	572,842	925	133,431	59
Short-term bank deposits	527,271	32,296	202,271	32,296
Less: Pledged bank deposits	(170,646)	(32,394)	(170,646)	(32,355)
Cash and cash equivalents as stated in the statement of financial position	929,467	827	165,056	–

Cash deposited with banks bear interest at effective interest rates ranging from 0.01% to 1.7% (2008: 0.01% to 1.7%) per annum during the year ended 31 December 2009.

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

The Group had cash and bank balances denominated in RMB amounting to approximately RMB366,310,000 (2008: RMB603,000) as at 31 December 2009, which were deposited with banks in the PRC. RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

27. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	39,289	45,543	–	–
Other payables	157,996	172,202	99,944	94,823
Receipt in advance	28,712	29,840	–	–
Consideration payable on acquisition of minority interests *(note 35)*	79,200	–	–	–
Amount due to a director*	–	112,359	–	30,057
Amount due to a related party*	–	815	–	–
Amounts due to shareholders*	–	36	–	36
	305,197	360,795	99,944	124,916

* The balances due to the related parties were unsecured, interest-free and wholly repaid during the year.

Ageing analysis of trade payables is as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Outstanding balances with ages:		
– 90 days or below	29,848	26,638
– 91 – 180 days	2,045	5,064
– 181 – 365 days	1,019	2,921
– Over 365 days	6,377	10,920
	39,289	45,543

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

28. BANK BORROWINGS

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured	356,500	682,565	–	593,065

As 31 December 2009, the Group's bank borrowings are secured and were repayable as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Within one year	236,500	258,947	–	169,447
Non-current				
In the second year	120,000	169,447	–	169,447
In the third to fifth years	–	254,171	–	254,171
	120,000	423,618	–	423,618
	356,500	682,565	–	593,065

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	356,500	89,500	–	–
USD	–	593,065	–	593,065
	356,500	682,565	–	593,065

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

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– at fixed rates *(note (i))*	200,000	89,500	–	–
– at floating rates *(note (ii))*	156,500	593,065	–	593,065
	356,500	682,565	–	593,065

Notes:

(i) The RMB bank loans were arranged at fixed interest rates of 5.05% to 5.09% (2008: 5.58% to 7.47%) per annum as at 31 December 2009.

The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in note 30.

(ii) The RMB bank loans were arranged at floating rate of 5.31% to 5.51% per annum as at 31 December 2009. The USD bank loan was wholly repaid during the year. It was arranged at floating rate of approximately 6% as at 31 December 2008.

The carrying amounts of bank borrowings approximate to their fair value.

29. FIXED RATE SENIOR NOTES – GROUP AND COMPANY

On 27 October 2009, the Company issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which matures on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010 (each, an "Interest Payment Date"). The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At any time prior to 27 October 2012, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principle amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to 27 October 2012, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

At any time on or after 27 October 2012, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 27 October of any year set forth below:

Period	**Redemption price**
2012	106%
2013	103%

The Company gives not less than 30 days' nor more than 60 days' notice of any redemption.

The early redemption option of the Notes is regarded as an embedded derivative not closely related to the host contract (the Notes). It shall be separately accounted for as a financial instrument at fair value through profit or loss. The directors consider that the fair value of the early redemption option was insignificant on initial recognition and as at the reporting date.

The Notes recognised in the statement of financial position are calculated as follows:

	2009	**2008**
	RMB'000	*RMB'000*
Carrying amount as at 1 January	–	–
Issue of the Notes	1,614,319	–
Amortisation of the Notes *(note 8)*	2,438	–
Exchange difference	(2)	–
Carrying amount as at 31 December	1,616,755	–
Fair value of the Notes as at 31 December*	1,450,490	–

* The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at that date.

The effective interest rate of the Notes is 13.52% per annum.

30. PLEDGE OF ASSETS

At 31 December 2009, the Group had pledged certain buildings, machinery and equipment and other assets to secure the credit facilities granted by certain banks. The carrying values of these assets pledged at the reporting date are as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings and mining structures *(note 15)*	31,711	71,795	–	–
Machinery and equipment *(note 15)*	289,434	30,110	–	–
Land use rights *(note 16)*	–	23,789	–	–
Mining rights *(note 18)*	48,833	–	–	–
Bank deposits *(note 25)*	170,646	32,394	170,646	32,355
	540,624	158,088	170,646	32,355

31. DEFERRED TAX LIABILITY – GROUP

The movement in the deferred tax liabilities during the year is as follows:

	Withholding tax
	RMB'000
At 1 January 2009	–
Deferred tax charged to the income statement during the year *(note 10)*	30,616
At 31 December 2009	30,616

As at 31 December 2009, deferred tax liability was recognised for withholding tax that would be payable on the unremitted earnings for the period from 1 January 2009 to 31 December 2009 that are subject to withholding tax arising from Chuanmei Mirabilite and Chuanmei Glauber Salt. In the opinion of the directors, it is probable that these subsidiaries will distribute such earnings in the foreseeable future. The temporary difference associated with investment in these subsidiaries for which deferred tax liability has been recognised totalled approximately RMB30,616,000.

However, deferred tax liability of approximately RMB25,021,000 (2008: RMB25,021,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings amounted to approximately RMB500,425,000 for the period from 1 January 2008 to 31 December 2008 of Chuanmei Mirabilite and Chuanmei Glauber Salt, as such amount are reinvested; according to the PRC audited accounts of these subsidiaries.

32. SHARE CAPITAL

	Par Value	Number of ordinary shares	Nominal value	
	USD		*USD*	*RMB'000*
Authorised:				
At the 1 January 2008 *(note (i))*	0.1	500,000	50,000	385
Subdivision of shares *(note (ii))*	–	4,999,500,000	–	–
At 31 December 2008, 1 January 2009 and 31 December 2009	0.00001	5,000,000,000	50,000	385
Issued and fully paid:				
At the 1 January 2008 *(note (i))*	0.1	100,000	10,000	77
Subdivision of shares *(note (ii))*	–	999,900,000	–	–
Issue of new shares *(note (iii))*	0.00001	520,000,000	5,200	36
At 31 December 2008	0.00001	1,520,000,000	15,200	113
Issue of new shares in connection with the listing *(note (iv))*	0.00001	404,000,000	4,040	28
Exercise of share options – proceeds from shares issued	0.00001	26,657,500	267	2
At 31 December 2009	0.00001	1,950,657,500	19,507	143

Notes:

(i) The Company was incorporated on 12 April 2007 with an authorised share capital of USD50,000 divided into 500,000 shares, each with par value of USD0.1. Upon incorporation, a share held by the subscriber was transferred to a shareholder. On the same date, 99,999 shares each were issued and allotted at par value of USD0.1 each.

(ii) Pursuant to the written resolution of the shareholders of the Company passed on 25 April 2008, every issued and unissued ordinary shares of USD0.1 each of the Company was subdivided into 10,000 ordinary shares of USD0.00001 each (the "Shares Subdivision"). The Shares Subdivision became effective on the same date. As a result of the Shares Subdivision, the authorised share capital of the Company has become USD50,000 divided into 5,000,000,000 ordinary shares of USD0.00001 each and the issued share capital immediately prior to the Shares Subdivision of USD10,000 divided into 100,000 ordinary shares of USD0.1 each has become USD10,000 divided into 1,000,000,000 ordinary shares of USD0.00001 each.

(iii) On 25 April 2008 (after the effect of the Shares Subdivision), an aggregate of 520,000,000 ordinary shares were allotted and issued, credited as fully paid at par of USD0.00001 each to the then shareholders of the Company proportional to their then shareholdings, by the capitalisation of the sum of USD5,200 (equivalent to RMB36,338) from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the proposed listing of the Company's shares on the Stock Exchange.

(iv) On 16 June 2009, 404,000,000 new shares of USD0.00001 each of the Company were issued to the public by global offering at HKD2.00 (equivalent to RMB1.76) each. The gross proceeds received from the issue of 404,000,000 new shares amount to approximately HKD808,000,000 (equivalent to RMB712,656,000). Part of the proceeds amounting to approximately RMB28,000 was recorded as share capital, the remaining proceeds of approximately RMB712,628,000 was recorded in the share premium accounts. The shares of the Company were listed on the Stock Exchange on 16 June 2009.

33. RESERVES

(a) Company

Details of the Company's reserve are as follows:

	Share premium	Employee share-based compensation reserve	Capital contribution	Translation reserve	Contributed surplus*	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	27,872	–	103,539	(658)	85,142	(59,303)	156,592
Issue of new shares upon capitalisation issue *(note 32(iii))*	(36)	–	–	–	–	–	(36)
Recognition of share-based payments	–	13,800	–	–	–	–	13,800
Transactions with owners	(36)	13,800	–	–	–	–	13,764
Loss for the year	–	–	–	–	–	(120,935)	(120,935)
Exchange gain on translation of financial statements of foreign operations	–	–	–	699	–	–	699
At 31 December 2008 and 1 January 2009	27,836	13,800	103,539	41	85,142	(180,238)	50,120
Issue of new shares arising from listing *(note 32(iv))*	712,628	–	–	–	–	–	712,628
Expenses of share issues	(114,987)	–	–	–	–	–	(114,987)
Exercise of share options	59,147	(12,160)	–	–	–	–	46,987
Recognition of share-based payments	–	37,965	–	–	–	–	37,965
Transactions with owners	656,788	25,805	–	–	–	–	682,593
Loss for the year	–	–	–	–	–	(128,497)	(128,497)
Exchange loss on translation of financial statements of foreign operations	–	–	–	(852)	–	–	(852)
Lapse of share options	–	(6,164)	–	–	–	6,164	–
At 31 December 2009	684,624	33,441	103,539	(811)	85,142	(302,571)	603,364

* Contributed surplus represents the difference between the underlying net assets of the subsidiaries acquired by the Company and the nominal value of the shares issued by the Company pursuant to the shares swap for the Group reorganisation.

(b) Group

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity.

Employee share-based compensation reserve

Employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unvested share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based employee compensation set out in note 2.24.

General reserve

General reserve represents the difference between the net assets acquired by the Group and the consideration paid for the acquisition of additional interest in a subsidiary as described in note 35.

Capital contribution

On 23 June 2007, the Company entered into a facility agreement with Credit Suisse, Singapore Branch and Credit Suisse International to borrow an US Dollar bank loan. At the same date, the Company and its shareholders are required to enter into another agreement in respect of an instrument constituting warrants to purchase shares in the Company for the provision of the facility. The warrants were issued by a shareholder of the Company to Credit Suisse, Singapore Branch and Credit Suisse International, the warrant holders, with a right to purchase a specified amount of the Company's shares within a specific period. Due to the fact that the facility arrangements were specially for the purpose of capital injection in Chuanmei Glauber Salt and the acquisition of mines, and these facility arrangements were secured by the warrants and guarantees provided by shareholders, accordingly, the capital contribution of the Group and the Company represented the fair value of the warrants which entitled the warrant holders to purchase for the share capital of the Company from a shareholder as well as the guarantees provided by the shareholders of the Company.

Statutory reserves

– *Statutory surplus reserve*

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

– *Statutory public welfare fund*

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

34. SHARE-BASED EMPLOYEE COMPENSATION

(i) Pre-IPO share option scheme

Pursuant to a written resolution approved by the Company's shareholders on 30 April 2008, the Pre-IPO Share Option Scheme became effective. Certain executive directors, senior managerial staff and employees of the Group were granted options to recognise their contributions to the Group. Under the Pre-IPO Share Option Scheme, 198 individuals (the "Grantees") comprised of 3 directors, 7 senior managerial staff and 188 employees of the Group, were granted options conditionally. The exercise of the options would entitle the Grantees to purchase an aggregate of 76,000,000 shares of the Company immediately following completion of the global offering and the capitalisation issue at the offer price. The options vested on 16 June 2009, the date on which the shares of the Company were listed on the Stock Exchange (the "Listing Date"), and the Grantees remain in employment for a certain period of time. The options are exercisable by installments and up to 7 years since the Listing Date. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

Pre-IPO share options and weighted average exercise price are as follows for the reporting periods presented:

	2009		2008	
	Number	Weighted average exercise price *HKD*	Number	Weighted average exercise price *HKD*
Outstanding at 1 January	76,000,000	2	–	–
Granted	–	–	76,000,000	2
Forfeited	(341,000)	2	–	–
Exercised	(26,657,500)	2	–	–
Expired	–	–	–	–
Outstanding at 31 December	49,001,500	2	76,000,000	2
Exercisable at 31 December	11,342,500	2	–	–

The Group would receive HKD1.00 for each grant under the Pre-IPO Share Option Scheme.

The weighted average share price for share options exercised during the year at the date of exercise was HKD3.39.

The options outstanding at 31 December 2009 had exercise prices of HKD2.00 (2008: HKD2.00) and a weighted average remaining contractual life of 6.46 years (2008: 7.46 years).

The fair value of the options is determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

Expected volatility*	47.88%
Risk-free interest rate	2.544%
Dividend yield	3.93%
Expected life of option	7 years
Fair value at grant date	HKD0.51 – HKD0.59
Exercise price at the date of grant	HKD1.659

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

The fair value of the options granted is approximately HKD41,099,000 in aggregate, of which the Group recognised HKD15,452,000 (RMB13,618,000) (2008: HKD15,512,000 (RMB13,800,000)) as share option expense in the consolidated statement of comprehensive income for the year ended 31 December 2009. The corresponding amount has been credited to the share option reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

(ii) Share option scheme

In order to comply with the Listing Rules of Main Board regarding share option scheme of a Company, a share option scheme (the "Share Option Scheme") was adopted by the Company on 26 May 2009.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who work for the interest of the Group. Eligible participants of the Share Option Scheme include executive directors, non-executive directors, employees, consultants, advisers and other service providers. The Share Option Scheme became effective on 26 May 2009 and, unless otherwise cancelled or amended will remain in force for 10 years from that date.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HKD5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The share options vest upon the commencement of the exercise period which is determined by the Board at the date of grant. The grantees are entitled to exercise the share options upon fulfilment of all requirements set out in the Share Option Scheme.

Share options and weighted average exercise price at the reporting date are as follows:

	2009	
	Number	**Weighted average exercise price** *HKD*
Outstanding at 1 January	–	–
Granted	103,200,000	3.59
Forfeited	(1,000,000)	3.59
Exercised	–	–
Expired	(51,600,000)	3.59
Outstanding at 31 December	50,600,000	3.59
Exercisable at 31 December	–	3.59

The options outstanding at 31 December 2009 had exercise prices of HKD3.59 and a weighted average remaining contractual life of 1.50 years.

On 28 July 2009, the Company granted 103,200,000 share options to certain of its directors and employees for HKD1.00 consideration for each grant at an exercise price of HKD3.59 per share. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 2 October 2009, 1 January 2010 and 1 January 2011 and expiring on 31 December 2009, 31 December 2010 and 31 December 2011 respectively.

No option was exercised during the period between the grant date and year ended 31 December 2009.

The fair values of options granted were determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

Share price at date of grant	HKD3.59
Expected volatility*	23.91% – 68.75%
Risk-free interest rate	0.06% – 0.61%
Dividend yield	15%
Expected life of option	0.25 – 2.25 years
Fair value at grant date	HKD0.14 – HKD0.70
Exercise price at the date of grant	HKD3.59

* The underlying expected volatility was determined by reference to historical data, calculated based on expected life of share options. Expectations of early exercise were incorporated into the Binomial Option Pricing Model. No special features pertinent to the options granted were incorporated into measurement of fair value.

The fair value of the options granted is approximately HKD40,713,000 in aggregate, of which the Group recognised HKD27,625,000 (RMB24,347,000) as share option expense in the consolidated statement of comprehensive income for the year ended 31 December 2009. The corresponding amount has been credited to the share option reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

35. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 19 August 2009, Top Promise, an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Sichuan First Silk Printing & Dyeing Co., Ltd. ("Sichuan First"), a 10% equity holder of Chuanmei Mirabilite, pursuant to which the Top Promise agreed to acquire and Sichuan First agreed to dispose of 10% equity interest in Chuanmei Mirabilite for a consideration of RMB264 million. Upon the completion of the acquisition of this further 10% interest in Chuanmei Mirabilite ("MI Acquisition"), the Group is entitled to 100% interest in Chuanmei Mirabilite.

Further information about the MI Acquisition is as follows:

	RMB'000
Consideration	264,000
Less: net assets acquired	52,181
Excess of the carrying values of net assets acquired over the consideration	211,819
To be satisfied by:	
Cash	264,000

The excess of the consideration paid of RMB264,000,000 over the carrying values of the underlying assets and liabilities attributable to the additional interests in Chuanmei Mirabilite is recognised directly in equity.

Among the total cost of investment of RMB264,000,000, RMB79,200,000 remain outstanding as at 31 December 2009 and is included in note 27 to the financial statements.

36. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2009 *RMB'000*	2008 *RMB'000*
Within one year	3,597	2,358
In the second to fifth years	200	2,304
	3,797	4,662

The Group leases a number of properties under operating leases. The leases run for an initial period of 2 to 3 years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company had no operating lease commitments as at 31 December 2009 (2008: Nil).

37. CAPITAL COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	2009 *RMB'000*	2008 *RMB'000*
Contracted, but not provided for:		
– additions to property, plant and equipment	305,932	304,817
– acquisition of land use right	4,786	4,786
	310,718	309,603

Company

The Company does not have any significant capital commitments.

38. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, the Group and the Company have the following related party transactions during the year:

Key management personnel remuneration

Key management of the Group are members of the board of directors, as well as the senior management of the Group. Key management personnel remuneration includes the following expenses:

	2009 *RMB'000*	2008 *RMB'000*
Salaries, allowances and other short-term employee benefits	9,761	8,321
Equity-settled share-based payment expenses	16,583	5,773
Contribution to pension plans	120	107
	26,464	14,201

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the board of directors meet regularly and co-operate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks. The Group has not used any derivatives or other instruments for hedging purposes and has not hold or issue derivative financial instruments for trading purposes. The most significant risks to which the Group is exposed to are described below.

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Except for bank deposits which are interest bearing (notes 25 and 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises primarily from bank borrowings. Bank borrowings obtained at variable rates and fixed rates expose the Group to cash flow interest-rate risk and fair value interest rate risk respectively.

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

The Group is exposed to changes in market interest rates on its bank borrowings, which are at variable rates.

As at 31 December 2009, approximately 44% of the bank borrowings bore interest at floating rates (2008: approximately 87%). The interest rate and terms of repayment of bank borrowings are disclosed in note 28 above. The Group has not hedged its cash flow and fair value interest rate risk. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

The policies to manage interest rate risk have been followed by the Group since prior year are considered to be effective.

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of +/-1.5% (2008: +/-1.5%), with effect from the beginning of the year. This sensitivity analysis is provided internally to key management personnel.

	Group Profit for the year and retained earnings	
	RMB'000	*RMB'000*
Change in interest rate	+1.5%	-1.5%
31 December 2009	(2,348)	2,348
31 December 2008	(11,646)	11,646

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

The calculations are based on a change in average market interest rates for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant. The sensitivity analysis included in the financial statements of the year ended 31 December 2008 has been prepared on the same basis.

The Company's other borrowing is at fixed interest rates. The Company therefore does not have any exposure to interest rate risk at the reporting date.

(ii) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in the PRC. The functional currency of the Company and its subsidiaries are mainly HKD and RMB respectively with certain of their business transactions being settled in USD. Further the Group has borrowings denominated in USD. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

Summary of exposure

The overall net exposure in respect of the carrying amount of the Group's and the Company's foreign currency denominated financial assets and liabilities in net position as at 31 December 2009 and 2008 were as follows:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net financial liabilities				
USD	1,165,112	560,710	1,510,132	560,710

In respect of those Group entities with HKD as functional currency, as HKD is linked to USD, the Group does not have material exchange risk on such currency. The following table illustrates the sensitivity of the Company's and Group's profit after tax for the year and equity in regards to a 10% (2008: 10%) appreciation in RMB against USD. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year. There is no impact on other components of equity in response to the general fluctuation in the following foreign currency rate.

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year and				
retained earnings	(25,603)	56,071	–	56,071

These are the same method and assumption used in preparing the sensitivity analysis included in the financial statements of the year ended 31 December 2008.

(iii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Classes of financial assets – carrying amount				
Trade and other receivables	455,328	192,514	67,659	–
Loans to subsidiaries	–	–	1,190,843	–
Cash and bank balances	929,467	827	165,056	–
Pledged bank deposits	170,646	32,394	170,646	32,355
	1,555,441	225,735	1,594,204	32,355

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

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

None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

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

See note 23 to these financial statements for further details of the Group's exposures to credit risk on trade and other receivables.

(iv) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

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

	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Less than one year *RMB'000*	One to less than two years *RMB'000*	Two to less than five years *RMB'000*
As at 31 December 2009					
Borrowings	356,500	373,850	250,376	123,474	–
Fixed rate senior notes	1,616,755	2,730,333	204,775	204,775	2,320,783
Trade and other payables	276,485	276,485	276,485	–	–
As at 31 December 2008					
Borrowings	682,565	803,739	317,568	206,979	279,192
Trade and other payables	330,955	330,955	330,955	–	–

(v) Fair value

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long-term bank borrowings was not disclosed because the carrying value is not materially different from the fair value.

(vi) Summary of financial assets and liabilities by category

The carrying amount of the Group's financial assets and liabilities as recognised at the respective reporting dates may also be categorised as follows:

	Group		Company	
	2009 *RMB'000*	**2008** *RMB'000*	**2009** *RMB'000*	**2008** *RMB'000*
Financial assets				
Loans and receivables				
– Trade and other receivables	455,328	192,514	67,659	–
– Loans to subsidiaries	–	–	1,190,843	–
Cash and cash equivalents	929,467	827	165,056	–
Pledged bank deposits	170,646	32,394	170,646	32,355
	1,555,441	225,735	1,594,204	32,355
Financial liabilities				
At amortised cost				
– Trade and other payables	276,485	218,560	99,944	94,823
– Amount due to a director	–	112,359	–	30,057
– Amounts due to shareholders	–	36	–	36
– Bank borrowings	356,500	682,565	–	593,065
– Fixed rate senior notes	1,616,755	–	1,616,755	–
	2,249,740	1,013,520	1,716,699	717,981

(vii) Capital management

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

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank borrowings, trade and other payables as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level.

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	356,500	682,565	–	593,065
Fixed rate senior notes	1,616,755	–	1,616,755	–
Trade and other payables	305,197	360,795	99,944	124,916
Less: Pledged bank deposits	(170,646)	(32,394)	(170,646)	(32,355)
Cash and cash equivalents	(929,467)	(827)	(165,056)	–
Net debts	1,178,339	1,010,139	1,380,997	685,626
Equity	1,788,242	825,542	603,507	50,233
Total debts to equity ratio	0.66	1.22	2.29	13.65

III. UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2010

Set out below are the unaudited interim consolidated financial information of the Group for the six months ended 30 June 2010 as extracted from the Company's interim report as of 30 June 2010:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	**2009**
		(Unaudited)	**(Unaudited)**
	Notes	*RMB'000*	*RMB'000*
Revenue	*5*	1,022,409	592,346
Cost of sales		(285,931)	(163,575)
Gross profit		736,478	428,771
Other revenue and gains	*6*	7,711	1,788
Selling and distribution expenses		(4,247)	(3,596)
Other operating expenses		(59,059)	(38,470)
Finance costs	*7*	(120,405)	(35,587)
Profit before income tax	*8*	560,478	352,906
Income tax expense	*9*	(203,569)	(89,477)
Profit for the period		356,909	263,429
Profit for the period attributable to:			
Owners of the Company		356,909	254,711
Non-controlling interests		–	8,718
		356,909	263,429
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company during the period	*11*		
– Basic		18.34	16.42
– Diluted		18.32	16.36

		Six months ended 30 June	
		2010	**2009**
		(Unaudited)	**(Unaudited)**
	Notes	*RMB'000*	*RMB'000*
Profit for the period		356,909	263,429
Other comprehensive income			
Exchange gain/(loss) on translation of financial statements of foreign operations		11,283	(1,223)
Other comprehensive income for the period, net of tax		11,283	(1,223)
Total comprehensive income for the period, net of tax		368,192	262,206
Total comprehensive income attributable to:			
Owners of the Company		368,192	253,488
Non-controlling interests		–	8,718
		368,192	262,206

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	2,126,955	1,607,383
Land use rights		56,433	57,084
Goodwill	13	8,386	8,386
Mining rights		384,039	390,850
Other intangible asset		17,588	17,588
Deposits		368,432	402,997
		2,961,833	2,484,288
Current assets			
Inventories		11,720	13,560
Trade and other receivables	14	800,018	515,338
Pledged bank deposits	15	81,103	170,646
Cash and cash equivalents		669,159	929,467
		1,562,000	1,629,011
Current liabilities			
Trade and other payables	16	208,671	305,197
Bank borrowings	17	383,000	236,500
Tax payable		38,697	15,989
		630,368	557,686
Net current assets		931,632	1,071,325
Total assets less current liabilities		3,893,465	3,555,613
Non-current liabilities			
Bank borrowings	17	72,000	120,000
Fixed rate senior notes	18	1,606,864	1,616,755
Deferred tax liabilities	19	56,574	30,616
		1,735,438	1,767,371
Net assets		2,158,027	1,788,242
EQUITY			
Share capital	20	143	143
Reserves		2,157,884	1,788,099
Total equity		2,158,027	1,788,242

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company												
	Share capital *RMB'000*	Share premium *RMB'000*	Capital redemption reserve *RMB'000*	Employee share-based compensation reserve *RMB'000*	Capital contribution *RMB'000*	General reserve *RMB'000*	Statutory reserves *RMB'000*	Translation reserve *RMB'000*	Dividend reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2009	113	27,836	–	13,800	103,539	–	118,459	67,596	–	453,957	785,300	40,242	825,542
Issue of new shares arising from listing	28	712,628	–	–	–	–	–	–	–	–	712,656	–	712,656
Expenses of share issues	–	(121,572)	–	–	–	–	–	–	–	–	(121,572)	–	(121,572)
Recognition of share-based payments	–	–	–	10,103	–	–	–	–	–	–	10,103	–	10,103
Transactions with owners	28	591,056	–	10,103	–	–	–	–	–	–	601,187	–	601,187
Profit for the period	–	–	–	–	–	–	–	–	–	254,711	254,711	8,718	263,429
Other comprehensive income													
– Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	–	–	(1,223)	–	–	(1,223)	–	(1,223)
Total comprehensive income for the period	–	–	–	–	–	–	–	(1,223)	–	254,711	253,488	8,718	262,206
At 30 June 2009 (unaudited)	141	618,892	–	23,903	103,539	–	118,459	66,373	–	708,668	1,639,975	48,960	1,688,935
At 1 January 2010	143	684,624	–	33,441	103,539	(211,819)	226,514	66,768	–	885,032	1,788,242	–	1,788,242
Exercise of share options	1	2,107	–	(436)	–	–	–	–	–	–	1,672	–	1,672
Repurchase and cancellation of shares	(1)	(12,779)	1	–	–	–	–	–	–	(1)	(12,780)	–	(12,780)
Recognition of share-based payments	–	–	–	12,701	–	–	–	–	–	–	12,701	–	12,701
Interim dividend declared	–	–	–	–	–	–	–	–	89,227	(89,227)	–	–	–
Transactions with owners	–	(10,672)	1	12,265	–	–	–	–	89,227	(89,228)	1,593	–	1,593
Profit for the period	–	–	–	–	–	–	–	–	–	356,909	356,909	–	356,909
Other comprehensive income													
– Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	11,283	–	–	11,283	–	11,283
Total comprehensive income for the period	–	–	–	–	–	–	–	11,283	–	–	11,283	–	11,283
Lapse of share options	–	–	–	(1,731)	–	–	–	–	–	1,731	–	–	–
At 30 June 2010 (unaudited)	143	673,952	1	43,975	103,539	(211,819)	226,514	78,051	89,227	1,154,444	2,158,027	–	2,158,027

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Net cash generated from operating activities	189,685	82,607
Net cash used in investing activities	(415,945)	(308,367)
Net cash (used in)/generated from financing activities	(27,865)	475,662
Net (decrease)/increase in cash and cash equivalents	(254,125)	249,902
Cash and cash equivalents at beginning of the period	929,467	827
Effect of foreign exchange rate changes on cash and cash equivalents	(6,183)	–
Cash and cash equivalents at end of the period	669,159	250,729

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. GENERAL INFORMATION

Lumena Resources Corp. (the "Company") was incorporated in the Cayman Islands on 12 April 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and its principal place of business is situated at Suite 2801, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2009.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in processing and sale of powder thenardite, specialty thenardite and medical thenardite.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board (the "IASB") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Financial Statements do not include all of the information required in annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") (which collective term includes all applicable individual International Financial Reporting Standards and Interpretations as approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

The Interim Financial Statements are unaudited, but have been reviewed by Grant Thornton in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants.

The Interim Financial Statements have been approved for issue by the board of directors on 31 August 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements have been prepared in accordance with the accounting policies adopted in the last financial statements for the year ended 31 December 2009, except for the adoption of the following standards as of 1 January 2010:

- IFRS 3 Business Combinations (Revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- Improvements to IFRSs 2009

Significant effects on the current period or prior periods arising from the first-time adoption of these new requirements are described below.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of the Interim Financial Statements.

3.1 Adoption of IFRS 3 Business Combination (Revised 2008) ("IFRS 3R")

The revised standard (IFRS 3R) introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in IFRS 3R that had an impact on the Group's acquisitions in 2010 are as follows:

- Acquisition-related costs of the combination are recorded as an expense in the statement of comprehensive income. Previously, these costs would have been accounted for as part of the cost of the acquisition.

- The assets acquired and liabilities assumed are generally measured at their acquisition date fair values unless IFRS 3R provides an exception and provides specific measurement rules.

- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

IFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010.

The Group did not have business acquisition on or after 1 January 2010. Therefore, the adoption of IFRS 3R results in a change of the Group's accounting policies on business combinations but did not have any impact in the Group's financial position and performance.

3.2 Adoption of IAS 27 Consolidated and Separated Financial Statements (Revised 2008)

The adoption of IFRS 3R required that the revised IAS 27 ("IAS 27R") is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called "minority") interests and the loss of control of a subsidiary. Similar to IFRS 3R, the adoption of IAS 27R is applied prospectively. The Group did not have non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of IAS 27R did not have an impact in the Interim Financial Statements.

3.3 Adoption of Annual Improvements to IFRSs 2009 (issued in April 2009)

The Annual Improvements to IFRSs 2009 ("2009 Improvements") made several minor amendments to IFRSs. The only amendment relevant to the Group relates to IAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

4. SEGMENT INFORMATION

The Group identifies its operating segments and prepares segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of the performance of those components. There is only one business component in the internal reporting to the executive directors, which is the processing and sale of powder thenardite, specialty thenardite and medical thenardite.

During the six months period to 30 June 2010, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss. Certain items that are not included in arriving at the operating results of the operating segment are expenses relating to share-based payments, income tax and corporate income and expenses. Corporate expenses mainly include consultancy fee, staff costs and directors' remuneration.

Revenue and profit generated by the Group's operating segment are summarised as follows:

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Reportable segment revenue *(Note)*	1,022,409	592,346
Reportable segment profit	602,962	382,090

Note: All of the segment revenue reported above is from external customers.

The following table presents segment assets and liabilities of the Group's operating segment:

	30 June 2010	**31 December 2009**
	(Unaudited)	**(Audited)**
	RMB'000	*RMB'000*
Reportable segment assets	4,346,159	3,650,322
Reportable segment liabilities	2,363,856	2,237,149

The Group's segment operating profit reconciles to the Group's profit before income tax as presented in the Interim Financial Statements as follows:

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Reportable segment profit	602,962	382,090
Share-based payment expense	(12,701)	(10,103)
Depreciation and amortization	(453)	(475)
Corporate income	31	276
Corporate expenses	(29,361)	(18,882)
Profit before income tax	560,478	352,906

5. REVENUE

The Group's principal activities are disclosed in note 1 to these interim financial statements. Turnover of the Group is the revenue from these activities. Revenue of the Group represents the net amount received and receivable for goods sold, less value-added tax and returns, during the period.

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Revenue		
– powder thenardite	72,531	63,259
– medical thenardite	445,585	127,707
– specialty thenardite	504,293	401,380
	1,022,409	592,346

6. OTHER REVENUE AND GAINS

	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Bank interest income	3,592	276
Gain on disposals of scrap materials	777	–
Government subsidy	300	1,000
Net foreign exchange gain	3,002	74
Others	40	438
	7,711	1,788

7. FINANCE COSTS

	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Interest expenses on bank borrowings wholly repayable within five years	11,274	35,587
Interest expenses on fixed rate senior notes	102,255	–
Amortisation of fixed rate senior notes	6,876	–
	120,405	35,587

8. PROFIT BEFORE INCOME TAX

The Group's operating profit is arrived at after charging the following items:

	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Amortisation of land use rights *(Note)*	651	651
Amortisation of mining rights *(Note)*	6,811	6,524
Depreciation	35,833	20,531
Write-off of property, plant and equipment	–	430
Staff costs	45,979	31,284

Note: Amounts have been included in other operating expenses on the face of condensed consolidated statement of comprehensive income.

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Current tax		
– Provision for PRC income tax	177,611	89,477
Deferred tax *(Note 18)*	25,958	–
Total income tax expenses	203,569	89,477

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

At 30 June 2010, the Company had unrecognised deferred tax assets in respect of unutilised tax losses of HK$103,086,674 (six month ended 30 June 2009: Nil) which can be carried forward to offset future assessable profits arising from or derived in Hong Kong. The deferred tax assets have not been recognised due to uncertainty of future assessable income to utilise these losses. The tax losses do not expire under current tax legislation.

(iii) Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), one of the subsidiaries of the Company, was approved as a foreign invested enterprise in 2005. Chuanmei Mirabilite is also entitled for exemption of the People's Republic of China (the "PRC") enterprise income tax ("EIT") for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax deduction. The year ended 31 December 2005 was Chuanmei Mirabilite's first profit-making year and was the first year of its tax holiday.

(iv) Effective on 1 January 2008, the Enterprise Income Tax Law (the "EIT Law") of the PRC was approved and introduced a wide range of changes, which included, but not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The existing preferential income tax rate pertaining to the Group's subsidiaries operated in the PRC gradually transit to the applicable tax rate of 25%. For the six months ended 30 June 2010, Chuanmei Mirabilite is subject to EIT tax rate of 25% (six months ended 30 June 2009: 12.5%).

(v) Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), another subsidiary of the Company, is subject to EIT tax rate of 25% (six months ended 30 June 2009: 25%).

(vi) Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate is enjoyed by the Group because there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated for the period ended 30 June 2010.

10. DIVIDENDS

On 31 August 2010, the directors declared an interim dividend of HK5.2 cents per share (equivalent to approximately RMB4.589 cents per share) (six months ended 30 June 2009: Nil), amounting to RMB89,227,000 (six months ended 30 June 2009: Nil). The interim dividend was declared and paid after the reporting date and has not been recognised as a liability at the reporting date.

11. EARNINGS PER SHARE

Both basic and diluted earnings per share have been calculated using the profit attributable to owners of the Company as the numerator, i.e. no adjustments to profits for the purpose of diluted earnings per share calculation were necessary during the six months ended 30 June 2010 and 2009.

The weighted average number of ordinary shares for the purposes of the calculation of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Six months ended 30 June	
	2010	**2009**
	(Unaudited)	**(Unaudited)**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share	1,946,120	1,551,249
Shares deemed to be issued for no consideration in respect of share options granted as share-based payments	2,392	5,935
Weighted average number of ordinary shares used in diluted earnings per share	1,948,512	1,557,184

Note: Regarding the weighted average number of ordinary shares used in diluted earnings per share for the six months ended 30 June 2009, the Company assumed the outstanding share options under the pre-IPO share option scheme approved by the Company's shareholders on 30 April 2008 had been exercised upon the grant date of the share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares from the listing date on 16 June 2009 to 30 June 2009).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group incurred capital expenditure of approximately RMB495,173,000 (six months ended 30 June 2009: RMB78,420,000) in construction in progress, nil (six months ended 30 June 2009: RMB43,000) in motor vehicle, approximately RMB101,189,000 (six months ended 30 June 2009: RMB670,000) in machinery and equipment, of which approximately RMB40,918,000 (six months ended 30 June 2009: RMB661,000) was transferred from construction in progress upon completion and approximately RMB621,240,000 (six months ended 30 June 2009: RMB181,973,000) in buildings and mining structures, of which approximately RMB621,240,000 (six months ended 30 June 2009: RMB181,698,000) was transferred from construction in progress upon completion.

13. GOODWILL

	30 June 2010	**31 December 2009**
	(Unaudited)	**(Audited)**
	RMB'000	*RMB'000*
Acquisition of Chuanmei Mirabilite	8,386	8,386
Net carrying amount	8,386	8,386

Note: Goodwill as at the reporting date arose from acquisition of Chuanmei Mirabilite in 2004. The amount represents the excess of the cost of acquisition over the fair value of the Group's interest in Chuanmei Mirabilite's net identifiable assets at the date of acquisition.

14. TRADE AND OTHER RECEIVABLES

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Trade receivables *(Note)*	646,720	351,869
Other receivables	7,688	103,379
Bills receivables	–	80
Deposits and prepayments	145,610	60,010
	800,018	515,338

Note: The ageing analysis of trade receivables, based on the invoice dates, is as follows:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Outstanding balances with ages:		
– 90 days or below	511,862	334,483
– 91 – 180 days	128,847	11,945
– 181 – 365 days	5,182	251
– Over 365 days	829	5,190
	646,720	351,869

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

Credit terms normally granted to the trade customers ranged from 45 days to 180 days depending on the customers' relationship with the Group, its creditworthiness and settlement record.

15. PLEDGE OF ASSETS

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

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Bank deposits	81,103	170,646
Buildings and mining structures	30,693	31,711
Machinery and equipment	295,127	289,434
Land use rights	22,873	–
Mining rights	297,764	48,833
Deposits	12,000	–
	739,560	540,624

16. TRADE AND OTHER PAYABLES

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Trade payables *(Note)*	74,383	39,289
Other payables	88,918	157,996
Receipt in advance	45,370	28,712
Consideration payable on acquisition of non-controlling interests	–	79,200
	208,671	305,197

Note: The ageing analysis of trade payables, based on the invoice dates, is as follows:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Outstanding balances with ages:		
– 90 days or below	58,551	29,848
– 91 – 180 days	8,892	2,045
– 181 – 365 days	6,852	1,019
– Over 365 days	88	6,377
	74,383	39,289

17. BANK BORROWINGS

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Secured	455,000	356,500

The maturity profile of the above bank borrowings is as follows:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Current		
– Within one year	383,000	236,500
Non-current		
– In the second year	72,000	120,000
	455,000	356,500

Movements in bank borrowings are analysed as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
At beginning of the period	356,500	682,565
New loans raised	225,000	209,848
Repayment of loans	(126,500)	(289,683)
At end of the period	455,000	602,730

Notes:

(i) As at 30 June 2010, the RMB bank loans of RMB100 million (at 31 December 2009: RMB200 million) were arranged at fixed interest rates of 5.04% to 5.84% (at 31 December 2009: 5.05% to 5.09%) per annum.

(ii) As at 30 June 2010, the RMB bank loans of RMB355 million (at 31 December 2009: RMB156.5 million) were arranged at floating rate of 5.42% to 6.37% (at 31 December 2009: 5.31% to 5.51%) per annum.

(iii) The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in note 15.

18. FIXED RATE SENIOR NOTES

On 27 October 2009, the Company issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which matures on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010. The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At anytime prior to 27 October 2012, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principle amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to 27 October 2012, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

At anytime on or after 27 October 2012, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 27 October of any year set forth below:

Period	Redemption price
2012	106%
2013	103%

The Company gives not less than 30 days' nor more than 60 days' notice of any redemption.

The early redemption option of the Notes is regarded as an embedded derivative not closely related to the host contract (the Notes). It shall be separately accounted for as a financial instrument at fair value through profit or loss. The directors consider that the fair value of the early redemption option was insignificant on initial recognition and as at the reporting date.

The Notes recognised in the statement of financial position are calculated as follows:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Carrying amount as at 1 January	1,616,755	–
Issue of the Notes	–	1,614,319
Amortisation of the Notes *(Note 7)*	6,876	2,438
Exchange gain	(16,767)	(2)
Carrying amount as at 30 June/31 December	1,606,864	1,616,755
Fair value of the Notes as at 30 June/31 December*	1,469,257	1,450,490

* The fair value was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at that date.

The effective interest rate of the Notes is 13.52% per annum.

19. DEFERRED TAX LIABILITIES

Movement in the deferred tax liabilities during the period/year is as follows:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
At 1 January	30,616	–
Deferred tax charged during the period/year *(Note 9)*	25,958	30,616
At 30 June/31 December	56,574	30,616

As at 30 June 2010, deferred tax liabilities were recognised for withholding tax that would be payable on the unremitted earnings for the period from 1 January 2009 to 30 June 2010 that are subject to withholding tax arising from Chuanmei Mirabilite and Chuanmei Glauber Salt. In the opinion of the directors, it is probable that these subsidiaries will distribute such earnings in the foreseeable future.

However, deferred tax liabilities of approximately RMB25,021,000 (as at 31 December 2009: RMB25,021,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings amounted to approximately RMB500,425,000 for the year from 1 January 2008 to 31 December 2008 of Chuanmei Mirabilite and Chuanmei Glauber Salt. According to the Group's development plan, such amounts are reinvested in these subsidiaries.

20. SHARE CAPITAL

	Number of ordinary shares of USD0.00001 each	Nominal value	
		USD	*RMB'000*
Authorised:			
At 1 January 2009, 31 December 2009, 1 January 2010 and 30 June 2010	5,000,000,000	50,000	385
Issued and fully paid:			
At 1 January 2009	1,520,000,000	15,200	113
Issue of new shares in connection with the listing	404,000,000	4,040	28
Exercise of share options	26,657,500	267	2
At 31 December 2009 and 1 January 2010	1,950,657,500	19,507	143
Exercise of share options	956,000	9	1
Repurchase and cancellation of shares	(7,436,000)	(74)	(1)
At 30 June 2010	1,944,177,500	19,442	143

Note: During the period ended 30 June 2010, the Company repurchased a total of 7,436,000 ordinary shares of USD0.00001 each in the capital of the Company at an aggregate price of approximately HK$14,623,000 (equivalent to RMB12,780,000). The repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

21. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	30 June 2010 (Unaudited)	31 December 2009 (Audited)
	RMB'000	*RMB'000*
Within one year	7,110	3,597
In the second to fifth years	13,653	200
	20,763	3,797

The Group leases a number of properties under operating leases. The leases run for an initial period of 2 to 3 years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

22. CAPITAL COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	30 June 2010 (Unaudited) *RMB'000*	31 December 2009 (Audited) *RMB'000*
Contracted, but not provided for:		
– additions to property, plant and equipment	179,082	305,932
– acquisition of land use right	4,686	4,786
	183,768	310,718

23. CONTINGENT ASSETS AND LIABILITIES

The Group did not have significant contingent assets and liabilities as at 30 June 2010 (at 31 December 2009: Nil).

IV. INDEBTEDNESS STATEMENT

As at 31 October 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group and the Enlarged Group had outstanding indebtedness as follows:

Borrowings

The following table illustrates the Enlarged Group's bank and other borrowings as at 31 October 2010:

	The Group	The Target Group	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings	514,700	370,000	884,700
Borrowing with derivative financial instruments	–	652,608	652,608
Convertible Notes	–	210,119	210,119
12% fixed rate senior notes	1,620,597	–	1,620,597
Amounts due to related parties	0	412,184	412,184
	2,135,297	1,644,911	3,780,208

As at 31 October 2010, the Enlarged Group had outstanding bank borrowings in the PRC of approximately RMB884,700,000. The debt primarily comprised secured bank borrowings of approximately RMB514,700,000 which are secured by assets of the Group, and approximately RMB370,000,000 which are secured by assets of Deyang Chemical and Deyang Materials.

On 6 November 2007, the Target Group entered into a term loan facility agreement (the "Facility Agreement") with Credit Suisse, Singapore Branch (the "Facility Agent") pursuant to which Credit Suisse International (the "Lender") agreed to provide a USD160,000,000 (the "Facility Amount") term loan facility at floating interest rate of 6-month LIBOR plus 5% per annum to the Target Company with a final maturity of 36 months from the initial drawdown date. The Facility Amount is to be settled by 3 installments which comprise 30%, 30% and 40% of the Facility Amount on the dates falling 24, 30 and 36 months after the initial drawdown date. The last instalment of the loan amounted to USD64,000,000 would be financed by a USD90,000,000 senior secured fixed rate term notes by the Target Company subscribed for by Credit Suisse AG and/or a group of financial institutions arranged by Credit Suisse AG on 5 November 2010. The Target Group has repaid the last instalment of USD64.0 million on 9 November 2010.

On 30 October 2009, the Target Company entered into a note subscription agreement (the "Subscription Agreement") with BOCOM International Holding Co., Ltd. ("BOCOM"). Pursuant to the Subscription Agreement, convertible notes with interest rate of 15% to 20% in the face value of USD30,000,000 (equivalent to approximately RMB204,891,000) have been issued to BOCOM (the "BOCOM Notes") on 11 November 2009 (the "Issue Date"). Under the subscription agreement, the BOCOM Notes were due and payable one year after the Issue Date (the "Maturity Date"). The noteholder had the right to convert the BOCOM Notes into ordinary shares of the Target Company at any time during the period from the Issue Date to the four-business day prior to the Maturity Date at a conversion price as set out in the Subscription Agreement. The noteholder also had the right to require the Target Company to redeem all or some of the BOCOM Notes outstanding on the date falling after the initial public offering listing date described in the subscription agreement up to the Maturity Date. Pursuant to an amendment and waiver letter dated 5 November 2010, the BOCOM Notes are convertible into Target Company's ordinary shares representing approximately 3.23% of the Target's fully diluted share capital. Pursuant to the BOCOM Notes, BOCOM may exercise its conversion rights at any time prior to three days before the completion date of the acquisition of up to 95% of the issued share capital of the Target Company by the Company pursuant to the sale and purchase agreement entered into between the Company and the holder of the Target Company's shares representing 95% of the Target Company's issued share capital. If BOCOM does not elect to exercise its conversion rights, the BOCOM Notes will mature on 31 May 2011.

On 27 October 2009, the Group issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which matures on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010. The Notes are listed on the Singapore Exchange Securities Trading Limited.

As at 31 October 2010, the amount due to related parties of Enlarged Group was approximately RMB412,184,000 and was unsecured, interest-free and repayable on demand.

Pledge of assets

As at 31 October 2010, the Enlarged Group's bank borrowings were secured by the pledge of assets of the Enlarged Group's certain building and mining structures, machinery and equipment, bank deposit, prepaid lease payments, mining rights located in the PRC and other deposits with the net book value of approximately RMB72,193,000, RMB458,642,000, RMB135,858,000, RMB8,048,000, RMB294,573,000 and RMB12,000,000 respectively.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at the close of business on 31 October 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debentures or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, mortgages, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into RMB at the appropriate exchange rates prevailing as at the close of business on 31 October 2010.

V. WORKING CAPITAL

In the absence of unforeseen circumstances, the Directors are of the opinion that after taking into consideration the financial resources presently available to the Enlarged Group including cash and bank balance as well as its available credit facilities, the Enlarged Group has sufficient working capital for its present requirement that is for at least twelve months from the date of this Circular.

VI. VALUATION OF THE PROPERTY INTEREST

The Company has engaged Jones Lang LaSalle Sallmanns Limited, an independent property valuer, to value the property interests of the Group and the Target Group. Details of the property valuation reports are set out in "Appendix VI — Property Valuation"to this Circular.

Disclosure of the reconciliation of the net book value and the valuation as required under Rule 5.07 of the Listing Rules is set out below:

The Group

	RMB'000	*RMB'000*
Valuation of the property interest as at 30 September 2010 as set out in the valuation report included in Appendix VI to this circular		290,513
Net book value of the property interest as at 30 June 2010	177,684	
Less: Amortisation and depreciation for the period from 1 July 2010 to 30 September 2010	(1,865)	
Net book value of the property interest as at 30 September 2010		175,819
Net revaluation surplus		114,694

The Target Group

	RMB'000	*RMB'000*
Valuation of the property interest as at 30 September 2010 as set out in the valuation report included in Appendix VI to this circular		626,280
Net book value of the property interest as at 30 June 2010	582,051	
Less: Amortisation and depreciation for the period from 1 July 2010 to 30 September 2010	(5,761)	
Net book value of the property interest as at 30 September 2010		576,290
Net revaluation surplus		49,990

The following is the text of an accountants' report on the Target Company, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants.

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14 December 2010

The Board of Directors
Lumena Resources Corp.
Units 7503B, 7504 and 7505,
Level 75 International Commerce Centre,
1 Austin Road West,
Kowloon, Hong Kong

Dear Sirs,

We set out below our report on the financial information of Sino Polymer New Materials Co., Ltd. (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group"), including the consolidated statements of financial position of the Target Group as at 31 December 2007, 2008 and 2009 and 30 June 2010, the statements of financial position of the Target Company as at 31 December 2007, 2008 and 2009 and 30 June 2010, the consolidated statements of comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in equity for the each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes thereto (collectively referred to as the "Financial Information"), prepared for inclusion in the circular (the "Circular") dated 14 December 2010 issued by Lumena Resources Corp. (the "Company") in connection with its proposed acquisition of up to 95% but not less than 89.49% of the equity interest in the Target Company (the "Acquisition").

The Target Company was incorporated on 22 August 2006 in the Cayman Islands as an exempted company with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal activity of the Target Company is investment holding.

Details of the Target Company's direct and indirect interest in its subsidiaries at the date of this report and the respective names of their statutory auditors are set out in note 1 to the Financial Information.

Although there is no statutory audit requirements under the relevant rules and regulations in the Cayman Islands, the consolidated financial statements of the Target Company for the period from 22 August 2006 (date of incorporation) to 30 April 2007 and for the three years ended 30 April 2008, 2009 and 2010 were prepared in accordance with International Financial Reporting Standards ("IFRSs") and were audited by Ernst & Young Han Young in Korea. The financial statements of the subsidiaries of the Target Company are prepared for the same reporting date as the Target Company.

For facilitating the preparation of the Financial Information, all the companies within the Target Group have adopted 31 December as their financial year end date so as to align themselves with the financial year end of the Company.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Target Company based on the unaudited financial statements of the companies now comprising the Target Group (the "Underlying Financial Statements") on the basis set out in note 2 to the Financial Information in accordance with IFRSs. The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY

The directors of the Target Company are responsible for the preparation of the Financial Information which are free from material misstatement and give a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates are made which are prudent and reasonable in the circumstances. It is our responsibility to form an independent opinion, based on our audit, on the Financial Information and to report our opinion to you.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, we have carried out appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline – Prospectuses and the Reporting Accountant (Statement 3.340) issued by the HKICPA. No adjustments are considered necessary in respect of the Underlying Financial Statements for the preparation of the Financial Information.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of the Target Company in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Target Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, on the basis of preparation as set out in note 2 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2007, 2008 and 2009 and 30 June 2010, of the state of affairs of the Target Group as at 31 December 2007, 2008 and 2009 and 30 June 2010, and of the Target Group's results and cash flows for each of the Relevant Periods.

CORRESPONDING FINANCIAL STATEMENTS

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial statements of the Target Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2009, together with the notes thereon (the "30 June 2009 Corresponding Financial Information"), for which the directors of the Target Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditors of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the 30 June 2009 Corresponding Financial Information based on our review.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2009 Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 June 2009 Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
					(Unaudited)	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	486,667	991,326	1,537,168	411,938	1,063,671
Cost of sales		(149,059)	(517,604)	(710,223)	(252,003)	(397,924)
Gross profit		337,608	473,722	826,945	159,935	665,747
Other income	*7*	6,939	51,419	20,630	6,046	5,711
Selling and distribution costs		(356)	(22,068)	(3,424)	(1,457)	(2,710)
Administrative expenses		(44,744)	(134,898)	(82,509)	(30,756)	(45,320)
Other operating expenses		(110)	(6,774)	(391)	(229)	(168)
Write off/Impairment on property, plant and equipment arising from earthquake	*9*	–	(167,123)	–	–	–
Operating profit		299,337	194,278	761,251	133,539	623,260
Revaluation (loss)/gain on investment properties	*15*	(1,338)	2,800	8,015	4,432	117
Change in fair value of embedded derivative instruments	*25*	(3,421)	(20,297)	(7,672)	(8,673)	6,084
Change in fair value of convertible notes	*26(ii)*	–	–	1,898	–	20,461
Change in fair value of convertible redeemable preference shares	*27*	(26,260)	(74,883)	(486,700)	(277,795)	(199,328)
Finance costs	*8*	(294,121)	(109,925)	(102,901)	(49,969)	(87,483)
(Loss)/Profit before income tax	*9*	(25,803)	(8,027)	173,891	(198,466)	363,111
Income tax expense	*10*	(16,963)	(700)	(27,810)	(9,474)	(89,951)
(Loss)/Profit for the year/period		(42,766)	(8,727)	146,081	(207,940)	273,160
Other comprehensive income						
Exchange difference arising on translation of foreign operations		25,523	127,411	7,243	7,268	13,762
Reclassification of buildings and prepaid lease payments to investment properties		19,280	–	–	–	–

		Year ended 31 December			Six months ended 30 June	
					(Unaudited)	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other comprehensive income for the year/period		44,803	127,411	7,243	7,268	13,762
Total comprehensive income for the year/period attributable to owners of the Target Company		2,037	118,684	153,324	(200,672)	286,922

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*14*	2,096,007	2,047,385	2,122,480	2,049,948
Investment properties	*15*	85,540	88,340	96,355	96,472
Prepaid lease payments	*16*	127,449	124,973	122,454	121,194
Deposits and prepayments	*17*	19,164	90,491	297,132	304,452
		2,328,160	2,351,189	2,638,421	2,572,066
Current assets					
Inventories	*19*	62,915	53,366	42,382	45,979
Trade and other receivables	*20*	81,298	101,315	177,715	422,015
Amounts due from related parties	*35(iv)*	187,762	31,293	19,992	659,629
Pledged bank deposits	*21*	180,190	94,612	69,366	134,628
Cash and cash equivalents	*22*	67,167	1,763	272,723	538,238
		579,332	282,349	582,178	1,800,489
Current liabilities					
Trade and other payables	*23*	611,072	429,963	236,581	344,416
Amounts due to related parties	*35(v)*	484,114	158,989	266,432	428,385
Bank borrowings	*24*	20,000	220,000	355,000	360,000
Borrowing with derivative financial instruments	*25*	1,391,569	1,309,109	989,187	652,608
Convertible notes	*26*	–	–	205,865	199,670
Tax payable		17,298	(1,041)	9,047	81,852
		2,524,053	2,117,020	2,062,112	2,066,931
Net current liabilities		(1,944,721)	(1,834,671)	(1,479,934)	(266,442)

					As at
		As at 31 December			30 June
		2007	**2008**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets less current liabilities		383,439	516,518	1,158,487	2,305,624
Non-current liabilities					
Convertible redeemable preference shares	*27*	811,686	825,381	1,312,022	–
Deferred tax liabilities	*30*	6,092	6,792	8,796	8,825
		817,778	832,173	1,320,818	8,825
Net (liabilities)/assets		(434,339)	(315,655)	(162,331)	2,296,799
EQUITY					
Share capital	*31*	6	6	6	272,021
Reserves	*32(ii)*	(434,345)	(315,661)	(162,337)	2,024,778
Total (capital deficiency)/equity		(434,339)	(315,655)	(162,331)	2,296,799

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2007	2008	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	*14*	1,874	1,225	409	221
Interest in a subsidiary	*18*	998,331	929,095	929,241	925,463
		1,000,205	930,320	929,650	925,684
Current assets					
Other receivables	*20*	142	631	181	160
Amount due from a subsidiary	*18(ii)*	398,283	403,129	403,198	401,552
Amounts due from related parties	*35(iv)*	358	–	332	666,868
Pledged bank deposits	*21*	114,719	56,421	57,537	57,414
		513,502	460,181	461,248	1,125,994
Current liabilities					
Other payables	*23*	19,252	25,526	14,138	26,062
Amount due to a subsidiary	*18(ii)*	36,862	142,547	366,277	736,255
Amounts due to related parties	*35(v)*	44,222	22,141	22,062	30,814
Borrowing with derivative financial instruments	*25*	1,391,569	1,309,109	989,187	652,608
Convertible notes	*26*	–	–	205,865	199,670
		1,491,905	1,499,323	1,597,529	1,645,409
Net current liabilities		(978,403)	(1,039,142)	(1,136,281)	(519,415)
Total assets less current liabilities		21,802	(108,822)	(206,631)	406,269

		As at 31 December			As at 30 June
		2007	**2008**	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Convertible redeemable preference shares	*27*	811,686	825,381	1,312,022	–
		811,686	825,381	1,312,022	–
Net (liabilities)/assets		(789,884)	(934,203)	(1,518,653)	406,269
EQUITY					
Share capital	*31*	6	6	6	272,021
Reserves	*32(i)*	(789,890)	(934,209)	(1,518,659)	134,248
Total (capital deficiency)/equity		(789,884)	(934,203)	(1,518,653)	406,269

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital redemption reserve* (note 32(ii))	Statutory reserve* (note 32(ii))	Property revaluation reserve*	Translation reserve*	Retained profits/ (Accumulated losses)*	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	7	–	1,609	–	6	14,198	15,820
Repurchase of shares	(1)	(452,195)	–	–	–	–	(452,196)
Transactions with owners	(1)	(452,195)	–	–	–	–	(452,196)
Loss for the year	–	–	–	–	–	(42,766)	(42,766)
Other comprehensive income							
– exchange difference arising on translation of foreign operations	–	–	–	–	25,523	–	25,523
– reclassification of buildings and prepaid lease payments to investment properties *(note 15)*	–	–	–	25,707	–	–	25,707
– deferred tax recognised on revaluation of investment properties *(note 30)*	–	–	–	(6,427)	–	–	(6,427)
Total comprehensive income for the year	–	–	–	19,280	25,523	(42,766)	2,037
Transfer to statutory reserve	–	–	33,113	–	–	(33,113)	–
At 31 December 2007	6	(452,195)	34,722	19,280	25,529	(61,681)	(434,339)

* *The total of these reserve accounts amounts to RMB(434,345,000) as at 31 December 2007.*

	Share capital	Capital redemption reserve* (note (32(ii))	Statutory reserve* (note (32(ii))	Property revaluation reserve*	Translation reserve*	Retained profits/ (Accumulated losses)*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	6	(452,195)	34,722	19,280	25,529	(61,681)	(434,339)
Loss for the year	–	–	–	–	–	(8,727)	(8,727)
Other comprehensive income – exchange difference arising on translation of foreign operations	–	–	–	–	127,411	–	127,411
Total comprehensive income for the year	–	–	–	–	127,411	(8,727)	118,684
Transfer to statutory reserve	–	–	23,361	–	–	(23,361)	–
At 31 December 2008	6	(452,195)	58,083	19,280	152,940	(93,769)	(315,655)

* *The total of these reserve accounts amounts to RMB(315,661,000) as at 31 December 2008.*

	Share capital	Capital redemption reserve* (note 32(ii))	Statutory reserve* (note 32(ii))	Property revaluation reserve*	Translation reserve*	Retained profits/ (Accumulated losses)*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	6	(452,195)	58,083	19,280	152,940	(93,769)	(315,655)
Profit for the year	–	–	–	–	–	146,081	146,081
Other comprehensive income – exchange difference arising on translation of foreign operations	–	–	–	–	7,243	–	7,243
Total comprehensive income for the year	–	–	–	–	7,243	146,081	153,324
Transfer to statutory reserve	–	–	65,936	–	–	(65,936)	–
At 31 December 2009	6	(452,195)	124,019	19,280	160,183	(13,624)	(162,331)

* *The total of these reserve accounts amounts to RMB(162,337,000) as at 31 December 2009.*

	Share capital	Share premium* (note 32(ii))	Capital redemption reserve* (note 32(ii))	Statutory reserve* (note 32(ii))	Property revaluation reserve*	Translation reserve*	Retained profits/ (Accumulated losses)*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	6	–	(452,195)	124,019	19,280	160,183	(13,624)	(162,331)
Issue of new shares	272,012	394,481	–	–	–	–	–	666,493
Conversion of convertible redeemable preference shares to ordinary shares	3	1,505,712	–	–	–	–	–	1,505,715
Transactions with owners	272,015	1,900,193	–	–	–	–	–	2,172,208
Profit for the period	–	–	–	–	–	–	273,160	273,160
Other comprehensive income – exchange difference arising on translation of foreign operations	–	–	–	–	–	13,762	–	13,762
Total comprehensive income for the period	–	–	–	–	–	13,762	273,160	286,922
At 30 June 2010	272,021	1,900,193	(452,195)	124,019	19,280	173,945	259,536	2,296,799

* *The total of these reserve accounts amounts to RMB2,024,778,000 as at 30 June 2010.*

	Share capital	Capital redemption reserve* *(note 32(ii))*	Statutory reserve* *(note 32(ii))*	Property revaluation reserve*	Translation reserve*	Retained profits/ (Accumulated losses)*	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	6	(452,195)	58,083	19,280	152,940	(93,769)	(315,655)
Loss for the period	–	–	–	–	–	(207,940)	(207,940)
Other comprehensive income – exchange difference arising on translation of foreign operations	–	–	–	–	7,268	–	7,268
Total comprehensive income for the period	–	–	–	–	7,268	(207,940)	(200,672)
At 30 June 2009 (Unaudited)	6	(452,195)	58,083	19,280	160,208	(301,709)	(516,327)

* *The total of these reserve accounts amounts to RMB(516,333,000) as at 30 June 2009.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30 June	
					(Unaudited)	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities						
(Loss)/Profit before income tax		(25,803)	(8,027)	173,891	(198,466)	363,111
Adjustments for:						
Depreciation of property, plant and equipment		28,383	175,833	185,692	91,054	103,887
Amortisation of prepaid lease payments		1,881	2,515	2,519	1,260	1,260
Change in fair value of embedded derivative instruments		3,421	20,297	7,672	8,673	(6,084)
Change in fair value of convertible redeemable preference shares		26,260	74,883	486,700	277,795	199,328
Change in fair value of convertible notes		–	–	(1,898)	–	(20,461)
Loss on remeasuring a borrowing from stating at amortising cost to its principal amount when the borrowing became be repayable on demand		251,272	–	–	–	–
Revaluation loss/(gain) on investment properties		1,338	(2,800)	(8,015)	(4,432)	(117)
Interest income		(2,544)	(4,169)	(2,429)	(1,402)	(1,121)
Interest expenses		42,849	109,925	102,901	49,969	87,483
Write off of property, plant and equipment		–	635	476	406	–
Write off/Impairment on property, plant and equipment arising from earthquake		–	167,123	–	–	–
Foreign exchange differences		(362)	(28,365)	7,382	6,874	3,349
Operating profit before working capital changes		326,695	507,850	954,891	231,731	730,635
(Increase)/decrease in inventories		(59,115)	9,549	10,984	(5,518)	(3,597)
Increase in trade and other receivables		(39,805)	(20,046)	(76,400)	(95,402)	(244,305)
Increase/(decrease) in trade and other payables		142,172	(191,842)	(199,623)	(22,193)	94,059
(Increase)/decrease in amounts due from related parties		(183,563)	156,469	11,301	(26,902)	(245,156)
Increase/(decrease) in amounts due to related parties		461,752	(325,125)	107,443	25,429	161,953
Cash generated from operations		648,136	136,855	808,596	107,145	493,589
Income tax paid		(8,174)	(18,339)	(15,718)	–	(17,117)
Net cash from operating activities		639,962	118,516	792,878	107,145	476,472

		Year ended 31 December			Six months ended 30 June	
					(Unaudited)	
		2007	2008	2009	2009	2010
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from investing activities						
Purchase of property, plant and equipment		(1,703,072)	(263,744)	(205,734)	(157,756)	(17,642)
Deposit paid		(67,225)	(102,693)	(262,159)	(44,608)	(21,040)
Additions of prepaid lease payments		(114,692)	(39)	–	–	–
Interest received		2,544	4,169	2,429	1,402	1,121
Additions of investment properties		(2,800)	–	–	–	–
(Increase)/decrease in pledged bank deposits		(176,658)	76,156	25,255	(42,139)	(65,496)
Net cash used in investing activities		(2,061,903)	(286,151)	(440,209)	(243,101)	(103,057)
Cash flows from financing activities						
Proceeds from bank borrowings	*24(ii)*	30,000	240,000	480,000	385,000	325,000
Repayment of bank borrowings	*24(ii) & 25*	(10,000)	(40,000)	(672,825)	(200,000)	(646,366)
Proceeds from borrowing with derivative financial instruments	*25*	1,148,332	–	–	–	–
Issue of convertible notes	*26(i) & (ii)*	116,358	–	203,137	–	–
Repayment of convertible notes	*26(i)*	(45,719)	–	–	–	–
Issue of convertible redeemable preferences shares – Series B1	*26(i)(b) & 27*	606,095	–	–	–	–
Repurchase of shares	*26(i)(b)*	(316,751)	–	–	–	–
Issue of new shares	*31*	–	–	–	–	272,012
Interest paid		(15,879)	(97,776)	(92,021)	(39,919)	(58,545)
Net cash generated from/(used in) financing activities		1,512,436	102,224	(81,709)	145,081	(107,899)
Net (decrease)/increase in cash and cash equivalents		90,495	(65,411)	270,960	9,125	265,516
Cash and cash equivalents at beginning of the year/period		202	67,167	1,763	1,763	272,723
Effect of foreign exchange rate changes		(23,530)	7	–	–	(1)
Cash and cash equivalents at end of the year/period		67,167	1,763	272,723	10,888	538,238

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated on 22 August 2006 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Target Company's registered office is located at Bridge Street Services Limited, Marquee Place, Suite 300, 430 West Bay Road, P.O. Box 30691, Grand Cayman KY1-1203, Cayman Islands and its principal place of business is situated at No. 869, Section 2 Konggang Road, Southwest Airport Economic Development Zone, Shangliu, Sichuan, the People's Republic of China (the "PRC").

The Target Group is principally engaged in manufacturing and selling of polyphenylene sulfide ("PPS") resin including coating resin, injection resin, fibre resin, PPS fibre and PPS compounds.

The directors of the Target Company consider the ultimate holding company of the Target Group to be Ascend Concept Technology Limited ("Ascend Concept"), a company incorporated in the British Virgin Islands ("BVI").

As at the date of this report, the Target Company has beneficial interest in the following subsidiaries:

Company name	Place and date of incorporation/ registration	Type of legal entity	Particulars of issued/paid up capital	Effective interest held by the Target Company	Principal activities	Name of the auditors for 2007, 2008 and 2009
Interests held directly						
Haton Polymer & Fibre Limited	BVI, 16 August 2006	Limited liability company	U.S. dollars ("USD") 0.1	100%	Investment holding	No statutory audit requirement
Interests held indirectly						
Haton Polymer Limited 迦騰高分子纖維(香港)有限公司	Hong Kong, 6 September 2007	Limited liability company	Hong Kong dollars ("HKD") 1	100%	Investment holding	2008 – Ho Wing Yi, Certified Public Accountant (Practising) 2009 – D.Y. Lee & Co., Certified Public Accountants
Sichuan Deyang Chemical Co., Ltd. 四川得陽化學有限公司 ("Deyang Chemical")	PRC, 28 April 2006	Wholly foreign-owned enterprise	RMB190,000,000	100%	Manufacturing and selling of PPS resin including coating resin, injection resin, fibre resin, PPS fibre and PPS compounds	2007 – 四川永立會計師事務所 2008 & 2009 – 四川華聯會計師事務所有限公司
Sichuan Deyang Special New Material Co., Ltd. 四川得陽特種新材料有限公司 ("Deyang New Material")	PRC, 21 June 2007	Wholly foreign-owned enterprise	USD104,000,000	100%	Manufacturing and selling of PPS resin including coating resin, injection resin, fibre resin, PPS fibre and PPS compounds	2007 – 四川永立會計師事務所 2008 & 2009 – 四川華聯會計師事務所有限公司
Sichuan Deyang Engineering Plastic Development Co., Ltd. 四川得陽工程塑料開發公司	PRC, 14 March 2008	Wholly foreign-owned enterprise	RMB1,000,000	100%	Engineering plastics development and technology consulting services	2008 & 2009 – 四川維誠會計師事務所有限公司

On 1 September 2006, Haton Polymer & Fibre Limited, a wholly-owned subsidiary of the Target Company, acquired the entire equity interest of Deyang Chemical from the former and existing key management personnel of the Target Group, Mr. Jiang Jingwei and Mr. Zhang Zhigang for a cash consideration of approximately RMB10,000,000. The acquisition has been accounted for by applying the purchase method. Other subsidiaries of Target Company were established by the Target Company.

2. BASIS OF PREPARATION

The Financial Information and 30 June 2009 Corresponding Financial Information have been prepared in accordance with IFRSs, which collective term includes all applicable individual International Financial Reporting Standards and Interpretations as approved by International Accounting Standards Board ("IASB"), and all the applicable individual International Accounting Standards and Interpretation as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The Financial Information and 30 June 2009 Corresponding Financial Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

For the purpose of preparing the Financial Information and 30 June 2009 Corresponding Financial Information, the Target Group has adopted all applicable IFRSs that are relevant to the Target Group and are effective for the accounting period beginning 1 January 2010 throughout the Relevant Periods to the extent required by IFRSs.

At the date of issue of this Financial Information, certain new and amended IFRSs have been published but are not yet effective, and have not been early adopted by the Target Group. Information on those new or amended IFRSs that are expected to have impact on the Target Group's accounting policies is provided below. Other new and amended IFRSs have been issued but are not expected to have a material impact on the Target Group's Financial Information.

IFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors of Target Company are currently assessing the possible impact of the new standard on the Target Group's results and financial position in the first year of application.

IAS 32 Financial instruments: Presentation (Amendment)

The amendment alters IAS 32 Financial Instruments: Presentation so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. Prior to the amendment, rights issues denominated in a foreign currency 'failed' equity classification and were required to be accounted for as derivative liabilities. The amendment should be applied for annual periods beginning on or after 1 February 2010.

IFRIC-Int 19 Extinguishing financial liabilities with equity instruments

The IFRIC-Int 19 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.

Annual improvements 2010

The IASB has issued "Improvements to International Financial Reporting Standards 2010". Most of the amendments become effective for annual periods beginning on or after 1 January 2011. The directors of Target Company are currently assessing the possible impacts of the amendments on the Target Group's results and financial position in the first year of application.

The significant accounting policies that have been used in the preparation of the Financial Information and 30 June 2009 Corresponding Financial Information are set out in note 3. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

The Target Group had net current liabilities of RMB266,442,000 as at 30 June 2010. The Target Group's current liabilities mainly included borrowing with derivative financial instruments, convertible notes, bank borrowings, trade and other payables and amounts due to related parties. The directors have prepared cash flow projections for the period from 1 July 2010 to 31 December 2011 and have assessed the compliance of loan covenants. The directors are of the opinion that, having taken into consideration of the expected cash flows and the ability of the Target Group to obtain continuing financing from banks and independent third party to finance its continuing operation, the Target Group has sufficient financial resources to meet its liabilities as and when they fall due in the foreseeable future. On the above basis, the directors believe that the Target Group will continue as going concern and consequently have prepared the Financial Information and 30 June 2009 Corresponding Financial Information on a going concern basis.

Should the Target Group be unable to continue in business as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for any further liabilities which might arise. These adjustments have not yet been reflected in the Financial Information and 30 June 2009 Corresponding Financial Information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 General

The Financial Information and 30 June 2009 Corresponding Financial Information has been prepared under historical cost convention except for investment properties, derivative financial instruments and convertible redeemable preference shares which are measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information and 30 June 2009 Corresponding Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information and 30 June 2009 Corresponding Financial Information, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and its subsidiaries (see note 3.3 below).

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are excluded from consolidation from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Target Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date exchange, plus costs directly attributable to the acquisitions. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Target Group's share of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

IFRS 3 (revised), "Business combination" is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payment to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

No acquisitions have taken place during the six months to 30 June 2010 which would require this standard to be applied.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Target Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Target Group.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Target Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

In the Target Company's statement of financial position, subsidiaries are carried at cost less any impairment losses unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Target Company's profit or loss.

3.4 Foreign currency translation

The functional currency of the Target Company is USD. The Target Group's consolidated financial statements are presented in Renminbi ("RMB"), since the major subsidiaries of the Target Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB.

In the Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Target Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into the RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

Transactions in foreign currencies are initially recorded by the Target Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences are taken to the profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange difference on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3.5 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease, are stated at cost less accumulated depreciation and any impairment losses.

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.

Other items of plant and equipment other than CIP are stated at cost net of accumulated depreciation and/or impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on the straight-line method over the estimated useful life of the asset as follows:

Buildings	20 years
Leasehold improvements	Over the lease terms
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

The asset's residual values, estimated useful lives and methods of depreciation are reviewed at each financial year end, and adjusted if appropriate.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.6 Prepaid lease payments

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. Amortisation is calculated on straight-line method over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Target Group from use of the land.

3.7 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Target Group

Assets that are held by the Target Group under leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Target Group has the right to use of assets held under operating leases, payments made under the leases are charged to the statement of comprehensive income on straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.8 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are measured initially at cost, including directly attributable costs, and subsequently stated at fair value as determined by external professional valuers to reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value of disposal of an investment property is immediately recognised in profit or loss. Rental income from investment properties is accounted for as described in note 3.17.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner occupied property becomes an investment property, the Target Group accounts for such property in accordance with the policy stated under property, plant and equipment (note 3.5) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in property revaluation reserve. On disposal of the property, the property revaluation reserve is transferred to retained profits as a movement in reserves.

3.9 Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is recognised as an intangible asset when the Target Group can demonstrate:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale

(b) Its intention to complete and its ability to use or sell the asset

(c) How the asset will generate future economic benefits

(d) The availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortisation and any impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

3.10 Impairment of non-financial assets

The followings assets are subject to impairment testing:

- Property, plant and equipment;
- Prepaid lease payments; and
- The Target Company's interest in a subsidiary

The Target Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Target Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) 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. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Target Group estimates the asset's or CGU's of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

3.11 Financial assets

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

All financial assets are recognised when, and only when, the Target Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

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

– Significant financial difficulty of the debtor;

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

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– 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 costs.

Loss events in respect of a group of financial assets included 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, impairment loss is measured and recognised as follows:

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs.

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

Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Target Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials	–	Purchase cost on a weighted average basis
Finished goods and work in progress	–	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity

Net realisable value is the estimated selling price in the ordinary courses of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

3.14 Financial liabilities

The Target Group's financial liabilities include trade and bills payables, advance from customers, other payables and accruals, amount due to related parties, bank borrowings, borrowing with derivatives financial instruments, convertible notes and convertible redeemable preference shares. They are included in the line items in the statements of financial position as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Target Group's accounting policy for borrowing costs (note 3.22).

Financial liabilities are derecognised 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, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent convertible redeemable preference shares. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

Derivatives

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

Borrowing with derivative financial instruments

The Target Group's borrowing attached with derivative financial instruments which entitles the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, both the liability and derivative components are recognised at fair value. The fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The borrowing amount is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method. The derivative component is subsequently remeasured in accordance with the Target Group's accounting policy on derivative financial instruments.

Transaction costs that relate to the issue of a borrowing with derivative financial instruments are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the borrowing term using effective interest method.

Convertible redeemable preference shares

Convertible redeemable preference shares are redeemable and convertible to ordinary shares of the issuer at the option of the holder. The conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments are considered as embedded derivatives not closely related to the host contract.

The Target Group has elected to designate its convertible redeemable preference shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition as the embedded derivatives significant modify the cash flow and the separation of the embedded derivative is not prohibited.

Subsequent to initial recognition, the convertible redeemable preference shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible redeemable preference shares designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Convertible notes

Convertible notes which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, both the liability and derivative components are recognised at fair value. The fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs that relate to the issue of a convertible note are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the note term using effective interest method.

Trade and other payables

Trade and other payables are recognised at fair value and subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through amortisation process.

3.15 Financial guarantees contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Target Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Target Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Target Group under the guarantee and the amount of that claim on the Target Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.16 Provision and contingent liabilities

A provision is recognised 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 recognised for a provision is the present value at the reporting 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 profit or loss.

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

3.17 Revenue recognition

Revenue is recognised to the extent that it is probable that all the economic benefits will flow to the Target Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods

Revenue for the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyers, usually on delivery of the goods.

Interest income

Revenue is recognised as interest accrues (using the effective interest rate).

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line method over the lease terms.

3.18 Government grants

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

3.19 Share capital

Ordinary shares with discretionary dividends are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transactions.

3.20 Income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on all temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, 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, unused tax credits and unused tax losses can be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition (other than in a business combination) of assets or liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities in respect of taxable temporary differences associated with on investments in subsidiaries except where the Target Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided that they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Target Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Target Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    (i) the same taxable entity; or

    (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.21 Retirement benefits costs

The Target Group's contributions to the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Target Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HKD1,000 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

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

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

3.22 Borrowing costs

Borrowing costs are expensed when incurred prior to 1 January 2009. As a result of the adoption of IAS 23 (revised) Borrowing Costs, borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

No borrowing costs were capitalised during the year ended 31 December 2009 and the six months ended 30 June 2010.

Borrowing costs include interest charge and other costs incurred in connection with the borrowing funds, including amortisation of discounts or premiums relating to the borrowing, and amortisation of ancillary incurred in connection with arranging the borrowing.

3.23 Segment reporting

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Target Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purpose unless the segments have similar characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they are share a majority of these criteria.

3.24 Related parties

For the purposes of these Financial Information and 30 June 2009 Corresponding Financial Information, a party is considered to be related to the Target Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Target Group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the Target Group;

(ii) the Target Group and the party are subject to common control;

(iii) the party is an associate of the Target Group or a joint venture in which the Target Group is a venturer;

(iv) the party is a member of key management personnel of the Target Group or the Target Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Target Group's accounting policies, which are described in note 3, management has made various estimates and judgements which are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements are continually evaluated. The key source of estimation uncertainty and accounting judgements that result in significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year or significantly affect the amounts recognised in the Financial Information and 30 June 2009 Corresponding Financial Information are discussed below:

Impairment of non-financial assets

The Target Group's impairment test for all non-financial assets is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Target Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Useful lives and residual values of property, plant and equipment

The directors of the Target Company determine the estimated useful lives and residual values and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The directors will increase the depreciation charge where useful lives and residual values are less than previously estimated.

Estimate of fair value of investment properties

As disclosed in note 3.8, investment properties were revaluated at the end of each reporting period by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Target Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Provisions for impairment of trade and other receivables

Provisions for impairment of trade and other receivables are made based on the assessment of the recoverability and ageing analysis of trade and other receivables. The identification of impairment of trade and other receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the receivables and impairment of trade and other receivables expenses/write-back in the year in which such estimate has been changed.

Estimates of current tax and deferred tax

The Target Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation.

Going concern basis

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

The Target Group is dependent upon its ability to generate profits and cash inflows from operations and the ability of the Target Group to obtain continuing bank financing to finance its continuing operation to meet the Target Group's future working capital and financing requirements. Management believes the Target Group is able to continue as a going concern after taking into account the projections of the Target Group's future profits and cash inflows from operations and the ability of the Target Group to obtain continuing financing from banks and independent third party to finance its continuing operations. Accordingly, management has prepared the Financial Information and 30 June 2009 Corresponding Financial Information on a going concern basis. An adverse change in any of the above conditions may require the Financial Information and 30 June 2009 Corresponding Financial Information to be prepared on an alternative basis and such basis, together with the fact that the Financial Information and 30 June 2009 Corresponding Financial Information is not prepared on a going concern basis, would need to be disclosed. If the Target Group 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.

5. SEGMENT INFORMATION

The Target Group's operations during the reporting periods are regarded as a single business segment, being engaged in manufacturing and selling of PPS resin including coating resin, injection resin, fibre resin, PPS fibre and PPS compounds, and, accordingly, no business segment information is presented.

Reportable segment profit excludes certain items which are not included in arriving at the operating results of the operating segment (income tax and corporate income and expenses incurred by corporate headquarter).

Segment assets include all assets with the exception of corporate assets which are not directly attributable to the business activities of operating segment as these assets are managed on a group basis.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of operating segment as these liabilities are managed on a group basis.

Revenue, profit, assets and liabilities generated by the Target Group's operating segment are summarised as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009 (Unaudited)**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue *(note)*	486,667	991,326	1,537,168	411,938	1,063,671
Reportable segment profit	34,634	105,721	678,197	91,692	548,284
Interest income	83	1,930	1,495	690	999
Interest expense	(294,121)	(109,925)	(102,901)	(49,969)	(87,483)
Depreciation and amortisation	(29,918)	(177,774)	(187,696)	(92,047)	(104,888)
Write off of property, plant and equipment	–	635	70	–	–
Write off/Impairment on property, plant and equipment arising from earthquake	–	167,123	–	–	–

	As at 31 December			At 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	2,775,651	2,574,779	3,274,130	4,017,374
Additions to non-current segment assets	1,974,395	384,782	467,836	38,675
Reportable segment liabilities	3,269,421	2,842,052	3,203,867	1,972,373

Note: All of the segment revenue reported above is from external customers.

Reconciliation of reportable segment profit, assets and liabilities

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit					
Reportable segment profit	34,634	105,721	678,197	91,692	548,284
Revaluation (loss)/gain on investment properties	(1,338)	2,800	8,015	4,432	117
Corporate income	2,462	2,239	934	712	122
Change in fair value of convertible notes	–	–	1,898	–	20,461
Change in fair value of embedded derivative instruments	(3,421)	(20,297)	(7,672)	(8,673)	6,084
Change in fair value of convertible redeemable preference shares	(26,260)	(74,883)	(486,700)	(277,795)	(199,328)
Corporate expenses	(31,880)	(23,607)	(20,781)	(8,834)	(12,629)
(Loss)/Profit before income tax	(25,803)	(8,027)	173,891	(198,466)	363,111

	As at 31 December			At 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Reportable segment assets	2,775,651	2,574,779	3,159,130	3,902,374
Corporate assets	131,841	58,759	61,469	470,181
Target Group's assets	2,907,492	2,633,538	3,220,599	4,372,555
Liabilities				
Reportable segment liabilities	3,269,421	2,842,052	3,203,867	1,972,373
Corporate liabilities	72,410	107,141	179,063	103,383
Target Group's liabilities	3,341,831	2,949,193	3,382,930	2,075,756

The majority of the Target Group's revenue and operating results were derived from operations in the PRC and no geographical segment is presented accordingly. No carrying amount of segment assets and capital expenditure by geographical location of assets is disclosed as the Target Group's assets are substantially located in the PRC.

6. REVENUE

Revenue, which is also the Target Group's turnover, represents the net amounts received and receivable for goods sold, less value-added tax, discounts and returns. An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
Coating resin	49,787	104,663	103,463	15,182	53,388
Injection resin	11,540	35,466	74,016	23,217	61,501
Fibre resin	103,242	97,363	30,323	7,698	4,244
PPS fibre	10,648	188,192	340,771	127,334	182,677
PPS compounds	311,386	554,953	982,413	235,936	761,296
Raw materials	64	10,689	6,182	2,571	565
	486,667	991,326	1,537,168	411,938	1,063,671

During the year ended 31 December 2007, there were three external customers, each of whom contributed 10% or more of the Target Group's revenues. Revenue derived from these three external customers during the year ended 31 December 2007 amounted to RMB108,588,000, RMB70,767,000 and RMB50,428,000 individually.

During the year ended 31 December 2008, there were four external customers, each of whom contributed 10% or more of the Target Group's revenues. Revenue derived from these four external customers during the year ended 31 December 2008 amounted to RMB234,536,000, RMB209,210,000, RMB127,141,000 and RMB126,762,000 individually.

During the year ended 31 December 2009, there were four external customers, each of whom contributed 10% or more of the Target Group's revenues. Revenue derived from these four external customers during the year ended 31 December 2009 amounted to RMB323,913,000, RMB259,588,000, RMB189,520,000 and RMB188,544,000 individually.

During the six months ended 30 June 2009, there were four external customers, each of whom contributed 10% or more of the Target Group's revenues. Revenue derived from these four external customers during the six months ended 30 June 2009 amounted to RMB120,321,000, RMB75,029,000, RMB48,198,000 and RMB41,594,000 individually.

During the six months ended 30 June 2010, there were five external customers, each of whom contributed 10% or more of the Target Group's revenues. Revenue derived from these five external customers during the six months ended 30 June 2010 amounted to RMB252,821,000, RMB183,138,000, RMB171,960,000, RMB118,548,000 and RMB110,307,000 individually.

7. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank interest income	2,544	4,169	2,429	1,402	1,121
Government grants*	–	41,335	13,109	2,350	200
Rental income	4,364	4,364	4,364	2,182	4,007
Sales of scrap materials	31	1,551	728	112	383
	6,939	51,419	20,630	6,046	5,711

* *The Target Group received unconditional grants from local government during the years ended 31 December 2008 and 2009 and the six months ended 30 June 2009 and 2010 to encourage the development of the Target Group's business.*

8. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest charges on:					
Others borrowing wholly repayable within five years	1,729	–	183	–	117
Bank loans wholly repayable within five years	1,093	13,278	21,188	9,521	11,787
Borrowing with derivative financial instruments	25,326	96,647	72,532	40,448	18,501
Convertible notes	14,701	–	8,998	–	33,676
Bank charges	–	–	–	–	23,402
Loss on remeasuring a borrowing from stating at amortised cost to its principal amount when the borrowing became be repayable on demand *(note 25)*	251,272	–	–	–	–
	294,121	109,925	102,901	49,969	87,483

9. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting) the following items:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amortisation of prepaid lease payments	1,881	2,515	2,519	1,260	1,260
Depreciation of property, plant and equipment	28,383	175,833	185,692	91,054	103,887
Total amortisation and depreciation	30,264	178,348	188,211	92,314	105,147
Cost of inventories recognised as expenses	149,059	517,604	710,223	252,003	397,924
Write off of property, plant and equipment	–	635	476	406	–
Write off/Impairment on property, plant and equipment arising from earthquake	–	167,123	–	–	–
Net foreign exchange (gain)/loss	(23,955)	(36,096)	8,861	6,920	2,022
Operating lease charge					
– on rented premises	5,007	5,441	2,822	1,693	1,311
– on machinery and equipment	–	1,981	3,400	1,702	1,419
Outgoings in respect of investment properties	218	218	218	109	200
Research expenses	–	–	110	109	115
Staff costs *(note)*	8,638	26,757	30,782	13,515	14,798
Auditors remuneration	–	422	4,911	898	4,649

Note:

Staff costs (including directors' remuneration)

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and bonus	8,445	24,672	27,560	12,332	13,003
Contribution to defined contribution pension plans	193	2,085	3,222	1,183	1,795
	8,638	26,757	30,782	13,515	14,798

10. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current tax					
– Provision for PRC income tax	17,298	–	25,806	8,366	89,922
Deferred tax	(335)	700	2,004	1,108	29
	16,963	700	27,810	9,474	89,951

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

(ii) No provision for Hong Kong profit tax has been made, as the Target Group did not generate any taxable profit during the Relevant Periods.

(iii) The subsidiaries established in the PRC are subject to the PRC Enterprise Income tax ("EIT") at the rate of 33% (including 30% of State EIT and 3% of local EIT) for the period up to 31 December 2007. On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulations, the EIT rate of the Target Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

(iv) As a foreign invested company according to the "Income Tax Law for Enterprise with Foreign Investment and Foreign Enterprise" and approved by the relevant PRC tax authorities, Deyang Chemical is exempted from the PRC income tax from 2007 to 2008, and is entitled to a 50% reduction in the PRC income tax for the subsequent three years from 2009 to 2011.

Pursuant to the approval document "Shuang Guo Shui 2008 No.8", Deyang Chemical was exempted from 30% of State EIT for the year ended 31 December 2007.

Pursuant to the approval document "Shuang Guo Shui 2009 No.10", Deyang Chemical was exempted from EIT for the year ended 31 December 2008.

Pursuant to the approval document "Chuan Guo Shui 2009 No.232", Deyang Chemical is eligible for preferential tax rate of 15%. And in accordance with the "Cai Shui 2009 No. 69", Deyang Chemical is entitled to 50% reduction of aforesaid preferential tax rate. Accordingly, the applicable EIT tax rate for Deyang Chemical was 7.5% and 12.5% for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

(v) Deyang New Material started profit-making in December 2007, and is subject to EIT at a rate of 33% for the year ended 31 December 2007. For the year ended 31 December 2008, the EIT rate of Deyang New Material was reduced to 25% under the New Law.

Pursuant to the tax regulation of Guo Fa 2008 No.21 and Cai Shui 2008 No.104 and the approval document "De Kai Guo Shui Jian Mian Gao Zi No.11", Deyang New Material was exempted from EIT for the year ended 31 December 2008 as part of the support from the State Council of the PRC for the reconstruction of companies that encountered losses in the earthquake.

Pursuant to the government circular of Chuan Gao Qi Ren 2009 No.1, Deyang New Material was designated as an advanced technology enterprise and was subject to preferential income tax rate of 15% for 3 years commencing 2009. Pursuant to the approval document "De Kai Guo Shui Jian Mian Gao Zi No.25", the tax exemption for the year ended 31 December 2008, which was granted by the tax authority in connection with the earthquake on 12 May 2008, has been prolonged for the year of 2009. Deyang New Material was exempted from EIT for the year ended 31 December 2009. In this connection, the applicable EIT tax rate for Deyang New Material was nil and 15% for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

(vi) Under the New Law, starting from 1 January 2008, 10% withholding income tax was imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. A lower withholding tax rate is enjoyed by the Target Group because there is a tax treaty between Mainland China and the jurisdiction of Haton Polymer Limited, the immediate holding company of the PRC subsidiaries. For the Target Group, the applicable rate is 5%.

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

	Year ended 31 December			**Six months ended 30 June**	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Loss)/Profit before income tax	(25,803)	(8,027)	173,891	(198,466)	363,111
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	49,520	16,115	93,965	(21,138)	112,851
Effect of tax holidays of the PRC subsidiaries	(97,078)	(51,267)	(164,443)	(25,196)	(65,845)
Tax effect of expenses not deductible	65,601	44,153	99,514	56,647	43,942
Tax effect of income not taxable	(745)	(9,001)	(3,230)	(1,947)	(1,026)
Tax effect of revaluation of investment properties	(335)	700	2,004	1,108	29
Income tax expense	16,963	700	27,810	9,474	89,951

11. DIRECTORS' EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS

	Directors' fee	**Salaries, allowances, and bonus**	**Contribution to pension plans**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007				
Zhang Zhigang (executive director)	–	–	–	–
Tan Jianyong (executive director)	–	–	–	–
Suo Lang Duo Ji (non-executive director)	1,169	97	12	1,278
Zhang Songyi (non-executive director)	–	–	–	–
Wang Chun Lin (non-executive director)	–	–	–	–
	1,169	97	12	1,278

	Directors' fee *RMB'000*	Salaries, allowances, and bonus *RMB'000*	Contribution to pension plans *RMB'000*	Total *RMB'000*
Year ended 31 December 2008				
Zhang Zhigang (executive director)	–	–	–	–
Tan Jianyong (executive director)	339	2	6	347
Suo Lang Duo Ji (non-executive director)	1,163	–	11	1,174
Zhang Songyi (non-executive director)	–	–	–	–
Wang Chun Lin (non-executive director)	582	–	11	593
	2,084	2	28	2,114
Year ended 31 December 2009				
Zhang Zhigang (executive director)	–	–	–	–
Tan Jianyong (executive director)	560	4	13	577
Suo Lang Duo Ji (non-executive director)	1,146	–	10	1,156
Zhang Songyi (non-executive director)	–	–	–	–
Wang Chun Lin (non-executive director)	573	–	11	584
	2,279	4	34	2,317
Six months ended 30 June 2009 (Unaudited)				
Zhang Zhigang (executive director)	–	–	–	–
Tan Jianyong (executive director)	280	4	5	289
Suo Lang Duo Ji (non-executive director)	529	–	5	534
Zhang Songyi (non-executive director)	–	–	–	–
Wang Chun Lin (non-executive director)	264	–	5	269
	1,073	4	15	1,092
Six months ended 30 June 2010				
Zhang Zhigang (executive director)	210	–	3	213
Tan Jianyong (executive director)	280	2	9	291
Suo Lang Duo Ji (non-executive director)	525	–	5	530
Zhang Songyi (non-executive director)	–	–	–	–
Wang Chun Lin (non-executive director)	263	–	5	268
	1,278	2	22	1,302

There is no arrangement under which a director waived or agreed to waive any emoluments during the Relevant Periods.

Five highest paid individuals

The five individuals with the highest emoluments in the Target Group for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 included one, two, three, two and three directors, respectively, whose emoluments are included in the disclosure above. The emoluments of the remaining four, three, two, three and two non-director individuals for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively, were as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and bonus	2,308	3,471	1,833	1,269	683
Contribution to defined contribution pension plans	23	32	21	16	11
	2,331	3,503	1,854	1,285	694

The remuneration paid to each of the above non-director individuals during the Relevant Periods fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
Emoluments bands					
Nil – RMB1,000,000	4	2	2	3	2
RMB1,000,000 – RMB1,500,000	–	–	–	–	–
RMB1,500,001 – RMB2,000,000	–	1	–	–	–

No emoluments were paid by the Target Group to any directors or the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office during the Relevant Periods.

12. LOSS ATTRIBUTABLE TO THE OWNERS OF THE TARGET COMPANY

Of the consolidated (loss)/profit attributable to the owners of the Target Company of RMB(42,766,000), RMB(8,727,000), RMB146,081,000, RMB(207,940,000), and RMB273,160,000 for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, respectively, losses of RMB(345,533,000), RMB(206,514,000), RMB(584,531,000), RMB(331,973,000), and RMB(253,802,000), have been dealt with in the financial statements of the Target Company.

13. DIVIDEND

No dividends were approved and paid for the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

Target Group	Buildings	Leasehold improvements	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007							
Cost	84,179	–	214,013	–	–	37,702	335,894
Accumulated depreciation	(378)	–	(1,839)	–	–	–	(2,217)
Net book amount	83,801	–	212,174	–	–	37,702	333,677
Year ended 31 December 2007							
Opening net book amount	83,801	–	212,174	–	–	37,702	333,677
Additions	2,665	765	5,334	781	6,158	1,821,768	1,837,471
Transfers	137,861	–	735,911	–	–	(873,772)	–
Transfer to investment properties	(46,713)	–	–	–	–	–	(46,713)
Depreciation	(5,623)	(115)	(22,083)	(88)	(474)	–	(28,383)
Exchange difference	–	(23)	–	(8)	(14)	–	(45)
Closing net book amount	171,991	627	931,336	685	5,670	985,698	2,096,007
At 31 December 2007 and 1 January 2008							
Cost	177,090	739	955,258	771	6,138	985,698	2,125,694
Accumulated depreciation	(5,099)	(112)	(23,922)	(86)	(468)	–	(29,687)
Net book amount	171,991	627	931,336	685	5,670	985,698	2,096,007
Year ended 31 December 2008							
Opening net book amount	171,991	627	931,336	685	5,670	985,698	2,096,007
Additions	4,298	–	24,591	1,433	669	264,119	295,110
Transfer	199,074	–	864,521	9,747	–	(1,073,342)	–
Write off/Impairment	–	–	(6,913)	–	(635)	(160,210)	(167,758)
Depreciation	(15,537)	(140)	(157,298)	(1,752)	(1,106)	–	(175,833)
Exchange difference	–	(44)	–	(35)	(62)	–	(141)
Closing net book amount	359,826	443	1,656,237	10,078	4,536	16,265	2,047,385
At 31 December 2008 and 1 January 2009							
Cost	380,462	684	1,836,378	11,909	5,993	16,265	2,251,691
Accumulated depreciation	(20,636)	(241)	(180,141)	(1,831)	(1,457)	–	(204,306)
Net book amount	359,826	443	1,656,237	10,078	4,536	16,265	2,047,385

Target Group	Buildings	Leasehold improvements	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009							
Opening net book amount	359,826	443	1,656,237	10,078	4,536	16,265	2,047,385
Additions	23,378	–	37,505	461	39	199,869	261,252
Transfer	6,647	–	208,032	12	–	(214,691)	–
Write off	–	(445)	–	(31)	–	–	(476)
Depreciation	(17,687)	(46)	(164,585)	(2,172)	(1,202)	–	(185,692)
Exchange difference	–	48	–	(38)	1	–	11
Closing net book amount	372,164	–	1,737,189	8,310	3,374	1,443	2,122,480
At 31 December 2009 and 1 January 2010							
Cost	410,476	–	2,081,915	12,306	6,033	1,443	2,512,173
Accumulated depreciation	(38,312)	–	(344,726)	(3,996)	(2,659)	–	(389,693)
Net book amount	372,164	–	1,737,189	8,310	3,374	1,443	2,122,480
Six months ended 30 June 2010							
Opening net book amount	372,164	–	1,737,189	8,310	3,374	1,443	2,122,480
Additions	–	–	30,946	355	–	61	31,362
Depreciation	(9,285)	–	(92,870)	(1,130)	(602)	–	(103,887)
Exchange difference	–	–	–	(6)	(1)	–	(7)
Closing net book amount	362,879	–	1,675,265	7,529	2,771	1,504	2,049,948
At 30 June 2010							
Cost	410,476	–	2,112,861	12,652	6,029	1,504	2,543,522
Accumulated depreciation	(47,597)	–	(437,596)	(5,123)	(3,258)	–	(493,574)
Net book amount	362,879	–	1,675,265	7,529	2,771	1,504	2,049,948

The Target Group's buildings are held on land under long and medium-term lease in the PRC.

Certain buildings and machinery and equipment were pledged to secure bank borrowings granted to the Target Group as disclosed in note 28 below.

Certain of the Target Company's subsidiaries in Sichuan Province, the PRC, were affected by the earthquake on 12 May 2008. A considerable portion of those manufacturing plant and equipment of these PRC subsidiaries of the Target Company were damaged during the earthquake. Impairment loss of approximately RMB160,210,000 and write off of approximately RMB6,913,000 were incurred for property, plant and equipment arising from earthquake.

Included in the property, plant and equipment of the Target Group, there are buildings with carrying value of RMB5,112,000, RMB9,663,000, RMB13,051,000 and RMB12,729,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively, in respect of which the Target Group were in the process of applying for the relevant real estate certificates and the directors of the Target Company are of the opinion that the certificate will be obtained in due course.

Target Company	Leasehold improvements *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2007				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Year ended 31 December 2007				
Opening net book amount	–	–	–	–
Additions	765	381	1,115	2,261
Depreciation	(115)	(56)	(169)	(340)
Exchange difference	(23)	(9)	(15)	(47)
Closing net book amount	627	316	931	1,874
At 31 December 2007 and 1 January 2008				
Cost	739	370	1,095	2,204
Accumulated depreciation	(112)	(54)	(164)	(330)
Net book amount	627	316	931	1,874
Year ended 31 December 2008				
Opening net book amount	627	316	931	1,874
Depreciation	(140)	(70)	(311)	(521)
Exchange difference	(44)	(22)	(62)	(128)
Closing net book amount	443	224	558	1,225
At 31 December 2008 and 1 January 2009				
Cost	684	343	1,015	2,042
Accumulated depreciation	(241)	(119)	(457)	(817)
Net book amount	443	224	558	1,225
Year ended 31 December 2009				
Opening net book amount	443	224	558	1,225
Write off	(445)	–	–	(445)
Depreciation	(46)	(69)	(305)	(420)
Exchange difference	48	–	1	49
Closing net book amount	–	155	254	409
At 31 December 2009 and 1 January 2010				
Cost	–	342	1,015	1,357
Accumulated depreciation	–	(187)	(761)	(948)
Net book amount	–	155	254	409

Target Company	Leasehold improvements *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Six months ended 30 June 2010				
Opening net book amount	–	155	254	409
Depreciation	–	(34)	(152)	(186)
Exchange difference	–	–	(2)	(2)
Closing net book amount	–	121	100	221
At 30 June 2010				
Cost	–	341	1,011	1,352
Accumulated depreciation	–	(220)	(911)	(1,131)
Net book amount	–	121	100	221

15. INVESTMENT PROPERTIES

	As at 31 December			At 30 June
Target Group	2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*	2010 *RMB'000*
Carrying amount at 1 January	–	85,540	88,340	96,355
Additions	2,800	–	–	–
Transfer from buildings	46,713	–	–	–
Transfer from prepaid lease payments	11,658	–	–	–
Change in fair value recognised in revaluation reserve	25,707	–	–	–
Change in fair value recognised in profit or loss	(1,338)	2,800	8,015	117
Carrying amount at the end of the year/period	85,540	88,340	96,355	96,472

Investment properties represent buildings and land use rights located in Chengdu, the PRC. The land use rights were acquired with the lease period of 50 years. At 30 June 2010, the land use rights have remaining lease period of 47 years.

The Target Group's investment properties were revalued at end of respective reporting years/period by independent professionally qualified valuers, Jones Lang LaSalle Sallmanns on an open market basis. Fair values were determined by reference to comparable market transactions.

The investment properties are held for generating rental income under operating lease arrangements, further details of which are included in note 33.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Target Group has pledged its investment properties to secure borrowings granted to the Target Group, details of which are set out in note 28.

16. PREPAID LEASE PAYMENTS

Target Group	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Carrying amount at 1 January	26,296	127,449	124,973	122,454
Additions	114,692	39	–	–
Transfer to investment properties	(11,658)	–	–	–
Amortisation charge	(1,881)	(2,515)	(2,519)	(1,260)
Carrying amount at the end of the year/period	127,449	124,973	122,454	121,194

The leasehold lands are situated in the PRC and with the remaining lease periods from 46 to 66 years at 30 June 2010.

Certain prepaid lease payments were pledged to secure borrowings granted to Target Group, further details of which are included in note 28.

17. DEPOSITS AND PREPAYMENTS

Target Group	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Deposit paid for patents *(note 35(ii))*	–	70,850	70,850	70,850
Deposits paid for machinery and equipment	19,164	19,641	16,282	23,602
Prepayment of CIP *(note)*	–	–	210,000	210,000
	19,164	90,491	297,132	304,452

Note:

It represented progress payment made by Deyang New Material to China National Chemical Engineering No.16 Company ("中國化學工程第十六建設公司") (the "Contractor") for the construction of a PPS resin production line of Deyang New Material. As at 30 June 2010, the Contractor has not commenced the physical construction of the production line.

18. INTEREST IN A SUBSIDIARY

Target Company	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Investment in a subsidiary	1	1	1	1
Amount due from a subsidiary *(note (i))*	998,330	929,094	929,240	925,462
	998,331	929,095	929,241	925,463

Note:

(i) Amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the settlement of this amount due is neither planned nor likely to occur in the foreseeable future and in substance, the amount due from subsidiary is extension of the Target Company's investment in this subsidiary.

(ii) Current portion of the amount due from/(to) a subsidiary is unsecured, interest-free and repayable on demand.

19. INVENTORIES

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	45,492	24,057	11,159	10,848
Work in progress	8,229	4,956	4,940	10,707
Finished goods	9,194	24,353	26,283	24,424
	62,915	53,366	42,382	45,979

20. TRADE AND OTHER RECEIVABLES

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, net	14,707	82,204	152,238	241,613
Bills receivables	15,703	250	7,910	9,978
Total *(note)*	30,410	82,454	160,148	251,591
Deposits and prepayments	50,668	17,995	15,946	146,869
Other receivables	220	866	1,621	23,555
	81,298	101,315	177,715	422,015

	As at 31 December			At 30 June
Target Company	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposit and prepayments	142	631	150	120
Other receivables	–	–	31	40
	142	631	181	160

Note:

Trade and bills receivables are non-interest bearing. Credit terms of 60 days normally granted to the trade customers depending on the customers' relationship with the Target Group, its creditworthiness and settlement record; otherwise sales on cash terms or receipts in advance is required.

Ageing analysis of trade and bills receivables as at each of the respective reporting date, net of accumulated impairment losses, is as follows:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**<31 days**	**31 – 90 days**	**91 – 180 days**	**Over 181 days**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007	30,410	25,911	617	2,079	–	1,803
At 31 December 2008	82,454	74,487	4,810	1,499	1,627	31
At 31 December 2009	160,148	155,586	863	742	260	2,697
At 30 June 2010	251,591	206,890	40,363	1,114	3,139	85

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

Trade and bills receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. As at 31 December 2007, 2008, 2009 and 30 June 2010, approximately RMBnil, RMB2,960,000, RMB88,654,000 and RMB215,117,000 is due from three, four, four, five external customers respectively, being the top customers of the Target Group during the Relevant Periods.

Trade and bills receivables that were past due but not impaired relate to a number of customers that have a good track record with the Target Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral over these balances.

21. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits placed in banks and financial institutions. At the end of each reporting year/period, pledged bank deposits were denominated in the following currencies:

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– HKD	970	114	1,812	137
– USD *(note (i))*	128,055	56,498	57,554	57,991
– RMB *(note (ii))*	51,165	38,000	10,000	76,500
	180,190	94,612	69,366	134,628

	As at 31 December			At 30 June
Target Company	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– USD *(note (i))*	114,719	56,421	57,537	57,414

Notes:

(i) Pledged bank deposits of the Target Group and the Target Company denominated in USD were pledged to secure the borrowing with derivative financial instruments as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

The effective interest rate per annum on the pledged bank deposits was 4.70%, 2.51%, 0.39% and 0.52%, as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The pledged bank deposits will be released upon the settlement of the borrowing with derivative financial instruments.

(ii) In addition, pledged bank deposits amounting to approximately RMB51,165,000, RMB38,000,000, RMB10,000,000 and RMB76,500,000 were pledged to secure banking facilities in the PRC granted to the Target Group as at 31 December 2007, 2008, 2009 and 30 June 2010, respectively.

The effective interest rate per annum on the pledged bank deposits was 1.71% – 1.98%, 1.71% – 1.98%, 1.98% and 1.71% – 1.98%, as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. The pledged bank deposits will be released upon the settlement of relevant bank borrowing.

22. CASH AND CASH EQUIVALENTS

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	247,357	96,375	342,089	672,866
Less: pledged bank deposits	(180,190)	(94,612)	(69,366)	(134,628)
Cash and cash equivalents as stated in the consolidated statements of financial position	67,167	1,763	272,723	538,238

Cash at banks earns interest at floating rates based on daily bank deposits rates.

The Target Group had cash and bank balances denominated in RMB amounting to approximately RMB118,227,000, RMB39,690,000, RMB282,651,000 and RMB614,665,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively, which were deposited with banks in the PRC. RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

23. TRADE AND OTHER PAYABLES

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	354,510	231,053	121,013	73,938
Bills payables	71,165	57,000	20,000	66,500
	425,675	288,053	141,013	140,438
Advance from customers	100,264	94,250	15,471	108,715
Other payables and accruals:				
Payable for acquisition of property, plant and equipment	2,800	2,800	–	–
Payable for prepaid lease payments	47,465	29,549	18,671	16,786
Accrued expenses	21,285	30,484	21,239	32,285
Other tax payables/(recoverable)	13,432	(15,445)	40,088	46,080
Others	151	272	99	112
	611,072	429,963	236,581	344,416

Target Company	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Other payables and accruals	19,252	25,526	14,138	26,062

Trade payables are non-interest bearing and are normally settled on 60 day terms.

Bills payables facility are secured by the pledge of certain bank deposits of the Target Group in the PRC (note 21), and are interest-free with the terms of maturity within six months.

Ageing analysis of trade and bills payables as at each of the respective reporting date is as follows:

Target Group	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Within 30 days	346,924	53,822	52,274	2,211
31 – 60 days	13,706	75,947	11,248	48,448
61 – 90 days	40,116	15,535	13,769	1,041
91 – 180 days	20,002	35,074	6,279	22,578
181 – 365 days	3,842	91,245	27,548	18,078
Over 365 days	1,085	16,430	29,895	48,082
	425,675	288,053	141,013	140,438

24. BANK BORROWINGS

Target Group	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Secured:				
Short-term bank loans	20,000	220,000	355,000	360,000

Notes:

(i) Movements of bank borrowings of the Target Group are as follows:

	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Balance at the beginning of the year/period	–	20,000	220,000	355,000
New bank loans raised	30,000	240,000	480,000	325,000
Repayments of bank loans	(10,000)	(40,000)	(345,000)	(320,000)
Balance at the end of the year/period	20,000	220,000	355,000	360,000

The carrying amounts of the bank loans are denominated in RMB as at each of the respective reporting date.

(ii) As at the respective reporting date, the interest rate of the bank borrowings is as follows:

	As at 31 December			At 30 June
	2007	2008	2009	2010
Interest rate	7.03% – 7.52%	5.31% – 8.96%	5.09% – 5.84%	4.87% – 5.84%

(iii) The bank borrowings are secured by the followings:

– As at 31 December 2007, bank borrowings of RMB20,000,000 were guaranteed by Mr. Suo Lang Duo Ji ("Mr. Suo Lang") and Sichuan Huatong Investment Holding Co., Ltd. ("Huatong"), also secured by the buildings and prepaid land lease payment of Sichuan Guangyuan Machinery (Group) Co., Ltd. and Sichuan First Silk Printing & Dyeing Co., Ltd.

– As at 31 December 2008, bank borrowing of RMB20,000,000 was secured by the buildings and prepaid land lease payment of Sichuan Guangyuan Machinery (Group) Co., Ltd and Sichuan First Silk Printing & Dyeing Co., Ltd.

– As at 31 December 2008, bank borrowing of RMB20,000,000 was guaranteed by Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd ("Tengzhong").

– As at 31 December 2008, bank borrowing of RMB20,000,000 was guaranteed by Mr. Suo Lang and Tengzhong.

– As at 31 December 2008, bank borrowing of RMB20,000,000 was guaranteed by Tengzhong.

– As at 31 December 2008, bank borrowings of RMB140,000,000 were secured by the Group's buildings, prepaid land lease payment and investment properties with carrying amount of approximately RMB113,853,000, RMB49,236,000 and RMB88,340,000 respectively.

– As at 31 December 2009, bank borrowings of RMB20,000,000 was guaranteed by Mr. Suo Lang and Huatong, also secured by the buildings and prepaid land lease payment of Sichuan Guangyuan Machinery (Group) Co., Ltd. and Sichuan First Silk Printing & Dyeing Co., Ltd.

– As at 31 December 2009, bank borrowings of RMB40,000,000 were guaranteed by Mr. Suo Lang, Tengzhong and Deyang New Materials.

– As at 31 December 2009, bank borrowings of RMB260,000,000 were secured by the Group's buildings, prepaid land lease payments, investment properties and machineries of approximately RMB372,164,000, RMB122,454,000, RMB96,355,000 and RMB1,384,006,000, respectively.

– As at 31 December 2009, bank borrowing of RMB35,000,000 was guaranteed by Mr. Suo Lang and secured by the Group's buildings of approximately RMB74,252,000 respectively.

– As at 30 June 2010, bank borrowing of RMB20,000,000 was guaranteed by Mr. Suo Lang, Tengzhong and Deyang New Materials.

– As at 30 June 2010, bank borrowing of RMB30,000,000 was guaranteed by Mr. Suo Lang, Huatong and Sichuan Guangyuan Machinery (Group) Co., Ltd., also secured by the buildings and prepaid land lease payment of Sichuan Guangyuan Machinery (Group) Co., Ltd. and Sichuan First Silk Printing & Dyeing Co., Ltd.

– As at 30 June 2010, bank borrowings of RMB200,000,000 were secured by the Group's buildings, prepaid land lease payments and investment properties of approximately RMB362,879,000, RMB121,194,000 and RMB96,472,000 respectively.

– As at 30 June 2010, bank borrowings of RMB95,000,000 was guaranteed by Mr. Suo Lang and secured by the Group's buildings, prepaid land lease payments and machineries of approximately RMB253,748,000, RMB73,510,000 and RMB362,879,000, respectively.

– As at 30 June 2010, bank borrowing of RMB15,000,000 was guaranteed by Tengzhong, Ms. Zhong Sheng Nan and Mr. Zong Rui Ru.

(iv) The carrying amounts of bank borrowings approximate their fair values.

25. BORROWING WITH DERIVATIVE FINANCIAL INSTRUMENTS

Target Group and Target Company

On 6 November 2007, the Target Group entered into a term loan facility agreement (the "Facility Agreement") with Credit Suisse, Singapore Branch (the "Facility Agent") pursuant to which Credit Suisse International (the "Lender") agreed to provide a USD160,000,000 (approximately RMB1,190,992,000) (the "Facility Amount") term loan facility at floating interest rate of 6-month LIBOR plus 5% per annum to the Target Company with a final maturity of 36 months from the initial drawdown date. The Facility Amount was to be settled by 3 installments which comprise 30%, 30% and 40% of the Facility Amount on the dates falling 24, 30 and 36 months after the initial drawdown date.

Pursuant to the Facility Agreement, the Target Company issued to the Lender equity warrants (the "Warrants") to subscribe to 1.75% new shares of the Target Company's total issued share capital on terms and conditions set out in an agreement (the "Warrant Agreement") issued on 6 November 2007. The percentage increases in the event of the Target Company effects its initial public offering ("IPO") at a pre-money equity value of below USD1.8 billion, but limited to 3.5% of the Target Company's total issued share capital.

Upon the warrant holders' exercise of its right, the Target Company may pay cash to that warrant holders in lieu of issuing warrant shares in accordance with the term as set out in the Warrant Agreement. In addition, the warrant holders shall, upon or after the occurrence of a put event, request the Target Company to purchase the outstanding warrant at a put price with reference to a 17% per annum rate of return as specified in the Warrant Agreement.

In the opinion of the directors of the Target Company, the term loan together with the Warrants contained two components, liability component and conversion option derivative, with the following original features:

Draw down dates	:	9 November 2007, 28 November 2007, 13 December 2007 and 11 January 2008
Principal	:	USD160,000,000
Maturity dates	:	9 November 2008, 9 May 2009 and 9 November 2009
Interest rate	:	6 month LIBOR plus 5%
Convertible period	:	3 to 4 years from the draw down date
Effective interest rate	:	18.20%

The borrowing with derivative financial instruments was secured by:

– the Target Group's pledged bank deposits;

– charge over the Target Company's entire equity interests in all of the subsidiaries;

– corporate guarantees from two subsidiaries in the PRC;

– Ascend Concept's 51% equity interests of the Target Company; and

– subordination and assignment deed for the inter-company loan and the loan owing to Ascend Concept.

Transaction costs related to the liability component amounting to approximately RMB42,660,000 has been included in the carrying amount of the liability portion and amortised over the borrowing term using the effective interest method.

Borrowing with derivative financial instruments as at each of the respective reporting date is as follows:

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 1 January 2007	–	–	–
Borrowing with derivative financial instruments raised	937,230	211,102	1,148,332
Imputed interest	7,719	–	7,719
Change in fair value recognised in profit or loss	–	3,421	3,421
Loss on remeasuring the borrowing from stating at amortised cost to its principal amount when the borrowing became be repayable on demand	251,272	–	251,272
Exchange difference	(16,989)	(2,186)	(19,175)
At 31 December 2007 and 1 January 2008	1,179,232	212,337	1,391,569
Change in fair value recognised in profit or loss	–	20,297	20,297
Exchange difference	(86,736)	(16,021)	(102,757)
At 31 December 2008 and 1 January 2009	1,092,496	216,613	1,309,109
Principal repayment	(327,825)	–	(327,825)
Change in fair value recognised in profit or loss	–	7,672	7,672
Exchange difference	199	32	231
At 31 December 2009 and 1 January 2010	764,870	224,317	989,187
Principal repayment	(326,366)	–	(326,366)
Change in fair value recognised in profit or loss	–	(6,084)	(6,084)
Exchange difference	(3,215)	(914)	(4,129)
At 30 June 2010	435,289	217,319	652,608

As at 31 December 2007, 2008 and 2009, the Target Company breached certain terms of the borrowing. Since the Lender has the right to demand immediate payment as at the reporting date, the borrowing was classified as a current liability in the consolidated statements of financial position as at 31 December 2007, 2008 and 2009. In March 2010, the Target Company obtained the waiver of demand payment form the Lender.

The last instalment of USD64 million has been repaid by the Target Company on 9 November 2010 (note 36(b)).

Fair value of the embedded derivative component

The fair value of the embedded derivative component was estimated at the drawdown date and each reporting date using Binomial Method by BMI Appraisal Limited, an independent qualified professional valuer and the change in fair value of that component is recognised in profit or loss. The inputs into the Binomial Method model at the drawn down date and the respective reporting date were as follows:

Parameter	At draw down date	At 31 December 2007	2008	2009	At 30 June 2010
Share price (USD)	1,001.42	1,196.14	3,319.51	7.72	11.51
Conversion price (USD)	0.01	0.01	0.01	0.01	0.01
Expected volatility (%)	51.90	51.91	62.26	54.49	12.55
Expected life (Years) (*)	3.00	2.86	1.86	0.86	0.36
Risk-free rate (%)	3.56	3.192	0.939	0.364	0.193
Expected dividend yield (%)	–	–	–	–	–

* *The expected lives were determined by calculating the remaining lives of the Warrants at the draw down date and the respective reporting date considering the maturity period of three years and the survival period of one year from the draw down date.*

The share price was determined with reference to the respective implied spot per share at the draw down date and the respective reporting date using the income approach. The following table shows the assumptions used at each respective relevant date for the income approach:

Parameter	At draw down date	At 31 December 2007	2008	2009	At 30 June 2010
Discount rate (%)	22.16	22.02	18.79	15.90	14.97
Growth rate (%)	3.00	3.00	3.00	3.00	3.00

The income approach uses cash flow projections based on a five-year financial budget approved by management of the Target Company and a perpetuity growth rate of 3% per annum thereafter. The growth rates are based on the general growth rate of relevant industry.

26. CONVERTIBLE NOTES

(i) Convertible promissory notes

Target Group and Target Company	Liability component *RMB'000*
At 1 January 2007	–
Value of Convertible Note A at the grant date	77,846
Value of Convertible Note B at the grant date	38,512
Settlement	(45,719)
Convertible Note A converted into series B2 convertible redeemable preference shares	(30,479)
Convertible Note B converted into series B2 convertible redeemable preference shares	(37,881)
Exchange difference	(2,279)
At 31 December 2007	–

(a) Convertible Note A

On 29 January 2007, a written resolution was passed by the directors of the Target Company pursuant to a note purchase agreement, convertible promissory note with interest rate of 40% in the amount of USD10,000,000 (equivalent to approximately RMB77,846,000) ("Convertible Note A") had been issued to TB Investment Holdings Ltd. ("TB Investment"). The Convertible Note A would be become immediately due and payable on the first business day falling 120 days after the issue date (the "Initial Due Date A"), unless extended by another 30 calendar days, pursuant to a written notice delivered by the Target Company at least 5 business days before the Initial Due Date A (the "Maturity Date A").

Upon the occurrence of certain events of default as set out in the note purchase agreement, the noteholder has a right to convert the Convertible Note A into preference shares of the Target Company at any time during the period from the issue date to the Maturity Date A at an initial conversion price of USD6,002.4 per share, subject to adjustment.

The Convertible Note A was secured by:

– personal guarantee by Mr. Suo Lang

– charge over the shares of the Target Company owned by Mr. Suo Lang.

In the opinion of the directors of the Target Company, the Convertible Note A contained liability component and extension option derivative. After considering the financial positions of the Target Company and the interest rate of 40% is relatively high when compared with the market rate, the directors advised that the fair value of the extension option would be negligible. Accordingly, the issue amount of the Convertible Note A was classified as a financial liability which was measured at amortised cost using the effective interest method.

Pursuant to an agreement dated 29 January 2007 entered into between the Target Company, Mr. Suo Lang and TB Investment, Mr. Suo Lang granted TB Investment an option to purchase 1,000 ordinary shares of the Target Company from Mr. Suo Lang for a consideration of USD1.5 million (the "Option") and the Target Company agreed to convert such purchased shares into series A2 convertible redeemable preference shares of the Company ("Series A2 Shares"). Upon the exercise of the Option by TB Investment on 20 July 2007, Ascend Concept, a company solely owned by Mr. Suo Lang, transferred 1,000 ordinary shares of the Company to TB Investment and the Target Company converted such ordinary shares into Series A2 Shares for a consideration payable by TB Investment of USD1.5 million (note 27(v)). As a result, capital redemption reserve of RMB10,940,000 was recognised (note 32(ii)). Pursuant to the agreement, the Target Company agreed to pay USD1.5 million owing from TB Investment to Ascend Concept for reducing the principal amount of Convertible Note A, and leaving the balance of the principal of the Convertible Note A owed by the Target Company to TB Investment of USD8.5 million. The Target Company paid USD1.5 million to Ascend Concept on 13 November 2007. As advised by the directors of the Target Company, this agreement was not linked together with the note purchase agreement and did not form part of the terms of Convertible Note A.

On 20 July 2007, Woo Foong Hong Limited ("Woo Foong Hong") and TB Investment entered into an agreement pursuant to which Woo Foong Hong sold 529.8 ordinary shares of the Target Company to TB Investment for a consideration of USD4 million (note 27(vi)). As a result, capital redemption reserve of RMB30,335,000 was recognised (note 32(ii)). The Target Company, Woo Foong Hong and TB Investment agreed among themselves that the payable of USD4 million by TB Investment to Woo Foong Hong would be paid by the Target Company in order to reduce the principal amount of Convertible Note A owed to TB Investment and that the Target Company would convert the relevant 529.8 ordinary shares into series B2 convertible redeemable preference shares of the Target Company. Accordingly, the balance of principal of Convertible Note A owed by the Target Company to TB Investment would be USD4.5 million. The Target Company had remitted USD4 million to Woo Foong Hong on 12 September 2007.

Pursuant to a share purchase agreement dated 25 April 2007 entered into between Mr. Suo Lang and TB Investment, Mr. Suo Lang agreed to procure the Target Company to grant and issue to TB Investment a warrant (the "TB Warrant") for purchasing up to a maximum amount of USD4 million of new shares of the Target Company. Upon the exercise of the TB Warrant by TB Investment, the Target Company issued Investment 529.8 series B2 convertible redeemable preference shares of the Target Company to TB Investment at a consideration of USD4 million (note 27(vii)) which reduced the principal amount of the Convertible Note A owed to TB Investment and leaving the balance of principal of Convertible Note A amounted to USD0.5 million. The Company settled the remaining balance of USD0.5 million on 11 September 2007.

(b) Convertible Note B

On 26 April 2007, a resolution was passed by the directors of the Target Company pursuant to a note purchase agreement, convertible promissory note in an amount of USD5 million (equivalent to approximately RMB38,512,000) with interest rate of 25%, ("Convertible Note B") was issued to the Trustees of Columbia University of the City of New York ("Columbia"). The Convertible Note B was immediately due and payable on the first business day falling 150 days after the issue date (the "Initial Due Date B"), unless extended by another 30 calendar days, pursuant to a written notice delivered by the Target Company at least 5 business days before the Initial Due Date B (the "Maturity Date B"). As at the date of closing of the next immediate round of equity financing with a total amount of not less than USD20 million, the Convertible Note B would be automatically converted into preference shares based on the valuation of such round of equity financing. If the Target Company issues additional debt in an aggregate amount exceeding USD20 million at any time before the closing of the next immediate round of equity financing which raised a total amount of not less than USD20 million, the noteholder had the right to demand the Target Company to redeem the Convertible Note B into preference shares based on the valuation of such round of equity financing, and the outstanding amount would become due and payable 7 days after the closing of the additional debt financing.

On 20 March 2007, the Target Company entered into a memorandum of understanding ("MOU") with Morgan Stanley Principal Investments Inc., ("MSPI") for the issue of convertible redeemable preference shares to MSPI at a consideration of USD56 million. In the opinion of the directors of the Target Company, notwithstanding the Convertible Note B would probably be converted into preference shares, the MOU is not a legal binding agreement. Accordingly, the Convertible Note B contained liability component and extension option derivative. Same as the Convertible Note A, the directors considered that the fair value of the extension option would be negligible. The Convertible Note B was classified as a financial liability and was measured at amortised cost using the effective interest rate method.

On 16 July 2007, the Target Company entered into a share subscription agreement with a wholly owned subsidiary of MSPI, MS China 10 Limited ("MS China") and other parties, pursuant to which 10,596 Series B1 convertible redeemable preference shares were issued by the Target Company to MS China in two tranches of 3,973.5 shares and 6,622.5 shares at a consideration of USD30 million and USD50 million, respectively (note 27(viii)). A portion of the second tranche consideration was used to redeem or repurchase 2,119.2, 2,649 and 1,059.6 ordinary shares of the Target Company ("Repurchased Shares") owned by Regent Hero Limited ("Regent Hero"), Ascend Concept and Triple A Investments Limited ("Triple A"), respectively, at a price of USD7,550 per share (note 31). The difference between the par value of the Repurchased shares and the consideration paid for the Repurchased Shares of approximately RMB316,751,000 was charged to capital redemption reserve (note 32(ii)). The 10,596 series B1 convertible redeemable preference shares were approved and issued by the Target Company on 20 July 2007.

As a result of the issuance of 10,596 series B1 convertible redeemable preference shares to MS China, Convertible Note B was automatically converted into 662.25 series B2 convertible redeemable preference shares at a price of USD7,550 per share for a total consideration of USD5 million (note 27(ix)).

(ii) BOCOM convertible notes

The following table presents the liability and derivative components:

Target Group and Target Company	Liability component *RMB'000*	Derivative component *RMB'000*	Total *RMB'000*
At 1 January 2007, 31 December 2007, 31 December 2008 and 1 January 2009	–	–	–
Value of convertible notes at the grant date	173,670	29,467	203,137
Imputed interest	4,643	–	4,643
Exchange difference	(15)	(2)	(17)
Change in fair value recognised in profit or loss	–	(1,898)	(1,898)
At 31 December 2009 and 1 January 2010	178,298	27,567	205,865
Imputed interest	15,104	–	15,104
Exchange difference	(725)	(113)	(838)
Change in fair value recognised in profit or loss	–	(20,461)	(20,461)
At 30 June 2010	192,677	6,993	199,670

On 30 October 2009, the Target Company entered into a note subscription agreement (the "Subscription Agreement") with BOCOM International Holding Co., Ltd. ("BOCOM"). Pursuant to the Subscription Agreement, convertible notes with interest rate of 15% to 20% in the face value of USD30,000,000 (equivalent to approximately RMB204,891,000) had been issued to BOCOM (the "BOCOM Notes") on 11 November 2009 (the "Issue Date"). The BOCOM Notes are due and payable one year after the Issue Date (the "Maturity Date"). The noteholder has the right to convert the BOCOM Notes into ordinary shares of the Company at any time during the period from the Issue Date to the four-business day prior to the Maturity Date at a conversion price as set out in the Subscription Agreement. The noteholder also has the right to require the Company to redeem all or some of the BOCOM Notes outstanding on the date falling after the initial public offering listing date up to the Maturity Date.

Pursuant to the Subscription Agreement, the number of shares to be converted is calculated as a percentage of the Target Company's number of shares outstanding of the Target Company immediately prior to the IPO ("Original issued shares"). The percentage is calculated by dividing the original issued shares by the lower of (i) USD1,200,000,000, (ii) final appraised value or (iii) number of shares issued immediately before the IPO × IPO share price × 62%.

In the opinion of the directors of the Target Company, the BOCOM Notes contained a liability component, conversion option and redemption option derivatives with the following original features:

Issue date	:	11 November 2009
Issue amount	:	USD30,000,000
Maturity dates	:	10 November 2010
Interest rate	:	15% – 20%
Convertible period	:	Issue date to four business day prior to the maturity date
Effective interest rate	:	36.84%

Transaction cost related to the liability component amounting to RMB1,754,000 has been included in the carrying amount of the liability portion and amortised over the period of the borrowing term using the effective interest method.

The BOCOM Notes were secured by:

– corporate guarantees from a related company which is 100% owned by Mr. Suo Lang in favour of BOCOM;

– personal guarantee by Mr. Suo Lang; and

– charge over shares of listed investment owned by Mr. Suo Lang.

In respect of the BOCOM Notes with carrying amounts of RMB199,670,000 as at 30 June 2010, the Target Company breached certain terms of the notes. Pursuant to the Subscription Agreement, in case of such breach events, the noteholder is entitled to, at the noteholder's own discretion, require the Target Company to redeem all relevant notes with cash immediately and pay the entire unpaid principal amount with any interest, fees and expenditure, possibly incurred. The directors of the Target Company considered that the financial impact was insignificant on remeasuring the liability component from stating at amortised cost to its principal amount when the borrowing was repayable on demand as at 30 June 2010.

Fair value of the embedded derivative component

The fair value of the embedded derivative component was estimated at the Issue Date and the reporting date using Binomial Method by BMI Appraisal Limited, an independent qualified professional valuer. The change in fair value of the component is recognised in profit or loss.

The inputs into the Binomial Method model at the Issue Date and the reporting date were as follows:

	At issue date	At 31 December 2009	At 30 June 2010
Share price (USD)	7.20	7.72	11.51
Initial conversion price (USD)	14.74	14.74	14.74
Expected volatility (%)	61.030	54.841	44.473
Risk-free rate (%)	0.293	0.365	0.192
Expected dividend yield (%)	–	–	–

The share price was determined with reference to the respective implied spot price per share at the grant date, and each reporting date using the income approach. The following table shows the assumptions used at each respective relevant date for the income approach:

	At issue date	At 31 December 2009	At 30 June 2010
Discount rate (%)	16.13	15.90	14.97
Growth rate (%)	3.00	3.00	3.00

The income approach uses cash flow projections based on a five-year financial budget approved by management of the Target Company and a perpetuity growth rate of 3.0% per annum thereafter. The growth rate is based on the general growth rate of relevant industry.

27. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

Target Group and Target Company

The number of convertible redeemable preference shares as at each of the respective reporting dates is as follows:

		Number of shares			
		At 31 December			At 30 June
	Notes	**2007**	**2008**	**2009**	**2010**
Authorised:					
USD0.01 each per share	*(i), (ii)*	250,000	250,000	250,000	–
Issued and fully paid:					
Series A1 shares of USD0.01 each	*(iii)*	4,400	4,400	4,400	–
Series A3 shares of USD0.01 each	*(iv)*	1,000	1,000	1,000	–
Series A2 shares of USD0.01 each	*(v)*	1,000	1,000	1,000	–
Series B2 shares of USD0.01 each	*(vi)*	530	530	530	–
Series B2 shares of USD0.01 each	*(vii)*	530	530	530	–
Series B1 shares of USD0.01 each	*(viii)*	10,596	10,596	10,596	–
Series B2 shares of USD0.01 each	*(ix)*	662	662	662	–
Total		18,718	18,718	18,718	–

Notes:

(i) On 25 April 2007, the Target Company received approval by the directors of board to convert 150,000 authorised ordinary shares into 150,000 authorised convertible redeemable preference shares (note 31).

(ii) On 20 July 2007, the Target Company received approval by the board of directors to convert 100,000 authorised ordinary shares into 100,000 authorised convertible redeemable preference shares (note 31).

(iii) On 25 April 2007, pursuant to an agreement between Mr. Suo Lang, TB Investment and the Target Company, Mr. Suo Lang sold 4,400 ordinary shares at USD0.01 per share of the Target Company to TB Investment at a consideration of USD6,000,000. On the same date, the Target Company received approval by the board of directors to convert 4,400 issued ordinary shares at USD0.01 each held by TB Investment into 4,400 Series A1 convertible redeemable preference shares of USD0.01 each (note 31). As a result, capital redemption reserve of RMB57,941,000 was recognised (note 32(ii)).

(iv) On 26 April 2007, Regent Hero entered into a Share Purchase Agreement (the "Agreement") with Columbia, under which Regent Hero sold 1,000 ordinary shares of the Target Company to Columbia for a consideration of USD5 million. Under the Agreement, Regent Hero made a post-closing covenant to use its best efforts to procure the Target Company to convert the purchased shares into Series A3 convertible redeemable preference shares of the Target Company. On the same date, the Target Company received approval by the board of directors to convert 1,000 issued ordinary shares at USD0.01 each held by Columbia into 1,000 Series A3 convertible redeemable preference shares of USD0.01 each (note 31). As a result, capital redemption reserves of RMB36,228,000 was recognised (note 32(ii)).

(v) On 20 July 2007, the Target Company received approval by the board of directors to convert 1,000 issued ordinary shares at USD0.01 each held by TB Investment into 1,000 Series A2 convertible redeemable preference shares of USD0.01 each (note 26(i)(a)) and (note 31).

(vi) On 20 July 2007, the Target Company received approval by the board of directors to convert 529.8 issued ordinary shares at USD0.01 each held by TB Investment into 529.8 Series B2 convertible redeemable preference shares of USD0.01 each (note 26(i)(a)) and (note 31).

(vii) On 20 July 2007, Convertible Note A converted into 529.8 Series B2 convertible redeemable preference shares at a price of USD7,550 per share for a total consideration of USD4 million (note 26(i)(a)).

(viii) On 20 July 2007, the Company received approval by the board of directors to issue 10,596 Series B1 convertible redeemable preference shares of USD0.01 each for an aggregate amount of USD80 million (note 26(i)(b)).

(ix) On 20 July 2007, Convertible Note B automatically converted into 662.25 Series B2 convertible redeemable preference shares at a price of USD7,550 per share for a total consideration of USD5 million (note 26(i)(b)).

(x) The holders of the convertible redeemable preference shares converted all their convertible redeemable preference shares into ordinary shares on 15 March 2010 and 1 April 2010, respectively. On conversion, the excess of the carrying amount of financial liability over par value of ordinary shares issued amounted to RMB1,505,712,000 was accounted for as share premium (note 32(ii)).

The principal terms of the Series A and Series B convertible redeemable preference shares included the following:

Dividends

No dividends, whether in cash, in property or in shares of the capital of the Target Company or otherwise, shall be paid on any other class or series of shares of the Target Company unless and until a dividend in like amount is first paid in full on each Series A and each Series B convertible redeemable preference share. If a dividend is paid on ordinary shares, the matching dividend to be paid to the holders of Series A and Series B convertible redeemable shares shall be calculated on an as converted basis. Series A and Series B convertible redeemable preference shareholders shall also be entitled to receive any non-cash dividends declared by the Target Company's directors on an as converted basis.

Voting right

Preference shares holders shall enjoy the same voting power as holders of ordinary shares of the Target Company and shall be entitled to vote on all matters required to be submitted for votes by all members of the Target Company.

Liquidation preference

The Series A and Series B convertible redeemable preference shares rank in priority to the ordinary shares in the Target Company as to dividends and return of capital.

Conversion

Any holder of the Series A and Series B convertible redeemable preference shares has the right, but not obligation, at any time at such convertible redeemable preference shareholder's sole discretion, to convert any or all of the Series A or Series B convertible redeemable preference shares held by him/her, into fully paid and ordinary shares of the Target Company at the then applicable conversion price.

The Series A and Series B convertible redeemable preference shares automatically convert into ordinary shares, at the then applicable conversion price, upon (i) the closing of a Qualified IPO, as defined by the Target Company's Articles of Association (with aggregate gross proceeds to the Target Company in excess of USD3 million and at a public offering price per share of at least USD22,650 per share; provided that in the event of the public offering price per share is greater than or equal to USD16,987.5 per share and less than USD22,650 per share, such IPO shall be deemed to be a qualified IPO if the directors of the Target Company are able to reach a unanimous agreement); (ii) the election of holders of a majority of the then outstanding Series A convertible redeemable preference shares with respect to the conversion of Series A convertible redeemable preference shares or Series B convertible redeemable preference shares with respect to the conversion of Series B convertible redeemable preference shares, each voting as a separate class, as the case may be or; (iii) the conversion of a majority of the Series A convertible redeemable preference shares, in which case the automatic conversion of all Series A convertible redeemable preference shares, or a majority of the Series B convertible redeemable preference shares, in which case the automatic conversion of all Series B convertible redeemable preference shares. The conversion ratio in respect of any Series A and Series B convertible redeemable preference shares is subject to adjustments from time to time as provided for in the Target Company's Articles of Association.

Redemption

Redemption of Series A convertible redeemable preference shares

Upon written request by a majority of the Series A convertible redeemable preference shares at any time following the fourth anniversary of the respective Series A shares issue date ("Series A Issue Date"), the Target Company must redeem up to all of the outstanding Series A convertible redeemable preference shares for a payment equal to (i) with respect to all Series A1 convertible redeemable preference shares, USD9,000,000, plus all accrued or declared but unpaid dividends thereon, (ii) with respect to all Series A2 convertible redeemable preference shares, an amount equal to USD2,250,000, plus all accrued or declared but unpaid Dividends thereon and (iii) with respect to all Series A3 convertible redeemable preference shares, an amount equal to USD7,500,000, plus all accrued or declared but unpaid dividends thereon, calculated to 25 April 2011, the redemption date.

Redemption of Series B convertible redeemable preference shares

Upon written request by a majority of the Series B convertible redeemable preference shareholders at any time following the fourth anniversary of the Series B shares issue date ("Series B Issue Date"), the Target Company must redeem up to all of the outstanding Series B convertible redeemable preference shares for a payment equal to USD7,550 per share ("Anti- Dilution B Price") as defined and adjusted by the Target Company's Articles of Association, plus all accrued or declared but unpaid dividends thereon, less any dividends already received with respect to such Series B convertible redeemable preference shares (the "Series B Redemption Price"); provided that in the event the Target Company has not completed a qualifying IPO before the fourth anniversary of the Series B Issue Date, the Series B Redemption Price shall be adjusted to an amount equal to the Anti-Dilution B Price, plus a return on the Anti-Dilution B Price of 15% per annum compounded quarterly from the Series B Issue Date; provided further, that upon the seventh anniversary of the Series B Issue Date, unless earlier converted, each Series B convertible redeemable preference shareholder shall have the right to convert or redeem all of its then outstanding Series B convertible redeemable preference shares.

The convertible redeemable preference shares are measured at fair value with changes in fair value recognised in profit or loss. The movement is set out below:

	A1	A2	A3	B1	B2	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fair value of convertible redeemable preference shares at grant date	57,942	10,940	36,228	606,095	98,521	809,726
Change in fair value recognised in profit or loss	(5,800)	1,497	(2,149)	28,158	4,554	26,260
Exchange difference	(2,325)	(342)	(1,498)	(17,321)	(2,814)	(24,300)
At 31 December 2007 and 1 January 2008	49,817	12,095	32,581	616,932	100,261	811,686
Change in fair value recognised in profit or loss	55,108	11,780	3,412	3,942	641	74,883
Exchange difference	(4,758)	(1,123)	(2,464)	(45,455)	(7,388)	(61,188)
At 31 December 2008 and 1 January 2009	100,167	22,752	33,529	575,419	93,514	825,381
Change in fair value recognised in profit or loss	78,066	17,764	20,709	318,414	51,747	486,700
Exchange difference	(14)	(4)	(2)	(33)	(6)	(59)
At 31 December 2009 and 1 January 2010	178,219	40,512	54,236	893,800	145,255	1,312,022
Change in fair value recognised in profit or loss	59,118	13,700	11,387	92,714	22,409	199,328
Conversion into ordinary shares	(236,568)	(54,038)	(65,390)	(982,686)	(167,033)	(1,505,715)
Exchange difference	(769)	(174)	(233)	(3,828)	(631)	(5,635)
At 30 June 2010	–	–	–	–	–	–

The fair value of the convertible redeemable preference shares were estimated at the Series A Issue Date, the Series B Issue Date , each reporting date and the conversion date using Binomial Method carried out by BMI Appraisal Limited, an independent qualified professional valuer. The change in fair value has been recognised in the profit or loss. The change in fair value was mainly due to change in market risk factors. The fair value attributable to change in its credit risk is considered immaterial.

The main input into the Binomial Method model was the share price. It was determined with reference to the respective implied spot price per share at the issue date, and each reporting date using the income approach.

The discount rates applied under the income approach in determining the share price input are as follows:

		At 31 December			At 30 June
	Issue date	**2007**	**2008**	**2009**	**2010**
Series A	14.73%	15.38% – 15.79%	22.59% – 23.04%	15.34% – 15.71%	13.53% – 13.87%
Series B	14.73%	15.38%	22.59%	15.31%	13.53%

The income approach uses cash flow projections based on a five-year financial budget approved by management of the Target Company and a perpetuity growth rate of 3.0% per annum thereafter. The growth rate is based on the general growth rate of relevant industry.

Modification of redemption period of Series A convertible redeemable preference share from 25 April 2009 to 25 April 2011 was effective on 11 November 2007. The revised terms were taken into account in establishing fair value of convertible redeemable preference shares at 30 June 2010 following the modification of redemption period.

28. PLEDGE OF ASSETS

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

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings *(note 14)*	–	113,853	372,164	362,879
Machinery and equipment *(note 14)*	–	–	353,123	336,425
Investment properties *(note 15)*	–	88,340	96,355	96,472
Prepaid lease payments *(note 16)*	–	49,236	122,454	121,194
Bank deposits *(note 21)*	180,190	94,612	69,366	134,628
	180,190	346,041	1,013,462	1,051,598

	As at 31 December			At 30 June
Target Company	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank deposits *(note 21)*	114,719	56,421	57,537	57,414

29. FINANCIAL GUARANTEE CONTRACTS

The Target Group has executed guarantees amounting to approximating RMB193,000,000 and RMB193,000,000 at 31 December 2009 and 30 June 2010 respectively, with respect to bank loans to its related parties. Under the guarantee, the Target Group had pledged certain buildings and machinery and equipment to secure the bank loans to the following related parties (note 35(ii)) and the Target Group would be liable to pay the banks if the banks are unable to recover the loans. The outstanding balance of the bank loans was RMB193,000,000 and RMB193,000,000 at 31 December 2009 and 30 June 2010 respectively, and represented the Target Group's maximum exposure under the financial guarantee contract. No provision for the Target Group's obligation under the financial guarantee contract has been made as the directors of the Target Company considered that it was not probable that the repayment of the loans would be in default.

30. DEFERRED TAX

The movement during the Relevant Periods in the deferred tax liabilities is as follows:

	As at 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	–	6,092	6,792	8,796
Recognised in other comprehensive income	6,427	–	–	–
Charged to profit or loss	(335)	700	2,004	29
At the end of the year/period	6,092	6,792	8,796	8,825

The following are the major deferred tax liabilities recognised during the Relevant Period:

	Revaluation of investment properties
	RMB'000
At 1 January 2007	–
Recognised in other comprehensive income	6,427
Recognised in profit or loss	(335)
At 31 December 2007 and 1 January 2008	6,092
Recognised in profit or loss	700
At 31 December 2008 and 1 January 2009	6,792
Recognised in profit or loss	2,004
At 31 December 2009 and 1 January 2010	8,796
Recognised in profit or loss	29
At 30 June 2010	8,825

Deferred tax liabilities of approximately RMB11,681,000, RMB37,154,000 and RMB63,738,000 at 31 December 2008, 31 December 2009 and 30 June 2010 respectively have not been established for the withholding and other taxation that would be payable on the unremitted earnings amounted to approximately RMB233,610,000, RMB509,458,000 and RMB531,677,000 for the years ended 31 December 2008, 2009 and the six months ended 30 June 2010 of Deyang Chemical and Deyang New Material. According to the Target Group's development plan, such amounts are to be reinvested in these subsidiaries.

31. SHARE CAPITAL

	Par value	**Number of ordinary shares**	**Nominal value**	
	USD		*USD*	*RMB'000*
Authorised:				
At 1 January 2007	0.01	1,000,000	10,000	72
Transferred to convertible redeemable preference shares *(note 27(i) & (ii))*	0.01	(250,000)	(2,500)	(18)
At 31 December 2007, 31 December 2008 and 31 December 2009	0.01	750,000	7,500	54
Transferred from convertible redeemable preference shares	0.01	250,000	2,500	18
Consolidation of shares *(note (i))*	0.5	(980,000)	–	–
Increase in authorised share capital *(note (ii))*	0.5	199,980,000	99,990,000	679,962
At 30 June 2010	0.5	200,000,000	100,000,000	680,034

	Par value	Number of ordinary shares	Nominal value	
	USD		*USD*	*RMB'000*
Issued and fully paid:				
At 1 January 2007	0.01	100,000	1,000	7
Transferred to convertible redeemable preference shares *(note 27(iii) to (vi))*	0.01	(6,930)	(69)	(1)
Repurchase of shares *(note 26(i)(b))*	0.01	(5,828)	(59)	–
At 31 December 2007, 31 December 2008 and 31 December 2009	0.01	87,242	872	6
Conversion of convertible redeemable preference shares on 15 March 2010 *(note 27(x))*	0.01	10,596	106	2
Consolidation of shares *(note (i))*	0.5	(95,881)	–	–
Conversion of convertible redeemable preference shares on 1 April 2010 *(note 27(x))*	0.5	162	81	1
Issue of new shares *(note (iii))*	0.5	80,000,000	40,000,000	272,012
At 30 June 2010	0.5	80,002,119	40,001,059	272,021

Notes:

(i) On 31 March 2010, the Target Company received the approval of the board of directors to consolidate its ordinary shares at a par value of USD0.01 into ordinary shares at a par value of USD0.5.

(ii) On 31 March 2010, the authorised share capital of the Target Company was increased to USD100,000,000 by the creation of additional 199,980,000 shares.

(iii) On 31 March 2010, 80,000,000 ordinary shares of USD0.5 each of the Target Company was issued, in which 76,000,000 ordinary shares of USD0.5 each were issued at par value. The remaining 4,000,000 ordinary shares were issued at USD15 each. The gross proceeds from issue of shares was approximately USD98,000,000 (equivalent to RMB666,493,000). Part of the proceeds amounting to RMB272,012,000 was recorded as share capital, the remaining proceeds of approximately RMB394,481,000 was recorded in share premium accounts. As at 30 June 2010, approximately RMB272,012,000 was received by the Target Company. The remaining balance was included in the amounts due from related parties.

32. RESERVES

(i) Target Company

Details of the Target Company's reserve are as follows:

	Share premium *(note (ii))* *RMB'000*	**Capital redemption reserve** *(note (ii))* *RMB'000*	**Translation reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2007	–	–	–	(134)	(134)
Repurchase of shares	–	(452,195)	–	–	(452,195)
Loss for the year	–	–	–	(345,533)	(345,533)
Exchange difference arising on translation of foreign operations	–	–	7,972	–	7,972
At 31 December 2007 and 1 January 2008	–	(452,195)	7,972	(345,667)	(789,890)
Loss for the year	–	–	–	(206,514)	(206,514)
Exchange difference arising on translation of foreign operations	–	–	62,195	–	62,195
At 31 December 2008 and 1 January 2009	–	(452,195)	70,167	(552,181)	(934,209)
Loss for the year	–	–	–	(584,531)	(584,531)
Exchange difference arising on translation of foreign operations	–	–	81	–	81
At 31 December 2009 and 1 January 2010	–	(452,195)	70,248	(1,136,712)	(1,518,659)
Conversion of convertible redeemable preference shares to ordinary shares *(note 27(x))*	1,505,712	–	–	–	1,505,712
Issue of new shares *(note 31(iii))*	394,481	–	–	–	394,481
Loss for the period	–	–	–	(253,802)	(253,802)
Exchange difference arising on translation of foreign operations	–	–	6,516	–	6,516
At 30 June 2010	1,900,193	(452,195)	76,764	(1,390,514)	134,248

(ii) Target Group

Details of the movements on the Target Group's reserves during the Relevant Periods are as set out in the consolidated statements of changes in equity.

Share premium

Share premium of the Target Group and Target Company represented the difference between the carrying amount of convertible redeemable preference shares converted to the ordinary shares and the par value of the ordinary shares.

Capital redemption reserve

Capital redemption reserve of the Target Group and Target Company represented the difference between the par value of the ordinary shares repurchased and converted to convertible redeemable preference shares and the consideration for the repurchase and conversion. See notes 26(i)(a), 26(i)(b), 27(iii) and 27(iv).

Statutory reserve

In accordance with the Company Law of the PRC, the Target Group's subsidiaries registered in the PRC are required to appropriate 10% of their annual statutory profit after tax (after offsetting any prior years' losses) to the statutory reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve may be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of registered capital.

33. OPERATING LEASE COMMITMENTS

The Target Group as lessee

At the respective reporting date, future minimum rental payable under non-cancellable operating leases falling due as follows:

	As at 31 December			At 30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	3,946	9,302	6,926	7,846
In the second to fifth years	2,394	9,140	2,340	19,906
After five years	–	–	–	2,488
	6,340	18,442	9,266	30,240

The Target Group leases a number of properties and machinery under operating leases. The leases run for an initial period of one to six years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Target Group and respective landlords/lessors. None of the leases include contingent rentals.

The Target Company as lessee

At the respective reporting date, future minimum rental payable under non-cancellable operating leases falling due as follows:

	As at 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	1,733	134	–	–
In the second to fifth years	144	–	–	–
	1,877	134	–	–

The Target Company leases a number of properties under operating leases. The leases run for an initial period of two years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Target Company and respective landlords/lessors. None of the leases include contingent rentals.

The Target Group as lessor

The Target Group leases out its investment properties under operating leases for the Relevant Periods. None of the leases includes contingent rentals. All of the properties held have committed tenants for an average term of three to ten years. At the respective reporting date, future minimum rental receivables under non-cancellable operating leases falling due as follows:

	As at 31 December			At 30 June
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	4,364	29	14	8,014
In the second to fifth years	4,393	4,364	14	32,000
After five years	–	–	–	36,000
	8,757	4,393	28	76,014

The Target Company as lessor

The Target Company does not have any minimum lease receipts under non-cancellable operating leases.

34. CAPITAL COMMITMENTS

	As at 31 December			At 30 June
Target Group	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital commitments contracted but not provided for in respect of construction in progress	–	33,150	–	130,000

35. RELATED PARTY TRANSACTIONS

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

(i) Name of and relationship with related parties

Company name	Relationship with the Target Company
Mr. Suo Lang	Ultimate shareholder and director
Mr. Zhang Songyi	Ultimate shareholder and director
Mr. Wang Chun Lin	Ultimate shareholder and director
Mr. Zhang Zhigang	Director and chief executive officer
Mandra Capital	Mr. Zhang Songyi has equity interest in this entity
Huatong	Mr. Zhang Zhigang has equity interest in this entity
四川省華拓實業發展股份有限公司 Sichuan Haton Enterprise Co, Ltd.* ("Sichuan Haton")	Mr. Zhang Zhigang has indirect equity interest in this entity
四川華通特種工程塑料研究中心有限公司 Sichuan Hua Tong Special Plastic Research Centre Co., Ltd.* ("Hua Tong Special")	Mr. Zhang Zhigang has indirect equity interest in this entity
四川得陽科技股份有限公司 Sichuan Deyang Technology Co., Ltd.* ("Deyang Technology")	Mr. Zhang Zhigang has indirect equity interest in this entity
Woo Foong Hong	Shareholder
Morgan Stanley	Shareholder
MS China	Shareholder
SBI Holdings, Inc.	Shareholder
SBI BB Mobile Investment LPS	Shareholder
SBI NEO Technology A Investment LPS	Shareholder
SBI NEO Technology B Investment LPS	Shareholder
SBI Life Science Technology Investment LPS	Shareholder
SBI Life Science Technology No. 2 Investment LPS	Shareholder
SBI Holdings, Inc.	Shareholder
TB Investment	Shareholder for the year ended 31 December 2007
Columbia	Shareholder for the year ended 31 December 2007
Regent Hero	Shareholder for the years ended 31 December 2007, 2008 and 2009
Triple A	Mr. Wang Chun Lin has equity interest in this entity
成都華通博物館 Chengdu Huatong museum* ("Huatong museum")	Ultimately controlled by Mr. Suo Lang
Ascend Concept	Ultimately controlled by Mr. Suo Lang
四川省川眉芒硝有限責任公司 Sichuan Province Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite")	Mr. Suo Lang, Mr. Zhang Songyi, Mr. Wang Chun Lin and Ms. Chan Hiu Lai, Caroline have equity interest in this entity
Top Promise Resource Limited ("Top Promise")	Mr. Suo Lang, Mr. Zhang Songyi, Mr. Wang Chun Lin and Ms. Chan Hiu Lai, Caroline have equity interest in this entity
Chief Style International Limited ("Chief Style")	Ultimately controlled by Mr. Suo Lang
Tengzhong	Mr. Zhang Zhigang has indirect equity interest in this entity
新津騰中築路機械有限公司 XinJin Tengzhong Road Construction Machineries Co., Ltd. ("Xinjin Tengzhong")	Mr. Zhang Zhigang has indirect equity interest in this entity

* *The English names are for identification purpose only*

(ii) Significant related party transactions during the Relevant Periods

		Year ended 31 December			Six months ended 30 June	
					(Unaudited)	
Target Group		**2007**	**2008**	**2009**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sichuan Haton	Office rental paid	3,230	3,020	1,830	915	1,311
Deyang Technology	Deposits paid for patents	–	70,850	–	–	–
Deyang Technology	Purchase of machinery and equipment	24,428	34,468	35,897	–	28,441
Deyang Technology	Purchase of goods	3,427	–	–	–	–
Deyang Technology	Rental paid for machinery and equipment	–	1,981	3,400	1,702	1,419
Tengzhong	Earthquake damage repair charge	–	137,434	–	–	–
Tengzhong	Purchase of machinery and equipment	469,768	–	–	–	–
Tengzhong	Rental income of plant	4,364	4,364	4,364	2,182	4,007
Tengzhong	Transportation charges	–	1,267	1,555	475	952
Xinjin Tengzhong	Purchase of machinery and equipment	779,886	36,988	–	–	–
TB Investment	Convertible note interest paid	12,463	–	–	–	–
Columbia	Convertible note interest paid	2,238	–	–	–	–
Mr. Suo Lang	Other loan interest paid	1,729	–	–	–	–

Included in the interest paid to Mr Suo Lang for the year ended 31 December 2007, the amounts due carries an interest rate of 8% per annum.

During the period from April 2009 to June 2010, Tenzhong had shared part of its office to the Target Company for usage without rental charges.

As at each of the respective reporting date, the Target Group had pledged certain buildings and machinery and equipment to secure the bank loans for the following related parties. The carrying values of these assets pledged at each of the respective reporting date are as follows:

	At 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deyang Technology				
Buildings *(note 14)*	–	–	260,115	253,748
Tengzhong				
Machinery and equipment *(note 14)*	–	1,436,840	1,384,066	1,338,840
	–	1,436,840	1,644,181	1,592,588

On or before 29 October 2010, the Target Group has obtained waiver letters from the PRC banks to discharge the pledge of certain buildings and machinery and equipment for securing the bank loans to the related parties approximately amounted to RMB193,000,000.

(iii) Key management personnel remuneration

Key management of the Target Group are members of the board of directors, as well as the senior management of the Target Group. Key management personnel remuneration includes the following expense:

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
				(Unaudited)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and bonus	3,159	4,918	5,634	3,104	3,018
Contribution to defined contribution pension plans	25	68	73	45	50
	3,184	4,986	5,707	3,149	3,068

(iv) Amounts due from related parties

	At 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deyang Technology	–	12,674	–	–
Huatong	186,242	17,508	–	249,543
Huatong museum	1,111	1,111	–	–
Sichuan Haton	51	–	1,522	–
Morgan Stanley	–	–	332	331
MS China	358	–	–	–
Tengzhong	–	–	18,138	15,274
SBI Holdings, Inc.	–	–	–	262,724
SBI BB Mobile Investment LPS	–	–	–	84,419
SBI NEO Technology A Investment LPS	–	–	–	19,724
SBI NEO Technology B Investment LPS	–	–	–	1,578
SBI Life Science Technology Investment LPS	–	–	–	15,779
SBI Life Science Technology No. 2 Investment LPS	–	–	–	10,257
	187,762	31,293	19,992	659,629

Particulars of amounts due from related companies are as follows:

	At 31 December 2007	**Maximum amount outstanding during the year**	**At 1 January 2007**
	RMB'000	*RMB'000*	*RMB'000*
Deyang Technology	–	15,062	–
Huatong museum	1,111	9,961	–
Huatong	186,242	216,936	–
Sichuan Haton	51	25,785	11,954
MS China	358	359,945	–
Tengzhong	–	76,260	79

	At 31 December 2008	**Maximum amount outstanding during the year**	**At 1 January 2008**
	RMB'000	*RMB'000*	*RMB'000*
Deyang Technology	12,674	95,975	–
Huatong	17,508	186,244	186,242
Huatong museum	1,111	1,111	1,111
Sichuan Haton	–	27,291	51
MS China	–	358	358

	At 31 December 2009	**Maximum amount outstanding during the year**	**At 1 January 2009**
	RMB'000	*RMB'000*	*RMB'000*
Deyang Technology	–	13,968	12,674
Huatong museum	–	1,111	1,111
Huatong	–	17,508	17,508
Sichuan Haton	1,522	1,522	–
Morgan Stanley	332	332	–
Tengzhong	18,138	174,955	–

	At 30 June 2010 *RMB'000*	Maximum amount outstanding during the period *RMB'000*	At 1 January 2010 *RMB'000*
Huatong	249,543	249,543	–
Sichuan Haton	–	2,000	1,522
Morgan Stanley	331	332	332
Tengzhong	15,274	272,056	18,138
SBI Holdings, Inc.	262,724	262,724	–
SBI BB Mobile Investment LPS	84,419	84,419	–
SBI NEO Technology A Investment LPS	19,724	19,724	–
SBI NEO Technology B Investment LPS	1,578	1,578	–
SBI Life Science Technology Investment LPS	15,779	15,779	–
SBI Life Science Technology No. 2 Investment LPS	10,257	10,257	–

Target Company	At 31 December 2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*	At 30 June 2010 *RMB'000*
Morgan Stanley	–	–	332	331
MS China	358	–	–	–
Tengzhong	–	–	–	272,056
SBI Holdings, Inc.	–	–	–	262,724
SBI BB Mobile Investment LPS	–	–	–	84,419
SBI NEO Technology A Investment LPS	–	–	–	19,724
SBI NEO Technology B Investment LPS	–	–	–	1,578
SBI Life Science Technology Investment LPS	–	–	–	15,779
SBI Life Science Technology No. 2 Investment LPS	–	–	–	10,257
	358	–	332	666,868

Particulars of amounts due from related companies are as follows:

	At 31 December 2007 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	At 1 January 2007 *RMB'000*
MS China	358	359,945	–

	At 31 December 2008 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	At 1 January 2008 *RMB'000*
MS China	–	358	358

	At 31 December 2009 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	At 1 January 2009 *RMB'000*
Morgan Stanley	332	332	–

	At 30 June 2010 *RMB'000*	Maximum amount outstanding during the period *RMB'000*	At 1 January 2010 *RMB'000*
Morgan Stanley	331	332	332
Tengzhong	272,056	272,056	–
SBI Holdings, Inc.	262,724	262,724	–
SBI BB Mobile Investment LPS	84,419	84,419	–
SBI NEO Technology A Investment LPS	19,724	19,724	–
SBI NEO Technology B Investment LPS	1,578	1,578	–
SBI Life Science Technology Investment LPS	15,779	15,779	–
SBI Life Science Technology No. 2 Investment LPS	10,257	10,257	–

The amounts due are unsecured, interest-fee and repayable on demand.

(v) Amounts due to related parties

Target Group	**At 31 December 2007**	**2008**	**2009**	**At 30 June 2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ascend Concept	–	4,375	4,375	4,335
Chief Style	333	309	309	307
Chuanmei Mirabilite	–	–	45	68
Deyang Technology	337,742	–	38,522	28,728
Huatong	–	–	25,788	–
Sichuan Haton	–	36,848	–	1,720
Hua Tong Special	49	261	20	38
Mandra Capital	–	–	6,829	6,801
Mr. Suo Lang	4,726	61,493	180,983	376,866
Morgan Stanley	–	76	–	–
TB Investment	13,266	12,291	–	–
Tengzhong	93,168	33,241	–	–
Top Promises	9,771	536	–	–
Triple A	10,318	9,559	9,561	9,522
Regent Hero	14,741	–	–	–
	484,114	158,989	266,432	428,385

Target Company	**At 31 December 2007**	**2008**	**2009**	**At 30 June 2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Chief Style	232	215	215	213
Mandra Capital	–	–	6,829	6,801
Morgan Stanley	–	76	–	–
Mr. Suo Lang	–	–	5,457	14,278
Regent Hero	14,741	–	–	–
TB Investment	13,266	12,291	–	–
Top Promises	5,665	–	–	–
Triple A	10,318	9,559	9,561	9,522
	44,222	22,141	22,062	30,814

The amounts due are unsecured, interest-fee and repayable on demand.

36. SIGNIFICANT SUBSEQUENT EVENTS

Saved as disclosed elsewhere in this report, the following significant events have taken place subsequent to 30 June 2010 and up to the date of this report:

(a) On 3 November 2010, the Target Group has obtained a commitment letter from The Agricultural Bank of China with a loan amount of RMB600 million. The commitment will be valid from November 2010 to November 2012.

(b) On 5 November 2010, a USD90,000,000 (equivalent to approximately RMB612,126,000) senior secured fixed rate term notes together with new warrants have been issued by the Target Company (as issuer) and subscribed for by the Credit Suisse AG and/or a group of financial institutions arranged by Credit Suisse AG (the "New Investors") to refinance the final instalment in relation to the USD160,000,000 loan facility as explained in note 25.

New warrants entitle the New Investors to subscribe for the Target Company's shares representing up to 2.57% of fully diluted share capital of the Target Company in accordance with the instrument constituting warrants dated 5 November 2010. In addition, the new warrants will be automatically exercised prior to Acquisition, and settled with new Target Company's shares before Acquisition or cash (at the option of the warrant holders).

(c) On 5 November 2010, a waiver and amendment letter has been provided from BOCOM for the BOCOM convertible notes (note 26(ii)), under which BOCOM may exercise its conversion rights to convert the ordinary shares of the Target Company representing approximately 3.23% of the Target fully diluted share capital before an agreed date. If BOCOM does not elect to exercise its conversion rights before Acquisition, the convertible notes will mature on 31 May 2011.

(d) On 6 November 2010, the Target Company obtained an unsecured loan facility of USD140 million (equivalent to approximately RMB952.2 million) from China Financial Management Limited with a term of 2 years at interest rate of 12% per annum.

Save as aforesaid, no other significant event took place subsequent to 30 June 2010 and up to the date of this report.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group is exposed to a variety of financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Target Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Target Group does not have written risk management policies. However, the board of directors of the Target Company meet regularly and co-operate closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks. The Target Group has not used any derivatives or other instruments for hedging purposes and has not held or issued derivative financial instruments for trading purposes. The most significant risks to which the Target Group is exposed are described below.

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Except for bank deposits which are interest bearing (notes 21 and 22), the Target Group and the Target Company has no other significant interest-bearing assets. The income and operating cash flows of the Target Group and the Target Company are substantially independent of changes in market interest rates. The interest rate risk of the Target Group arises primarily from bank borrowings, borrowings with derivative financial instruments and convertible notes. The interest rate risk of the Target Company arises primarily from borrowings with derivative financial instruments and convertible notes. These borrowings obtained at variable rates and fixed rates expose the Target Group and the Target Company to cash flow interest rate risk and fair value interest rate risk, respectively.

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

The Target Group and the Target Company is exposed to changes in market interest rates on its borrowings with derivative financial instruments, which are at variable rates.

The interest rate and terms of repayment of borrowing with derivative financial instruments are disclosed in note 25 above. The Target Group and the Target Company has not hedged its cash flow and fair value interest rate risk. The management monitors the exposure of the Target Group and the Target Company on an ongoing basis and will consider hedging interest rate risk should the need arises.

The policies to manage interest rate risk have been followed by the Target Group and the Target Company since prior year/period are considered to be effective.

Sensitivity analysis

The following tables illustrate the sensitivity of the loss/profit of the Target Group and the Target Company for the year/period and equity to a possible change in interest rates of + 0.5%, with effect from the beginning of the year/period. This sensitivity analysis is provided internally to key management personnel.

Target Group and Target Company	**Year ended 31 December**			**Six months ended 30 June**	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Loss)/Profit for the year/period and retained earnings	(4,864)	(4,507)	(3,193)	(2,280)	(909)

The change in interest rates of – 0.5% would have the same magnitude on the loss/profit of the Target Group and the Target Company for the year/period and retained earnings but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

The calculations are based on a change in average market interest rates for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant. The sensitivity analysis included in the financial statements of the years ended 31 December 2007, 2008, 2009 and six months ended 30 June 2009 and 2010 have been prepared on the same basis.

The other borrowing of the Target Company and Group (note 35(v) is at fixed interest rates and therefore does not give rise to material interest rate risk at the reporting date.

(ii) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group mainly operates in the PRC. The functional currency of the Target Company and its subsidiaries are mainly USD and RMB respectively with certain of their business transactions being settled in HKD. Further the Target Company and the PRC subsidiaries have borrowings denominated in USD and RMB respectively. The Target Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises.

Due to most of the financial assets and financial liabilities of the Target Group and the Target Company are denominated in the RMB and USD respectively, which are the functional currencies of the Target Group and the Target Company, the Target Group and the Target Company do not have any significant exposures to foreign currencies at 31 December 2007, 2008 and 2009 and 30 June 2010.

(iii) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target Group. The Target Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The maximum exposure of the Target Group and the Target Company to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised below:

Target Group	**As at 31 December**			**At 30 June**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Classes of financial assets – carrying amount				
Trade and other receivables	30,630	83,320	161,769	275,146
Amounts due from related parties	187,762	31,293	19,992	659,629
Cash and cash equivalents	67,167	1,763	272,723	538,238
Pledged bank deposits	180,190	94,612	69,366	134,628
	465,749	210,988	523,850	1,607,641

Target Company	**As at 31 December**			**At 30 June**
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Classes of financial assets – carrying amount				
Trade and other receivables	–	–	31	40
Amount due from a subsidiary	398,283	403,129	403,198	401,552
Amount due from related parties	358	–	332	666,868
Pledged bank deposits	114,719	56,421	57,537	57,414
	513,360	459,550	461,098	1,125,874

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

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

As disclosed in note 20, the Target Group has amount due from top customers of approximately RMBnil, RMB2,960,000, RMB88,654,000 and RMB215,117,000 as at 31 December 2007, 2008, 2009 and 30 June 2010 respectively. The Target Company's directors consider these top customers are in sound financial position with continuous settlements to the Target Group, the management believes that the credit risk on the amount due is minimal.

None of the financial assets of the Target Group and the Target Company are secured by collateral or other credit enhancements.

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

See note 20 for further details of the Target Group's exposures to credit risk on trade and other receivables.

(iv) Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Target Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Target Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

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

	Target Group					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2007						
Financial liabilities						
Trade and other payables	510,808	510,808	–	510,808	–	–
Amounts due to related parties	484,114	484,114	484,114	–	–	–
Bank borrowings	20,000	20,188	–	20,188	–	–
Borrowing with derivative financial instruments	1,391,569	1,295,254	1,295,254	–	–	–
Convertible redeemable preference shares	811,686	1,392,802	–	–	–	1,392,802

	Target Group					
	Carrying Amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2008						
Financial liabilities						
Trade and other payables	335,713	335,713	–	335,713	–	–
Amounts due to related parties	158,989	158,989	158,989	–	–	–
Bank borrowings	220,000	224,921	–	224,921	–	–
Borrowing with derivative financial instruments	1,309,109	1,176,605	1,176,605	–	–	–
Convertible redeemable preference shares	825,381	1,290,357	–	–	–	1,290,357

	Target Group					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2009						
Financial liabilities						
Trade and other payables	221,110	221,110	–	221,110	–	–
Amounts due to related parties	266,432	266,432	266,432	–	–	–
Bank borrowings	355,000	360,144	–	360,144	–	–
Borrowing with derivative financial instruments	989,187	807,351	807,351	–	–	–
Convertible notes	205,865	235,607	235,607	–	–	–
Convertible redeemable preference shares	1,312,022	1,209,565	–	–	1,209,565	–

	Target Group					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2010						
Financial liabilities						
Trade and other payables	235,701	235,701	–	235,701	–	–
Amounts due to related parties	428,385	428,385	428,385	–	–	–
Bank borrowings	360,000	373,834	–	373,834	–	–
Borrowing with derivative financial instruments	652,608	443,820	–	443,820	–	–
Convertible notes	199,670	222,804	222,804	–	–	–

	Target Company					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2007						
Financial liabilities						
Trade and other payables	19,252	19,252	–	19,252	–	–
Amount due to a subsidiary	36,862	36,862	36,862	–	–	–
Amounts due to related parties	44,222	44,222	44,222	–	–	–
Borrowing with derivative financial instruments	1,391,569	1,295,254	1,295,254	–	–	–
Convertible redeemable preference shares	811,686	1,392,802	–	–	–	1,392,802

	Target Company					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2008						
Financial liabilities						
Trade and other payables	25,526	25,526	–	25,526	–	–
Amount due to a subsidiary	142,547	142,547	142,547	–	–	–
Amounts due to related parties	22,141	22,141	22,141	–	–	–
Borrowing with derivative financial instruments	1,309,109	1,176,605	1,176,605	–	–	–
Convertible redeemable preference shares	825,381	1,290,357	–	–	–	1,290,357

	Target Company					
	Carrying amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2009						
Financial liabilities						
Trade and other payables	14,138	14,138	–	14,138	–	–
Amount due to a subsidiary	366,277	366,277	366,277	–	–	–
Amounts due to related parties	22,062	22,062	22,062	–	–	–
Borrowing with derivative financial instruments	989,187	807,351	807,351	–	–	–
Convertible notes	205,865	235,607	235,607	–	–	–
Convertible redeemable preference shares	1,312,022	1,209,565	–	–	1,209,565	–

	Target Company					
	Carrying Amount	**Total contractual undiscounted cash flow**	**On demand**	**Less than one year**	**One to less than two years**	**Two to less than five years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2010						
Financial liabilities						
Trade and other payables	26,062	26,062	–	26,062	–	–
Amount due to a subsidiary	736,255	736,255	736,255	–	–	–
Amount due to related parties	30,814	30,814	30,814	–	–	–
Borrowing with derivative financial instruments	652,608	443,820	–	443,820	–	–
Convertible notes	199,670	222,804	222,804	–	–	–

(v) Summary of financial assets and liabilities by category

The carrying amount of the Target Group's financial assets and liabilities as recognised at the respective reporting dates may also be categorised as follows:

Target Group	As at 31 December 2007	2008	2009	At 30 June 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables				
– Trade and other receivables	30,630	83,320	161,769	275,146
– Amounts due from related parties	187,762	31,293	19,992	659,629
– Cash and cash equivalents	67,167	1,763	272,723	538,238
– Pledged bank deposits	180,190	94,612	69,366	134,628
	465,749	210,988	523,850	1,607,641
Financial liabilities				
At amortised cost				
– Trade and other payables	510,808	335,713	221,110	235,701
– Amounts due to related parties	484,114	158,989	266,432	428,385
– Bank borrowings	20,000	220,000	355,000	360,000
– Liability component of borrowing with derivative financial instruments	1,179,232	1,092,496	764,870	435,289
– Liability component of convertible notes	–	–	178,298	192,677
At fair value through profit or loss				
– Derivative component of borrowing with derivative financial instruments	212,337	216,613	224,317	217,319
– Derivative component of convertible notes	–	–	27,567	6,993
Designated at fair value through profit or loss on initial recognition				
– Convertible redeemable preference shares	811,686	825,381	1,312,022	–
	3,218,177	2,849,192	3,349,616	1,876,364

Target Company	As at 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	At 30 June 2010 RMB'000
Financial assets				
Loans and receivables				
– Trade and other receivables	–	–	31	40
– Amount due from a subsidiary	398,283	403,129	403,198	401,552
– Amounts due from related parties	358	–	332	666,868
– Pledged bank deposits	114,719	56,421	57,537	57,414
	513,360	459,550	461,098	1,125,874
Financial liabilities				
At amortised cost				
– Trade and other payables	19,252	25,526	14,138	26,062
– Amount due to a subsidiary	36,862	142,547	366,277	736,255
– Amounts due to related parties	44,222	22,141	22,062	30,814
– Liability component of borrowing with derivative financial instruments	1,179,232	1,092,496	764,870	435,289
– Liability component of convertible notes	–	–	178,298	192,677
At fair value through profit or loss				
– Derivative component of borrowing with derivative financial instruments	212,337	216,613	224,317	217,319
– Derivative component of convertible notes	–	–	27,567	6,993
Designated at fair value through profit or loss on initial recognition				
– Convertible redeemable preference shares	811,686	825,381	1,312,022	–
	2,303,591	2,324,704	2,909,551	1,645,409

38. FAIR VALUE MEASUREMENTS

The fair values of the Target Group's and Target Company's current financial liabilities at amortised cost are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial instruments. The fair value of the non-current financial liabilities closely represents as its carrying amount.

The Target Group adopted the amendments to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments introduce a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements. The Target Group has taken advantage of the transitional provisions in the amendments to IFRS 7 and accordingly, no comparatives for the hierarchy for fair value measurement disclosures have been presented.

The following table presents liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived form prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial liabilities measured at fair value as at 30 June 2010 in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	At 30 June 2010		
	Level 1	**Level 2**	**Level 3**
	RMB'000	*RMB'000*	*RMB'000*
Credit Suisse – conversion option derivative	–	–	217,319
BOCOM – conversion option and redemption option derivatives	–	–	6,993

The Target Group's financial liabilities classified as Level 3 have been measured using the Binomial Method. Using alternative assumptions for the probability of occurrence of a qualifying IPO significantly changes the fair value of these financial liabilities. These are significant uncertainties associated with the occurrence of a qualifying IPO including the market value of the Target Group. Reasonably possible alternatives have been calculated by adjusting the probability by 10% from management's estimates with all other things being equal.

The following table shows the impact on fair value of financial liabilities classified in Level 3 by using reasonably possible alternative assumptions:

	At 30 June 2010	
	Fair value	**Change in fair value**
	RMB'000	*RMB'000*
Credit Suisse – conversion option derivative	217,319	(316)
BOCOM – conversion option and redemption option derivatives	6,993	3,970

The financial instruments within this level can be reconciled form opening to closing balances as follows:

	At 30 June 2010	
	Credit Suisse – conversion option derivative	**BOCOM – conversion option and redemption option derivatives**
	RMB'000	*RMB'000*
Opening balance	224,317	27,567
Change in fair value recognised in profit or loss	(6,084)	(113)
Exchange difference	(914)	(20,461)
Closing balance	217,319	6,993

There have been no transfers into or out of Level 3 in the Relevant Periods.

39. CAPITAL MANAGEMENT

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total equity. Net debt comprises all bank borrowings, borrowing with derivative financial instruments, convertible notes, liability components of convertible redeemable preference shares, trade and other payables, amounts due to related parties and amount due to subsidiaries less cash and cash equivalents and pledged. The total equity comprises owner's equity as stated in the consolidated statements of financial position.

The Target Group's and Target Company's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The gearing ratios of the Target Group and Target Company as at each of the respective reporting date were as follows:

	At 31 December			At 30 June
Target Group	**2007**	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total debts				
Bank borrowings	20,000	220,000	335,000	360,000
Borrowing with derivative financial instruments	1,391,569	1,309,109	989,187	652,608
Convertible notes	–	–	205,865	199,670
Convertible redeemable preference shares	811,686	825,381	1,312,022	–
Trade and other payables	611,072	429,963	236,581	344,416
Amounts due to related parties	484,114	158,989	266,432	428,385
	3,318,441	2,943,442	3,345,087	1,985,079
Less: Cash and bank balances	(67,167)	(1,763)	(272,723)	(538,238)
Pledged bank deposits	(180,190)	(94,612)	(69,366)	(134,628)
Net debts	3,071,084	2,847,067	3,002,998	1,312,213
Total (capital deficiency)/equity	(434,339)	(315,655)	(162,331)	2,296,799
Total debt to equity ratio	(7.07)	(9.02)	(18.50)	0.57

Target Company	At 31 December 2007 *RMB'000*	2008 *RMB'000*	2009 *RMB'000*	At 30 June 2010 *RMB'000*
Total debts				
Borrowing with derivative financial instruments	1,391,569	1,309,109	989,187	652,608
Convertible notes	–	–	205,865	199,670
Convertible redeemable preference shares	811,686	825,381	1,312,022	–
Other payables	19,252	25,526	14,138	26,062
Amounts due to related parties	44,222	22,141	22,062	30,814
Amount due to a subsidiary	36,862	142,547	366,277	736,255
	2,303,591	2,324,704	2,909,551	1,645,409
Less: Pledged bank deposits	(114,719)	(56,421)	(57,537)	(57,414)
Net debts	2,188,872	2,268,283	2,852,014	1,587,995
Total (capital deficiency)/equity	(789,884)	(934,203)	(1,518,653)	406,269
Total debt to equity ratio	(2.77)	(2.43)	(1.88)	3.91

40. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 30 June 2010.

Yours faithfully,
BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate Number P04434
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL POSITION OF THE GROUP

Set out below are the management discussion and analysis of the Group parts of which are extracted from the prospectus of the Company dated 4 June 2009, annual report of the Company for the year ended 31 December 2009 and the interim report of the Company for the six months ended 30 June 2010 (the "Financial Information"). Terms used below shall have the same meanings as those defined in the Financial Information. Furthermore, all references mentioned below refer to those of the Financial Information.

FINANCIAL REVIEW

For the six months ended 30 June 2010

Revenue

For the six months ended 30 June 2010, the Group's revenue increased to approximately RMB1,022.4 million (six months ended 30 June 2009: RMB592.3 million), representing an increase of approximately 72.6% as compared to the same period in the previous year.

The increase in the Group's revenue was attributable to the commencement of commercial operations of the Group's new medical thenardite production facility in the Muma Mining Area with a capacity of 200,000 tons per annum ("tpa") in January 2010, and the Group's focus on the production and sales of medical and specialty thenardite which have a higher average price and more stable pricing. As a result, the sales of the Group's medical and specialty thenardite increased and the Group's aggregate sales grew during the first half of 2010.

Gross profit and gross profit margin

The Group recorded a gross profit of RMB736.5 million for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB428.8 million), representing an increase of approximately 71.8% as compared to the previous year. The increase in the Group's gross profit was mainly attributable to the increase in the sales of the Group's high end products, namely specialty thenardite and in particular medical thenardite.

The Group's overall gross profit margin was 72.0% for the six months ended 30 June 2010 (six months ended 30 June 2009: 72.4%), representing a decrease of approximately 0.4% as compared to the same period in the previous year. The high level of the Group's overall gross profit margin was mainly attributable to the increased sales revenue of specialty thenardite and medical thenardite during the year. The decrease in the Group's overall gross profit margin was due to the increases in utility costs, and depreciation expenses in machinery and equipment as a result of the commencement in commercial production of the Group's mining and production facilities in the Muma Mining Area.

Earnings per share

For the six months ended 30 June 2010, the earnings per share was RMB18.34 cents (six months ended 30 June 2009: RMB16.42 cents).

Interim dividend

At the meeting of the Board held on 31 August 2010, the Directors declared an interim dividend of HK5.2 cents per share (equivalent to approximately RMB4.589 cents per share) for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

The carrying amounts of cash and cash equivalents by currencies are as follows:

	30 June 2010
	RMB'000
RMB	581,627
HKD	50,621
USD	36,911
	669,159

Borrowings

The Group's bank borrowings and fixed rate senior notes were approximately RMB455.0 million and RMB1,606.9 million respectively as at 30 June 2010. The Group's bank borrowings are all secured bank loans. Details of interest rate structure and maturity profile of the bank borrowings and fixed rate senior notes are set out as follows:

Bank borrowings:

The maturity profile of the above bank borrowings is as follows:

	30 June 2010
	RMB'000
Current	
– Within one year	383,000
Non-current	
– In the second year	72,000
	455,000

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

	30 June 2010
	RMB'000
RMB	455,000

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

	30 June 2010
	RMB'000
– at fixed rates *(note (i))*	100,000
– at floating rates *(note (ii))*	355,000
	455,000

Notes:

(i) As at 30 June 2010, the RMB bank loans of RMB100 million were arranged at fixed interest rates of 5.04% to 5.84% per annum.

(ii) As at 30 June 2010, the RMB bank loans of RMB355 million were arranged at floating rate of 5.42% to 6.37% per annum.

The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in the below section "– Pledge of assets".

Fixed rate senior notes:

On 27 October 2009, the Company issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which matures on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010. The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At any time prior to 27 October 2012, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principle amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to 27 October 2012, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

At any time on or after 27 October 2012, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 27 October of any year set forth below:

Period	**Redemption price**
2012	106%
2013	103%

The effective interest rate of the Notes is 13.52% per annum.

Leverage

Gearing ratio defined as consolidated total debts divided by consolidated total assets as at 30 June 2010 was 45.6% and the net gearing ratio defined as consolidated net debts divided by consolidated total assets as at 30 June 2010 was 30.8%.

Pledge of assets

As at 30 June 2010, the Group's assets in an aggregate amount of approximately RMB739.6 million in forms of property, plant and equipment, land use rights, mining rights and bank deposits were pledged to banks for credit facilities granted to the Group.

Contingent liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities.

Capital commitment

Details of the Group's capital commitment are shown as below:

At the 30 June 2010, the Group had the following capital commitments:

	30 June 2010
	RMB'000
Contracted, but not provided for:	
– additions to property, plant and equipment	179,082
– acquisition of land use right	4,686
	183,768

Foreign currency exposure

During the period, the Group did not use any foreign currency derivative product to hedge the Group's exposure to currency risk. However, the management managed and monitored the Group's foreign currency exposure to ensure that appropriate measures were implemented on a timely and effective manner.

Employees and remuneration policies

As at 30 June 2010, the Group had a total of 1,795 employees. Total staff costs (including Directors' remuneration) for the six months ended 30 June 2010 were approximately RMB46.0 million, representing 13.2% of the Group's total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees are remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviews the remuneration policies and packages on a regular basis.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

For the year ended 31 December 2009

Revenue

For the year ended 31 December 2009, the Group's revenue increased to approximately RMB1,344.0 million (2008: RMB1,140.4 million), representing an increase of approximate 17.9% as compared to 2008.

The stable increase in the Group's revenue was attributable to the Group's focus on the production and sales of medical and specialty thenardite which have higher average price and more stable pricing. As a result, the sales of the Group's medical and specialty thenardite increased and the Group's aggregate sales grew steadily during the year.

Gross profit and gross profit margin

The Group recorded a gross profit of RMB979.6 million (2008: RMB796.6 million) for the year ended 31 December 2009, representing an increase of approximate 23.0% as compared to the previous year. The increase in the Group's gross profit was mainly attributable to the increase in the sales of the Group's products with high gross profit margins, namely specialty thenardite and medical thenardite.

The Group's overall gross profit margin was 72.9% (2008: 69.9%) for the year ended 31 December 2009, representing an increase of approximate 3.0% as compared to the previous year. The high level of the Group's overall gross profit margin was mainly attributable to the high proportion of the sales of the Group's products with high gross profit margins (namely specialty thenardite and medical thenardite) to the Group's aggregate revenue during the year, which in turn increased the Group's overall gross profit margin.

Acquisition of additional interest in subsidiary

On 19 August 2009, Top Promise Resources Limited ("Top Promise"), an indirect wholly-owned subsidiary of the Company and Sichuan First Silk Printing & Dyeing Co., Ltd (四川省德陽富斯特新合纖有限責任公司) ("Sichuan First") entered into an equity transfer agreement pursuant to which Top Promise acquired 10% equity interest in Sichuan Chuanmei Mirabilite Co., Ltd. (四川省川眉芒硝有限責任公司) ("Chuanmei Mirabilite") from Sichuan First for a consideration of RMB264 million (equivalent to approximately HKD300 million). Prior to the said transaction, Top Promise and Sichuan First held 90% and 10% equity interest in Chuanmei Mirabilite respectively. This transaction was completed. Further details of this transaction were set out in the announcement of the Company dated 19 August 2009.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

The carrying amounts of cash and cash equivalents by currencies are as follows:

	31 December 2009
	RMB'000
RMB	366,310
HKD	82,782
USD	480,375
	929,467

Borrowings

The Group's bank borrowings and fixed rate senior notes were approximately RMB356.5 million and RMB1,616.8 million respectively as at 31 December 2009. The Group's bank borrowings are all secured bank loans. Details of interest rate structure and maturity profile of the bank borrowings are set out below:

Bank borrowings:

The maturity profile of the above bank borrowings is as follows:

	31 December 2009
	RMB'000
Current	
Within one year	236,500
Non-current	
In the second year	120,000
	356,500

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

	31 December 2009
	RMB'000
– at fixed rates *(note (i))*	200,000
– at floating rates *(note (ii))*	156,500
	356,500

Notes:

(i) The RMB bank loans were arranged at fixed interest rates of 5.05% to 5.09% per annum as at 31 December 2009.

(ii) The RMB bank loans were arranged at floating rate of 5.31% to 5.51% per annum as at 31 December 2009.

The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in the below section "– Pledge of assets".

Fixed rate senior notes:

On 27 October 2009, the Company issued USD250,000,000 (equivalent to approximately RMB1,706,458,000) of 12% fixed rate senior notes (the "Notes"), which matures on 27 October 2014 for bullet repayment. The Notes bear interest from 27 October 2009 and are payable semi-annually in arrears on 27 October and 27 April of each year, commencing on 27 April 2010. The Notes are listed on the Singapore Exchange Securities Trading Limited.

The Notes are direct, unsubordinated and unconditional obligations of the Company, and are guaranteed by certain subsidiaries of the Company on a senior basis, subject to certain limitations.

At any time prior to 27 October 2012, the Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principle amount of the Notes, plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to 27 October 2012, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 112% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

At any time on or after 27 October 2012, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 27 October of any year set forth below:

Period	**Redemption price**
2012	106%
2013	103%

The effective interest rate of the Notes is 13.52% per annum.

Leverage

The gearing ratio of the Group was 48.0%. The computation is based on total borrowings of the Group divided by consolidated total assets as at 31 December 2009.

Pledges of assets

As at 31 December 2009, the Group's assets in an aggregate amount of approximately RMB540.6 million in forms of property, plant and equipment, land use rights, mining rights and bank deposits were pledged to banks to create facilities granted to the Group.

Contingent Liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities.

Capital commitment

Details of the Group's capital commitment are shown as below:

At the 31 December 2009, the Group had the following capital commitments:

	31 December 2009
	RMB'000
Contracted, but not provided for:	
– additions to property, plant and equipment	305,932
– acquisition of land use right	4,786
	310,718

Foreign exchange exposure

During the period, the Group did not use any foreign currency derivative product to hedge the Group's exposure to currency risk. However, the management managed and monitored the Group's foreign currency exposure to ensure that appropriate measures were implemented on a timely and effective manner.

Employees and remuneration policies

As at 31 December 2009, the Group had a total of 1,795 employees. Total staff costs (including Directors' remuneration) for the year ended 31 December 2009 were approximately RMB81.2 million, representing 17.2% of the Group's total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees were remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

For the year ended 31 December 2008

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

As a result of the foregoing, the Company's gross profit increased 261.7% from RMB220.2 million in the year ended 31 December 2007 to RMB796.6 million in the year ended 31 December 2008, which represented a gross profit margin increase from 59.3% in the year ended 31 December 2007 to 69.9% in the year ended 31 December 2008. This gross profit 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 31 December 2007 to RMB3.1 million in the year ended 31 December 2008. The other revenue and gains in the year ended 31 December 2008 were primarily due to interest income of RMB1.3 million from cash deposited in offshore banking accounts in connection with the facility agreement and a gain on disposal of scrap materials/obsolete fixed assets of RMB1.5 million. The other revenue and gains in the year ended 31 December 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 31 December 2007 to RMB11.1 million in the year ended 31 December 2008. This increase was primarily due to a 68.4% increase in transportation expenses from RMB6.0 million in the year ended 31 December 2007 to RMB10.1 million in the year ended 31 December 2008 primarily as a result of the transportation costs incurred by transporting the Group's powder thenardite to the Group's 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 31 December 2007 to RMB67.9 million in the year ended 31 December 2008. Other operating expenses in the year ended 31 December 2008 primarily included equity-settled share-based payments of RMB13.8 million, staff salaries and wages of RMB8.6 million, professional fees in connection with the Global Offering of RMB10.1 million, director salaries of RMB5.9 million, social insurance costs of RMB3.6 million, depreciation and amortisation expenses of RMB8.6 million and a stock write off of RMB0.9 million caused by the earthquake. Other operating expenses in the year ended 31 December 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 amortisation expenses of RMB3.4 million.

As a result of the Sichuan Province earthquake and the resulting aftershocks, the Group incurred a repair expense of RMB8.3 million in the year ended 31 December 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 31 December 2007 to RMB712.4 million in the year ended 31 December 2008, representing operating margins of 40.2% and 62.5% in the year ended 31 December 2007 and 2008, respectively.

Finance costs

Finance costs increased 186.2% from RMB34.5 million in the year ended 31 December 2007 to RMB98.8 million in the year ended 31 December 2008. This was primarily due to costs associated with the Facility Arrangements used to finance the Group's operations, including the construction and development of the Group's 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 capitalised as cost of qualifying assets.

Income tax expense

Income tax expense increased from RMB25.9 million in the year ended 31 December 2007 to RMB171.5 million in the year ended 31 December 2008. For the year ended 31 December 2008, Chuanmei Mirabilite and Chuanmei Glauber Salt were subject to a tax rate of 12.5% and 25.0% respectively. The Company's effective tax rate increased from 22.5% for the year ended 31 December 2007 to 28.0% for the year ended 31 December 2008 primarily due to the increased income tax paid for profit made by Chuanmei Glauber Salt and the increased tax effect not deductible. The increase in tax effect not deductible during the year ended 31 December 2008 as compared to the year ended 31 December 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 31 December 2007 to RMB442.1 million in the year ended 31 December 2008, representing net profit margins of 24.0% and 38.8% in the years ended 31 December 2007 and 2008 respectively.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

The carrying amounts of cash and cash equivalents by currencies are as follows:

	31 December 2008
	RMB'000
RMB	602
HKD	62
USD	163
	827

Borrowings

The Group's bank borrowings were approximately RMB682.6 million as at 31 December 2008. The Group's bank borrowings are all secured bank loans. Details of interest rate structure and maturity profile of the bank borrowings are set out below:

	31 December 2008
	RMB'000
Current	
Within one year	258,947
Non-current	
In the second year	169,447
In the third to fifth years	254,171
	423,618
	682,565

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

	31 December 2008
	RMB'000
RMB	89,500
USD	593,065
	682,565

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

	31 December 2008
	RMB'000
– at fixed rates *(note (i))*	89,500
– at floating rates *(note (ii))*	593,065
	682,565

Notes:

(i) The RMB bank loans were arranged at fixed interest rates of 5.58% to 7.47% per annum as at 31 December 2008.

(ii) The effective interest rate on the USD bank loans is 19.54% per annum.

The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in the below section "– Pledge of assets".

Leverage

The gearing ratio of the Group was 35.9%. The computation is based on total borrowings of the Group divided by consolidated total assets as at 31 December 2008.

Pledge of assets

As at 31 December 2008, the Group's assets in an aggregate amount of approximately RMB158.0 million in forms of property, plant and equipment, land use rights, mining rights and bank deposits were pledged to banks to create facilities granted to the Group.

Contingent Liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Capital commitment

Details of the Group's capital commitment are shown as below:

At the 31 December 2008, the Group had the following capital commitments:

	31 December 2008 *RMB'000*
Contracted, but not provided for:	
– additions to property, plant and equipment	304,817
– acquisition of land use right	4,786
	309,603

Foreign exchange exposure

During the period, the Group did not use any foreign currency derivative product to hedge the Group's exposure to currency risk. However, the management managed and monitored the Group's foreign currency exposure to ensure that appropriate measures were implemented on a timely and effective manner.

Employees and remuneration policies

As at 31 December 2008, the Group had a total of 1,802 employees. Total staff costs (including Directors' remuneration) for the year ended 31 December 2008 were approximately RMB57.9 million, representing 13.4% of the Group's total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees were remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

For the year ended 31 December 2007

Revenue

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

Cost of sales

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

Gross profit and gross profit margin

As a result of the foregoing, the Company's gross profit increased 138.5% from RMB92.3 million in the year ended 31 December 2006 to RMB220.2 million in the year ended 31 December 2007, which represented a gross profit margin increase from 45.1% in the year ended 31 December 2006 to 59.3% in the year ended 31 December 2007. This gross profit 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 the Company's storage facilities.

Other revenues and gains

Other revenue and gains increased 15.3% from RMB4.6 million in the year ended 31 December 2006 to RMB5.3 million in the year ended 31 December 2007. The increase was primarily due to an increase in interest income attributable to offshore loan proceeds of USD100 million under the Facility Agreement, which was placed as bank deposits before being utilised, partially offset by a decrease in gain on disposal of scrap material and obsolete fixed assets in the year ended 31 December 2007. The larger gain on disposal of scrap materials and obsolete fixed assets in the year ended 31 December 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 31 December 2007.

Selling and distribution expenses

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

Other operating expenses

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

Other operating expenses in the year ended 31 December 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 organisation. The loss on disposal of fixed assets was associated with the termination of the lease for the Company's former office in Hong Kong. The design fee was paid for the overall packaging of the Company's corporate identity, including the design of the 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 31 December 2006 to RMB149.4 million in the year ended 31 December 2007, which represented an increase of operating margin from 28.3% in the year ended 31 December 2006 to 40.2% in the year ended 31 December 2007.

Finance costs

Finance costs increased from RMB7.1 million in the year ended 31 December 2006 to RMB34.5 million in the year ended 31 December 2007. This was primarily due to costs associated with the Facility Arrangements used to finance the Company's onshore operations, including payment for the acquisition of the mining right of Muma Mining Area, the construction and development of the Company's 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 capitalised as cost of qualifying assets.

Income tax expense

Income tax expense increased from RMB1.6 million in the year ended 31 December 2006 to RMB25.9 million in the year ended 31 December 2007 and primarily as a result of the step-up of the Company's income tax rate for Chuanmei Mirabilite in accordance with the Company's tax holiday from 3.0% in the year ended 31 December 2006 to 18.0% in the year ended 31 December 2007 and the increased tax effect of expenses not deductible. The tax effect of non-deductible expenses increased primarily due to increased losses incurred by Lumena and Top Promise during the year ended 31 December 2007 which were not deductible for the purposes of calculating income taxes for Chuanmei Mirabilite in the PRC. For the year ended 31 December 2007, the effective tax rate of Chuanmei Glauber Salt was 3.0%. The Company's 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 31 December 2006 to RMB89.0 million in the year ended 31 December 2007, and the Company's net profit margin for the year decreased 0.1% from 24.1% in the year ended 31 December 2006 to 24.0% in the year ended 31 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalents

The carrying amounts of cash and cash equivalents by currencies are as follows:

	31 December 2007
	RMB'000
RMB	70,784
HKD	26
USD	247
	71,057

Borrowings

The Group's bank borrowings were approximately RMB643.6 million as at 31 December 2007. The Group's bank borrowings are all secured bank loans. Details of interest rate structure and maturity profile of the bank borrowings are set out as follows:

	31 December 2007
	RMB'000
Current	
– Within one year	12,600
Non-current	
– In the second year	180,300
–In the third to fifth years	450,749
	643,649

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

	31 December 2007 *RMB'000*
RMB	12,600
USD	631,049
	643,649

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

	31 December 2007 *RMB'000*
– at fixed rates *(note (i))*	12,600
– at floating rates *(note (ii))*	631,049
	643,649

Notes:

(i) The RMB bank loans were arranged at fixed interest rates of 6.58% to 7.03% per annum as at 31 December 2007.

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

The secured RMB bank loans are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in the below section "– Pledge of assets".

Leverage

The gearing ratio of the Group was 48.9%. The computation is based on total borrowings of the Group divided by consolidated total assets as at 31 December 2007.

Pledge of assets

As at 31 December 2007, the Group's assets in an aggregate amount of approximately RMB89.0 million in forms of property, plant and equipment, land use rights, mining rights and bank deposits were pledged to banks for credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2007, the Group did not have any material contingent liabilities.

Capital commitment

Details of the Group's capital commitment are shown as below:

At the 31 December 2007, the Group had the following capital commitments:

	31 December 2007
	RMB'000
Contracted, but not provided for:	
– additions to property, plant and equipment	11,894
– acquisition of land use right	4,786
	16,680

Foreign exchange exposure

During the period, the Group did not use any foreign currency derivative product to hedge the Group's exposure to currency risk. However, the management managed and monitored the Group's foreign currency exposure to ensure that appropriate measures were implemented on a timely and effective manner.

Employees and remuneration policies

As at 31 December 2007, the Group had a total of 1,304 employees. Total staff costs (including Directors' remuneration) for the year ended 31 December 2007 were approximately RMB27.2 million, representing 12.0% of the Group's total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees were remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviews the remuneration policies and packages on a regular basis.

No share option scheme was operated for the year ended 31 December 2007. The purpose of providing incentives is to reward eligible participants who contribute to the success of the Group's operations.

BUSINESS REVIEW

Products

The Group produces powder thenardite, specialty thenardite and medical thenardite. As a leading thenardite producer in the PRC, the Group enjoys strong brand and product recognition among downstream industries in the PRC. The brand "Chuanmei" has been successively recognized as a "Sichuan Famous Brand Product" since 1993 and the registered trademark "Chuanmei" was recognized as a "China Well-known Trademark" by the State Administration for Industry and Commerce of the PRC in March 2008.

The Group's powder thenardite is mainly used in the powder detergents, glass and textile industries. The quality of powder thenardite is subject to the supervision of the General Administration of Quality Supervision, Inspection and Quarantine. The Group's powder thenardite is in compliance with the industry standard set forth in National Standard GBT6009-2003.

The Group designs specialty thenardite products to meet the specifications of its customers for their end products. The Group's specialty thenardite products are generally used in the same industries as the Group's powder thenardite. The powder detergent industry is the largest user of the Group's specialty thenardite products. With the ongoing expansion of the application areas of specialty thenardite, the Group believes that the demand for specialty thenardite products will increase rapidly along with the improvement of the economic environment in the PRC and as a result of measures implemented by the central government to promote domestic economic growth. In addition, the urbanization in the PRC and the PRC central government's policy of "Home Appliances Going to the Rural Areas" stimulate the market demand for washing machines, which may increase the sales of powder detergents indirectly and further boost the demand for specialty thenardite as a result.

The Group's medical thenardite product is primarily used as raw material in Chinese medicines as a mild laxative and an anti-inflammatory agent. The Group's production facilities of medical thenardite are located in the Dahongshan Mining Area and the Muma Mining Area. The Group's medical thenardite 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 Food and Drug Administration of Sichuan Province.

Powder thenardite

The Group sold approximately 532,393 tons, 477,815 tons, 502,617 tons and 280,398 tons of powder thenardite in the years ended December 31, 2007, 2008, 2009 and for the six months ended 30 June 2010 respectively. Revenue derived from sales of powder thenardite amounted to RMB149.4 million, RMB154.5 million, RMB126.7 million and RMB72.5 million respectively, for the years ended December 31, 2007 and 2008, 2009 and for the six months ended 30 June 2010 representing 40.2%, 13.5%, 9.4% and 7.1% of the Group's total revenues for those periods, respectively.

Specialty thenardite

The Group sold approximately 89,270 tons, 926,830 tons, 1,024,671 tons and 547,750 tons of specialty thenardite in the years ended December 31, 2007, 2008, 2009 and for the six months ended 30 June 2010 respectively. Revenue derived from sales of specialty thenardite amounted to RMB76.6 million, RMB793.7 million, RMB881.6 million and RMB504.3 million respectively, for the years ended December 31, 2007 and 2008, 2009 and for the six months ended 30 June 2010 representing 20.6%, 69.6%, 65.6% and 49.3% of the Group's total revenues for those periods, respectively.

Medical thenardite

The Group sold approximately 75,281 tons, 99,080 tons, 130,003 tons and 166,735 tons of medical thenardite in the years ended December 31, 2007, 2008, 2009 and for the six months ended 30 June 2010 respectively. Revenue derived from sales of medical thenardite amounted to RMB145.6 million, RMB192.2 million, RMB335.7 million and RMB445.6 million respectively, for the years ended December 31, 2007 and 2008, 2009 and for the six months ended 30 June 2010 representing 39.2%, 16.9%, 25.0% and 43.6% of the Group's total revenues for those periods, respectively.

OPERATION REVIEW

Dahongshan Mining Area (powder thenardite & medical thenardite)

The Group's mine in the Dahongshan Mining Area is a fully developed and operational underground mining and processing facility that produced approximately 603,839 tons, 576,569 tons, 636,352 tons and 335,579 tons of thenardite in the years ended December 31, 2007, 2008, 2009 and for the six months ended 30 June 2010. The Dahongshan Mining Area is approximately 3.7 km^2 and located 20 km northwest of Meishan City in Sichuan Province. As of the date of this circular, the Group's mining and production facilities in the Dahongshan Mining Area have a total production capacity of 0.6 million tpa. The production capacity of this mining area is used to produce powder thenardite and medical thenardite as to 80% to 85% and 15% to 20% respectively.

Guangji Mining Area (specialty thenardite)

The Group's Guangji Mining Area is approximately 3.9 km^2 and produced approximately 76,558 tons, 930,176 tons, 1,024,004 tons and 546,472 tons of thenardite in the years ended December 31, 2007, 2008, 2009 and for the six months ended 30 June 2010. The production capacity of the Group's mining and production facilities in the Guangji Mining Area increased from 1.0 million tpa in 2009 to 1.1 million tpa in 2010.

Muma Mining Area (medical thenardite)

The Group's Muma Mining Area is approximately 3.7 km^2 and the production facility for medical thenardite of a total production capacity 200,000 tpa in Muma Mining Area began trial production in November 2009, successfully received GMP certification in December 2009 and commenced commercial operations in January 2010. The Group's Muma Mining Area produced approximately 108,264 tons of thenardite for the six months ended 30 June 2010.

Yuegou Mining Area (animal feed grade thenardite)

The Group's new production facility for animal feed grade thenardite in the Yuegou Mining Area began trial production in August 2010 and has commenced commercial operations in September 2010. As of the date of this report, the Group's mining and production facilities in the Yuegou Mining Area have a total production capacity of 0.3 million tpa. The production capacity of this mining area is mainly used to produce animal feed grade thenardite.

BUSINESS REVIEW

Production

The Target Group is principally engaged in the manufacturing and selling of PPS products, which includes PPS resin, PPS fibre and PPS compounds. According to SRI Consulting, the Target Group is the largest PPS resin producer in the world in terms of production capacity as of 31 December 2009, accounting for approximately 29.2% of the world's total production capacity and 99.7% of the PRC's total production capacity. The Target Group manufactures PPS through two operating subsidiaries, namely Deyang Chemical and Deyang Materials, which are located in Sichuan, China. Deyang Chemical currently possesses an annual PPS resin production capacity of 6,000 tpa and a PPS compounds production capacity of 30,000 tpa while Deyang Materials has an annual PPS resin production capacity of 24,000 tpa together with PPS fibre production capacity of 5,000 tpa.

PPS is a crystalline and wholly aromatic polymer characterised by outstanding chemical resistance, thermal and dimensional stability, flame retardance and electrical properties. PPS belongs to a group of high performance thermoplastics (HPTPs), which are high-priced, low-volume polymers that are sold for use in specialised applications that require a combination of extraordinary properties. PPS stands out among HPTPs on price/performance basis, especially when flame or chemical resistance is required. Thus, PPS is often the material of choice in various industries where there is a hot and corrosive environment. PPS is also widely used in electrical and electronic applications, automotive applications, industrial applications, coatings and filters and filter bags and aerospace applications.

Currently, the Target Group produces three grades of PPS resin (namely injection moulding grade, coating-grade and fibre-grade), three grades of granular resin, nine grades of glass fibre-reinforced compounds, two grades of glass bead-filled compounds, three grades of filled and reinforced compounds, eight grades of PTFE (polytetrafluoroethylene) filled compounds and lubricating properties, and four grades of high-toughness compounds. In addition, the Target Group has recently been producing film grade PPS resins and a few specialty grades aiming at insulator applications for subways. The Target Group's injection moulding PPS resin is used to produce PPS compounds, which are primarily used to replace metals and other materials in a number of applications. The Target Group's coating-grade PPS resin is primarily used to coat metal components and equipment primarily to resist corrosion. The Target Group's fibre-grade PPS resin is primarily used to produce stable PPS fibre and filament PPS fibre which in turn is produced into PPS filter cloth, which are primarily used by the customers of the Target Group to produce bags to filter smokestack emissions from coal-fired power plants, thermal plants and incinerators. The Target Group's film-grade PPS resin is supplied to a major company in the Republic of Korea for use in electronic applications and to a Chinese producer of solar cells.

PPS resin has broad applications in the following areas:

- **Machinery/industrial** – compared with conventional metal materials, PPS is more durable and more cost efficient in extreme environment and thus the need for alloys and stainless steel in mechanical parts boosts the consumption of PPS;

- **Electrical/electronics** – increased sales of home appliances and further application of circuit board miniaturisation and automation, and the need for parts suitable to surfaced mounted technology or parts made of aluminium and hot setting resin boost the consumption of PPS;

- **Automotive/transportation** – PPS is more widely used for large-sized automotive injection moulding components as the development of die cast aluminium, hot setting resin and other substitutes to high performance engineering thermoplastics products continues;

- **Environmental protection** – one of the key applications PPS fibre, an application of PPS with high value, is filter bags production as PPS fibre reduces dust emission in coal plants; and

- **Aeronautics/astronautics** – the aeronautics and astronautics industry requires equipment to withstand harsh working environments and high temperature, thus boosting the demand for PPS resin.

Most of the customers of the Target Group are in the electrical/electronic, automotive/transportation, mechanical, chemical, aviation and environmental industries in the PRC. Domestic PRC sales have accounted for substantially all of the Target Group's sales revenue. In the PPS industry in general, electrical/electronic, automotive/transportation and industrial/machinery are ready markets in which end-use applications for PPS products are well established. The Board believes that the environmental (filter bags) industry represents a large growth opportunity for the Target Group, since the Target Group intends to increase its production volume of both PPS fibre and fibre-grade PPS resin. The products of the Target Group are sold under the brand name "Haton" and the trademark "Deyang".

In view of (i) the upscale of the mainland PPS market demand as projected by SRI Consulting and (ii) the Target Group's believed competitive advantages as a domestic producer, the Target Group has plans to build a PPS fibre facility with a production capacity of 15,000 tpa and a PPS resin facility with a production capacity of 25,000 tpa. It is planned that both facilities will be completed by October 2012.

Revenue

The Target Group generates all revenue from the sale of PPS products. Revenue represents the net amounts received and receivable for the PPS sold, excluding discounts, and other sales taxes or duty. The Target Group's revenues are based on the average selling prices and sales volumes of PPS products. For the years ended 31 December 2007, 2008, 2009, and the six months ended 30 June 2010, the sales volumes were 6,430 metric tons, 15,765 metric tons, 26,178 metric tons and 16,400 metric tons respectively, and the total revenue from sales of PPS products were RMB486.7 million, RMB991.3 million, RMB1,537.2 million and RMB1,063.7 million respectively.

The Target Group produces PPS resin, PPS compounds and PPS fibre, where PPS compounds have been a major source of revenue, accounting for approximately 64.0%, 56.0%, 63.9% and 71.6% of revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. Sales of PPS fibre accounted for 2.2%, 19.0%, 22.2% and 17.2% of revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. The sales of the three grades of PPS resin accounted for approximately 33.8%, 24.0%, 13.5% and 11.2% of revenue for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 respectively. The increase in the sales of PPS fibre was due to the increasing market demand of filter bags. The sales of PPS resins reduced during the track record period were mainly because the Target Group has focused on the sales of PPS compounds and PPS fibre due to great market demand, thus in turn reduced the direct sales of PPS resin which is an intermediary product in the production of PPS fibre and PPS compounds.

Geographically, the Target Group carries out its operations primarily in the PRC as its production facilities and other operating assets are substantially located in the Sichuan Province. Approximately 98%-99% of the Target Group's revenue is attributable to domestic sales, and approximately 1%-2% is attributable to export sales to overseas markets.

The Target Group has established strong business relationships with its current quality customers and will continue to cultivate new quality customers as the Target Group's business further develops. For the three years ended 31 December 2009 and the six months ended 30 June 2010, sales from the top five customers constituted 62.1%, 77.7%, 71.7% and 78.7% of the Target Group's total revenue for the respective periods.

Cost of sales

The Target Group's cost of sales is primarily affected by its ability to control the cost of raw materials, namely sodium sulfide, utility expenses and labour costs. The total cost of sales for the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 were approximately RMB149.1 million, RMB517.6 million, RMB710.2 million, and RMB397.9 million respectively.

Raw Materials. The core raw materials for the production of PPS products is sodium sulfide, a chemical product which is produced through the de-oxidation of thernadite. Up until the Latest Practicable Date, the Target Group has relied on the supply of this raw material from major suppliers with great transportation distance from its production facilities, which have led to elevated purchase prices due to the addition of transportation expenses. The raw materials costs for the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 were approximately RMB120.1 million, RMB303.0 million, RMB479.7 million, and RMB273.4 million respectively.

Utility expenses. Utility expenses primarily consist of electricity and gas expenses, which together account for approximately RMB11.2 million, RMB35.7 million, RMB32.1 million, and RMB19.0 million for the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 respectively. As the Target Group's production gradually reaches economies of scale since 2008, the percentage contribution of utility expense to cost of sales decreased from approximately 7.5% in 2007 to approximately 4.8% in the first half of 2010.

Labor costs. Labor costs on average accounted for approximately 2% of the total cost of sales and amounted to approximately RMB2.6 million, RMB10.3 million, RMB11.4 million, and RMB5.7 million for the years ended 31 December 2007, 2008, 2009, and the six months ended 30 June 2010 respectively. The steady upward trend was associated with the expansion of production capacity of the Target Group from 2007 to 2008 as well as salary adjustments during the same period.

Selling and distribution costs

The Target Group's selling and distribution expenses consist primarily of marketing costs, logistic expenses, salaries and benefits for marketing staff. The selling and distribution expenses for the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010 were approximately RMB0.4 million, RMB22.1 million, RMB3.4 million, and RMB2.7 million respectively. The exceptional expenses in 2008 were mainly attributable to a year-round general marketing campaign to promote PPS products.

Administrative expenses

The Target Group's administrative expenses consist primarily of the allocation of depreciation and amortisation, salaries and benefits of the administrative and finance personnel, legal and professional fees, exchange difference, rental expense and bank charges. For the years ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010, administrative expenses amounted to approximately RMB44.7 million, RMB134.9 million, RMB82.5 million, and RMB45.3 million respectively.

Taxation

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

No provision for Hong Kong profit tax has been made, as the Target Group did not generate any relevant taxable profit during the Relevant Periods.

The subsidiaries established in the PRC are subject to the EIT at the rate of 33% (including 30% of State EIT and 3% of local EIT) for the period up to 31 December 2007. On 16 March 2007, the PRC promulgated the Law of the PRC on EIT by Order No. 63 of the

President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of Order No. 63. Under Order No. 63 and Implementation Regulations, the EIT rate of the Target Group's subsidiaries in the PRC was reduced from 33% to 25% from 1 January 2008 onwards.

As a foreign invested company according to the "Income Tax Law for Enterprise with Foreign Investment and Foreign Enterprise" and approved by the relevant PRC tax authorities, Deyang Chemical is exempted from the PRC income tax from 2007 to 2008, and is entitled to a 50% reduction in the PRC income tax for the subsequent three years from 2009 to 2011.

Pursuant to the approval document "Shuang Guo Shui 2008 No.8", Deyang Chemical is exempted from 30% of State EIT for the year ended 31 December 2007.

Pursuant to the approval document "Shuang Guo Shui 2009 No.10", Deyang Chemical is exempted from EIT for the year ended 31 December 2008.

Pursuant to the approval document "Chuan Guo Shui 2009 No.232", Deyang Chemical is eligible for a preferential tax rate of 15%. And in accordance with the "Cai Shui 2009 No. 69", Deyang Chemical is entitled to 50% reduction of aforesaid preferential tax rate. Accordingly, the applicable EIT tax rate for Deyang Chemical is 7.5% and 12.5% for the year ended 31 December 2009 and the six months ended 30 June 2010 respectively.

Deyang Materials began generating income in December 2007, and is subject to EIT at a rate of 33% for the year ended 31 December 2007. For the year ended 31 December 2008, the EIT rate of Deyang Materials was reduced to 25% under Order No. 63.

Pursuant to the tax regulation of Guo Fa 2008 No.21 and Cai Shui 2008 No.104 and the approval document "De Kai Guo Shui Jian Mian Gao Zi No.11", Deyang Materials is exempted from EIT for the year ended 31 December 2008 as part of the support from the State Council of the PRC for the reconstruction of companies that encountered losses in the earthquake.

Pursuant to the government circular of Chuan Gao Qi Ren 2009 No.1, Deyang Materials is designated as an advanced technology enterprise and is subject to preferential income tax rate of 15% for 3 years commencing 2009. Pursuant to the approval document "De Kai Guo Shui Jian Mian Gao Zi No.25", the tax exemption for the year ended 31 December 2008, which is granted by the tax authority in connection with the earthquake on 12 May 2008, has been prolonged for the year of 2009. Deyang Materials is exempted from EIT for the year ended 31 December 2009. In this connection, the applicable EIT tax rate for Deyang Materials is nil and 15% for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Under Order No. 63, starting from 1 January 2008, a 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. A lower withholding tax rate is enjoyed by the Target Group because there is a tax treaty between Mainland China and Haton Polymer Limited, the immediate holding company of the PRC subsidiaries. For the Target Group, the applicable rate is 5%.

Employees

The Target Group considers its employees as its most important resources. Employee remuneration is based on individual performance, working experience, qualifications and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit schemes, employee compensation includes discretionary bonus. The management believes its success and long-term growth depend upon the quality, performance and commitment of its employees. To this end, the Target Group sponsored a number of training and development programmes for its employees at various levels during the years ended 31 December 2007, 2008, and 2009 and the six months ended 30 June 2010.

FINANCIAL REVIEW

For the six months ended 30 June 2010

Revenue and cost of sales

Revenue for the six months ended 30 June 2010 was approximately RMB1,063.7 million, representing an increase of approximately RMB651.7 million, or approximately 158.2% over the same period in 2009. The significant growth was primarily due to the normalisation of business operation during the period as compared to same period in 2009 where the Target Group underwent a distressed half year operations owing to the financial crisis and recovery from the Wenchuan earthquake. Cost of sales for the period was approximately RMB397.9 million or an increase of approximately 57.9% from that of the first half in 2009. The main reason for a relatively smaller change in cost of sales to revenue was the decreasing cost of raw materials, of which the average raw materials cost per unit sold decreased from approximately RMB19.9 per kg for the period ended 30 June 2009 to approximately RMB16.7 per kg for the period ended 30 June 2010. The main reason for the decreasing cost of raw material was due to decreasing cost of p-DCB and catalyst used in the production of PPS products.

Gross profit and gross profit margin

The Target Group's gross profit increased approximately 316.3% from approximately RMB159.9 million for the six months ended 30 June 2009 to approximately RMB665.7 million over the same period in 2010. Gross profit margin increased significantly from approximately 38.8% for the six months ended 30 June 2009 to approximately 62.6% for the six months ended 30 June 2010. The significant increase of both the gross profit and gross margin were primarily due to increasing demand of PPS products and decreasing cost of raw materials.

Other income

Other income namely bank interest income, government grants, rental income of plant and sales of scrape materials amounted to approximately RMB5.7 million for the six months ended 30 June 2010, representing a decrease of approximately 5.5% from approximately RMB6.0 million for the same period in 2009. The decrease was mainly due to the combined effect of the decrease of government grants on research and development projects and the increase in rental income.

Selling and distribution costs

Selling and distribution costs amounted to approximately RMB2.7 million for the six months ended 30 June 2010, representing an increase of 86.0% from approximately RMB1.5 million over the same period in 2009. This increase was primarily due to the increase in logistics expenses as a result of an increase in selling activities, and an increase in salaries and benefits as a result of salary adjustments.

Administrative expenses

Administrative expenses amounted to approximately RMB45.3 million for the six months ended 30 June 2010, representing an increase of approximately 47.4% from approximately RMB30.8 million over the same period in 2009. This increase was primarily due to the increase in allocated depreciation, audit and legal counsel charges relating to the Target Group's past IPO exercise on the Korea Stock Exchange, and the increase in salaries and benefits as a result of salary adjustments.

Revaluation gain/(loss) on investment properties

The Target Group holds certain investment properties for the purpose of earning rental income, and these properties are revalued to its fair value at the end of each reporting period. Any changes in the fair value of such properties would be recognised in profit or loss. For the six months ended 30 June 2010, the gain on revaluation of investment properties was approximately RMB0.1 million.

Change in fair value of embedded derivative instruments

The Target Group entered into a term loan facility agreement with Credit Suisse on 6 November 2007. Pursuant to the term loan facility agreement, warrants exercisable into the Target Company's shares issued to Credit Suisse. As warrants are derivative instruments by nature, any change in its fair value was recognised in profit or loss. For the six months ended 30 June 2010, the decrease in fair value of the warrants resulted in a gain of approximately RMB6.1 million, or an increase of approximately 170.1% from a loss of approximately RMB8.7 million over the same period in 2009. This decrease of fair value of the warrants was mainly due to the shorter expected life and the smaller expected volatility.

Change in fair value of Convertible Notes

The Target Group issued Convertible Notes to BOCOM on 30 October 2009. The fair value of the derivative component of the Convertible Notes is measured at the end of each reporting period with changes in the fair value recognised in profit or loss. For the six month ended 30 June 2010, the decrease in fair value of the Convertible Notes resulted in a gain of approximately RMB20.5 million, or an increase of approximately 978.0% from approximately RMB1.9 million for the year ended 31 December 2009. According to in the terms and conditions of the Convertible Notes, due to the abandonment of the IPO event, the Bondholders do not have the right to require the Issuer to redeem all or some of the Convertible Notes on a date falling after the IPO listing date up to (and including) the maturity date at outstanding principal amount which resulted in a lower fair value of the Convertible Notes.

Change in fair value of convertible redeemable preference shares

Convertible redeemable preference shares are designated as financial liabilities at fair value through profit or loss on initial recognition and is subsequently measured at fair value, with change in the fair value recognised in profit or loss in the period in which they arise. For the six month ended 30 June 2010, the increase in fair value of the convertible redeemable preference shares resulted in a loss of approximately RMB199.3 million, or a decrease of approximately 28.2% from approximately RMB277.8 million for the six months ended 30 June 2009. This increase in fair value of the convertible redeemable preference shares was mainly attributable to the improvement on profitability and the increase in the market value of the Group. The fair value of convertible options embedded in the convertible redeemable preference shares increases in line with the market value of the Target Group.

Finance costs

The Target Group's financial costs were approximately RMB87.5 million for the six months ended 30 June 2010, representing an increase of approximately 75.1% from approximately RMB50.0 million for the same period in 2009. The significant increase was primarily due to the increase of interest expenses in relation to the Convertible Notes and bank charges for the term loan facility with Credit Suisse.

Income tax expenses

The Target Group's income tax expenses was approximately RMB90.0 million for the six months ended 30 June 2010, representing an increase of approximately 849.5% from approximately RMB9.5 million during the same period in 2009. The significant increase in the income tax expenses was mainly due to the significant increase in taxable income in the PRC. Deyang Chemical and Deyang Materials were subject to income tax rate of 12.5% and 15%, for the six months ended 30 June 2010 respectively. For the six months ended 30 June 2009, the income tax rate of Deyang Chemical and Deyang Materials were 7.5% and nil respectively.

(Loss)/Profit attributable to equity holders of the Target Company

Profit attributable to equity shareholders for the six months ended 30 June 2010 was approximately RMB273.2 million, as compared to a loss of approximately RMB207.9 million over the same period in 2009. The substantial improvement in profit during this period was mainly attributable to the considerable increase of the revenue from sales of PPS products as a result of the normalisation of business operations, as well as the decrease of the negative fair value impacts from the financial instruments.

Liquidity

	Six months ended 30 June	
	(unaudited)	
	2009	**2010**
	RMB'000	*RMB'000*
Net cash generated from operating activities	107,145	476,472
Net cash used in investing activities	(243,101)	(103,057)
Net cash generated from/(used in) financing activities	145,081	(107,899)
Net increase in cash and cash equivalents	9,125	265,516
Cash and cash equivalent at beginning of the period	1,763	272,723
Effect of foreign exchange rate changes	–	(1)
Cash and cash equivalent at end of the period	10,888	538,238

Net cash generated from operating activities in the six months ended 30 June 2009 and 2010 was approximately RMB107.1 million and RMB476.5 million respectively. The large increase in net cash generated from operating activities in the six months ended 30 June 2010 was principally due to a significant increase in the revenue generated from sales of PPS compounds partially offset by an increase in trade and other receivables and an increase in advance/repayment to related parties.

Net cash used in investing activities in the six months ended 30 June 2009 and 2010 was approximately RMB243.1 million and RMB103.1 million respectively. The decrease was primarily due to the Target Group having completed the construction of the existing production facilities for various PPS products and only limited capital expenditure was incurred for additional machinery in 2010. Net cash used in investment activities in the six months ended 30 June 2009 was primarily due to the purchase of property, plant and equipment of approximately RMB157.8 million, deposit paid for machinery and equipment of RMB44.6 million and increase in pledged bank deposits of approximately RMB42.1 million partially offset by an interest received of approximately RMB1.4 million. Net cash used in investment activities in the six months ended 30 June 2010 was primarily due to the purchase of property, plant and equipment of approximately RMB17.6 million, deposit paid for machinery and equipment of RMB21.2 million and increase in pledged bank deposits of approximately RMB65.5 million partially offset by interest received of approximately RMB1.1 million.

Net cash generated from/(used in) financing activities in the six months ended 30 June 2009 and 2010 was approximately RMB145.1 million and RMB(107.9) million respectively. The increase in net cash used in financing activities was primarily due to partial repayment for CS Facility partially offsetting the proceeds received from the issue of shares. Net cash generated from financing activities in the six months ended 30 June 2009 was primarily due to new bank loans of approximately RMB385.0 million which was partially offset by the repayment of bank loans of approximately RMB200.0 million and interest paid of approximately RMB39.9 million. Net cash used in financing activities in the six months ended 30 June 2010 was primarily due to new bank loans of approximately RMB325.0 million and proceeds of RMB272.0 million received from the issue of shares, which was partially offset by repayment of bank loans of approximately RMB320.0 million, repayment of the CS Facility of approximately RMB326.4 million and interest paid of approximately RMB58.5 million.

As at 30 June 2009 and 2010, cash and cash equivalents were denominated in the following currencies:

	As at 30 June	
	2009	**2010**
	RMB'000	*RMB'000*
RMB	10,815	538,165
HKD	5	5
USD	68	68
	10,888	538,238

Bank borrowings

As at 30 June 2010, the Target Group's total bank borrowings (excluding issuance costs) amounted to approximately RMB360 million. The table below shows the Target Group's total bank borrowings and their respective maturity profiles.

	As at 30 June 2010
	RMB'000
Secured bank borrowings	360,000
Maturity profile of borrowings	
Repayable:	
Within one year	360,000

As at 30 June 2010, all of the Target Group's bank borrowings were denominated in RMB. The current bank borrowings carry fixed interest rate with reference to the Benchmark Borrowing Rate of the People's Bank of China. The effective interest rates of the fixed-rate bank borrowings range from 4.87% to 5.84%.

Foreign currency risk

A substantial portion of the Target Group's revenue (except for the portion of injection moulding PPS resin which was exported to South Korea), cost of sales, other income, selling and distribution costs, and most of its administrative expenses are denominated in RMB. Certain bank balances, convertible notes, convertible redeemable preference shares and embedded derivative instruments of the Target Group are denominated in foreign currencies, which are exposed to exchange rate fluctuations. Though the Target Group currently does not have a foreign currency hedging policy in place, the management monitors the foreign exchange risk exposure by closely reviewing foreign exchange rates movements. In the future, the Target Group may, as it deems appropriate, enter into financial instruments including forward foreign exchange contracts, to hedge against the potential impact of foreign currency risk on its operations.

Key financial ratios

	As at 30 June 2010
Current ratio$^{(1)}$	0.87
Quick ratio$^{(2)}$	0.85
Gearing ratio$^{(3)}$	27.7%

Notes:

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

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

(3) Gearing ratio is calculated by total debts divided by total assets.

Trade and bills receivables

The Target Group's trade and bill receivables represent receivables from the sales of PPS products. The trade and bills receivables turnover days were approximately 28.8 days and 35.3 days as at 31 December 2009 and as at 30 June 2010 respectively. The slight increase of trade and bill receivables turnover days from 2009 to 30 June 2010 was due to the substantial increase of sales and partially derived from relatively relaxed request of payment of the Target Group within the normal credit terms in order to retain certain key customers and seize market share. The turnover days were in line with the normal credit terms of less than 60 days determined by the Target Group.

The trade and bill receivable turnover days are derived by dividing the arithmetic mean of the opening and closing balances of net trade and notes receivables for the relevant period by revenue and multiplying by 365 days.

Inventories

The Target Group's inventory consists of raw materials, mainly p-DCB, sodium sulfide, NMP solvent and lithium chloride, working in progress and finished products. As the Target Group's production is based on the secured orders of PPS products, inventory level has historically been kept at a minimum since 2008. The inventory turnover days were approximately and 24.6 days, and 20.3 days as at 31 December 2009 and as at 30 June 2010 respectively, which remained relatively steady.

Inventory turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of inventory of the relevant period by cost of sales and multiplying by 365 days.

Trade and bills payables

The Target Group's trade and bills payables represent amount payable for the purchase of raw materials from various suppliers as well as payables for property, plant and equipment. The Target Group settled such trade and bill payables through principal banks. The trade and bills payables turnover days excluding payables for property, plant and equipment were approximately 51.1 days, and 34.1 days as at 31 December 2009 and as at 30 June 2010 respectively. The decrease of trade and bill turnover days was due to the accelerated payments by the Target Group in order to maintain long-term relationship and stable supply. The turnover days were in line with the normal payment terms of approximately 60 days granted by the suppliers.

Turnover days of trade and bills payables are derived by dividing the arithmetic mean of the beginning and ending balance of net trade and bills payables for the relevant period by cost of sales and multiplying by 365 days.

Pledge of assets

As at 30 June 2010, certain of the Target Group's property, plant and equipment, land use rights and investment properties amounting to approximately RMB917.0 million were pledged as security for certain banking facilities granted to the Target Group. In addition, bank deposits in the amount of approximately RMB134.6 million were pledged to banks to secure bills and notes payable granted to the Target Group and the term loan facility with Credit Suisse. The pledged bank deposits will be released upon repayment of the relevant bills and notes payable and borrowings.

Employees

As at 30 June 2010, the Target Group has a total of 708 employees in Hong Kong and the PRC. Total staff costs for the six months ended 30 June 2010, including directors' remuneration, amounted to approximately RMB14.8 million, whilst it was approximately RMB13.5 million in the same period in 2009.

Capital commitments

As at 30 June 2010, the Target Group had capital commitments in respect of expansion plan for the 25,000 tpa PPS resin production capacity which amounted to approximately RMB130.0 million.

Other commitments

As at 30 June 2010, the Target Group leased a number of properties and machinery under non-cancellable operating leases. The aggregate amount of these leases was approximately RMB30.2 million payable from 1 to 6 years. None of these leases include contingent rentals.

Contingent liabilities

The Target Group provided financial guarantees amounting to approximately RMB193 million and RMB193 million at 30 June 2010 and 31 December 2009 respectively. As at the Latest Practicable Date, all financial guarantees have been discharged by the Target Group.

For the year ended 31 December 2009

FINANCIAL REVIEW

Revenue and cost of sales

Revenue for the year ended 31 December 2009 was approximately RMB1,537.2 million, representing approximately 55.1% growth from approximately RMB991.3 million for the year ended 31 December 2008. This growth was primarily due to the substantial recovery of the global economy towards the second half of 2009, which led to an approximately 66.0% increase in sales volume comparing with that in 2008. The increase in sales volume was partially offset by the decrease in average selling prices of some PPS products. Cost of sales for the year ended 31 December 2009 was approximately RMB710.2 million, representing approximately 37.2% increase from approximately RMB517.6 million for the year ended 31 December 2008. The main reason for a relatively smaller change in cost of sales to revenue was primarily due to the Target Group's gradual realisation of economies of scale towards 2009.

Gross profit and gross profit margin

The Target Group's gross profit increased approximately 74.6% from approximately RMB473.7 million for the year ended 31 December 2008 to RMB826.9 million for the year ended 31 December 2009. Gross profit margin increased from approximately 47.8% to 53.8% over the same period. The increase in gross profit was primarily due to substantial recovery of the global economy towards the second half 2009 which led to increased sales. The increase in gross profit margin is mainly due to the increase in sales of higher margin products including PPS fibre and PPS compounds as well as the advantageous result of economies of scale at products.

Other income

Other income amounted to approximately RMB20.6 million for the year ended 31 December 2009, representing an approximately 59.9% decrease from approximately RMB51.4 million in the same period of 2008. The decrease was mainly due to the decrease in the amount of government grants for the Target Group's research and development projects from approximately RMB41.3 million in 2008 to RMB13.1 million in 2009. Other income also include bank interest income, rental income and sales of scrap materials.

Selling and distribution costs

Selling and distribution costs amounted to approximately RMB3.4 million for the year ended 31 December 2009, representing a decrease of 84.5% from approximately RMB22.1 million for the year ended 31 December 2008. This decrease was primarily due to the reduction of sales commission from approximately RMB19.6 million in 2008 to RMB0.5 million in 2009. More commission had been paid in the early stage of the operation in 2008 and the expenses substantially decreased in 2009 after the Target Group set up its sales department and built up the distribution channels.

Administrative expenses

Administrative expenses amounted to approximately RMB82.5 million for the year ended 31 December 2009, representing a decrease of approximately 38.8% from approximately RMB134.9 million for the year ended 31 December 2008. This decrease was primarily due to the reduction on the legal consultancy fees and the reduction of one-off technical consultancy fees for the starting of a new production facility, which together amounted to approximately RMB2.3 million in 2009, representing approximately 2.5% only when compared to the amount of approximately RMB107.9 million incurred in 2008.

Revaluation gain/(loss) on investment properties

The Target Group holds certain investment properties for the purpose of earning rental income, and these properties are revalued to its fair value at the end of each reporting period. Any changes in the fair value of such properties would be recognised in profit or loss. For the year ended 31 December 2009, the gain on revaluation of investment properties was approximately RMB8.0 million.

Change in fair value of embedded derivative instruments

For the year ended 31 December 2009, the increase in fair value of the warrants in relation to the CS Facility resulted in a loss of approximately RMB7.7 million. This change was mainly due to the increase in the market value of the Target Group.

Change in fair value of Convertible Notes

For the year ended 31 December 2009, the decrease in fair value of the derivative component of the Convertible Notes to BOCOM resulted in a gain of approximately RMB1.9 million. This slight increase was recorded two months after the indenture of the Convertible Notes to BOCOM on 30 October 2009.

Change in fair value of convertible redeemable preference shares

For the year ended 31 December 2009, the increase in the fair value of the convertible redeemable preference shares resulted in a loss of approximately RMB486.7 million, or approximately 549.9% increase from approximately RMB74.9 million for the year ended 31 December 2008. The significant increase was mainly due to the substantial recovery in the second half of 2009 after the financial crisis and Wenchuan earthquake and the improvement of profitability. The fair value of convertible options embedded in the convertible redeemable preference shares increases in line with the profitability and the market value of the Target Group.

Finance costs

The Target Group's financial costs were approximately RMB102.9 million for the year ended 31 December 2009, representing a slight decrease of 6.4% from approximately RMB109.9 million for the year ended 31 December 2008. The decrease was primarily due to the reduction of the interest charges on CS Facility as a result of partial settlement in November 2009.

Income tax expenses

The Target Group's income tax expenses were approximately RMB27.8 million for the year ended 31 December 2009, which increased significantly by approximately RMB27.1 million from approximately RMB0.7 million for the year ended 31 December 2008. For the year ended 31 December 2009, Deyang Chemical and Deyang Materials were subject to the EIT tax rate of 7.5% and nil respectively, while both of them enjoyed the tax exemption for the year ended 31 December 2008. The income tax expenses for the year ended 31 December 2008 represented the deferred tax liability in respect of the revaluation gain on investment properties.

(Loss)/Profit attributable to equity holders of the Target Company

Profit attributable to equity shareholder for the year ended 31 December 2009 was approximately RMB146.1 million comparing with a loss of approximately RMB8.7 million for the year ended 31 December 2008.

Liquidity

	Year ended 31 December	
	2008	**2009**
	RMB'000	*RMB'000*
Net cash generated from operating activities	118,516	792,878
Net cash used in investing activities	(286,151)	(440,209)
Net cash generated from/(used in) financing activities	102,224	(81,709)
Net (decrease)/increase in cash and cash equivalents	(65,411)	270,960
Cash and cash equivalent at beginning of the year	67,167	1,763
Effect of foreign exchange rate changes	7	–
Cash and cash equivalent at end of the year	1,763	272,723

Net cash generated from operating activities in the years ended 31 December 2008 and 2009 was approximately RMB118.5 million and approximately RMB792.9 million respectively. The large increase in net cash generated from operating activities in the year ended 31 December 2009 was principally due to a significant increase in the revenue generated from sales of PPS compounds and PPS fibre and an increase in amounts due to related parties.

Net cash used in investing activities in the years ended 31 December 2008 and 2009 was approximately RMB286.2 million and RMB440.2 million respectively. The increase was primarily due to a deposit of approximately RMB210.0 million paid for the construction of a PPS resin production line. Net cash used in investment activities in the year ended 31 December 2009 mainly reflected purchase of property, plant and equipment of approximately RMB205.7 million for producing coating-grade PPS resin and deposits paid of approximately RMB262.1 million, which was partially offset by interest received of approximately RMB2.4 million and decrease in pledged bank deposits of approximately RMB25.2 million.

Net cash generated from/(used in) financing activities in the years ended 31 December 2008 and 2009 was approximately RMB102.2 million and RMB(81.7) million respectively. The increase in net cash used in financing activities in the year ended 31 December 2009 was mainly attributable to the partial repayment of the CS Facility partially offset by the proceeds received from issue of Convertible Notes. Net cash used in financing activities in the year ended 31 December 2009 mainly included new bank loans of approximately RMB480.0 million and proceeds of approximately RMB203.1 million received from issue of Convertible Notes, which was partially offset by the repayment of bank loans of approximately RMB300.0 million, repayment of the CS Facility of RMB372.8 million and interest paid of approximately RMB92.0 million.

As at 31 December 2008 and 2009, cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2008	**2009**
	RMB'000	*RMB'000*
RMB	1,691	272,651
HKD	5	5
USD	67	67
	1,763	272,723

Bank borrowings

As at 31 December 2008 and 2009, the Target Group's total bank borrowings (excluding issuance costs) amounted to approximately RMB220.0 million and RMB355.0 million respectively. The table below shows the Target Group's total bank borrowings and their respective maturity profile.

	As at 31 December	
	2008	**2009**
	RMB'000	*RMB'000*
Secured bank borrowings	220,000	355,000
Maturity profile of borrowings		
Repayable:		
Within one year	220,000	355,000

As at 31 December 2009, all of the Target Group's bank borrowings were denominated in RMB. The bank borrowings carry fixed interest rate with reference to the Benchmark Borrowing Rate of the People's Bank of China. The effective interest rates of the fixed-rate bank borrowings range from 5.09% to 5.84%.

Foreign currency risk

A substantial portion of the Target Group's revenue (except for the portion of injection moulding PPS resin which was exported to South Korea), cost of sales, other income, selling and distribution costs, and most of its administrative expenses are denominated in RMB. Certain bank balances, convertible notes, convertible redeemable preference shares and embedded derivative instruments of the Target Group are denominated in foreign currencies, which are exposed to foreign currency risk. In the future, the Target Group may, as it deems appropriate, enter into financial instruments including forward foreign exchange contracts, to hedge against the potential impact of foreign currency risk on its operations.

Key financial ratios

	As at 31 December 2009
Current ratio	0.28
Quick ratio	0.26
Gearing ratio	88.9%

Trade and bills receivables

Trade and bill receivables turnover days were approximately 20.8 days and 28.8 days respectively in 2008 and 2009. The customers tended to repay the debts relatively longer due to the out-burst of the financial crisis in 2008, which brought up a need to retain certain key customers, thus had led to an increase of trade and bills receivable turnover days.

Inventories

Inventory turnover days were approximately 41.0 days, and 24.6 days in 2008 and 2009 respectively. The improvement of inventory turnover days was due to the substantially upswing of the market towards the end 2009.

Trade and bills payables

Trade and bills payables turnover days excluding payables for property, plant and equipment were approximately 73.8 days and 51.1 days in 2008 and 2009 respectively. The decrease of trade and bill turnover days was due to the accelerated payment requested by suppliers in response to the financial crisis towards from later half 2008 to early half 2009.

Pledge of assets

As at 31 December 2009, certain of the Target Group's property, plant and equipment, land use right and investment properties amounting to approximately RMB944.1 million were pledged as security for certain banking facilities grated to the Target Group, representing a significant increase of approximately 275.5% from approximately RMB251.4 million pledged assets as at 31 December 2008. In addition, bank deposits in the amount of approximately RMB69.4 million were pledged to banks to secure bills and notes payable granted to the Target Group and the term loan facility with Credit Suisse. The pledged bank deposits will be released upon repayment of the relevant bills and notes payable and borrowings.

Employees

As at 31 December 2009, the Target Group retained total of 726 employees in Hong Kong and the PRC. Total staff costs for the year ended 31 December 2009, including directors' emoluments, amounted to approximately RMB30.8 million, representing approximately 15.0% increase from approximately RMB26.8 million incurred for the year ended 31 December 2008. The increase was mainly due to the salaries and benefits upward adjustments during the year.

Capital commitments

The Target Group did not have any outstanding capital commitment as at 31 December 2009.

Other commitments

As at 31 December 2009, the Target Group leased a number of properties and machinery under non-cancellable operating leases. The aggregate amount of these leases was approximately RMB9.3 million payable from 1 to 3 years. None of these leases include contingent rentals.

Contingent liabilities

The Target Group provided financial guarantees amounting to approximately RMB193 million at 31 December 2009, representing the Target Group's maximum exposure under the financial guarantee contract. No provision for the Target Group's obligation was made as the directors of the Target Group considered it was not probable that the repayment of the loans would be in default.

The Target Group has no other material contingent liabilities as at 31 December 2009.

For the year ended 31 December 2008

FINANCIAL REVIEW

Revenue and cost of sales

Revenue for the year ended 31 December 2008 was approximately RMB991.3 million, representing approximately an increase of 103.7% from approximately RMB486.7 million for the year ended 31 December 2007. This growth was primarily derived from the increase in production capacity as a new fibre-grade PPS resin production line with an annual production capacity of 20,000 tpa and a new PPS fibre plant with an annual production capacity of 5,000 tpa entered into production in late 2008, coupled with strong demand of PPS resins with sales volume increased by approximately 145.2% from 6,430 tons in 2007 to 15,765 tons in 2008. Nevertheless, the total revenue was partially affected by a slight decrease in average selling price of PPS products.

Cost of sales for the year was approximately RMB517.6 million, representing an increase of approximately 247.2% from approximately RMB149.1 million of the year ended 31 December 2007. This increase was derived from the large amount of depreciation upon the completion of new production facilities in 2008 and the increase of sales volume of PPS products.

Gross profit and gross profit margin

The Target Group's gross profit increased approximately 40.3% from approximately RMB337.6 million for the year ended 31 December 2007 to approximately RMB473.7 million for the year ended 31 December 2008. Gross profit margin decreased from approximately 69.4% for the year ended 31 December 2007 to approximately 47.8% for the year ended 31 December 2008. The increase of the gross profit was mainly attributed to the increase in sales due to capacity expansion. The decrease in gross margin was mainly due to the decrease of average selling prices of PPS products and the large amount of depreciation upon the completion of new production facilities in 2008.

Other income

Other income amounted to approximately RMB51.4 million for the year ended 31 December 2008, representing an increase of approximately 641.0% from approximately RMB6.9 million for the year ended 31 December 2007. The significant increase was mainly due to an approximately RMB41.3 million from various types of government grants on research and development projects. Other income also include bank interest income, rental income and sales of scrap materials.

Selling and distribution costs

Selling and distribution expenses amounted to approximately RMB22.1 million for the year ended 31 December 2008, representing an increase of approximately RMB21.7 million from approximately RMB0.4 million for the year ended 31 December 2007. This increase was primarily derived from the one-off commission paid to sales agents for promoting the Target Group's PPS products in 2008, which amounted to approximately RMB19.6 million.

Administrative expenses

Administrative expenses amounted to approximately RMB134.9 million for the year ended 31 December 2008, representing an increase of approximately 201.5% from approximately RMB44.7 million for the year ended 31 December 2007. This increase was primarily due to the increased spending on one-off technical consultancy fees in connection with the new PPS resin production facility entering into service in 2008.

Written off/impairment on property, plant and equipment arising from earthquake

During the year ended 31 December 2008, the Wenchuan Earthquake took a toll on the Target Group's operation and production facilities. The earthquake caused significant damages to the Target Group's property, plant and equipment which amounted to approximately RMB167.1 million, forcing the Target Group to carry out substantial repairs and delayed the new PPS resin production facility from entering into service between May and October in 2008.

Revaluation gain/(loss) on investment properties

The Target Group holds certain investment properties for the purpose of earning rental income, and these properties are revalued to its fair value at the end of each reporting period. Any changes in the fair value of such properties would be recognised in profit or loss. For the year ended 31 December 2008, the gain on revaluation of investment properties was approximately RMB2.8 million.

Change in fair value of embedded derivative instruments

For the year ended 31 December 2008, the increase in fair value of the warrants in relation to the CS Facility resulted in a loss of approximately RMB20.3 million, representing approximately 493.3% increase from a loss of approximately RMB3.4 million in 2007. This increase was mainly due to an increase in the market value of the Group.

Change in fair value of convertible redeemable preference shares

For the year ended 31 December 2008, the increase of the fair value of the convertible redeemable preference shares resulted in a loss of approximately RMB74.9 million, representing approximately 185.2% increase from approximately RMB26.3 million for the year ended 31 December 2007. The significant increase was mainly due to the increase in the market value of the Target Group. The fair value of convertible options embedded in the convertible redeemable preference shares increases in line with the market value of the Target Group.

Finance costs

The Target Group's financial costs were approximately RMB109.9 million for the year ended 31 December 2008, representing a significant decrease of approximately 62.6% from approximately RMB294.1 million for the year ended 31 December 2007. The decrease was primarily due to the exclusion of a one-off impact of approximately RMB251.3 million fair value remeasurement for the CS Facility which incurred in 2007.

Income tax expenses

The Target Group's income tax expenses was approximately RMB0.7 million for the year ended 31 December 2008. It solely represented the deferred tax liability in respect of the revaluation gain on investment properties because Deyang Chemical and Deyang Materials enjoyed the tax exemption in 2008.

(Loss)/Profit attributable to equity holders of the Target Company

Loss attributable to equity shareholders for the year ended 31 December 2008 was approximately RMB8.7 million, as compared to loss of approximately RMB42.8 million attributable to equity holders during the same period 2007, representing an improvement of approximately 79.7%.

Liquidity

	Year ended 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
Net cash from operating activities	639,962	118,516
Net cash used in investing activities	(2,061,903)	(286,151)
Net cash from financing activities	1,512,436	102,224
Net increase in cash and cash equivalents	90,495	(65,411)
Cash and cash equivalent at beginning of the year	202	67,167
Effect of foreign exchange rate changes	(23,530)	7
Cash and cash equivalent as at end of the year	67,167	1,763

Net cash generated from operating activities in the years ended 31 December 2007 and 2008 was approximately RMB640.0 million and RMB118.5 million respectively. The decrease in net cash generated from operating activities in the year ended 31 December 2008 was principally due to the decrease in trade and other payables and repayment of the amount due to related parties.

Net cash used in investing activities in the years ended 31 December 2007 and 2008 was approximately RMB2,061.9 million and RMB286.2 million respectively. The decrease was primarily due to the Target Group completing a 4,000 tpa production facility at a new site in Deyang for producing injection molding grades and incurred a large amount of capital expenditure of a new plant with production capacity of 20,000 tpa in Deyang for PPS resin and a new PPS fibre plant with a production facility of 5,000 tpa in 2007. Net cash used in investment activities in the year ended 31 December 2008 mainly reflecting purchase of property, plant and equipment of approximately RMB263.7 million and deposit paid of approximately RMB102.7 million, which was partially offset by interest received of approximately RMB4.2 million and decrease in pledged bank deposits of approximately RMB76.1 million.

Net cash generated from financing activities in the years ended 31 December 2007 and 2008 was approximately RMB1,512.4 million and RMB102.2 million respectively. The decrease was mainly attributable to the several debt and equity financing activities arranged in 2007. Net cash used in financing activities in the year ended 31 December 2008 reflecting new bank loans of approximately RMB240.0 million partially offset by repayment of bank loans of approximately RMB40.0 million and interest paid of approximately RMB97.8 million.

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

	As at 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
RMB	67,062	1,691
HKD	–	5
USD	105	67
	67,167	1,763

Bank borrowings

As at 31 December 2007 and 2008, the Target Group's total bank borrowings (excluding issuance costs) amounted to approximately RMB20.0 million and RMB220.0 million respectively. The table below shows the Target Group's total bank borrowings and their respective maturity profile.

	As at 31 December	
	2007	**2008**
	RMB'000	*RMB'000*
Secured bank borrowings	20,000	220,000
Maturity profile of borrowings		
Repayable:		
Within one year	20,000	220,000

As at 31 December 2008, all of the Target Group's bank borrowings were denominated in RMB. The bank borrowings carry fixed interest rate at rates with reference to the Benchmark Borrowing Rate of the People's Bank of China. The effective interest rates of the fixed-rate bank borrowings range from 5.31% to 8.96%.

Foreign currency risk

A substantial portion of the Target Group's revenue (except for the portion of injection moulding PPS resin which was exported to South Korea), cost of sales, other income, selling and distribution costs, and most of its administrative expenses are denominated in RMB. Certain bank balances, convertible redeemable preference shares and embedded derivative instruments of the Target Group are denominated in foreign currencies, which are exposed to foreign currency risk. In the future, the Target Group may, as it deems appropriate enter into financial instruments including forward foreign exchange contracts to hedge against the potential impact of foreign currency risk on its operations.

Key financial ratios

	As at 31 December 2008
Current ratio	0.13
Quick ratio	0.11
Gearing ratio	89.4%

Trade and bills receivables

Trade and bill receivables turnover days were approximately 25.2 days, and 20.8 days in 2007 and 2008 respectively. The trade and bill receivables turnover days remained relatively steady during the period.

Inventories

Inventory turnover days were approximately 81.7 days and 41.0 days in 2007 and 2008 respectively. The improvement of inventory turnover days in 2008 was due to efficient management of PPS production facilities and logistics and achievement of economies of scales as both Deyang Materials and Deyang Chemical production facilities were put into production in 2008. The inventory turnover days in 2008 were relatively higher than those in 2009 and 2010, as the Target Group's production and sale cycles slow-down owing to Wenchuan earthquake during the year.

Trade and bills payables

Trade and bills payables turnover days excluding payables for property, plant and equipment were approximately 106.9 days and 73.8 days in 2007 and 2008 respectively. The improvement of trade and bills payable turnover days in 2008 was mainly due to the faster production cycle to meet the strong demand of PPS resins for the year ended 31 December 2008.

Pledge of assets

As at 31 December 2008, certain of the Target Group's property, land use right and investment properties amounting to approximately RMB251.4 million were pledged as security for certain banking facilities grated to the Target Group. In addition, bank deposits in the amount of approximately RMB94.6 million were pledged to banks to secure bills and notes payable granted to the Target Group and the term loan facility with Credit Suisse. The pledged bank deposits will be released upon repayment of the relevant bills and notes payable and borrowings.

Employees

As at 31 December 2008, the Target Group had a total of 836 employees in Hong Kong and PRC. Total staff costs for the year ended 31 December 2008, including directors' emoluments, amounted to approximately RMB26.8 million, representing approximately 209.8% increase from approximately RMB8.6 million for the year ended 31 December 2007. The increase was mainly due to the increase of the total number of employees and the slight increase of the salary and benefits.

Capital commitments

As at 31 December 2008, the Target Group had capital commitments in regards to the construction in progress for 20,000 tpa production line amounting to approximately RMB33.2 million.

Other commitments

As at 31 December 2008, the Target Group leased a number of properties and machinery under non-cancellable operating leases. The aggregate amount of these leases was approximately RMB18.4 million payable from 1 to 3 years. None of these leases include contingent rentals.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2008.

For the year ended 31 December 2007

FINANCIAL REVIEW

Revenue and cost of sales

Revenue for the year ended 31 December 2007 was approximately RMB486.7 million. During the year, the Target Group completed a 4,000 tpa injection moulding PPS resin production facility in replacement of the old 1,300 tpa production facility. Cost of sales for the year was approximately RMB149.1 million, approximately 30.6% of total revenue.

Gross profit and gross profit margin

The Target Group's gross profit was approximately RMB337.6 million, with a gross profit margin of approximately 69.4% for the year ended 31 December 2007. The high gross profit margin was partially due to the high average selling prices and the comparatively low unit cost owing to the limited share of the allocated fixed costs.

Other income

Other income amounted to approximately RMB6.9 million for the year ended 31 December 2007, which included bank interest income, rental income and sales of scrap materials.

Selling and distribution costs

Selling and distribution costs was approximately RMB0.4 million for the year ended 31 December 2007, most of which came from marketing and logistic expenses associated during the year.

Administrative expenses

Administrative expenses amounted to approximately RMB44.7 million for the year ended 31 December 2007, which mainly included a one-off legal consultancy fees of approximately RMB23.4 million in connection with the abandoned IPO exercise in Korea and the issuance of the redeemable convertible preference shares and the CS Facility. Other key administrative expense items also include salaries and benefits, allocated depreciation and amortisation and rental expenses.

Revaluation gain/(loss) on investment properties

The Target Group holds certain investment properties for the purpose of earning rental income, and these properties are revalued to its fair value at the end of each reporting period. Any changes in the fair value of such properties would be recognised in profit or loss. For the year ended 31 December 2007, the loss on revaluation of investment properties in profit or loss was approximately RMB1.3 million.

Change in fair value of embedded derivative instruments

For the year ended 31 December 2007, the increase in fair value of the warrants in relation to the CS Facility resulted in a loss of approximately RMB3.4 million. This change was mainly attributable to an increase in the market value of the Target Group.

Change in fair value of convertible redeemable preference shares

For the year ended 31 December 2007, the increase in fair value of the convertible redeemable preference shares resulted in a loss of approximately RMB26.3 million. This increase of fair value of the convertible redeemable preference shares was mainly attributable to the increase in the market value of the Target Group.

Finance costs

The Target Group's financial costs were approximately RMB294.1 million for the year ended 31 December 2007, a significant portion of which was due to the fair value remeasurement for CS Facility with derivative financial instrument from stating at amortised cost to its principal amount following the Target Group's breach of certain terms of the loan agreement and the lender has the right to demand immediate payment.

Income tax expenses

The Target Group's income tax expense was approximately RMB17.0 million for the year ended 31 December 2007. Income tax expenses mainly represented EIT for the year.

(Loss)/Profit attributable to equity holders of the Target Company

Loss attributable to equity shareholders for the year ended 31 December 2007 was approximately RMB42.8 million. The loss for the year ended 31 December 2007 was mainly due to the above mentioned significant fair value loss from stating CS Facility with derivative financial instrument at amortised cost to its principal amount.

Liquidity

	31 December 2007
	RMB'000
Net cash from operating activities	639,962
Net cash used in investing activities	(2,061,903)
Net cash from financing activities	1,512,436
Net increase in cash and cash equivalents	90,495
Cash and cash equivalent at beginning of the year	202
Effect of foreign exchange rate changes	(23,530)
Cash and cash equivalent at end of the year	67,167

Net cash generated from operating activities in the year ended 31 December 2007 was approximately RMB640.0 million. It was principally due to the operating profit of RMB326.7 million generated from sales of PPS products, an increase in amount due to trade and other payables of approximately RMB142.2 million and an increase in amount due to related parties of approximately RMB461.8 million, which was partially offset by an increase in inventories of approximately RMB59.1 million, an increase in trade and other receivables of approximately RMB39.8 million, an increase in the amounts due from related parties of approximately RMB183.6 million and payment of income tax expenses of approximately RMB8.2 million.

Net cash used in investing activities in the year ended 31 December 2007 was approximately RMB2,061.9 million. It was primarily due to the payment of the purchase of properties, plant and equipment of approximately RMB1,703.1 million in respect of a new site in Deyang for the 4,000 tpa production facility of injection molding grades, a new 20,000 tpa plant in Deyang for PPS resin and a new PPS fibre plant with production facility of 5,000 tpa, an increase in deposit paid of approximately RMB67.2 million, an addition of prepaid lease payments of RMB114.7 million, an addition of investment properties of RMB2.8 million and an increase in pledged bank deposits of approximately RMB176.6 million, which was partially offset by interest received of RMB2.5 million.

Net cash generated from financing activities in the year ended 31 December 2007 was approximately RMB1,512.4 million. It was primarily due to the new bank loans of RMB20 million, proceeds of CS Facility of RMB1,148.3 million and proceeds received from issue of convertibles notes and convertible redeemable preferences shares of RMB116.4 million and RMB606.1 million respectively, which was partially offset by settlement of convertibles notes of RMB45.7 million, repurchase of shares of RMB316.8 million and interest paid of RMB15.9 million.

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

	As at 31 December 2007
	RMB'000
RMB	67,062
USD	105
	67,167

Bank borrowings

As at 31 December 2007, the Target Group's total bank borrowings (excluding issuance costs) amounted to approximately RMB20.0 million. The table below shows the Target Group's total bank borrowings and their respective maturity profile.

	As at 31 December 2007
	RMB'000
Secured bank borrowings	20,000
Maturity profile of borrowings	
Repayable:	
Within one year	20,000

As at 31 December 2007, all of the Target Group's bank borrowings were denominated in RMB. The bank borrowings carry fixed interest rate at rates with reference to the Benchmark Borrowing Rate of the People's Bank of China. The effective interest rates of the fixed-rate bank borrowings range from 7.03% to 7.52%.

Foreign currency risk

A substantial portion of the Target Group's revenue (except for the portion of injection moulding PPS resin which was exported to South Korea), cost of sales, other income, selling and distribution costs, and most of its administrative expenses are denominated in RMB. Certain bank balances, convertible redeemable preference shares and embedded derivative instruments of the Target Group are denominated in foreign currencies, which are exposed to foreign currency risk. In the future, the Target Group may, as it deems appropriate, enter into financial instruments including forward foreign exchange contracts to hedge against the potential impact of foreign currency risk on its operations.

Key financial ratios

	As of 31 December 2007
Current ratio	0.23
Quick ratio	0.20
Gearing ratio	-76.5%

Trade and bills receivables

Trade and bills receivables turnover days was 25.2 days in 2007. The turnover days were comparatively small as only Deyang Chemical was in production during the year. Deyang Materials was not put into production until December 2007; such that its contribution of the year was minimal.

Inventories

Inventory turnover days were approximately 81.7 days in 2007. The large inventory turnover days during the year was due to the slow inventory movement caused by less efficient management of PPS production facilities; which was coupled by a fact that the production of Deyang Materials and Deyang Chemical did not achieve economies of scales during the start-up stage.

Trade and bills payables

Trade and bills payables turnover days excluding payables for property, plant and equipment was approximately 106.9 days in 2007. The large trade and bills payable turnover days was because of the fact that the production of Deyang Materials and Deyang Chemical did not achieve economies of scale during the start-up stage, resulting in longer production cycle.

Pledge of assets

As at 31 December 2007, bank deposits in the amount of approximately RMB180.2 million were pledged to banks to secure bills and notes payable granted to the Target Group and the term loan facility with Credit Suisse. The pledged bank deposits will be released upon repayment of the relevant bills and notes payables and borrowings.

Employees

As at 31 December 2007, the Target Group retained a total of 508 employees in Hong Kong and the PRC. Total staff costs for the year ended 31 December 2007, including directors' emoluments, amounted to approximately RMB8.6 million.

Capital commitments

As at 31 December 2007, the Target Group had no capital commitments.

Other commitments

As at 31 December 2007, the Target Group leased a number of properties under non-cancellable operating leases. The aggregate amount of these leases was approximately RMB6.3 million payable from 1 to 3 years. None of these leases include contingent rentals.

Contingent liabilities

The Target Group did not have any material contingent liabilities as at 31 December 2007.

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

Introduction

On 19 October 2010, the Company entered into the sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which the Company will acquire shares of the Target Company which, as at the Latest Practicable Date, represent 95.00% of the equity interest in the Target Company ("Sale Shares") subject to the terms as set out in the sale and purchase agreement (the "Acquisition").

In connection with the USD90,000,000 (equivalent to approximately RMB612,126,000) senior secured fixed rate term notes as described in note 5 to the unaudited pro forma financial information, on 9 November 2010 the Target Company has created and issued new warrants to Credit Suisse AG and/or a group of financial institutions arranged by Credit Suisse AG (the "New Investors") exercisable into Target Company's ordinary shares representing up to approximately 2.57% of the Target Company's fully diluted share capital ("New Warrants"), subject to the terms and conditions of the instrument constituting warrants entered into on 5 November 2010 in relation to the New Warrants between, among others, the New Investors and the Target Company. Pursuant to the instrument constituting warrants dated 5 November 2010, the New Warrants will be automatically exercised before completion of the Acquisition ("Completion") and settled with new ordinary shares of the Target Company or cash (at the option of the warrant holders).

Pursuant to a subscription agreement dated 30 October 2009, as amended by an amendment and waiver letter on 5 November 2010, the Target Company has issued six convertible notes with an aggregate principal amount of USD30,000,000 to BOCOM International Holdings Company Limited ("BOCOM") which are convertible into Target Company's shares representing approximately 3.23% of the Target Company's fully diluted share capital ("Convertible Notes"). Pursuant to the Convertible Notes, BOCOM may exercise its conversion rights into Target Company's shares at any time prior to three days before the date of Completion.

If Target Company's shares representing approximately 2.57% of the Target Company's fully diluted share capital are issued to any warrant holder and Target Company's shares representing approximately 3.23% of the Target Company's fully diluted share capital are issued to BOCOM before Completion, the Sale Shares will represent approximately 89.49% of the equity interest in the Target Company.

According to the Sale and Purchase Agreement, any warrant holder or shareholder of the Target Company not being a party to the Sale and Purchase Agreement as at the date of the Sale and Purchase Agreement (which may include BOCOM) may accede to the Sale and Purchase Agreement and become a party to it as a vendor on or before Completion by delivering a duly completed and signed deed of accession to the Company and the Company executing such deed of accession no later than one business day before Completion. If any warrant holder and BOCOM to which Target Company's shares have been issued before Completion, as well as any shareholder of the Target Company not being a party to the Sale and Purchase Agreement as at the date of the Sale and Purchase Agreement, accedes to the Sale and Purchase Agreement before Completion, the Company will acquire Target Company's shares representing 100% of the equity interest in the Target Company.

Pursuant to the Sale and Purchase Agreement, the consideration of the Acquisition payable to each of the vendors (or any acceding vendor) is calculated on the basis of (i) the number of Target Company's shares held by the relevant vendor (or any acceding vendor) on Completion as a percentage of the entire share capital of the Target Company in issue on Completion and (ii) a total consideration for 100% of the share capital of the Target Capital in issue on Completion amounting to HKD11,634,750,000 which is the agreed HKD equivalent of USD1,500,000,000. The consideration of the Acquisition payable to each of the vendors will be satisfied (a) as to 90%, by way of the allotment and issue of Consideration Shares to the vendors at an issue price of HKD3.15 for each Consideration Share upon Completion; and (b) as to the balance of the consideration, by payment of the Cash Consideration by the Company to the vendors within four months following the Completion.

If Target Company's shares are issued to any warrant holder and/or before Completion and all of such warrant holders and BOCOM as well as all non-selling shareholders accede to the Sale and Purchase Agreement, the aggregate consideration of the Acquisition payable to all vendors (and the acceding vendors) is HKD11,634,750,000, which equals to the total consideration for 100% of the share capital of the Target Company in issue on Completion.

The Unaudited Pro Forma Financial Information of the Enlarged group has been prepared to illustrate the effect of the Acquisition for two scenarios.

(a) Scenario A

In the event that no warrants and conversion rights are exercised for the Target Company's shares and the Target Company does therefore not issue any new Target Company's ordinary shares prior to the Completion, and also none of the non-selling shareholders, who are holding a total of 4,000,000 Target Company's ordinary shares representing 5.00% of the share capital of the Target Company in issue as at the date of the Circular, accedes to the Sale and Purchase Agreement, the Company will acquire 95.00% of the issued share capital of the Target Company at a consideration of HKD11,053,027,908 (equivalent to approximately RMB9,692,009,000).

(b) Scenario B

In the event that Target Company's shares representing approximately 2.57% of the Target Company's fully diluted share capital are issued to the warrant holders and the Target Company's shares representing approximately 3.23% of the Target Company's fully diluted share capital are issued to BOCOM before Completion, and neither any warrant holder nor BOCOM nor any non-selling shareholder accedes to the Sale and Purchase Agreement, the Company will acquire approximately 89.49% of the issued share capital of the Target Company at a consideration of HKD10,412,261,795 (equivalent to approximately RMB9,130,143,000).

The Unaudited Pro Forma Financial Information of the Enlarged Group have been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the financial impact of the acquisition of equity interest in the Sino Polymer New Materials Co., Ltd. as if the Acquisition had taken place on 30 June 2010 for the unaudited pro forma consolidated statement of financial position and on 1 January 2009 for the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statements of financial position of the Enlarged Group for Scenario A and Scenario B have been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2010, which has been extracted from the published unaudited interim report of the Group for the six months ended 30 June 2010 and the audited consolidated statement of financial position of the Target Group as at 30 June 2010 as set out in Appendix II to the Circular, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition and not relating to future events or decisions, and factually supportable.

The unaudited pro forma consolidated statements of comprehensive income and the unaudited pro forma consolidated statements of cash flows of the Enlarged Group for Scenario A and Scenario B are prepared based upon the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the financial year ended 31 December 2009, which have been extracted from the published annual report of the Group for the financial year ended 31 December 2009 and the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Target Group as set out in Appendix II to the Circular, after giving effect to the pro forma adjustments as summarised in the accompany notes that are directly attributable to the Acquisition.

The unaudited pro forma consolidated statements of financial position of the Enlarged Group for Scenario A and Scenario B are for illustrative purpose only and are based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, they may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2010 or to predict the future financial position or results of operation of the Enlarged Group upon Completion.

The unaudited pro forma consolidated statements of comprehensive income and the pro forma consolidated statements of cash flows of the Enlarged Group for Scenario A and Scenario B are for illustrative purpose only and are based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, they may not give a true picture of the actual financial results and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed at the commencement of the financial year ended 31 December 2009 or to predict the future results of operations and future cash flow of the Enlarged Group.

The unaudited pro forma consolidated statements of financial position, the unaudited pro forma consolidated statements of comprehensive income and the unaudited pro forma consolidated statements of cash flows of the Enlarged Group for Scenario A and Scenario B should be read in conjunction with the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

Scenario A

Assuming that the Target Company does not issue any new shares prior to Completion and the Company will therefore acquire 95.00% of the issued share capital of the Target Company.

(A) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	(Unaudited) The Group as at 30 June 2010	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group as at 30 June 2010
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 1	*Note 4(i)*			
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	2,126,955	2,049,948	*4*	1,122,726	5,299,629
Investment properties	–	96,472			96,472
Prepaid lease payments	56,433	121,194	*4*	40,875	218,502
Goodwill	8,386	–	*4*	3,564,778	3,573,164
Mining rights	384,039	–			384,039
Other intangible asset	17,588	–	*4*	654,000	671,588
Deposits	368,432	304,452			672,884
	2,961,833	2,572,066			10,916,278
Current assets					
Inventories	11,720	45,979			57,699
Trade and other receivables	800,018	422,015			1,222,033
Amounts due from related parties	–	659,629	*8*	(659,629)	–
Pledged bank deposits	81,103	134,628	*5*	30,776	189,093
			5	(57,414)	
Deferred tax asset	–	–	*4*	10,574	10,574
Cash and cash equivalents	669,159	538,238	*5*	185,110	1,309,390
			5, 6	(311,300)	
			7	(3,061)	
			8	231,244	
	1,562,000	1,800,489			2,788,789

	(Unaudited) The Group as at 30 June 2010 *RMB'000* *Note 1*	(Audited) The Target Group *RMB'000* *Note 4(i)*	*Notes*	Pro forma adjustments *RMB'000*	(Unaudited) Pro forma Enlarged Group as at 30 June 2010 *RMB'000*
Current liabilities					
Trade and other payables	(208,671)	(344,416)	*3(i)*	(969,201)	(1,809,341)
			6	(255,053)	
			10	(32,000)	
Amounts due to related parties	–	(428,385)	*8*	428,385	–
Bank borrowings	(383,000)	(360,000)			(743,000)
Borrowing with derivative financial instruments	–	(652,608)	*4*	(200,867)	(616,852)
			5	(415,985)	
			5	435,289	
			6	217,319	
Convertible notes	–	(199,670)	*7*	6,993	(189,616)
			7	3,061	
Tax payable	(38,697)	(81,852)			(120,549)
	(630,368)	(2,066,931)			(3,479,358)
Net current assets/(liabilities)	931,632	(266,442)			(690,569)
Total assets less current liabilities	3,893,465	2,305,624			10,225,709
Non-current liabilities					
Bank borrowings	(72,000)	–			(72,000)
Fixed rate senior notes	(1,606,864)	–			(1,606,864)
Deferred tax liabilities	(56,574)	(8,825)	*4*	(454,400)	(519,799)
	(1,735,438)	(8,825)			(2,198,663)
Net assets	2,158,027	2,296,799			8,027,046

	(Unaudited) The Group as at 30 June 2010	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group as at 30 June 2010
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 1	*Note 4(i)*			
EQUITY					
Share capital	143	272,021	*3(ii)*	215	358
			9	(272,021)	
Share premium	673,952	1,900,193	*3(ii)*	5,735,536	6,409,488
			9	(1,900,193)	
Capital redemption reserve	1	(452,195)	*9*	452,195	1
Employee share based compensation reserve	43,975	–			43,975
Capital contribution	103,539	–			103,539
General reserve	(211,819)	–			(211,819)
Statutory reserves	226,514	124,019	*9*	(124,019)	226,514
Translation reserve	78,051	173,945	*9*	(173,945)	78,051
Dividend reserve	89,227	–			89,227
Retained profits	1,154,444	259,536	*5*	(18,365)	1,122,444
			6	(93,981)	
			6	(58,912)	
			7	6,993	
			9	(95,271)	
			10	(32,000)	
Revaluation reserve	–	19,280	*9*	(19,280)	–
Non-controlling interests	–	–	*4*	165,268	165,268
Total equity	2,158,027	2,296,799			8,027,046

(B) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Revenue	1,344,032	1,537,168			2,881,200
Cost of sales	(364,427)	(710,223)			(1,074,650)
Gross profit	979,605	826,945			1,806,550
Other revenue and gains	5,766	20,630			26,396
Selling and distribution expenses	(6,709)	(3,424)			(10,133)
Other operating expenses	(101,283)	(82,900)	*10*	(32,000)	(378,959)
			11	(162,776)	
Operating profit	877,379	761,251			1,443,854
Fair value gain in investment properties	–	8,015			8,015
Change in fair value of embedded derivative instruments	–	(7,672)	*12*	7,672	–
Change in fair value of convertible notes	–	1,898	*14*	(1,898)	–
Change in fair value of convertible redeemable preference shares	–	(486,700)	*15*	486,700	–
Finance costs	(105,913)	(102,901)	*12*	72,532	(177,486)
			13	(15,678)	
			14	8,998	
			16	(34,524)	
Profit before income tax	771,466	173,891			1,274,383
Income tax	(226,561)	(27,810)	*17*	(10,574)	(264,945)

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Profit for the year	544,905	146,081			1,009,438
Other comprehensive income					
Exchange difference arising on translation of foreign operations	(828)	7,243			6,415
Other comprehensive income for the year, net of tax	(828)	7,243			6,415
Total comprehensive income for the year	544,077	153,324			1,015,853
Profit for the year attributable to:					
Owners of the Company	532,966	146,081			964,006
Non-controlling interests	11,939	–	*18*	33,493	45,432
	544,905	146,081			1,009,438
Total comprehensive income attributable to:					
Owners of the Company	532,138	153,324			970,421
Non-controlling interests	11,939	–	*18*	33,493	45,432
	544,077	153,324			1,015,853
Earnings per share for profit attributable to the owners of the Company	*RMB cents*		*19*		*RMB cents*
– Basic	30.49				19.65
– Diluted	30.17				19.57

(C) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Profit before income tax:	771,466	173,891	*10*	(32,000)	1,274,383
			11	(162,776)	
			15	486,700	
			21	80,204	
			22	(15,678)	
			23	7,100	
			24	(34,524)	
Cash flows from operating activities					
Depreciation of property, plant and equipment	41,424	185,692	*20*	107,459	334,575
Amortisation of intangible assets	–	–	*20*	54,500	54,500
Revaluation gain on investment properties	–	(8,015)			(8,015)
Amortisation of prepaid lease payments	1,288	2,519	*20*	817	4,624
Amortisation of mining rights	13,620	–			13,620
Change in fair value of embedded derivative instruments	–	7,672	*21*	(7,672)	–
Change in fair value of convertible redeemable preference shares	–	486,700	*15*	(486,700)	–
Change in fair value of convertible notes	–	(1,898)	*23*	1,898	–
Write-off of property, plant and equipment	430	476			906
Share-based payments	37,965	–			37,965
Interest income	(2,266)	(2,429)			(4,695)
Interest expenses	105,913	102,901	*21*	(72,532)	177,486
			22	15,678	
			23	(8,998)	
			24	34,524	
Foreign exchange difference	(830)	7,382			6,552

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Operating profit before working capital changes	969,010	954,891			1,891,901
Increase in trade and other receivables	(257,040)	(76,400)			(333,440)
(Increase)/decrease in inventories	(5,290)	10,984			5,694
Decrease in amounts due from related parties	–	11,301			11,301
Increase in amounts due to related parties	–	107,443			107,443
Decrease in trade and other payables	(173,170)	(199,623)			(372,793)
Cash generated from operations	533,510	808,596			1,310,106
Income tax paid	(214,951)	(15,718)			(230,669)
Net cash generated from operating activities	318,559	792,878			1,079,437

	(Audited) The Group for the year ended 31 December 2009 RMB'000 Note 2a	(Audited) The Target Group RMB'000 Note 2b	Notes	Pro forma adjustments RMB'000	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009 RMB'000
Cash flows from investing activities					
Interest received	2,266	2,429			4,695
(Increase)/Decrease in pledged bank deposits	(138,252)	25,255	22	30,776	(82,221)
Purchase of property, plant and equipment	(843,023)	(261,252)			(1,104,275)
Deposits paid for acquisition of property, plant and equipment	(245,752)	(206,641)			(452,393)
Deposits paid for acquisition of mining rights	(115,982)	–			(115,982)
Deposits paid for acquisition of land use rights	(26,801)	–			(26,801)
Acquisition of additional interest in a subsidiary	(184,800)	–			(184,800)
Acquisition of a subsidiary	–	–	3(i)	(969,201)	(969,201)
Other deposits paid	(4,462)	–			(4,462)
Refund of deposits paid for acquisition of property, plant and equipment	299,741	–			299,741
Payment for purchase of land use rights	(663)	–			(663)
Net cash used in investing activities	(1,257,728)	(440,209)			(2,636,362)

	(Audited) The Group for the year ended 31 December 2009 RMB'000 Note 2a	(Audited) The Target Group RMB'000 Note 2b	Notes	Pro forma adjustments RMB'000	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009 RMB'000
Cash flows from financing activities					
Proceeds from issuance of share capital	759,645	–			759,645
Share issue expenses	(114,987)	–			(114,987)
New borrowings raised	1,311,207	480,000			1,791,207
Repayment of borrowings	(1,637,272)	(672,825)			(2,310,097)
Repayment of borrowing with derivative financial instruments	–	–	22	(612,126)	(612,126)
Payment for redemption of warrants	–	–	6	(255,053)	(255,053)
Proceeds from fixed rate senior notes	1,614,319	–			1,614,319
Issue of convertible notes	–	203,137			203,137
Interest paid	(65,103)	(92,021)	21	66,295	(132,179)
			22	(20,404)	
			23	4,355	
			24	(25,301)	
Net cash generated from/(used in) financing activities	1,867,809	(81,709)			943,866
Net increase/(decrease) in cash and cash equivalents	928,640	270,960			(613,059)
Cash and cash equivalents at 1 January	827	1,763	5	(126,190)	104,583
			7	(3,061)	
			8	231,244	
Cash and cash equivalents at 31 December	929,467	272,723	25		(508,476)

Notes to the unaudited pro forma financial information

1. The amounts have been extracted without adjustment from the published unaudited interim report of the Group for the six months ended 30 June 2010.

2a. The amounts have been extracted without adjustment from the audited financial statements of the Group for the year ended 31 December 2009.

2b. The amounts have been extracted without adjustment from the Accountants' Report of the Target Group as set out in Appendix II to the Circular.

3. The consideration for the purchase of 95.00% issued share capital of the Target Company is HKD11,053,027,908 (equivalent to approximately RMB9,692,009,000) which is to be satisfied in the following manners:

	RMB'000
Cash *(note (i))*	969,201
Issue of 3,158,007,974 Consideration Shares *(note (ii))*	8,722,808
	9,692,009

The fair value of the consideration at Completion as if the Acquisition was completed on 30 June 2010 is as follows:

	RMB'000
Cash *(note (i))*	969,201
Issue of 3,158,007,974 Consideration Shares *(note (ii))*	5,735,751
Total cost of the Acquisition	6,704,952

Notes:

(i) According to the Sale and Purchase Agreement, Cash Consideration of HKD1,105,302,791 (equivalent to approximately RMB969,201,000) is to be paid within four months following Completion.

(ii) According to the Sale and Purchase Agreement, the 3,158,007,974 Consideration Shares are to be issued by the Company at HKD3.15 per share upon Completion. Based on the published market price of the Company on 30 June 2010 of HKD2.08 per share, the estimated fair value of the Consideration Shares as at 30 June 2010 is approximately RMB5,735,751,000. The fair value of the Consideration Shares will have to be reassessed as at the date of Completion which may be different from that presented above.

The par value of the Consideration Shares is USD0.00001 per share and thus the issue of the Consideration Shares at the fair value of HKD2.08 per shares results in the increase in share capital and share premium account of the Group by approximately RMB215,000 and RMB5,735,536,000, respectively.

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

4. The adjustment reflects the effect of Acquisition on the consolidated statement of financial position of the Enlarged Group as if the Acquisition had taken place on 30 June 2010. The Acquisition is accounted for using purchase method of accounting under which the cost of the Acquisition is allocated to the fair value of the identifiable assets and liabilities of the Target Group. The excess of Consideration of the Acquisition over the interests in the Target Group acquired (i.e. goodwill) is recognised in the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

	Carrying amount on the date of Acquisition *RMB'000* *Note (i)*	*Notes*	**Pro forma adjustments** *RMB'000*	**Fair value adjustments** *RMB'000* *Notes (ii) & (iii)*	**Fair value on the date of Acquisition** *RMB'000*
Property, plant and equipment	2,049,948			1,122,726	3,172,674
Investment properties	96,472			–	96,472
Prepaid lease payments	121,194			40,875	162,069
Deposits and prepayment	304,452			–	304,452
Other intangible assets	–			654,000	654,000
Inventories	45,979			–	45,979
Trade and other receivables	422,015			–	422,015
Amounts due from related parties	659,629	*8*	(659,629)	–	–
Deferred tax asset	–			10,574	10,574
Pledged deposits	134,628	*5*	30,776	–	107,990
		5	(57,414)		
Cash and cash equivalents	538,238	*5*	185,110	–	640,231
		5, 6	(311,300)		
		7	(3,061)		
		8	231,244		
Trade and other payables	(344,416)	*6*	(255,053)	–	(599,469)
Amounts due to related parties	(428,385)	*8*	428,385	–	–
Bank borrowings	(360,000)			–	(360,000)
Borrowing with derivative financial instruments	(652,608)	*5*	(415,985)	(200,867)	(616,852)
		5	435,289		
		6	217,319		
Convertible notes	(199,670)	*7*	6,993	–	(189,616)
		7	3,061		
Tax payable	(81,852)			–	(81,852)
Deferred tax liabilities	(8,825)			(454,400)	(463,225)
Amount of identifiable net assets acquired					3,305,442
Less: Fair value of the consideration transferred for the Group's 95% interest in the Target Group; plus		*3*			6,704,952
Non-controlling interests at 5% of the identifiable net assets					165,268
					6,870,220
Goodwill					3,564,778

Notes:

(i) The carrying amount of the identifiable assets and liabilities of the Target Group represents the consolidated statement of financial position of the Target Group as at 30 June 2010 which has been extracted without adjustment from the Accountants' Report on the Target Group set out in Appendix II to the Circular.

(ii) The fair values of other intangible assets, property, plant and equipment and prepaid lease payments of the Target Group as at 30 June 2010 of approximately RMB654,000,000, RMB3,172,674,000, RMB162,069,000, respectively were determined with reference to the valuation reports issued by BMI Appraisal Limited and Jones Lang LaSalle Sallmanns Limited, the independent qualified professional valuers. Other intangible assets included patent and customer relationship. Deferred tax liabilities arising from the fair value adjustment amounted to approximately RMB454,400,000, which is determined at the PRC enterprise income tax rate of 25%.

(iii) The fair value of the borrowing with derivative financial instruments of the Target Group as at 30 June 2010 of approximately RMB616,852,000 (note 5) were determined by discounting the remaining contractual cash flows of the Secured Fixed Rate Term Notes using a market rate interest as at 30 June 2010. Deferred tax asset arising from the fair value adjustment amount to approximately RMB10,574,000, which is determined at Hong Kong profits tax rate of 16.5%.

(iv) Due to the initial accounting for the business combination being incomplete as at 30 June 2010, for the purpose of the unaudited pro forma financial information, the directors of the Company have provisionally assessed that the carrying amounts of other identifiable assets and liabilities of the Target Group approximate their fair values on Acquisition in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations".

(v) On Completion, the fair values of the identifiable assets and liabilities of the Target Group and the Consideration Shares will have to be reassessed. As a result of the re-assessment, the amount of goodwill may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

5. A USD90,000,000 (equivalent to approximately RMB612,126,000) senior secured fixed rate term note together with New Warrants have been issued by the Target Company and subscribed for by the New Investors to refinance the USD160,000,000 loan facility on 9 November 2010. The execution of the Secured Fixed Rate Term Notes is one of the conditions precedent to Completion.

Pursuant to the subscription agreement for the Secured Fixed Rate Term Notes dated on 5 November 2010 and the fee letters referred therein, 3% structure fee of approximately RMB18,365,000 shall be charged and deducted from the principal amount. The interest is 10% per annum and payable semi annually in arrears and the maturity date of the Secured Fixed Rate Term Notes is eighteen months from 5 November 2010. Six months interest on the outstanding principal amount of approximately RMB30,776,000 is necessary to be pledged as bank deposit.

The USD160,000,000 loan facility granted to the Target Company pursuant to the facility agreement dated 6 November 2007 entered into between, among others, the Target Company and Credit Suisse AG, Singapore Branch and/or its affiliates, which was matured on 9 November 2010 (the "CS Facility"). As at 30 June 2010, the outstanding principal amount of the CS Facility and the related pledged bank deposit were approximately RMB435,289,000 (equivalent to approximately USD64,000,000) and RMB57,414,000, respectively. The pledged bank deposit could be released upon the settlement date.

The structure fee incurred for the Secured Fixed Rate Term Notes of approximately RMB18,365,000 is recognised as loss on extinguishment of the CS Facility before Completion.

Before Completion, the net proceeds of the Secured Fixed Rate Term Notes, the repayment of the CS Facility and the redemption of the CS Facility's warrants are set out below:

	RMB'000
The principal amount of the Secured Fixed Rate Term Notes	612,126
Structure fee	(18,365)
Pledged bank deposit for the Secured Fixed Rate Term Notes	(30,776)
Net proceeds of the Secured Fixed Rate Term Notes	562,985
Repayment for the outstanding principal amount of the CS Facility	(435,289)
Release of the pledged bank deposit for the CS Facility	57,414
	185,110
Redemption of CS Facility's warrants *(note 6)*	(311,300)
Net cash outflow	(126,190)

At the date of issue, the Secured Fixed Rate Term Notes and the attached New Warrants are recognised at fair value. The fair value of the New Warrants is determined using Binomial Method model, and the amount is carried as a derivative liability until extinguished on conversion or redemption. The excess of principal amount of the Secured Fixed Rate Term Notes over the amount initially recognised as the derivative component is recognised as the liability component and measured at amortised costs using the effective interest method. The estimated fair value of the Secured Fixed Rate Term Notes (liability component) and the New Warrants (derivative component) as at 30 June 2010 were approximately USD61,162,000 (equivalent to approximately RMB415,985,000) and USD28,838,000 (equivalent to approximately RMB196,141,000), respectively.

The valuation of the New Warrants was carried out by BMI Appraisal Limited, an independent qualified professional valuer and the fair value of the New Warrants will have to be reassessed as at the date of Completion which may be different from that presented above.

In the event of a strategic sale such as Acquisition, the Secured Fixed Rate Term Notes are mandatory to be settled within four months after Completion pursuant to the subscription agreement. The Secured Fixed Rate Term Notes should be classified as current liability on the date of Acquisition accordingly.

	Secured Fixed Rate Term Notes *RMB'000*
Fair value as at the issue date	415,985
Fair value adjustment *(note 4(iii))*	200,867
Fair value as at the acquisition date *(note 4(iii))*	616,852
Interest charge to profit or loss	15,678
Interest paid	(20,404)
Carrying amount as at the date of settlement	612,126
Repayment	(612,126)
	–

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

6. The CS Facility attached with warrants which entitle the holders to convert into the Target Company's shares (refer to note 25 to the Accountants' Report in Appendix II). Upon or after the occurrence of a put event, the warrant holders shall request the Target Company to purchase the warrants at an agreed price as specified in the warrant agreement. On 9 November 2010, the CS Facility's warrants were requested to be redeemed by the Target Company at a redemption price of approximately USD45,770,000 (equivalent to approximately RMB311,300,000). As a result, a loss of approximately RMB93,981,000 should be recognised in respect of the redemption before Completion.

	Derivative component *RMB'000*
Carrying amount as at 30 June 2010	217,319
Redemption of CS Facility's warrants	(311,300)
Loss on derecognition	93,981

As described above, New Warrants entitle the New Investors to subscribe for the Target Company's shares representing up to 2.57% of fully diluted share capital of the Target Company in accordance with the instrument constituting warrants dated 5 November 2010. The New Warrants will be automatically exercised prior to Completion and assuming the warrant holders select cash settlement (rather than ordinary shares), the Target Company has to pay the holders of the New Warrants at a cash settlement amount of approximately USD37,500,000 (equivalent to approximately RMB255,053,000) within 3 months from exercise. As a result, a loss of approximately RMB58,912,000 in respect of the cash settlement for the New Warrants should be recognised before Completion.

	New Warrants
	RMB'000
Fair value as at the date of issue	196,141
Redemption of New Warrants	(255,053)
Loss on derecognition	58,912

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

7. Pursuant to the Sale and Purchase Agreement, a waiver and amendment letter dated on 5 November 2010 has been provided from BOCOM for the Convertible Notes, under which BOCOM may exercise its conversion rights to convert the ordinary shares of the Target Company representing approximately 3.23% of the Target fully diluted share capital before the Completion. The maturity date of the Convertible Notes is extended to 31 May 2011 and the interest rate is also revised to 22% per annum pursuant to the waiver and amendment letter.

Due to the modification of maturity date and interest rate of the Convertible Note was not considered as a substantial modification of the terms of the existing financial liability, the fees of USD450,000 (equivalent to approximately RMB3,061,000) incurred are an adjustment to the carrying amount of the liability component and are amortised over the remaining term of the modified liability.

The following table presents the movement of the Convertible Notes in which the directors assumed that BOCOM does not exercise the options before Completion:

	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 30 June 2010	192,677	6,993	199,670
Transaction costs	(3,061)	–	(3,061)
Derecognition of derivative component *(note)*	–	(6,993)	(6,993)
Carrying amount prior to Completion	189,616	–	189,616

Note: It represents a gain on derecognition of the derivative component of the Convertible Notes as BOCOM does not exercise the options before Completion.

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

8. Pursuant to the Sale and Purchase Agreement, it is a condition precedent to Completion that any amounts due to the Target Group and any outstanding obligations under such related transaction should have been paid and fulfilled in full. The adjustment represents the net proceed of approximately RMB231,244,000 from the settlement of balances due from and due to related parties. The adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

9. The adjustment represents the elimination of the share capital of the Target Company with the pre-acquisition reserves of the Target Group.

10. The adjustment represents the estimated transaction costs for the Acquisition of approximately RMB32,000,000 which comprise financial adviser fees, legal fees and remunerations to valuers and reporting accountants. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

11. The adjustment represents an additional amount of RMB162,776,000 for the depreciation and amortisation charged on the fair value adjustments in respect of the property, plant and equipment, prepaid lease payments and other intangible assets after Acquisition. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

    Due to the fair value of the property, plant and equipment, prepaid lease payments and other intangible assets will have to be reassessed on Completion, the additional amount of the depreciation and amortization change may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

12. The adjustment represents the reversal of the change in fair value of embedded derivative instruments and the annual finance cost of the imputed interest of approximately RMB7,672,000 and RMB72,532,000, respectively in respect of the CS Facility (note 5) which has been settled immediately before the Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

13. The adjustment represents the finance costs of the imputed interest amounted to approximately RMB15,678,000 in respect of the Secured Fixed Rate Term Notes for the period from January 2009 to April 2009 calculated at a market interest rate of approximately 7.6% per annum. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

14. The adjustment represents the reversal of the change in fair value of convertible notes and the finance cost of the imputed interest of approximately RMB1,898,000 and RMB8,998,000, respectively in respect of Convertible Notes after modification of the maturity date and derecognition of derivative component, and assuming BOCOM does not exercise the conversion options before Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

15. The adjustment represents the reversal of the change in fair value of convertible redeemable preference shares of approximately RMB486,700,000. It is because all the convertible redeemable preference shares had been converted into ordinary shares on 15 March 2010 and 1 April 2010, respectively, also the Company agreed to acquire those ordinary shares pursuant to the Sale and Purchase Agreement as described above. Thus subsequent to the acquisition date, there will be no fair value changes recognised in profit or loss in respect of the convertible redeemable preference shares. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

16. The adjustment represents the finance costs of imputed interest amounted to approximately RMB34,524,000 in relation to the Convertible Notes calculated at an effective interest rate of approximately 31.3% per annum after modification of the maturity date and the interest rate as explained in note 7. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

17. The adjustment represents the reversal of deferred tax asset of RMB10,574,000 in respect of the fair value adjustment on the Secured Fixed Rate Term Notes as the borrowing is required to be repaid within four months after Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

18. The adjustment represents the share of results of the Target Group amounted to approximately RMB33,489,000 by the non-controlling interests. This adjustment has continuing effect on the Enlarged Group's financial statements in subsequent years.

    Due to the fair value of the identified assets and liabilities of the Target Group and the Consideration Shares will have to be reassessed, the share of result of the Target Group by the non-controlling interests may be different from that estimated as stated above for the purpose of this unaudited pro forma financial information.

19. The calculation of the pro forma basic earnings per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated profit attributable to the owners of the Enlarged Group of approximately RMB964,006,000 and the weighted average number of 4,906,187,000 ordinary shares, calculated as follows:

	Pro forma Enlarged Group *Number of shares* *'000*
Weighted average number of ordinary shares for the year ended 31 December 2009 extracted from published annual report of the Group for the year ended 31 December 2009	1,748,179
Adjustment for the Consideration Shares on 1 January 2009	3,158,008
Weighted average number of ordinary shares for the purpose of calculating the pro forma basic earning per share	4,906,187

The calculation of the pro forma diluted earnings per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated profit attributable to the owners of the Enlarged Group of approximately RMB964,006,000 and the weighted average number of 4,924,821,000 ordinary shares, calculated as follows:

	Pro forma Enlarged Group *Number of shares* *'000*
Weighted average number of ordinary shares outstanding during the year ended 31 December 2009, after adjusting for the effects of all dilutive potential ordinary shares, extracted from published annual report of the Group for the year ended 31 December 2009	1,766,813
Adjustment for the Consideration Shares on 1 January 2009	3,158,008
Weighted average number of ordinary shares for the purpose of calculating the pro forma basic earning per share	4,924,821

Note: The calculation of weighted average number of ordinary shares for the purpose of the pro forma basic earnings per share and the pro forma diluted earnings per share for the Enlarged Group is based on the assumption that 3,158,007,974 Consideration Shares will be issued (note 3(ii)).

20. The adjustment represents the reversal of the depreciation of property, plant and equipment, the amortisation of intangible assets and amortisation of prepaid lease payments amounted to RMB107,459,000, RMB54,500,000 and RMB817,000, respectively. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

Due to the fair value of the property, plant and equipment, prepaid lease payments and other intangible assets will have to be reassessed on Completion, the additional amount of the depreciation and amortisation change may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

21. The adjustment represents the reversal of the interest paid of RMB66,295,000, the imputed interest of RMB72,532,000 and change in fair value of RMB7,672,000 in respect of the CS Facility which has been settled before the Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

22. The adjustment represents the imputed interest of RMB15,678,000, four months interest paid of RMB20,404,000, the repayment of Secured Fixed Rate Term Notes amounted to RMB612,126,000 and the decrease in the pledged bank deposits of RMB30,776,000 after Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

23. The adjustment represents the reversal of the interest paid of RMB4,355,000, the imputed interest of RMB8,998,000 and the change in fair value of RMB1,898,000 in respect of the Convertible Notes arising from the modification of the terms and the derecognition of derivative component. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

24. The adjustment represents the imputed interest of RMB34,524,000 and the interest paid of RMB25,301,000 for the Convertible Notes after Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

25. Pursuant to the Sale and Purchase Agreement, following Completion, the Company may carry out certain fund-raising exercises (including, without limitation, issuing of new shares) and that the proceeds of the fund-raising exercise will be used for (i) payment of the Cash Consideration (note 3); (ii) repayment of the Secured Fixed Rate Term Notes (note 5); and (iii) funding of future expansions of the Group after Completion. In the event that the Company does not carry out any fund-raising exercises, credit facilities of no less than USD140 million will be secured by the Target Company for financing a portion of the above funding requirements.

    On 6 November 2010, the Target Company obtained an unsecured loan facility of USD140 million (equivalent to approximately RMB952.2 million) from China Financial Management Limited with a term of 2 years at interest rate of 12% per annum. Accordingly, the Company retains the option to raise alternative sources of financing (i.e. issuing of new shares or draw down the available loan facility) for the mentioned funding requirements if there is cash deficiency after Completion.

Scenario B

Assuming that the Target Company's shares representing approximately 2.57% of the Target Company's fully diluted share capital are issued to the warrant holders and the Target Company's shares representing approximately 3.23% of the Target Company's fully diluted share capital are issued to BOCOM before Completion, and neither any Warrant Holder nor BOCOM nor any non-selling shareholder accedes to the Sale and Purchase Agreement, the Company will acquire approximately 89.49% of the issued share capital of the Target Company upon Completion.

(A) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	(Unaudited) The Group as at 30 June 2010	**(Audited) The Target Group**		**Pro forma adjustments**	**(Unaudited) Pro forma Enlarged Group as at 30 June 2010**
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 1	*Note 4(i)*			
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	2,126,955	2,049,948	*4*	1,122,726	5,299,629
Investment properties	–	96,472			96,472
Prepaid lease payments	56,433	121,194	*4*	40,875	218,502
Goodwill	8,386	–	*4*	2,953,528	2,961,914
Mining rights	384,039	–			384,039
Other intangible asset	17,588	–	*4*	654,000	671,588
Deposits	368,432	304,452			672,884
	2,961,833	2,572,066			10,305,028

	(Unaudited) The Group as at 30 June 2010 *RMB'000* *Note 1*	(Audited) The Target Group *RMB'000* *Note 4(i)*	*Notes*	Pro forma adjustments *RMB'000*	(Unaudited) Pro forma Enlarged Group as at 30 June 2010 *RMB'000*
Current assets					
Inventories	11,720	45,979			57,699
Trade and other receivables	800,018	422,015			1,222,033
Amounts due from related parties	–	659,629	*8*	(659,629)	–
Deferred tax asset	–	–	*4*	10,574	10,574
Pledged bank deposits	81,103	134,628	*5*	30,776	189,093
			5	(57,414)	
Cash and cash equivalents	669,159	538,238	*5*	185,110	1,316,816
			6	7,426	
			5, 6	(311,300)	
			7	(3,061)	
			8	231,244	
	1,562,000	1,800,489			2,796,215
Current liabilities					
Trade and other payables	(208,671)	(344,416)	*3(i)*	(913,014)	(1,498,101)
			10	(32,000)	
Amounts due to related parties	–	(428,385)	*8*	428,385	–
Bank borrowings	(383,000)	(360,000)			(743,000)
Borrowing with derivative	–	(652,608)	*4*	(200,867)	(616,852)
financial instruments			*5*	(415,985)	
			5	435,289	
			6	217,319	
Convertible notes	–	(199,670)	*7*	3,061	–
			7	(34,987)	
			7	231,596	
Tax payable	(38,697)	(81,852)			(120,549)
	(630,368)	(2,066,931)			(2,978,502)
Net current assets/(liabilities)	931,632	(266,442)			(182,287)
Total assets less current liabilities	3,893,465	2,305,624			10,122,741

	(Unaudited) The Group as at 30 June 2010 *RMB'000* *Note 1*	(Audited) The Target Group *RMB'000* *Note 4(i)*	*Notes*	Pro forma adjustments *RMB'000*	(Unaudited) Pro forma Enlarged Group as at 30 June 2010 *RMB'000*
Non-current liabilities					
Bank borrowings	(72,000)	–			(72,000)
Fixed rate senior notes	(1,606,864)	–			(1,606,864)
Deferred tax liabilities	(56,574)	(8,825)	*4*	(454,400)	(519,799)
	(1,735,438)	(8,825)			(2,198,663)
Net assets	2,158,027	2,296,799			7,924,078
EQUITY					
Share capital	143	272,021	*3(ii)*	202	345
			6	7,426	
			7	9,316	
			9	(288,763)	
Share premium	673,952	1,900,193	*3(ii)*	5,403,036	6,076,988
			5, 6	196,141	
			7	222,280	
			9	(2,318,614)	
Capital redemption reserve	1	(452,195)	*9*	452,195	1
Employee share based compensation reserve	43,975	–			43,975
Capital contribution	103,539	–			103,539
General reserve	(211,819)	–			(211,819)
Statutory reserves	226,514	124,019	*9*	(124,019)	226,514
Translation reserve	78,051	173,945	*9*	(173,945)	78,051
Dividend reserve	89,227	–			89,227
Retained profits	1,154,444	259,536	*9*	(112,203)	1,122,444
			5	(18,365)	
			6	(93,981)	
			7	(34,987)	
			10	(32,000)	
Revaluation reserve	–	19,280	*9*	(19,280)	–
Non-controlling interests	–	–	*4*	394,813	394,813
Total equity	2,158,027	2,296,799			7,924,078

(B) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Revenue	1,344,032	1,537,168			2,881,200
Cost of sales	(364,427)	(710,223)			(1,074,650)
Gross profit	979,605	826,945			1,806,550
Other revenue and gains	5,766	20,630			26,396
Selling and distribution expenses	(6,709)	(3,424)			(10,133)
Other operating expenses	(101,283)	(82,900)	*10*	(32,000)	(378,959)
			11	(162,776)	
Operating profit	877,379	761,251			1,443,854
Fair value gain in investment properties	–	8,015			8,015
Change in fair value of embedded derivative instruments	–	(7,672)	*12*	7,672	–
Change in fair value of convertible notes	–	1,898	*13*	(1,898)	–
Change in fair value of convertible redeemable preference shares	–	(486,700)	*14*	486,700	–
Finance costs	(105,913)	(102,901)	*12*	72,532	(142,962)
			13	8,998	
			15	(15,678)	
Profit before income tax	771,466	173,891			1,308,907
Income tax	(226,561)	(27,810)	*16*	(10,574)	(264,945)

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group	Notes	Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Profit for the year	544,905	146,081			1,043,962
Other comprehensive income					
Exchange difference arising on translation of foreign operations	(828)	7,243			6,415
Other comprehensive income for the year, net of tax	(828)	7,243			6,415
Total comprehensive income for the year	544,077	153,324			1,050,377
Profit for the year attributable to:					
Owners of the Company	532,966	146,081			958,009
Non-controlling interests	11,939	–	*17*	74,014	85,953
	544,905	146,081			1,043,962
Total comprehensive income attributable to:					
Owners of the Company	532,138	153,324			964,424
Non-controlling interests	11,939	–	*17*	74,014	85,953
	544,077	153,324			1,050,377
Earnings per share for profit attributable to the owners of the Company	*RMB cents*		*18*		*RMB cents*
– Basic	30.49				20.28
– Diluted	30.17				20.20

(C) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group	Notes	Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*		*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Profit before income tax:	771,466	173,891	*10*	(32,000)	1,308,907
			11	(162,776)	
			14	486,700	
			20	80,204	
			21	7,100	
			22	(15,678)	
Cash flows from operating activities					
Depreciation of property, plant and equipment	41,424	185,692	*19*	107,459	334,575
Amortisation of intangible assets	–	–	*19*	54,500	54,500
Revaluation gain on investment properties	–	(8,015)			(8,015)
Amortisation of prepaid lease payments	1,288	2,519	*19*	817	4,624
Amortisation of mining rights	13,620	–			13,620
Change in fair value of embedded derivative instruments	–	7,672	*20*	(7,672)	–
Change in fair value of convertible redeemable preference shares	–	486,700	*14*	(486,700)	–
Change in fair value of convertible notes	–	(1,898)	*21*	1,898	–
Write-off of property, plant and equipment	430	476			906
Share-based payments	37,965	–			37,965
Interest income	(2,266)	(2,429)			(4,695)
Interest expenses	105,913	102,901	*20*	(72,532)	142,962
			21	(8,998)	
			22	15,678	
Foreign exchange difference	(830)	7,382			6,552

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Operating profit before working capital changes	969,010	954,891			1,891,901
Increase in trade and other receivables	(257,040)	(76,400)			(333,440)
(Increase)/decrease in inventories	(5,290)	10,984			5,694
Decrease in amounts due from related parties	–	11,301			11,301
Increase in amounts due to related parties	–	107,443			107,443
Decrease in trade and other payables	(173,170)	(199,623)			(372,793)
Cash generated from operations	533,510	808,596			1,310,106
Income tax paid	(214,951)	(15,718)			(230,669)
Net cash generated from operating activities	318,559	792,878			1,079,437

	(Audited) The Group for the year ended 31 December 2009	(Audited) The Target Group		Pro forma adjustments	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009
	RMB'000	*RMB'000*	*Notes*	*RMB'000*	*RMB'000*
	Note 2a	*Note 2b*			
Cash flows from investing activities					
Interest received	2,266	2,429			4,695
(Increase)/Decrease in pledged bank deposits	(138,252)	25,255	*22*	30,776	(82,221)
Purchase of property, plant and equipment	(843,023)	(261,252)			(1,104,275)
Deposits paid for acquisition of property, plant and equipment	(245,752)	(206,641)			(452,393)
Deposits paid for acquisition of mining rights	(115,982)	–			(115,982)
Deposits paid for acquisition of land use rights	(26,801)	–			(26,801)
Acquisition of additional interest in a subsidiary	(184,800)	–			(184,800)
Acquisition of a subsidiary	–	–	*3(i)*	(913,014)	(913,014)
Other deposits paid	(4,462)	–			(4,462)
Refund of deposits paid for acquisition of property, plant and equipment	299,741	–			299,741
Payment for purchase of land use rights	(663)	–			(663)
Net cash used in investing activities	(1,257,728)	(440,209)			(2,580,175)

	(Audited) The Group for the year ended 31 December 2009 *RMB'000* *Note 2a*	(Audited) The Target Group *RMB'000* *Note 2b*	*Notes*	Pro forma adjustments *RMB'000*	(Unaudited) Pro forma Enlarged Group for the year ended 31 December 2009 *RMB'000*
Cash flows from financing activities					
Proceeds from issuance of share capital	759,645	–			759,645
Share issue expenses	(114,987)	–			(114,987)
New borrowings raised	1,311,207	480,000			1,791,207
Repayment of borrowings	(1,637,272)	(672,825)			(2,310,097)
Repayment of borrowing with derivative financial instruments	–	–	*22*	(612,126)	(612,126)
Proceeds from fixed rate senior notes	1,614,319	–			1,614,319
Issue of convertible notes	–	203,137			203,137
Interest paid	(65,103)	(92,021)	*20*	66,295	(106,878)
			21	4,355	
			22	(20,404)	
Net cash generated from/(used in) financing activities	1,867,809	(81,709)			1,224,220
Net (decrease)/increase in cash and cash equivalents	928,640	270,960			(276,518)
Cash and cash equivalents at 1 January	827	1,763	*5*	(126,190)	112,009
			6	7,426	
			7	(3,061)	
			8	231,244	
Cash and cash equivalents at 31 December	929,467	272,723	*23*		(164,509)

Notes to the unaudited pro forma financial information

1. The amounts have been extracted without adjustment from the published unaudited interim report of the Group for the six months ended 30 June 2010.

2a. The amounts have been extracted without adjustment from the audited financial statements of the Group for the year ended 31 December 2009.

2b. The amounts have been extracted without adjustment from the Accountants' Report of the Target Group as set out in Appendix II to the Circular.

3. The consideration for the purchase of 89.49% issued share capital of the Target Company is HKD10,412,261,795 (equivalent to approximately RMB9,130,143,000) which is to be satisfied in the following manners:

	RMB'000
Cash *(note (i))*	913,014
Issue of 2,974,931,943 Consideration Shares *(note (ii))*	8,217,129
	9,130,143

The fair value of the consideration at Completion as if the Acquisition was completed on 30 June 2010 is as follows:

	RMB'000
Cash *(note (i))*	913,014
Issue of 2,974,931,943 Consideration Shares *(note (ii))*	5,403,238
Total cost of the Acquisition	6,316,252

Notes:

(i) According to the Sale and Purchase Agreement, Cash Consideration of HKD1,041,226,180 (equivalent to approximately RMB913,014,000) is to be paid within four months following Completion.

(ii) According to the Sale and Purchase Agreement, the 2,974,931,943 Consideration Shares are to be issued by the Company at HKD3.15 per share upon Completion. Based on the published market price of the Company on 30 June 2010 of HKD2.08 per share, the estimated fair value of the Consideration Shares as at 30 June 2010 is approximately RMB5,403,238,000. The fair value of the Consideration Shares will have to be reassessed as at the date of Completion which may be different from that presented above.

The par value of the Consideration Shares is USD0.00001 per share and thus the issue of the Consideration Shares at the fair value of HKD2.08 per shares results in the increase in share capital and share premium account of the Group by approximately RMB202,000 and RMB5,403,036,000, respectively.

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

4. The adjustment reflects the effect of Acquisition on the consolidated statement of financial position of the Enlarged Group as if the Acquisition had taken place on 30 June 2010. The Acquisition is accounted for using purchase method of accounting under which the cost of the Acquisition is allocated to the fair value of the identifiable assets and liabilities of the Target Group. The excess of Consideration of the Acquisition over the interests in the Target Group acquired (i.e. goodwill) is recognised in the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

	Carrying amount on the date of Acquisition *RMB'000* *Note (i)*	*Notes*	**Pro forma adjustments** *RMB'000*	**Fair value adjustments** *RMB'000* *Notes (ii) & (iii)*	**Fair value on the date of Acquisition** *RMB'000*
Property, plant and equipment	2,049,948			1,122,726	3,172,674
Investment properties	96,472			–	96,472
Prepaid lease payments	121,194			40,875	162,069
Deposits and prepayment	304,452			–	304,452
Other intangible assets	–			654,000	654,000
Inventories	45,979			–	45,979
Trade and other receivables	422,015			–	422,015
Amounts due from related parties	659,629	*8*	(659,629)	–	–
Deferred tax asset	–			10,574	10,574
Pledged deposits	134,628	*5*	30,776	–	107,990
		5	(57,414)		
Cash and cash equivalents	538,238	*5*	185,110	–	647,657
		6	7,426		
		5, 6	(311,300)		
		7	(3,061)		
		8	231,244		
Trade and other payables	(344,416)			–	(344,416)
Amounts due to related parties	(428,385)	*8*	428,385	–	–
Bank borrowings	(360,000)			–	(360,000)
Borrowing with derivative financial instruments	(652,608)	*5*	(415,985)	200,867	(616,852)
		5	435,289		
		6	217,319		
Convertible notes	(199,670)	*7*	3,061	–	–
		7	(34,987)		
		7	231,596		
Tax payable	(81,852)			–	(81,852)
Deferred tax liabilities	(8,825)			(454,400)	(463,225)
Amount of identifiable net assets acquired					3,757,537
Less: Fair value of the consideration transferred for the Group's 89.49% interest in the Target Group, plus		*3*			6,316,252
Non-controlling interests at 10.51% of the identifiable net assets					394,813
					6,711,065
Goodwill					2,953,528

Notes:

(i) The carrying amount of the identifiable assets and liabilities of the Target Group represents the consolidated statement of financial position of the Target Group as at 30 June 2010 which has been extracted without adjustment from the Accountants' Report on the Target Group set out in Appendix II to the Circular.

(ii) The fair values of other intangible assets, property, plant and equipment and prepaid lease payments of the Target Group as at 30 June 2010 of approximately RMB654,000,000, RMB3,172,674,000 and RMB162,069,000, respectively were determined with reference to the valuation reports issued by BMI Appraisal Limited and Jones Lang LaSalle Sallmanns Limited, the independent qualified professional valuers. Other intangible assets included patent and customer relationship. Deferred tax liabilities arising from the fair value adjustment amounted to RMB454,400,000, which is determined at the PRC enterprise income tax rate of 25%.

(iii) The fair value of the borrowing with derivative financial instruments of the Target Group as at 30 June 2010 of approximately RMB616,852,000 (note 5) were determined by discounting the remaining contractual cash flows of the Secured Fixed Rate Term Notes using a market rate interest as at 30 June 2010. Deferred tax asset arising from the fair value adjustment amounted to approximately RMB10,574,000, which is determined at Hong Kong profits tax of 16.5%.

(iv) Due to the initial accounting for the business combination being incomplete as at 30 June 2010, for the purpose of the unaudited pro forma financial information, the directors of the Company have provisionally assessed that the carrying amounts of other identifiable assets and liabilities of the Target Group approximate their fair values on Acquisition in accordance with International Financial Reporting Standard 3 (Revised) "Business Combinations".

(v) On Completion, the fair values of the identifiable assets and liabilities of the Target Group and the Consideration Shares will have to be reassessed. As a result of the re-assessment, the amount of goodwill may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

5. A USD90,000,000 (equivalent to approximately RMB612,126,000) senior secured fixed rate term note together with New Warrants have been issued by the Target Company and subscribed for by the New Investors to refinance the USD160,000,000 loan facility on 9 November 2010. The execution of the Secured Fixed Rate Term Notes is one of the conditions precedent to Completion.

Pursuant to the subscription agreement for the Secured Fixed Rate Term Notes dated on 5 November 2010 and the fee letters referred therein, 3% structure fee of approximately RMB18,365,000 shall be charged and deducted from the principal amount. The interest is 10% per annum and payable semi annually in arrears and the maturity date of the Secured Fixed Rate Term Notes is eighteen months from 5 November 2010. Six months interest on the outstanding principal amount of approximately RMB30,776,000 is necessary to be pledged as bank deposit.

The USD160,000,000 loan facility granted to the Target Company pursuant to the facility agreement dated 6 November 2007 entered into between, among others, the Target Company and Credit Suisse AG, Singapore Branch and/or its affiliates, which was matured on 9 November 2010 (the "CS Facility"). As at 30 June 2010, the outstanding principal amount of the CS Facility and the related pledged bank deposit were approximately RMB435,289,000 (equivalent to approximately USD64,000,000) and RMB57,414,000, respectively. The pledged bank deposit could be released upon the settlement date.

The structure fee incurred for the Secured Fixed Rate Term Notes of approximately RMB18,365,000 is recognised as loss on extinguishment of the CS Facility.

Before Completion, the net proceeds of the Secured Fixed Rate Term Notes, the repayment of the CS Facility and the redemption of CS Facility's warrants are set out below:

	RMB'000
The principal amount of the Secured Fixed Rate Term Notes	612,126
Structure fee	(18,365)
Pledged bank deposit for the Secured Fixed Rate Term Notes	(30,776)
Net proceeds of the Secured Fixed Rate Term Notes	562,985
Repayment for the outstanding principal amount of the CS Facility	(435,289)
Release of the pledged bank deposit for the CS Facility	57,414
	185,110
Redemption of CS Facility's warrants	(311,300)
Net cash outflow	(126,190)

At the date of issue, the Secured Fixed Rate Term Notes and the attached New Warrants are recognised at fair value. The fair value of the New Warrants is determined using Binomial Method model, and the amount is carried as a derivative liability until extinguished on conversion or redemption. The excess of principal amount of the Secured Fixed Rate Term Notes over the amount initially recognised as the derivative component is recognised as the liability component and measured at amortised costs using the effective interest method. The estimated fair value of the Secured Fixed Rate Term Notes (liability component) and the New Warrants (derivative component) as at 30 June 2010 were approximately USD61,162,000 (equivalent to approximately RMB415,985,000) and USD28,838,000 (equivalent to approximately RMB196,141,000), respectively.

The valuation of the New Warrants was carried out by BMI Appraisal Limited, an independent qualified professional valuer and the fair value of the New Warrants will have to be reassessed as at the date of Completion which may be different from that presented above.

In the event of a strategic sale such as Acquisition, the Secured Fixed Rate Term Notes are mandatory to be settled within four months after Completion pursuant to the subscription agreement. The Secured Fixed Rate Term Notes should be classified as current liability on the date of Acquisition accordingly.

	Secured Fixed Rate Term Notes *RMB'000*
Fair value as at the issue date	415,985
Fair value adjustment *(note 4(iii))*	200,867
Fair value as at the acquisition date *(note 4(iii))*	616,852
Interest charge to profit or loss	15,678
Interest paid	(20,404)
Carrying amount as at the date of settlement	612,126
Repayment	(612,126)
	–

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

6. The CS Facility attached with warrants which entitle the holders to convert into the Target Company's shares (refer to note 25 to the Accountants' Report in Appendix II). Upon or after the occurrence of a put event, the warrant holders shall request the Target Company to purchase the warrants at an agreed price as specified in the warrant agreement. On 9 November 2010, the CS Facility's warrants were requested to be redeemed by the Target Company at a redemption price of approximately USD45,770,000 (equivalent to approximately RMB311,300,000). As a result, a loss of approximately RMB93,981,000 should be recognised in respect of the redemption before Completion.

	Derivative component *RMB'000*
Carrying amount as at 30 June 2010	217,319
Redemption of CS Facility's warrants	(311,300)
Loss on derecognition	93,981

As described above, New Warrants entitle the New Investors to subscribe for the Target Company's shares representing up to 2.57% of fully diluted share capital of the Target Company in accordance with the instrument constituting warrants dated 5 November 2010. The New Warrants will be automatically exercised prior to Completion and assuming the warrant holders select ordinary shares (rather than cash settlement), the Target Company has to issue 2,183,772 ordinary shares at par value of USD0.5 to the warrant holders and the warrant holders are required to pay RMB7,426,000 (equivalent to approximately USD1,092,000) as consideration.

Accordingly, the share capital and the share premium account of the Target Group increased by RMB7,426,000 and RMB196,141,000 (equivalent to approximately USD28,838,000), respectively.

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

7. Pursuant to the Sale and Purchase Agreement, a waiver and amendment letter dated on 5 November 2010 has been provided from BOCOM for the Convertible Notes, under which BOCOM may exercise its conversion rights to convert the ordinary shares of the Target Company representing approximately 3.23% of the Target fully diluted share capital before the Completion. The maturity date of the Convertible Notes is extended to 31 May 2011 and the interest rate is also revised to 22% per annum if BOCOM does not elect to exercise its conversion rights before Completion pursuant to the waiver and amendment letter.

Due to the modification of maturity date and interest rate of the Convertible Note was not considered as a substantial modification of the terms of the existing financial liability, the fees of RMB3,061,000 incurred are an adjustment to the carrying amount of the liability component and are amortised over the remaining term of the modified liability.

The following table presents the movement of the Convertible Notes in which the directors assumed that BOCOM exercises the options before Completion:

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
At 30 June 2010	192,677	6,993	199,670
Transaction costs	(3,061)	–	(3,061)
Change in fair value recognised in profit or loss *(note)*	–	34,987	34,987
Carrying amount prior to Completion	189,616	41,980	231,596
Conversion into ordinary shares	(189,616)	(41,980)	(231,596)
	–	–	–

Note: It represents a change in fair value of the derivative component arising from the modification of the Convertible Notes as explained above. The valuation of the derivative component was carried out by BMI Appraisal Limited, an independent qualified professional valuer.

Before Completion, the Target Company has to issue 2,739,524 ordinary shares at par value of USD0.5 to BOCOM and the share capital of the Target Group will increase by approximately RMB9,316,000, assuming BOCOM exercises the conversion options. On conversion, the excess of the carrying amount of the Convertible Notes over the par value of ordinary shares issued amounted to approximately RMB222,280,000 is accounted for as share premium.

The above adjustments have no continuing effect on the Enlarged Group's financial statements in subsequent years.

8. Pursuant to the Sale and Purchase Agreement, it is a condition precedent to Completion that any amounts due to the Target Group and any outstanding obligations under such related transaction should have been paid and fulfilled in full. The adjustment represents the net proceed of approximately RMB231,244,000 from the settlement of balances due from and due to related parties. The adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

9. The adjustment represents the elimination of the share capital of the Target Company with the pre-acquisition reserves of the Target Group.

10. The adjustment represents the estimated transaction costs for the Acquisition of approximately RMB32,000,000 which comprise financial adviser fees, legal fees and remunerations to valuers and reporting accountants. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

11. The adjustment represents an additional amount of RMB162,776,000 for the depreciation and amortisation charged on the fair value adjustments in respect of the property, plant and equipment, prepaid lease payments and other intangible assets after Acquisition. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

    Due to the fair value of the property, plant and equipment, prepaid lease payments and other intangible assets will have to be reassessed on Completion, the additional amount of the depreciation and amortization change may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

12. The adjustment represents the change in fair value of embedded derivative instruments and the annual finance cost of the imputed interest of approximately RMB7,672,000 and RMB72,532,000, respectively in respect of the CS Facility (note 5) which has been settled before the Completion. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

13. The adjustment represents the reversal of change in fair value convertible notes and the interest expenses of approximately RMB1,898,000 and RMB8,998,000, respectively in respect of the Convertible Notes (note 7), assuming the conversion option has been exercised by BOCOM before Completion. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

14. The adjustment represents the reversal of the change in fair value of convertible redeemable preference shares of approximately RMB486,700,000. It is because all the convertible redeemable preference shares had been converted into ordinary shares on 15 March 2010 and 1 April 2010, respectively, also the Company agreed to acquire those ordinary shares pursuant to the Sale and Purchase Agreement as described above. Thus subsequent to the acquisition date, there will be no fair value changes recognised in profit or loss in respect of the convertible redeemable preference shares. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

15. The adjustment represents the finance costs of the imputed interest of approximately RMB15,678,000 in respect of the Secured Fixed Rate Term Notes for the period from January 2009 to April 2009 calculated at a market interest rate of approximately 7.6% per annum. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

16. The adjustment represents the reversal of deferred tax asset of RMB10,574,000 in respect of the fair value adjustment on the Secured Fixed Rate Term Notes as the borrowing is required to be repaid within four months after Completion. This adjustment has no continuing effect on the financial statements of the Enlarged Group in subsequent years.

17. The adjustment represents the share of results of the Target Group amounted to approximately RMB74,014,000 by the non-controlling interests. This adjustment has continuing effect on the Enlarged Group's financial statements in subsequent years.

    Due to the fair value of the identified assets and liabilities of the Target Group and the Consideration Shares will have to be reassessed, the share of result of the Target Group by the non-controlling interests may be different from that estimated as stated above for the purpose of this unaudited pro forma financial information.

18. The calculation of the pro forma basic earnings per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated profit attributable to the owners of the Enlarged Group of RMB958,009,000 and the weighted average number of 4,723,111,000 ordinary shares, calculated as follows:

	Pro forma Enlarged Group *Number of shares* *'000*
Weighted average number of ordinary shares for the year ended 31 December 2009 extracted from published annual report of the Group for the year ended 31 December 2009	1,748,179
Adjustment for the Consideration Shares on 1 January 2009	2,974,932
Weighted average number of ordinary shares for the purpose of calculating the pro forma basic earning per share	4,723,111

The calculation of the pro forma diluted earnings per share attributable to the owners of the Enlarged Group is based on the unaudited pro forma consolidated profit attributable to the owners of the Enlarged Group of RMB958,009,000 and the weighted average number of 4,741,745,000 ordinary shares, calculated as follows:

	Pro forma Enlarged Group *Number of shares* *'000*
Weighted average number of ordinary shares outstanding during the year ended 31 December 2009, after adjusting for the effects of all dilutive potential ordinary shares, extracted from published annual report of the Group for the year ended 31 December 2009	1,766,813
Adjustment for the Consideration Shares on 1 January 2009	2,974,932
Weighted average number of ordinary shares for the purpose of calculating the pro forma basic earning per share	4,741,745

Note: The calculation of weighted average number of ordinary shares for the purpose of the pro forma basic earnings per share and the pro forma diluted earnings per share for the Enlarged Group is based on the assumption that 2,974,931,943 Consideration Shares will be issued (note 3(ii)).

19. The adjustment represents the reversal of the depreciation of property, plant and equipment, the amortisation of intangible assets and amortisation of prepaid lease payments amounted to RMB107,459,000, RMB54,500,000 and RMB817,000, respectively. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

    Due to the fair value of the property, plant and equipment, prepaid lease payments and other intangible assets will have to be reassessed on Completion, the additional amount of the depreciation and amortization change may be different from that estimated as stated above for the purpose of preparing this unaudited pro forma financial information.

20. The adjustment represents the reversal of the interest paid of RMB66,295,000, the imputed interest of RMB72,532,000 and the change in fair value of RMB7,672,000 in respect of the CS Facility which has been settled before the Completion. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

21. The adjustment represents the reversal of the interest paid of RMB4,355,000, the imputed interest of RMB8,998,000 and the change in fair value of RMB1,898,000 in relation to the Convertible Notes, assuming the conversion option has been exercised by BOCOM before Completion. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

22. The adjustment represents the imputed interest of RMB15,678,000, four months interest paid of RMB20,404,000, the repayment of Secured Fixed Rate Term Notes amounted to RMB612,126,000 and the decrease in pledged bank deposits of RMB30,776,000 after Completion. This adjustment has no continuing effect on the Enlarged Group's financial statements in subsequent years.

23. Pursuant to the Sale and Purchase Agreement, following Completion, the Company may carry out certain fund-raising exercises (including, without limitation, issuing of new shares) and that the proceeds of the fund-raising exercise will be used for (i) payment of the Cash Consideration (note 3); (ii) repayment of the Secured Fixed Rate Term Notes (note 5); and (iii) funding of future expansions of the Group after Completion. In the event that the Company does not carry out any fund-raising exercises, credit facilities of no less than USD140 million will be secured by the Target Company for financing a portion of the above funding requirements.

    On 6 November 2010, the Target Company obtained an unsecured loan facility of USD140 million (equivalent to approximately RMB952.2 million) from China Financial Management Limited with a term of 2 years at interest rate of 12% per annum. Accordingly, the Company retains the option to raise alternative sources of financing (i.e. issuing of new shares or draw down the available loan facility) for the mentioned funding requirements if there is cash deficiency after Completion.

II. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

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14 December 2010

The Board of Directors
Lumena Resources Corp.
Units 7503B, 7504 and 7505,
Level 75 International Commerce Centre,
1 Austin Road West,
Kowloon, Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Lumena Resources Corp. (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprises the unaudited pro forma consolidated statement of financial position as at 30 June 2010 and the unaudited pro forma consolidated statement of comprehensive income and statement of cash flow for the year ended 31 December 2009 (collectively referred to as the "unaudited pro forma financial information") as set out in sections (A) to (C) of Scenario A and Scenario B respectively in Appendix V to the circular of the Company dated 14 December 2010 (the "Circular"). The unaudited pro forma financial information has been prepared by the directors of the Company for illustrative purposes only to provide information about how the proposed acquisition of up to 95% but not less than 89.49% of the equity interest of Sino Polymer New Materials Co., Ltd. (the "Acquisition") might have affected the financial position of the Group on a pro forma basis as at 30 June 2010, and the results and cash flow of the Group on a pro forma basis for the year ended 31 December 2009. The basis of preparation of the unaudited pro forma financial information is set out in pages V-1 to V-4 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the

"Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29 of Chapter 4 of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of

– the financial position of the Group as at 30 June 2010 or any future date; or

– the results and cash flows of the Group for the year ended 31 December 2009 or any future year/period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate Number P04434
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 September 2010 of the property interest of the Enlarged Group.

JONES LANG LASALLE® SALLMANNS

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

14 December 2010

The Board of Directors
Lumena Resources Corporate
Units 7503B, 7504 and 7505
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Lumena Resources Corp. ("the Company") and its subsidiaries (hereinafter together referred to as the "Group") and Sino Polymer New Materials Co., Ltd. (the "Target Company") and its subsidiaries (hereinafter together referred to as the "Target Group") have interests in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 September 2010 (the "date of valuation"). For the purpose of this report, the Group and the Target Group are hereinafter together referred to as the Enlarged Group.

Our valuation was undertaken regarding of the conditional Sale and Purchase Agreement entered into between the Company and the Target Company, pursuant to which the Company will acquire the Sale Shares which, upon Completion, represent up to 95.00% (in Scenario 1), or 89.49% (in Scenario 2) of the equity interest in the Target Company.

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests of property no. 2 in Group I, property no. 8 in Group II and property no. 11 in Group IV by direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of property nos. 1, 3, 4, 5, 6 and 7 in Group I, property no. 9 and portions of property no. 10 in Group III in the PRC, there are no market sales comparables readily available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing portions of the property interest of property no. 10 in Group III which are rented to a connected person, we valued them by the income approach by capitalizing the rental income of the property derived from the existing tenancy with due allowance for the reversionary value of the property.

We have attributed no commercial value to the property interests in Group V, VI and VII which are leased by the Enlarged Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Enlarged Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Grandall Legal Group, concerning the validity of the Enlarged Group's titles of the property interests in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services of the properties. Our valuations have been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Enlarged Group. We have also sought confirmation from the Enlarged Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

We were advised by the instructing party that, as the properties held by the Group (classified as Group I) and the Target Group (classified as Group II), respectively, are for production purposes, and the Group and the Target Group, have no intention to sell these properties. Therefore, we were advised that the amount of tax liabilities would not be quantifiable nor crystallized. The potential tax liability which would arise on the disposal of the property interests held by Group I and Group II, respectively, are PRC Business Tax of 5% of consideration, PRC Land Appreciation Tax (ranging from 30% to 60%) of the appreciated amount.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 30 September 2010 *RMB*
1.	2 parcels of land, various buildings and structures located at Dahongshan Pan'ao Village Wansheng Town Dongpo District Meishan City Sichuan Province The PRC	64,653,000	100%	64,653,000
2.	A unit on Level 2 of a residential building No. 21 Xiaobei Street Dongpo District Meishan City Sichuan Province The PRC	2,230,000	100%	2,230,000
3.	A parcel of land, various buildings and a structure located at No. 384 Meixiang Road Dongpo District Meishan City Sichuan Province The PRC	2,657,000	100%	2,657,000

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 30 September 2010 *RMB*
4.	A parcel of land, various buildings and a structure located at Chuanmei Mirabilite Warehouse Northern Side of the Railway Station Dongpo District Meishan City Sichuan Province The PRC	1,358,000	100%	1,358,000
5.	5 parcels of land and a building located at Group 6 Wuyi Village Groups 1 and 6 Yachi Village Guangji Township Dongpo District Meishan City Sichuan Province The PRC	2,449,000	100%	2,449,000
6.	3 parcels of land, various buildings and structures located at Weixing Village Guangji Township Dongpo District Meishan City Sichuan Province The PRC	164,961,000	100%	164,961,000

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 30 September 2010 *RMB*
7.	3 parcels of land and various buildings located at Tiangong Village Wuyang Township Pengshan County Meishan City Sichuan Province The PRC	44,838,000	100%	44,838,000
	Sub-total:	**283,146,000**		**283,146,000**

Note: According to the information provided by the Group, the potential tax liabilities which would arise from the disposal of property interests in Group I are PRC Business Tax of 5% of consideration and PRC Land Appreciation Tax (ranging from 30% to 60% of the appreciated amount). We were advised that the likelihood of any tax liability being crystallized is remote as the Group has no intention to dispose of the properties at present.

Group II – Property interests held for future development by the Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 30 September 2010 *RMB*
8.	A parcel of land located at northern side of Jinxiang Avenue Dongpu District Meishan City Sichuan Province The PRC	3,262,000	100%	3,262,000
	Sub-total:	**3,262,000**		**3,262,000**

Note: According to the information provided by the Group, the potential tax liabilities which would arise from the disposal of property interests in Group II are PRC Business Tax of 5% of consideration and PRC Land Appreciation Tax (ranging from 30% to 60% of the appreciated amount). We were advised that the likelihood of any tax liability being crystallized is remote as the Group has no intention to dispose of the properties at present.

Group III – Property interests held and occupied by the Target Group in the PRC

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*	Scenario 1: Interest attributable to the Enlarged Group	Scenario 2: Interest attributable to the Enlarged Group	Capital value attributable to the Enlarged Group as at 30 September 2010 *RMB*
9.	2 parcels of land, various buildings and structures located at No. 728 Jin Sha Jiang Road Deyang City Sichuan Province The PRC	406,897,000	95%	89.49%	Scenario 1: 386,552,000 Scenario 2: 364,132,000
10.	2 parcels of land, various buildings and structures located at No. 869 Second Konggang Road Southwest Airport Economic Development Zone Shuangliu County Chengdu City Sichuan Province The PRC	219,383,000	95%	89.49%	Scenario 1: 208,414,000 Scenario 2: 196,326,000
	Sub-total Scenario 1:	**626,280,000**			**594,966,000**
	Sub-total Scenario 2:	**626,280,000**			**560,458,000**

Note: According to the information provided by the Target Group, the potential tax liabilities which would arise from the disposal of property interests in Group III are PRC Business Tax of 5% of consideration, PRC Land Appreciation Tax (ranging from 30% to 60% of the appreciated amount), PRC Enterprises Income Tax of 25% of net profit. We were advised that the likelihood of any tax liability being crystallized is remote as the Target Group has no intention to dispose of the properties at present.

Group IV – Property interests held for investment by the Group in the PRC

No.	**Property**	**Capital value in existing state as at 30 September 2010** *RMB*	**Interest attributable to the Enlarged Group**	**Capital value attributable to the Enlarged Group as at 30 September 2010** *RMB*
11.	7 units on Level 1 of a building No. 73-95 Huanhu Road Eastern Section Dongpo District Meishan City Sichuan Province The PRC	4,105,000	100%	4,105,000
	Sub-total:	4,105,000		4,105,000

Note: According to the information provided by the Group, the potential tax liability which would arise on the disposal of property interest in Group IV are PRC Business Tax of 5% of consideration, PRC Land Appreciation Tax (ranging from 30% to 60% of the appreciated amount), PRC Enterprises Income Tax of 25% of net profit. We were advised that the likelihood of any tax liability being crystallized is remote as the Target Group has no intention to dispose of the property at present.

Group V – Property interests rented and occupied by the Group in the PRC

No.	**Property**	**Capital value in existing state as at 30 September 2010** *RMB*
12.	A parcel of land, various buildings and structures located at Tianle Village Wansheng Town Dongpo District Meishan City Sichuan Province The PRC	No commercial value
13.	A parcel of land, various buildings and structures located at Weixing Village Dongpo District Meishan City Sichuan Province The PRC	No commercial value
14.	Level 7 of Block E No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC	No commercial value
	Sub-total:	**Nil**

Group VI – Property interest rented and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 30 September 2010 *RMB*
15.	Units 7503B, 7504 and 7505 on 75/F International Commercial Centre 1 Austin Road West Kowloon Hong Kong	No commercial value
	Sub-total:	**Nil**

Group VII – Property interests rented and occupied by the Target Group in the PRC

No.	Property		Capital value in existing state as at 30 September 2010 *RMB*
16.	Level 3 of Area D No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC		No commercial value
17.	Levels 8 of Area E No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC		No commercial value
	Sub-total:		**Nil**
	Grant-total Scenario 1:	**916,793,000**	**885,479,000**
	Grant-total Scenario 2:	**916,793,000**	**850,971,000**

Group I – Property interests held and occupied by the Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
1.	2 parcels of land, various buildings and structures located at Dahongshan Pan'ao Village Wansheng Town Dongpo District Meishan City Sichuan Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 229,443.04 sq.m., 92 buildings and various ancillary structures erected thereon which were completed in various stages between 1961 and 2007. The buildings have a total gross floor area of approximately 33,545.46 sq.m. The buildings mainly include industrial buildings, office buildings, dormitories and guardhouses, etc. The structures mainly include boundary fences, roads and gates, etc. The land use rights of the property have been granted for various terms with the expiry dates on 6 April 2048 and 1 April 2051 for composite and industrial uses.	The property is currently occupied by the Group for production, office and storage purposes.	64,653,000 100% interest attributable to the Enlarged Group RMB64,653,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates – Mei Shi Guo Yong (2005) Di No. 0105 dated 13 June 2005 and Meishi Guo Yong (2010) Di No. 04905 which was updated on 21 January 2010, issued by the Land Resources Bureau of Meishan City, the land use rights of 2 parcels of land with a total site area of approximately 229,443.04 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for various terms with the expiry dates on 6 April 2048 and 1 April 2051 respectively for composite and industrial uses. As advised by the Company, the land use rights of the property were originally acquired before 2005.

2. Pursuant to 80 Building Ownership Certificates – Mei Quan Fang Quan Zheng Zi Di Nos. 0003202 to 0003254, 0020637 to 0020644, 0020648, 0020651, 0020653 to 0020663, 0020666, 0020668, 0020671, 0020674, 0020676 and 002068, issued by the People's Government of Meishan City, 80 buildings with a total gross floor area of approximately 31,477.46 sq.m. are owned by Chuanmei Mirabilite.

3. Pursuant to a Maximum Amount Mortgage Contract dated 10 March 2010, the land use rights of a parcel of land with a site area of approximately 208,109.04 sq.m. of the property as described in note 1 and the building ownership rights of the buildings erected thereon with a total gross floor area of approximately 31,477.46 sq.m. as described in note 2, are subject to a mortgage in favour of Evergrowing Bank Co., Ltd. Chengdu Branch (the "Mortgagee") as security for a loan with maximum amount of RMB64,371,100 for a term of 3 years commencing from 10 March 2010 and expiring on 9 March 2013.

4. In the valuation of this property, we have attributed no commercial value to the 12 buildings with a total gross floor area of approximately 2,068 sq.m. which have not obtained Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the above buildings (excluding the land) as at the date of valuation would be RMB791,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, Grandall Legal Group, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property;

   b. Chuanmei Mirabilite has legally obtained the building ownership rights of the property as described in note 2, and is entitled to transfer, lease, mortgage or otherwise dispose of these buildings of the property; and

   c. As advised by Chuanmei Mirabilite, the portions of buildings of the property as described in note 4 are not in use or will not be put in use. Chuanmei Mirabilite has planned to demolish them in future redevelopment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
2.	A unit on Level 2 of a residential building No. 21 Xiaobei Street Dongpo District Meishan City Sichuan Province The PRC	The property comprises a unit on Level 2 of a 6-storey residential building completed in about 1987. The unit has a gross floor area of approximately 216.3 sq.m. The land use rights of the property have been granted for a term with the expiry date on 20 June 2041 for residential and commercial uses.	The property is occupied by the Group for residential purpose.	2,230,000 100% interest attributable to the Enlarged Group RMB2,230,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Mei Di Guo Yong (98) Zi Di No. 00005 dated 9 April 1998 issued by the Land Resources Bureau of Meishan City, the land use rights of the property with an apportioned site area of approximately 213.34 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for a term with the expiry date on 20 June 2041 for residential and commercial uses.

2. Pursuant to a Building Ownership Certificate – Mei Fang Quan Zheng Dongpo Zhen Zi Di No. M-010011036800 dated 22 February 2001, issued by the People's Government of Meishan City, a unit with a gross floor area of approximately 216.3 sq.m. is owned by Chuanmei Mirabilite.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and

   b. Chuanmei Mirabilite has legally obtained the building ownership rights of the property as described in note 2, and is entitled to transfer, lease, mortgage or otherwise dispose of the buildings of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
3.	A parcel of land, various buildings and a structure located at No. 384 Meixiang Road Dongpo District Meishan City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 1,981.12 sq.m., 5 buildings and an ancillary structure erected thereon which were completed in various stages between 1996 and 2002. The buildings have a total gross floor area of approximately 2,065 sq.m. The buildings mainly include an office building, garages, gatehouse, etc. The structure comprises boundary fences. The land use rights of the property have been granted for a term with the expiry date on 18 April 2051 for residential and office uses.	The property is currently vacant.	2,657,000 100% interest attributable to the Enlarged Group: RMB2,657,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Mei Shi Guo Yong (2008) Zi Di No. 04717 which was updated on 27 March 2008 issued by the Land Resources Bureau of Meishan City, the land use rights of a parcel of land with a site area of approximately 1,981.12 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for a term with the expiry date on 18 April 2051 for residential and office uses. As advised by the Company, the land use rights of the property were originally acquired before 2005.

2. In the valuation of this property, we have attributed no commercial value to the 5 buildings with a total gross floor area of approximately 2,065 sq.m. which have not obtained Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB2,142,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose the said land use rights of the property; and

   b. As advised by Chuanmei Mirabilite, the buildings of the property as described in note 2 are not in use or will not be put in use. Chuanmei Mirabilite has planned to demolish them in future redevelopment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
4.	A parcel of land, various buildings and a structure located at Chuanmei Mirabilite Warehouse Northern Side of the Railway Station Dongpo District Meishan City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 8,623.63 sq.m. and 5 buildings and an ancillary structure erected thereon which were completed in various stages between 1996 and 2004. The buildings have a total gross floor area of approximately 5,853.4 sq.m. The buildings mainly include an office building, storage buildings and ancillary buildings, etc. The structure comprises a boundary fence. The land use rights of the property have been granted for a term with the expiry date on 6 April 2048 for storage use.	The property is currently occupied by the Group for office, storage and ancillary purposes.	1,358,000 100% interest attributable to the Enlarged Group: RMB1,358,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Mei Shi Guo Yong (2003) Zi Di No. 0182 dated 14 October 2003 issued by the Land Resources Bureau of Meishan City, the land use rights of a parcel of land with a site area of approximately 8,623.63 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for a term with the expiry date on 6 April 2048 for storage use.

2. In the valuation of this property, we have attributed no commercial value to the 5 buildings with a total gross floor area of approximately 5,853.4 sq.m. of the property which have not obtained Building Ownership Certificates. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB3,454,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and

   b. There will be no material impediment for Chuanmei Mirabilite to obtain proper Building Ownership Certificates for the buildings described in note 2 on the condition that the urban plan adjustment of the area has been completed and Chuanmei Mirabilite has obtained required approvals.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
5.	5 parcels of land and a building located at Group 6 Wuyi Village Group 1 and 6 Yachi Village Guangji Township Dongpo District Meishan City Sichuan Province The PRC	The property comprises 5 parcels of land with a total site area of approximately 21,412.45 sq.m. and an industrial building erected thereon which was completed in about 1981. The building has a gross floor area of approximately 1,284 sq.m. The land use rights of the property have been granted for terms with the expiry dates between 20 June 2041 and 28 October 2041 for industrial use.	The property is currently occupied by the Group for production purpose.	2,449,000 100% interest attributable to the Enlarged Group: RMB2,449,000

Notes:

1. Pursuant to 5 State-owned Land Use Rights Certificates – Mei Di Guo Yong (2010) Zi Di No. 04917 which was updated on 3 March 2010 and Mei Di Guo Yong (98) Zi Di Nos. 00008 to 00011 dated 9 April 1998 issued by the Land Resources Bureau of Meishan City, the land use rights of 5 parcels of land with a total site area of approximately 21,412.45 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for terms with the expiry dates between 20 June 2041 and 28 October 2041 for industrial use. As advised by the Company, the land use rights of the property were originally acquired before 2005.

2. In the valuation of this property, we have attributed no commercial value to the building with a gross floor area of approximately 1,284 sq.m. which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the date of valuation would be RMB270,000 assuming the relevant title certificate has been obtained and the building could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and

   b. As advised by Chuanmei Mirabilite, the portions of property as described in note 2 are temporary buildings. Chuanmei Mirabilite has sufficient substitute facilities to replace them in the case of being demolished.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
6.	3 parcels of land, various buildings and structures located at Weixing Village Guangji Township Dongpo District Meishan City Sichuan Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 314,941.12 sq.m. and 20 buildings and various ancillary structures erected thereon which were completed in 2007. The buildings have a total gross floor area of approximately 50,618.32 sq.m. The buildings mainly include industrial buildings and office buildings, etc. The structures mainly include boundary fences and roads, etc. The land use rights of the property have been granted for a term of 50 years with the expiry dates on 18 September 2058 for industrial use.	The property is currently occupied by the Group for production and office purposes.	164,961,000 100% interest attributable to the Enlarged Group: RMB164,961,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract and a Supplementary Contract dated 15 January 2008 and 26 May 2008 entered into between the Land Resources Bureau of Dongpo District of Meishan City and Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), a wholly-owned subsidiary of the Company, the land use rights of 3 parcels of land with a total site area of approximately 333,333.31 sq.m. were contracted to be granted to Chuanmei Glauber Salt for a term of 50 years for industrial use. The land premium was RMB32,000,000.

2. Pursuant to 3 State-owned Land Use Rights Certificates – Mei Dong Guo Yong (2008) Di Nos. 04744 to 04746 issued by the Land Resources Bureau of Meishan City, the land use rights of 3 parcels of land with a total site area of approximately 314,941.12 sq.m. have been granted to Chuanmei Glauber Salt for a term of 50 years with the expiry dates on 18 September 2058 for industrial use.

3. Pursuant to 19 Building Ownership Certificates – Mei Fang Quan Zheng Zi Di Nos. 0002038 to 0002041, and 0021367 to 0021381 issued by the People's Government of Meishan City, 20 buildings with a total gross floor area of approximately 50,618.32 sq.m. are owned by Chuanmei Glauber Salt.

4. Pursuant to a Maximum Amount Mortgage Contract dated 29 July 2009, the property is subject to a mortgage in favour of Agriculture Bank of China Chengdu Economy Development District Branch (the "Mortgagee") as security for a loan with maximum amount of RMB90,000,000 for a term of 2 years commencing from 29 July 2009 and expiring on 20 July 2011.

5. As advised by the Company, the total costs expended on the buildings and structures of the property as up to the valuation date is approximately RMB65,439,029.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Glauber Salt is the only owner of the land use rights of the property, and Chuanmei Glauber Salt is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and

   b. Chuanmei Glauber Salt has legally obtained the building ownership rights of the property as described in note 3, and is entitled to transfer, lease, mortgage or otherwise dispose of the buildings of the property.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
7.	3 parcels of land and various buildings located at Tiangong Village Wuyang Township Pengshan County Meishan City Sichuan Province The PRC	The property comprises 3 parcels of land with a total site area of approximately 67,362 sq.m. and 3 buildings erected thereon which were completed in about 2009. The buildings have a total gross floor area of approximately 6,870.43 sq.m. The buildings comprise 2 industrial workshops and a waste water disposal station. The land use rights of the property have been granted with the expiry dates between 21 November 2048 and 19 December 2048 for storage and industrial uses respectively.	The property is currently occupied by the Group for production purpose.	44,838,000 100% interest attributable to the Enlarged Group: RMB44,838,000

Notes:

1. Pursuant to a Mining Resources and Co-operation Agreement dated 10 September 2007 entered into between Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), a wholly owned subsidiary of the Company, as the purchaser, and Sichuan Muma Mirabilite Mining Co., Ltd. ("Muma Mining"), an independent third party, as the seller, Chuanmei Glauber Salt purchased from Muma Mining the mining rights in respect of the Muma Mining Area (including the land use rights of 3 parcels of land with a total site area of approximately 67,362 sq.m.) at a consideration of RMB240,000,000.

2. Pursuant to 3 State-owned Land Use Rights Certificates – Peng Guo Yong (2008) Di Nos. 02632 to 02634 dated 29 December 2008 issued by the Land Resources Bureau of Pengshan County, the land use rights of 3 parcels of land with a total site area of approximately 67,362 sq.m. have been granted to Chuanmei Glauber Salt with the expiry dates between 21 November 2048 and 19 December 2048 for storage and industrial uses respectively

3. Pursuant to 2 Construction Work Planning Permits – Peng Jian Huan Xiang Zi Di (2009) Nos. 52 & 88, in favour of Chuanmei Glauber Salt, 2 industrial buildings with total gross floor area of approximately 6,870.43 sq.m. have been approved for construction.

4. Pursuant to a Tenancy Agreement entered into between Chuanmei Glauber Salt (the "Lessor") and Sichuan Chuanmei Mirabilite Co., Ltd. (the "Lessee"), who are both wholly owned subsidiaries of the Group, dated 26 December 2009, a building with gross floor area of approximately 6,870.43 sq.m. was leased to the Lessee for a term commencing from 1 January 2010 and expiring on 30 April 2025 at a monthly rent of RMB2,100,000, including usage fees of plant and machinery.

5. Pursuant to a Maximum Amount Mortgage Contract dated 10 March 2010, the land use rights the property as described in note 1 are subject to a mortgage in favour of Evergrowing Bank Co., Ltd. Chengdu Branch (the "Mortgagee") as security for a loan with maximum amount of RMB16,975,300 for a term of 3 years commencing from 10 March 2010 and expiring on 9 March 2013.

6. As advised by the Company, the total costs expended on the buildings and structures of the property as up to the valuation date is approximately RMB40,004,034.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Glauber Salt is the only owner of the land use rights of the property, and Chuanmei Glauber Salt is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property;

   b. The 2 buildings as described in note 3 have completed. Chuanmei Glauber Salt is in process of applying for Building Ownership Certificates for them; and

   c. The Tenancy Agreement as described in note 4 is valid, binding and enforceable.

Group II – Property interests held for future development by the Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
8.	A parcel of land located at northern side of Jinxiang Avenue Dongpu District Meishan City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 2,432.6 sq.m. The land use rights of the property have been granted for residential and commercial uses without stated expiry date.	The property is currently vacant.	3,262,000 100% interest attributable to the Enlarged Group: RMB3,262,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Mei Shi Guo Yong (2009) Zi Di No. 04341 which was updated on 4 April 2009 issued by the Land Resources Bureau of Meishan City, the land use rights of a parcel of land with a site area of approximately 2,432.6 sq.m. have been granted to Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, for residential and office uses without defined expiry date. As advised by the Company, the land use rights of the property were originally acquired before 2005.

2. As advised by the Company, the Company does not intend to develop the property as up to the valuation date.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property, and Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property.

Group III – Property interests held and occupied by the Target Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
9.	2 parcels of land, various buildings and structures located No. 728 Jin Sha Jiang Road Deyang City Sichuan Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 333,326 sq.m. and 59 buildings erected thereon which were completed in various stages between 2007 and 2009. The buildings have a total gross floor area of approximately 107,528.26 sq.m. The buildings mainly include industrial workshops, storages warehouses, electricity plants, waste water disposal station, dormitories and office buildings, etc. The structures mainly include boundary fences, roads and gates, etc. The land use rights of the property have been granted for terms of 50 and 70 years with the expiry dates on 21 June 2057 for industrial use and 21 June 2077 for residential use respectively.	The property is currently occupied by the Group for production purpose.	406,897,000 **Scenario 1:** 95% interest attributable to the Enlarged Group: RMB386,552,000 **Scenario 2:** 89.49% interest attributable to the Enlarged Group: RMB364,132,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Grant Contracts and the supplementary agreements – De Yang City Guo Rang (He) Zi (2007) Nos. 03518, 03520 and 03529 entered into between the State-owned Land Resources Bureau of Deyang City and Sichuan Deyang Special New Materials Co., Ltd. ("Deyang New Materials"), a wholly-owned subsidiary of the Target Group, the land use rights of the property are contracted to be granted to Deyang New Materials for terms of 50 and 70 years for industrial and residential use respectively at a total land premium of RMB73,755,944.

2. Pursuant to 2 State-owned Land Use Rights Certificates – De Fu Guo Yong (2009) Di Nos. 18668 and 18669, issued by the State-owned Land Resources Bureau of De Yang City, the land use rights of 2 parcels of land with a total site area of approximately 333,326 sq.m. were granted to Deyang New Materials for terms of 50 and 70 years with the expiry dates on 21 June 2057 for industrial use and 21 June 2077 for residential use respectively.

3. Pursuant to 59 Building Ownership Certificates – De Yang Shi Fang Quan Zheng Ba Jiao Qu Zi Di Nos. 0135294 to 0135299, 0135488 to 0135509, 0135677 to 0135707, issued by the People's Government of Deyang City, 59 buildings with a total gross floor area of approximately 107,528.26 sq.m. are owned by Deyang New Materials.

4. Pursuant to a Maximum Amount Mortgage Contract dated 6 March 2009, the land use rights of a parcel of land with site area of approximately 33,865 sq.m. and portion of buildings with a total gross floor area of approximately 18,180.5 sq.m. are subject to a mortgage in favour of Evergrowing Bank Co., Ltd. Chengdu Branch (the "Mortgagee") as security for a loan with maximum amount of RMB35,000,000 for a term of 2 years commencing from 10 March 2009 and expiring on 10 March 2011.

5. Pursuant to a Maximum Amount Mortgage Contract dated 30 March 2010, the land use rights of portion of a parcel of land with a site area of approximately 147,128.56 sq.m. and a portion of the buildings of the property with a total gloss area of approximately 46,323.73 sq.m. are subject to a mortgage in favour of Huaxia Bank Chengdu Branch (the "Mortgagee") as security for a loan with maximum amount of RMB60,000,000 for a term of 1 year commencing from 31 March 2010 and expiring on 30 March 2011.

6. As advised by the Target Company, the total costs expended on the buildings and structures of the property is approximately RMB281,549,422.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Deyang New Material is the only owner of the land use rights of the property. During the tenure of the land use rights as described in note 2, Deyang New Material is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property without any overdue land premium;

   b. Deyang New Material has legally obtained the building ownership rights of the property as described in note 3, and is entitled to transfer, lease, mortgage or otherwise dispose of the buildings of the property;

   c. The land use rights of a parcel of land with site area of approximately 33,865 sq.m. and portion of buildings with a total gross floor area of approximately 18,180.5 sq.m. are subject to mortgages in favour of Evergrowing Bank Co., Ltd. Chengdu Branch, and are restricted by the mortgage;

   d. The land use rights of portion of a parcel of land with a site area of approximately 147,128.56 sq.m. and a portion of buildings of the property with a total gloss fool area of approximately 46,323.73 sq.m. are subject to a mortgage in favour of Huaxia Bank Chengdu Branch; and

   e. Portion of buildings of the property with a total gloss fool area of approximately 43,024.03 sq.m., are subject to a mortgage in favour of Dalian Bank Chengdu Branch, and are restricted by the mortgage.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
10.	2 parcels of land, various buildings and structures located at No. 869 Second Konggang Road Southwest Airport Economic Development Zone Shuangliu County Chengdu City Sichuan Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 323,180.18 sq.m. and 25 buildings erected thereon which were completed in various stages between 2006 and 2009. The buildings have a total gross floor area of approximately 115,294 sq.m. The buildings mainly include industrial workshops, storages warehouses, electricity plants, a waste water disposal station, dormitories and office buildings, etc. The structures mainly include boundary fences, roads and gates, etc. The land use rights of the property have been granted for terms of 50 years with the expiry dates on 29 June 2056 and 16 May 2057 for industrial use.	The property is currently occupied by the Group for production purpose except for certain portions of the buildings which were leased to a connected party of the Target Group. (Please refer to Note 4)	219,383,000 **Scenario 1:** 95% interest attributable to the Enlarged Group: RMB208,414,000 **Scenario 2:** 89.49% interest attributable to the Enlarged Group: RMB196,326,000

Notes:

1. Pursuant to 2 State-owned Land Use Rights Grant Contracts entered into between the State-owned Land Resources Bureau of Shuang Liu County and Sichuan Deyang Chemical Co., Ltd. ("Deyang Chemical"), a wholly-owned subsidiary of the Target Group, the land use rights of the property are contracted to be granted to Deyang Chemical for a term of 50 years at a total land premium of RMB61,167,300.

2. Pursuant to 2 State-owned Land Use Rights Certificates – Shuang Guo Yong (2006) Di No. 01025 and Shuang Guo Yong (2007) Di No. 00212, the land use rights of the property with a total site area of approximately 323,180.18 sq.m. have been granted to Deyang Chemical for a term of 50 years with the expiry dates on 29 June 2056 and 16 May 2057 for industrial use.

3. Pursuant to 4 Building Ownership Certificates – Shuang Fang Quan Zheng Shuang Quan Zi Di Nos. 0166619, 0190981, 0166622 and 0166625, 18 buildings with a total gross floor area of approximately 103,910.79 sq.m. are owned by Deyang Chemical and used for production purpose.

4. Pursuant to a Tenancy Agreement entered into between Deyang Chemical and Sichuan Tengzhong Heavy Industrial Machinery Co., Ltd. ("Sichuan Tengzhong", 四川騰中機械設備製造有限公司, a connected party of the Target Group), 10 buildings of the property with a total gross floor area of approximately 60,285.38 sq.m. are rented to Sichuan Tengzhong, for a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at a monthly rent of RMB666,666.67.

5. We are of the opinion that the rent payable under the Tenancy Agreement described in note 4 is fair and reasonable and consistent with prevailing market rent for similar premises in similar location.

6. Pursuant to a Maximum Amount Mortgage Contract dated 1 April 2008, the land use rights the property as described in note 2 are subject to a mortgage in favour of Agriculture Bank of China Chengdu Economy Development District Branch (the "Mortgagee") as security for a loan with maximum amount of RMB58,900,000 for a term of 3 years commencing from 1 April 2008 and expiring on 31 March 2011.

7. Pursuant to a Maximum Amount Mortgage Contract dated 28 March 2008, the buildings of the property as described in note 3 are subject to a mortgage in favour of Agriculture Bank of China Chengdu Economy Development District Branch (the "Mortgagee") as security for a loan with maximum amount of RMB140,060,000 for a term of 3 years commencing from 27 March 2008 and expiring on 31 March 2011.

8. As advised by the Target Company, the total costs expended on the buildings and structures of the property is approximately RMB178,395,763.

9. In the valuation of this property, we have attributed no commercial value to the 7 industrial buildings with a total gross floor area of approximately 11,383.21 sq.m. which have not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the buildings (excluding the land) as at the date of valuation would be RMB11,616,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

10. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

    a. Deyang Chemical is the only owner of the land use rights of the property. During the tenures of the land use rights as described in note 2, Deyang Chemical is entitled to transfer, lease, mortgage or otherwise dispose of land use rights of the property without any overdue land premium;

    b. Deyang Chemical has legally obtained the building ownership rights of the buildings stated in note 3, and is entitled to transfer, lease, mortgage or otherwise dispose of the buildings of the property;

    c. The Tenancy Agreement as described in note 4 is valid, binding and enforceable; and

    d. The 7 buildings as described in note 7 have not obtained Building Ownership Certificates. Deyang Chemical is in process of applying for Building Ownership Certificates.

Group IV – Property interests held for investment by the Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
11.	7 units on Level 1 of a building No. 73-95 Huanhu Road Eastern Section Dongpo District Meishan City Sichuan Province The PRC	The property comprises 7 units on Level 1 of a 6-storey building completed in about 1995. The units have a total gross floor area of approximately 930.14 sq.m. The land use rights of the property have been granted for a term of 40 years with the expiry date on 7 November 2046 for commercial use.	The property was leased to 7 independent third parties. (Please refer to Note 4).	4,105,000 100% interest attributable to the Enlarged Group: RMB4,105,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 7 November 2006 entered into between the Land Resources Bureau of Meishan City and Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, the land use rights of the property with a total apportioned land area of approximately 163.47 sq.m. were contracted to be granted to Chuanmei Mirabilite for a term of 40 years with the expiry date on 7 November 2046 for commercial use. The land premium was RMB285,400.

2. Pursuant to a State-owned Land Use Rights Certificate – Mei Shi Guo Yong (2009) Zi Di No. 18452 issued by the Land Resources Bureau of Meishan City, the land use rights of the property with an apportioned site area of approximately 157.96 sq.m. have been granted to Chuanmei Mirabilite for a term of 40 years with the expiry date on 7 November 2046 for commercial use.

3. Pursuant to 2 Building Ownership Certificate – Mei Quan Fang Quan Zheng Zi Di No. 0001134 and Mei Fang Quan Zheng Dongpo Zhen Zi Di No. M-010041037306 issued by the People's Government of Meishan City, 7 units with a total gross floor area of approximately 930.14 sq.m. are owned by Chuanmei Mirabilite.

4. Pursuant to 7 Tenancy Agreements entered into between Chuanmei Mirabilite and 7 independent third parties, portions of the units with a total gross floor area of approximately 556.04 sq.m. were leased to 7 independent third parties for various terms with the expiry dates between 9 November 2010 and 15 September 2011 for commercial use at a monthly rent of RMB4,717.

5. As advised by the Company, the Company has not expended any cost on the property since 2006.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. Chuanmei Mirabilite is the only owner of the land use rights of the property. During the tenures of the land use rights as described in note 2, Chuanmei Mirabilite is entitled to transfer, lease, mortgage or otherwise dispose of the land use rights of the property without any overdue land premium;

   b. Chuanmei Mirabilite has legally obtained the building ownership rights of the property as described in note 3, and is entitled to transfer, lease, mortgage or otherwise dispose of the buildings of the property; and

   c. The Tenancy Agreements as described in note 4 are valid, binding and enforceable.

Group V – Property interests rented and occupied by the Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
12.	A parcel of land, various buildings and structures located at Tianle Village Wansheng Town Dongpo District Meishan City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 300,001.5 sq.m. with 6 buildings and various structures erected thereon and which were completed in various stages between 1994 and 1996 are erected. The buildings have a total gross floor area of approximately 684 sq.m. The buildings comprise 4 industrial buildings and 2 ancillary buildings. The structures mainly include a boundary fence and roads, etc. The land of the property is a parcel of collectively-owned land which was rented by Sichuan Chuanmei Mirabilite Co., Ltd. for a term of 50 years with the expiry date on 9 May 2044 at a total consideration of RMB1,050,000 (Please refer to Note 1).	The property is currently occupied by the Group for production and ancillary purposes.	No commercial value

Notes:

1. Pursuant to a Infertile Mountainous Region Co-operation Development Agreement (合作開發貧瘠山地協議) entered into between Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), a wholly owned subsidiary of the Company, and the People's Government of Wansheng Town, Meishan City, Sichuan Province dated 10 May 1994, a parcel of land with a site area of approximately 450 Mu (approximately 300,001.05 sq.m., 1 Mu = 666.67 sq.m.) was leased to Chuanmei Mirabilite for a term of 50 years with the expiry date on 9 May 2044 at a total consideration of RMB1,050,000.

2. As advised by the Group, the buildings and structures erected on the land were constructed by Chuanmei Mirabilite.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Mirabilite can legally use the portion of the collectively-owned land surrounding the mine entrance with a site area of approximately 388.85 sq.m. which is used as access and for construction of mining facilities. For the remaining portion of the collectively-owned land, the land use rights shall be obtained by way of land grant, otherwise, there exists the risk that the land will be withdrawn and the buildings/facilities erected thereon may be required to be demolished or confiscated within a specified time limit. However, there is less risk that the land use rights of the land would forcibly be ceased; and

b. Portion of the buildings with a total gross floor area of approximately 388.85 sq.m. which is erected on the land connected closely with the primary access tunnel into the mine will not be demolished. There will be no effect on the Group's production if the remaining buildings are demolished. There is less risk that the Group will be fined due to not fulfilling the procedure of completion acceptance for the buildings with a total gross floor area of approximately 684 sq.m.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
13.	A parcel of land, various buildings and structures located at Weixing Village Dongpo District Meishan City Sichuan Province The PRC	The property comprises a parcel of land with a site area of approximately 200,001 sq.m. with 9 buildings and various structures erected thereon which were completed in 2007. The buildings have a total gross floor area of approximately 4,214.85 sq.m. The buildings comprise 6 industrial buildings and 3 ancillary buildings. The structures comprise a boundary fence and roads, etc. The land of the property is a parcel of collectively-owned land which was rented by Sichuan Chuanmei Mirabilite Co., Ltd. for a term with the expiry date on April 26, 2057 at an annual consideration of RMB240,000 (Please refer to Note 1).	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Infertile Mountainous Region Co-operation Development Agreement (合作開發貧瘠山地協議) entered into between Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), a wholly owned subsidiary of the Company, and the People's Government of Dongpo District, Meishan City, Sichuan Province dated 25 April 2007, a parcel of land with a site area of approximately 600 Mu (approximately 400,002 sq.m., 1 Mu = 666.67 sq.m.) was leased to Chuanmei Glauber Salt for a term with the expiry date on 26 April 2057 at an annual consideration of RMB240,000. As at the date of valuation, a portion of the land parcel with a site area of 300 Mu (approximately 200,001 sq.m., 1 Mu = 666.67 sq.m.) has been provided and occupied by the Group.

2. As advised by the Group, the buildings and structures erected on the land were constructed by Chuanmei Glauber Salt.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. Chuanmei Glauber Salt can legally use the portion of the collectively-owned land surrounding the mine entrance with a site area of approximately 477 sq.m. which is used as access and for construction of mining facilities. For the remaining portion of the collectively-owned land, the land use rights shall be obtained by way of land grant, otherwise, there exists the risk that the land will be withdrawn and the buildings/facilities erected thereon may be required to be demolished or confiscated within a specified time limit. However, there is less risk that the land use rights of the land would forcibly be ceased; and

   b. Portion of the buildings with a total gross floor area of approximately 477 sq.m. which is erected on the land connected closely with the primary access tunnel into the mine will not be demolished. There will be no effect on the Group' s production if the remaining buildings are demolished. There is less risk that the Group will be fined due to not fulfilling the procedure of completion acceptance for the buildings with a total gross floor area of approximately 4,215.85 sq.m.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
14.	Level 7 of Block E No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC	The property comprises Levels 7 of Block E of a 7-storey office building completed in 2003. The property has a total gross floor area of approximately 2,280 sq.m. The property is rented by Sichuan Chuanmei Special Glauber Salt Co., Ltd. for a one year term commencing from 1 February 2010 and expiring on 31 January 2011 at an annual rent of RMB3,556,800.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 2 February 2010 entered into between Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), a wholly-owned subsidiary of the Company, and Sichuan Haton Enterprise Co., Ltd. ("Sichuan Haton"), the property with a gross floor area of approximately 2,280 sq.m. is leased to Chuanmei Glauber Salt for a one year term commencing from 1 February 2010 and expiring on 31 January 2011 at an annual rent of RMB3,556,800.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Tenancy Agreement is valid, binding and enforceable.

Group VI – Property interest rented and occupied by the Group in Hong Kong

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
15.	Units 7503B, 7504 and 7505 on 75/F International Commercial Centre 1 Austin Road West Kowloon Hong Kong	The property comprises 3 units on the 75th floor of a 118-storey office/commercial building completed in various stages between 2007 and 2010. The property has a total gross floor area of approximately 10,091.sq.ft. Pursuant to a Tenancy Agreement made between Top Promise Resources Limited ("Top Promise"), as Tenant and City Lion Investment Limited, as Landlord, an independent third party, the property is leased by the Group for a term of 3 years commencing from 1 September 2010 and expiring on 31 August 2013 at a monthly rent of HKD605,460, exclusive of rates, air-conditioning and management charge, and outgoing charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is City Lion Investment Limited (the "Landlord").

2. Top Promise Resources Limited is an indirect wholly-owned subsidiary of the Group.

Group VII – Property interests rented and occupied by the Target Group in the PRC

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
16.	Level 3 of Area D No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC	The property comprises Level 3 of Area D of a 4-storey office building completed in 2002. The property has a total gross floor area of approximately 1,220 sq.m. The property is rented by Sichuan Deyang Chemical Co., Ltd. for a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at an annual rent of RMB1,830,000, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 January 2010 entered into between Sichuan Deyang Chemical Co., Ltd. ("Deyang Chemical"), a wholly-owned subsidiary of the Target Group, and Sichuan Haton Enterprise Co., Ltd. ("Sichuan Haton"), the property with a total gross floor area of approximately 1,220 sq.m. is leased to Deyang Chemical for a term of 3 years commencing from 1 January 2010 and expiring on 31 December 2012 at an annual rent of RMB1,830,000, exclusive of management fees, water and electricity charges

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Tenancy Agreement is valid, binding and enforceable.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 *RMB*
17.	Level 8 of Area E No. 9 Incubation Park High-tech Development Zone Chengdu City Sichuan Province The PRC	The property comprises Level 8 of Area E of a 10-storey office building completed in 2010. The property has a gross floor area of approximately 2,280 sq.m. The property is rented by Sichuan Deyang New Materials Co., Ltd. for a term of 35 months commencing from 1 February 2010 and expiring on 31 December 2012 at a monthly rent of RMB262,200, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement dated 1 January 2010 entered into between Sichuan Deyang Special New Materials Co., Ltd. ("Deyang New Materials"), a wholly-owned subsidiary of the Target Group and Sichuan Haton Enterprise Co., Ltd. ("Sichuan Haton"), the property with a gross floor area of approximately 2,280 sq.m. is leased to Deyang New Materials commencing from 1 February 2010 and expiring on 31 December 2012 at a monthly rent of RMB262,200, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. The Tenancy Agreement is valid, binding and enforceable.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein or this circular misleading.

This circular also includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Combined Concert Group. The Concert Parties and the directors of the Concert Parties Entities (as regards Mr. Suo Lang Duo Ji, Mr. Zhang Songyi and Mr. Wang Chun Lin notwithstanding the preceding paragraph) jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than that expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised share capital		*USD*
5,000,000,000	Shares of USD0.00001 each	50,000
Issued share capital		
1,950,657,500	Shares of USD0.00001 each as at 31 December 2009	19,506.58
(7,436,000)	Shares of USD0.00001 each repurchased by the Company from 1 January 2010 to the Latest Practicable Date	(74.36)
14,201,164	Shares of USD0.00001 each issued from 1 January 2010 to the Latest Practicable Date due to exercise of share options	142.01
1,957,422,664	Shares of USD0.00001 each as at the Latest Practicable Date	19,574.23

Save as disclosed above, no Shares have been issued since 31 December 2009 (the date to which the latest audited consolidated financial statements of the Company have been made up) up to the Latest Practicable Date.

All the issued Shares shall rank pari passu with each other in all respects, including the right to all dividends, voting and interests in capital. No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchange.

Share Options

The Company adopted a pre-IPO share option scheme on 30 April 2008 (the "Pre-IPO Share Option Scheme") and the share option scheme on 26 May 2009 (the "Share Option Scheme").

(a) Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted by written resolutions of all the shareholders of the Company passed on 30 April 2008. The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution to the Group by the executive Directors, senior management and employees of the Group and to retain those persons whose contributions are important to the long-term growth and profitability of the Group.

Upon the listing of the Company on 16 June 2009 (the "Listing Date"), the Pre-IPO Share Option Scheme was terminated but the share options granted but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the terms of Pre-IPO Share Option Scheme.

Details of the share options granted on 30 April 2008 under the Pre-IPO Share Option Scheme are as follows:

Name and title of grantee of the share options	Date of Grant	Exercise price per share *(HKD)*	Exercise period (dd/mm/yy) *(Note 1)*	Number of shares to be issued upon full exercise of options	Approximate percentage of issued share capital
(i) Directors					
Mr. Zhang Daming	30 April 2008	2	08/07/09 – 16/06/16	4,218,000	0.22%
Mr. Li Xudong	30 April 2008	2	08/07/09 – 16/06/16	3,192,000	0.16%
(ii) Employees	30 April 2008	2	08/07/09 – 16/06/16	64,600,000	3.30%
(iii) Other *(Note 2)*	30 April 2008	2	08/07/09 – 16/06/16	3,990,000	0.20%
Total				76,000,000	3.88%

Notes:

(1) The share options can only be exercised in the following manner:

For grantees of the share options who have joined the Company for at least one calendar year as of the Listing Date

Exercise Period	Maximum number of options exercisable
Any time from the 15th business day after the Listing Date until the 1st anniversary of the Listing Date	1st phase options, being up to half of the total number of options granted
Any time after the 1st anniversary of the Listing Date until the 2nd anniversary of the Listing Date	2nd phase options, being up to two-thirds of the total number of options granted less the number of options already exercised
Any time after the 2nd anniversary of the Listing Date until the 3rd anniversary of the Listing Date	3rd phase options, being up to five-sixths of the total number of options granted less the number of options already exercised
Any time after the 3rd anniversary of the Listing Date until expiry of the validity period of the relevant options	4th phase options, being such number of options granted less the number of options already exercised

For grantees of the share options who have joined the Company for less than one calendar year as of the Listing Date

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

The expiry date of the exercise period of any such share options shall be set out more particularly in the relevant option offer letter provided that such exercise period must expire on the date falling on the 7th anniversary of the Listing Date.

(2) The option granted to Ms. Deng Xianxue pursuant to the Pre-IPO Share Option Scheme lapsed upon her resignation as an executive Director with effect from 3 March 2010.

(b) Share Option Scheme

The Share Option Scheme was adopted by written resolutions of all the shareholders of the Company passed on 26 May 2009. The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. The period within which the share options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantee.

On 28 July 2009, according to the terms of the Share Option Scheme, the Company has granted 103,200,000 share options to certain eligible participants including certain Directors and employees at an exercise price with carrying value of HKD3.59 per share (43,200,000 share options of which were granted to the Directors) and the consideration for each of the grant was HKD1. Such share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 2 October 2009, 1 January 2010 and 1 January 2011 respectively and expiring on 31 December 2009, 31 December 2010 and 31 December 2011 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 28 July 2009.

In addition, on 23 April 2010, according to the terms of the Share Option Scheme, the Company granted 60,000,000 share options to certain eligible participants including certain Directors and employees at an exercise price with carrying value of HKD2.64 per share (18,400,000 share options of which were granted to the Directors) and the consideration for each of the grant was HKD1. Such share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 23 April 2010 (save for the 5,000,000 share options granted to Mr. Yu Man Chiu Rudolf, an executive Director, which shall be exercisable commencing from 1 July 2010), 1 January 2011 and 1 January 2012 respectively and expiring on 31 December 2010, 31 December 2011 and 31 December 2012 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 23 April 2010.

Details of the share options outstanding as at the Latest Practicable Date under the Pre-IPO Share Option Scheme and the Share Option Scheme are as follows:

Name and category of grantees	Date of grant	Exercise Period	Exercise price (HKD)	Share options held on 30 June 2010	Share options granted from 1 July 2010 to the Latest Practicable Date	Share options exercised from 1 July 2010 to the Latest Practicable Date	Share options lapsed from 1 July 2010 to the Latest Practicable Date	Share options held as at the Latest Practicable Date
Directors of the Company								
Mr. Zhang Daming	30 April 2008	16 June 2009 to 16 June 2016	2.00	2,109,000	–	–	–	2,109,000
	30 April 2008	16 June 2010 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2011 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2012 to 16 June 2016	2.00	703,000	–	–	–	703,000
				4,218,000	–	–	–	4,218,000
	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	–	2,500,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	–	5,000,000
Mr. Yu Man Chiu Rudolf	23 April 2010	1 July 2010 to 31 December 2010	2.64	5,000,000	–	–	–	5,000,000
	23 April 2010	1 January 2011 to 31 December 2011	2.64	2,500,000	–	–	–	2,500,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	2,500,000	–	–	–	2,500,000
				10,000,000	–	–	–	10,000,000
Mr. Li Xudong	30 April 2008	16 June 2010 to 16 June 2016	2.00	532,000	–	–	–	532,000
	30 April 2008	16 June 2011 to 16 June 2016	2.00	532,000	–	–	–	532,000
	30 April 2008	16 June 2012 to 16 June 2016	2.00	532,000	–	–	–	532,000
				1,596,000	–	–	–	1,596,000
	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	–	2,500,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	–	5,000,000

Name and category of grantees	Date of grant	Exercise Period	Exercise price *(HKD)*	Share options held on 30 June 2010	Share options granted from 1 July 2010 to the Latest Practicable Date	Share options exercised from 1 July 2010 to the Latest Practicable Date	Share options lapsed from 1 July 2010 to the Latest Practicable Date	Share options held as at the Latest Practicable Date
Mr. Suo Lang Duo Ji	28 July 2009	1 January 2010 to 31 December 2010	3.59	400,000	–	–	–	400,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	400,000	–	–	–	400,000
				800,000	–	–	–	800,000
Mr. Wang Chun Lin	28 July 2009	1 January 2010 to 31 December 2010	3.59	2,500,000	–	–	–	2,500,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	2,500,000	–	–	–	2,500,000
				5,000,000	–	–	–	5,000,000
Mr. Zhang Songyi	28 July 2009	1 January 2010 to 31 December 2010	3.59	400,000	–	–	–	400,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	400,000	–	–	–	400,000
				800,000	–	–	–	800,000
	23 April 2010	23 April 2010 to 31 December 2010	2.64	4,200,000	–	–	–	4,200,000
	23 April 2010	1 January 2011 to 31 December 2011	2.64	2,100,000	–	–	–	2,100,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	2,100,000	–	–	–	2,100,000
				8,400,000	–	–	–	8,400,000

Name and category of grantees	Date of grant	Exercise Period	Exercise price (HKD)	Share options held on 30 June 2010	Share options granted from 1 July 2010 to the Latest Practicable Date	Share options exercised from 1 July 2010 to the Latest Practicable Date	Share options lapsed from 1 July 2010 to the Latest Practicable Date	Share options held as at the Latest Practicable Date
Other eligible participants of the Group	30 April 2008	16 June 2009 to 16 June 2016	2.00	8,276,500	–	(4,280,332)	–	3,996,168
	30 April 2008	16 June 2010 to 16 June 2016	2.00	9,912,667	–	(7,713,832)	–	2,198,835
	30 April 2008	16 June 2011 to 16 June 2016	2.00	9,912,667	–	–	(131,167)	9,781,500
	30 April 2008	16 June 2012 to 16 June 2016	2.00	9,912,666	–	–	(131,167)	9,781,499
				38,014,500	–	(11,994,164)	(262,334)	25,758,002
	28 July 2009	1 January 2010 to 31 December 2010	3.59	13,750,000	–	–	(750,000)	13,000,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	13,750,000	–	–	(750,000)	13,000,000
				27,500,000	–	–	(1,500,000)	26,000,000
	23 April 2010	23 April 2010 to 31 December 2010	2.64	20,800,000	–	(1,250,000)	–	19,550,000
	23 April 2010	1 January 2011 to 31 December 2011	2.64	10,400,000	–	–	–	10,400,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	10,400,000	–	–	–	10,400,000
				41,600,000	–	(1,250,000)	–	40,350,000
Directors and other eligible participants of the Group	30 April 2008	16 June 2009 to 16 June 2016	2.00	10,385,500	–	(4,280,332)	–	6,105,168
	30 April 2008	16 June 2010 to 16 June 2016	2.00	11,147,667	–	(7,713,832)	–	3,433,835
	30 April 2008	16 June 2011 to 16 June 2016	2.00	11,147,667	–	–	(131,167)	11,016,500
	30 April 2008	16 June 2012 to 16 June 2016	2.00	11,147,666	–	–	(131,167)	11,016,499
				43,828,500	–	(11,994,164)	(262,334)	31,572,002
	28 July 2009	1 January 2010 to 31 December 2010	3.59	22,050,000	–	–	(750,000)	21,300,000
	28 July 2009	1 January 2011 to 31 December 2011	3.59	22,050,000	–	–	(750,000)	21,300,000
				44,100,000	–	–	(1,500,000)	42,600,000

Name and category of grantees	Date of grant	Exercise Period	Exercise price (HKD)	Share options held on 30 June 2010	Share options granted from 1 July 2010 to the Latest Practicable Date	Share options exercised from 1 July 2010 to the Latest Practicable Date	Share options lapsed from 1 July 2010 to the Latest Practicable Date	Share options held as at the Latest Practicable Date
	23 April 2010	23 April 2010 to 31 December 2010	2.64	25,000,000	–	(1,250,000)	–	23,750,000
	23 April 2010	1 July 2010 to 31 December 2010	2.64	5,000,000	–	–	–	5,000,000
	23 April 2010	1 January 2011 to 31 December 2011	2.64	15,000,000	–	–	–	15,000,000
	23 April 2010	1 January 2012 to 31 December 2012	2.64	15,000,000	–	–	–	15,000,000
				60,000,000	–	(1,250,000)	–	58,750,000
				147,928,500	–	(13,244,164)	(1,762,334)	132,922,002

Save as disclosed above, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the six calendar months immediately preceding the date of the Announcement; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date:

Date	**Closing Price** *(HKD)*
Latest Practicable Date	$2.90
30 November 2010	$3.09
Last Trading Day	$2.93
29 October 2010	Suspended
30 September 2010	$2.91
31 August 2010	$2.36
30 July 2010	$2.32
30 June 2010	$2.08
31 May 2010	$2.02

Note: The lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the period between the beginning of the six months preceding the date of the Announcement and the Latest Practicable Date were HKD1.69 on 25 May 2010 and HKD3.34 on 8 November 2010 respectively.

4. DISCLOSURE OF INTERESTS

(a) Directors of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); (b) to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) to otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as adopted by the Company (the "Model Code"), were as follows:

(i) Long positions in the Shares and underlying Shares

Name of Director	*Note*	Nature of interest	Number of Shares	Approximate percentage of issued share capital (as of the Latest Practicable Date)
Mr. Suo Lang Duo Ji	*1, 2*	Interest of a controlled corporation	1,998,649,529	102.11%
Mr. Zhang Songyi	*1, 3*	Interest of a controlled corporation	507,449,001	25.92%
Mr. Wang Chun Lin	*1, 4*	Interest of a controlled corporation	156,311,309	7.99%

Notes:

(1) Upon Completion, new Shares will be issued to these entities as consideration under the Sale and Purchase Agreement.

(2) Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,998,649,529 Shares of which 1,997,845,208 Shares are Shares held by Ascend, Nice Ace and himself and 804,321 are share options held by Mr. Suo Lang Duo Ji.

(3) Under the provisions of the SFO, Mr. Zhang Songyi is deemed to have an interest in 507,449,001 Shares of which 498,249,001 Shares are Shares held by Mandra Esop and Mandra Materials and 9,200,000 are share options held by Mr. Zhang Songyi.

(4) Under the provisions of the SFO, Mr. Wang Chun Lin is deemed to have an interest in 156,311,309 Shares of which 151,311,309 Shares are Shares held by Triple A Investments and AAA Mining Limited and 5,000,000 are share options held by Mr. Wang Chun Lin.

(ii) Short positions in the Shares and underlying Shares

Name of Director	*Note*	Nature of Interest	Number of Shares	Approximate percentage of issued share capital (as of the Latest Practicable Date)
Mr. Suo Lang Duo Ji	*1*	Interest of a controlled corporation	52,476,000	2.68%

Note:

(1) Pursuant to the Nice Ace Warrant Instruments, the Nice Ace Warrant Holders have a right to exercise warrants for a total of up to 52,476,000 Shares held by Nice Ace.

(iii) Long positions in the share options of the Company

Pre-IPO share option scheme adopted pursuant to the written resolutions of the shareholders of the Company dated 30 April 2008

Name of Director	Date of grant	Number of Shares subject to the share options granted	Exercise price
Mr. Zhang Daming	30 April 2008	4,218,000	HKD2.00
Mr. Li Xudong	30 April 2008	1,596,000	HKD2.00

Under the share option scheme adopted pursuant to the written resolutions of the shareholders of the Company dated 26 May 2009

Name of Director	Date of grant	Number of Shares subject to the share options granted	Exercise price
Mr. Suo Lang Duo Ji	28 July 2009	800,000	HKD3.59
Mr. Zhang Songyi	28 July 2009	800,000	HKD3.59
Mr. Wang Chun Lin	28 July 2009	5,000,000	HKD3.59
Mr. Zhang Daming	28 July 2009	5,000,000	HKD3.59
Mr. Li Xudong	28 July 2009	5,000,000	HKD3.59
Mr. Zhang Songyi	23 April 2010	8,400,000	HKD2.64
Mr. Yu Man Chiu Rudolf	23 April 2010	10,000,000	HKD2.64

Save as disclosed above, at no time during the period for the six months ended 30 June 2010 was the Company or its associated corporation a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of the Company or its associated corporation.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he/she was taken or deemed to have under such provisions of the SFO); (b) which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which was required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to S336 of the SFO and/or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Enlarged Group:

Long position

Name of Shareholder	*Note*	Nature of interest	Number of Shares	Approximate percentage of issued share capital (as of the Latest Practicable Date)
Mr. Suo Lang Duo Ji	*1, 2*	Interest of a controlled corporation	1,998,649,529	102.11%
Mr. Wang Chun Lin	*1, 3*	Interest of a controlled corporation	156,311,309	7.99%
Mr. Zhang Songyi	*1, 4*	Interest of a controlled corporation	507,449,001	25.92%
Wan Keung	*1, 5*	Interest of a controlled corporation	289,227,446	14.78%
Moonchu	*1, 6*	Interest of a controlled corporation	276,306,095	14.12%
Ascend		Beneficial owner	1,255,782,094	64.15%
Triple A Investments		Beneficial owner	151,311,309	7.73%
Mandra Materials		Beneficial owner	423,526,592	21.64%
Sky Success		Beneficial owner	289,227,446	14.78%

Short position

Name of Shareholder	*Note*	Nature of Interest	Number of Shares	Approximate percentage of issued share capital (as of the Latest Practicable Date)
Mr. Suo Lang Duo Ji	*7*	Interest of a controlled corporation	52,476,000	2.68%
Sky Success	*8*	Interest of a controlled corporation	116,341,683	5.94%

Notes:

(1) Upon Completion, new Shares will be issued to these entities as consideration under the Sale and Purchase Agreement.

(2) Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,998,649,529 Shares of which 1,997,845,208 Shares are Shares held by Ascend, Nice Ace and himself and 804,321 are share options held by Mr. Suo Lang Duo Ji.

(3) Under the provisions of the SFO, Mr. Wang Chun Lin is deemed to have an interest in 156,311,309 Shares of which 151,311,309 Shares are Shares held by Triple A Investments and AAA Mining Limited and 5,000,000 are share options held by Mr. Wang Chun Lin.

(4) Under the provisions of the SFO, Mr. Zhang Songyi is deemed to have an interest in 507,449,001 Shares of which 498,249,001 Shares are Shares held by Mandra Esop and Mandra Materials and 9,200,000 are share options held by Mr. Zhang Songyi.

(5) Wan Keung is deemed to have an interest in 289,227,446 Shares held by Sky Success under the provisions of the SFO.

(6) Moonchu is deemed to have an interest in 276,306,095 Shares held by Woo Foong Hong and Mandra Mirabilite under the provisions of the SFO.

(7) Pursuant to the Nice Ace Warrant Instruments, the Nice Ace Warrant Holders have a right to exercise warrants for a total of up to 52,476,000 Shares held by Nice Ace.

(8) Pursuant to the Sky Success Loans, the Sky Success Lenders have a right to acquire, upon Completion, from Sky Success a total of up to 116,341,683 Shares.

Save as aforesaid, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no other person (who is not a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or held any option in respect of such capital.

5. ADDITIONAL DISCLOSURE OF SHAREHOLDING AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

(a) The shareholdings of the members of the Combined Concert Group in the Company as at the Latest Practicable Date are set out in this circular in the letter from the Board and the paragraph headed "Disclosure of Interests" above.

(b) As at the Latest Practicable Date, the Company had no shareholding interest or any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in any members of the Combined Concert Group, nor had the Company dealt for value in any shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the members of the Combined Concert Group.

(c) Save as set out in the letter from the Board and the paragraph headed "Disclosure of Interests" above, as at the Latest Practicable Date, none of the directors of the members of the Combined Concert Group was interested in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company, nor had the directors of the members of the Combined Concert Group dealt for value in any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

(d) Pursuant to the Sky Success Loans, the Sky Success Lenders have a right to exchange the total principal amount outstanding under the Sky Success Loans for Shares to be acquired by Sky Success upon Completion to the extent the Sky Success Loans have not been repaid before Completion. In addition, pursuant to the Nice Ace Warrant Instruments, the Nice Ace Warrant Holders have a right to exercise warrants for Shares held by Nice Ace. Therefore, assuming that the Target does not issue any new Target Shares prior to Completion, none of the Non-Selling Shareholders accedes to the Sale and Purchase Agreement, the Company does not issue any new Shares other than the Consideration Shares and the total principal amount outstanding under the Sky Success Loans is USD35 million, upon Completion (i) the Sky Success Lenders will have a right to acquire from Sky Success a total of up to 116,341,683 Shares representing approximately 2.27% of the total number of issued Shares if enlarged by the issue of the Consideration Shares; and (ii) the Nice Ace Warrant Holders will have a right to exercise its warrants for a total of up to 52,476,000 Shares held by Nice Ace, representing approximately 1.03% of the total number of issued Shares if enlarged by the issue of the Consideration Shares. Save as aforesaid, and save as set out in the letter of the Board and the paragraph headed "Disclosure of Interests" above, as at the Latest Practicable Date, none of the members of the Combined Concert Group nor parties acting in concert with any of them owned or controlled any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company, and none of the members of the Combined Concert Group nor parties acting in concert with any of them had dealt for value in relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

(e) As at the Latest Practicable Date, save for the transactions contemplated in the Sale and Purchase Agreement, none of the members of the Combined Concert Group or associate of any member of the Combined Concert Group or parties acting in concert with any of them had any arrangement of the kind described in Note 8 to Rule 22 of the Takeovers Code with any person.

(f) As at the Latest Practicable Date, save for the transactions contemplated in the Sale and Purchase Agreement, there was no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Combined Concert Group or parties acting in concert with any of them and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Acquisition or the Whitewash Waiver.

(g) As at the Latest Practicable Date, save as disclosed in the letter of the Board and the paragraph headed "Disclosure of Interests" above, none of the Directors was interested in any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company. During the Relevant Period, none of the Directors had dealt for value in any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company. None of the Directors, save as disclosed in the paragraph headed "Disclosure of Interests" above and the letter of the Board, was interested in any shares, warrants and convertible notes of the Vendors or in any relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) in the Vendors.

(h) As at the Latest Practicable Date, (i) there was no shareholding in the Company owned or controlled by; and (ii) there were no dealings for value in any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period made by, a subsidiary of the Company or by a pension fund of any member of the Group or by the Independent Financial Adviser and none of the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Coder owned or had any interest in any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

(i) As at the Latest Practicable Date, save for the transactions contemplated in the Sale and Purchase Agreement, no person had any arrangement of the kind as described in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(j) As at the Latest Practicable Date, no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

(k) As at the Latest Practicable Date, no benefit would be or have been given to any Director as compensation for loss of office or otherwise in connection with the Acquisition or the Whitewash Waiver.

(l) As at the Latest Practicable Date, save for the transactions contemplated in the Sale and Purchase Agreement, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Acquisition, the Whitewash Waiver or otherwise connected with the Acquisition or the Whitewash Waiver.

(m) As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there were no material contracts entered into by the members of the Combined Concert Group in which any Director has any material personal interest.

(n) Pursuant to the Sky Success Loans, Sky Success is obliged to execute and deliver to the Sky Success Lenders a share pledge over the Consideration Shares to be issued to Sky Success immediately upon Completion as security for the monies outstanding or owed under the Sky Success Loans. Save as aforesaid and disclosed in paragraph (d) above, no Shares acquired by any member of the Combined Concert Group in pursuance of the Acquisition will be transferred, charged or pledged to any other persons under any existing agreement, arrangement or understanding.

(o) As at the Latest Practicable Date, there was no shareholding in the Company which any member of the Combined Concert Group and parties acting in concert with any of them has borrowed or lent during the Relevant Period.

(p) As at the Latest Practicable Date, there was no shareholding in the Company which the Company or the Directors has/have borrowed or lent during the Relevant Period.

(q) Mr. Suo Lang Ji Duo and his associates, Mr. Wang Chun Lin and his associates, Mr. Zhang Songyi and its associates and any parties acting in concert with any of them and those who are involved or interested in the Acquisition and the Whitewash Waiver are required to abstain from voting on the resolutions approving the Acquisition and the Whitewash Waiver at the EGM. As at the Latest Practicable Date, the other Directors did not have any Shares and thus will not be entitled to vote on the resolution approving the Acquisition and the Whitewash Waiver at the EGM.

(r) As at the Latest Practicable Date, there was no Shareholder nor any other person who, prior to the posting of this circular, has irrevocably committed to vote for or against the Acquisition or the Whitewash Waiver.

6. SERVICE CONTRACTS

Details relating to service agreements and/or appointment letters of the Directors as at the Latest Practicable Date may be found in the table below (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Save as disclosed below, as at the Latest Practicable Date, there were no service agreements and/or appointment letters with the Enlarged Group or associated companies in force for Directors (i) which (including both continuous and fixed term contracts) have been entered into or amended within the Relevant Period; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

Director	Date of service agreement/ appointment letter	Service contract expiry date	Amount of annual fixed remuneration under the service agreement/ appointment letter	Amount of annual variable remuneration under the service agreement/ appointment letter	Aggregate annual fixed remuneration
Mr. Zhang Daming	16 June 2009	15 June 2012	HK$1,040,000	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	HK$1,040,000

Director	Date of service agreement/ appointment letter	Service contract expiry date	Amount of annual fixed remuneration under the service agreement/ appointment letter	Amount of annual variable remuneration under the service agreement/ appointment letter	Aggregate annual fixed remuneration
Mr. Yu Man Chiu Rudolf	3 March 2010	2 March 2013	HK$1,200,000	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	HK$1,200,000
Mr. Li Xudong	16 June 2009	15 June 2012	RMB454,008	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	RMB454,008
Mr. Suo Lang Duo Ji	16 June 2009	15 June 2012	HK$1,300,000	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	HK$1,300,000
Mr. Wang Chun Lin	16 June 2009	15 June 2012	HK$1,404,000	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	HK$1,404,000
Mr. Zhang Songyi	16 June 2009	15 June 2012	HK$1,300,000	Discretionary bonus with the amount to be determined by the Board from time to time with reference to the performance of both the Group and the Director	HK$1,300,000
Mr. Koh Tiong Lu, John	1 June 2009	15 June 2012	HK$400,000	Nil	HK$400,000
Mr. Wong Chun Keung	1 June 2009	15 June 2012	HK$300,000	Nil	HK$300,000
Mr. Gao Zongze	3 March 2010	2 March 2013	HK$150,000	Nil	HK$150,000
Mr. Xia Lichuan	3 March 2010	2 March 2013	HK$150,000	Nil	HK$150,000

7. DIRECTORS' INTERESTS IN THE ENLARGED GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Enlarged Group since the date up to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date, which was significant in relation to the business of the Enlarged Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2009 and up to the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Compliance with Non-competition Undertaking

Mr. Suo Lang Duo Ji and Nice Ace

On 28 May 2009, Mr. Suo Lang Duo Ji (the ultimate controlling shareholder of the Company) and Nice Ace (the controlling shareholder of the Company which is a wholly-owned subsidiary of Mr. Suo Lang Duo Ji) executed in favour of the Company, a deed of non-competition undertaking (the "Non-competition Undertaking").

Under the Non-competition Undertaking, each of Mr. Suo Lang Duo Ji and Nice Ace undertakes to the Company (for itself and for the benefit of its subsidiaries), among others, that he or it would not, and would procure that his or its affiliates (except any members of the Group) would not, during the validity of the Non-competition Undertaking, directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

Pursuant to the annual declaration in relation to the compliance with the Non-competition Undertaking provided by Mr. Suo Lang Duo Ji and Nice Ace respectively, each of them confirms that all the relevant terms of the Non-competition Undertaking have been fully complied with in all material respects.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

9. MATERIAL CHANGE

The Directors confirm that there was no material change in the financial or trading position or outlook of the Group since 31 December 2009, being the date to which the latest published audited consolidated accounts of the Group were made up.

10. LITIGATION

As at the Latest Practicable Date, as far as was known to the Directors, no members of the Group and the Target Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors pending or threatened against any members of the Group and the Target Group.

11. CONSENTS OF EXPERTS

(a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular.

Name	Qualification
ING Bank N.V.	a registered institution under the Securities and Futures Ordinance, registered to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
BDO Limited	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Independent Property Valuer

(b) None of the Independent Financial Adviser, BDO Limited or Jones Lang LaSalle Sallmanns Limited has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of the Independent Financial Adviser, BDO Limited or Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which it is included.

(d) None of the Independent Financial Adviser, BDO Limited or Jones Lang LaSalle Sallmanns Limited had any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Enlarged Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2009, the date to which the latest published audited financial statements of the Group and the Target Group were made up.

(e) the accountants' report from BDO Limited on the Target Group was given on 14 December 2010 for incorporation in this circular.

(f) The letter from BDO Limited on the unaudited pro forma financial information of the Enlarged Group was given on 14 December 2010 for incorporation in this circular.

(g) The report from Jones Lang LaSalle Sallmanns Limited was given on 14 December 2010 for incorporation in this circular.

12. MATERIAL CONTRACTS

Set out below are the contracts (not being contracts entered into in the ordinary course of business) entered into by the Enlarged Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, which may be or are material:

The Group

(a) a supplemental agreement dated 14 January 2009 entered into among Sichuan Chuanmei Mirabilite Co., Ltd., wholly owned subsidiary of the Company, Peng Conglin and Xie Yunhong, both being third parties independent of the Company, to terminate the share transfer agreement dated 19 October 2008 entered into among Sichuan Chuanmei Mirabilite Co., Ltd., Peng Conglin and Xie Yunhong;

(b) a sub-lease agreement dated 28 February 2009 entered into between Top Promise Resources Limited, an indirectly wholly owned subsidiary of the Company, and the Target, under which Top Promise Resources Limited sub-leased the premises located at 2801-2803 Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong to the Target at a monthly sublease rent of HKD70,421.40;

(c) a guarantee and indemnity dated 11 March 2009 entered into among Hang Lung Real Estate Agency Limited, being a third party independent of the Company, Top Promise Resources Limited, the Target and the Company under which a guarantee was provided by the Target and the Company for renting the premises located at 2801-2803 Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong;

(d) a loan agreement dated 7 May 2009 between Top Promise Resources Limited and China Sun Fund Management Limited, being a third party independent of the Company, under which China Sun Fund Management Limited made available a term loan facility of HKD145 million to Top Promise Resources Limited for 36 months;

(e) a surrender agreement dated 22 May 2009 entered into between Top Promise Resources Limited and the Target, under which the Target terminated the sub-lease agreement dated 28 February 2009 in relation to the premises located at 2801-2803 Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong;

(f) a licence agreement dated 25 May 2009 entered into between Top Promise Resources Limited as licensor and the Company as licensee, under which a license in relation to the premises located at 2801-2803 Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong was granted by Top Promise Resources Limited to the Company at a licence fee of HKD1.00 per month;

(g) the deed of non-competition undertaking dated 28 May 2009 given by Mr. Suo Lang Duo Ji and Nice Ace in favour of the Company;

(h) the deed of indemnity dated 3 June 2009 given by each of Nice Ace and Mr. Suo Lang Duo Ji in favor of the Group;

(i) the underwriting agreement dated 3 June 2009 entered into among Credit Suisse (Hong Kong) Limited, BOCI Asia Limited, Macquarie Capital Securities Limited, China International Capital Corporation Hong Kong Securities Limited, Chief Securities Limited, VC Brokerage Limited and Kingsway Financial Services Group Limited (as underwriters) all being third parties independent of the Company and the Company in connection with the initial public offering of the Company on 16 June 2009;

(j) an equity transfer agreement entered into between Sichuan First Silk Printing & Dyeing Co., Ltd., which as at the date of the equity transfer agreement held a 10% equity interest in Sichuan Chuanmei Mirabilite Co., Ltd. and which otherwise is a third party independent from the Company as vendor and Top Promise Resources Limited as purchaser dated 19 August 2009, pursuant to which the vendor has sold 10% equity interest in Sichuan Chuanmei Mirabilite Co., Ltd. at the consideration of RMB264 million;

(k) a purchase agreement entered into among the Company as the issuer, Rich Light International Limited a wholly owned subsidiary of the Company and Top Promise Resources Limited as guarantors and BOCI Asia Limited, Credit Suisse Securities (Europe) Limited and Deutsche Bank Securities Inc., all being third parties independent of the Company, as the initial purchasers dated 21 October 2009, in relation to the issue of USD250 million 12% senior notes due 2014;

(l) a share charge over Top Promise Resources Limited entered into between Rich Light International Limited as chargor and Citicorp International Limited as trustee dated 27 October 2009, pursuant to which Rich Light International Limited agreed to charge its interest in all of the shares it beneficially owned in Top Promise Resources Limited in favour of Citicorp International Limited;

(m) a share charge over Rich Light International Limited entered into between the Company as chargor and Citicorp International Limited as security trustee dated 27 October 2009, pursuant to which the Company agreed to charge its interest in all of the shares it beneficially owned in Rich Light International Limited in favour of Citicorp International Limited;

(n) a memorandum of understanding entered into among Sichuan Yinglin Enterprises Group Company Limited, Ms Tong Jing and Mr. Tong Xiaochuan, all being independent third parties, the Company, as proposed vendors and Sichuan Chuanmei Mirabilite Co., Ltd. dated 27 September 2010, pursuant to which Sichuan Chuanmei Mirabilite Co., Ltd. intends to acquire from the proposed vendors the entire equity interest in each of the Sichuan Yinglin Enterprises Group Danling Industry Company Limited (四川應林企業集團丹棱化工有限公司) and Sichuan Yinglin Enterprises Group Pengshan Chuan Industry Company Limited (四川應林企業集團彭山川化工有限公司);

(o) the Sale and Purchase Agreement;

(p) the first supplemental agreement to the Sale and Purchase Agreement entered into between the Company and the Vendors on 4 November 2010; and

(q) the second supplemental agreement to the Sale and Purchase Agreement entered into between the Company and the Vendors on 12 November 2010.

The Target Group

(a) a subscription agreement dated 30 October 2009 entered into between, among others, the Target and BOCOM for convertible notes with maximum principal amount of USD40 million;

(b) a supplemental subscription agreement dated 6 November 2009 entered into between BOCOM, Suo Lang Duo Ji and the Target, under which the parties agreed to increase the subscription amount from USD10 million to the maximum USD50 million;

(c) an instrument constituting warrants dated 5 November 2010 entered into between, among others, the Target and Credit Suisse AG, Singapore branch to subscribe for shares in the Target;

(d) a pledge agreement dated 10 November 2010 entered into between Target HK as pledgor, Deyang Materials and Credit Suisse AG, Singapore branch as security agent, pursuant to which Target HK pledges in favour of Credit Suisse AG, Singapore branch over all the pledged equity held by Target HK in Deyang Materials;

(e) a pledge agreement dated 10 November 2010 entered into between Target HK as pledgor, Deyang Chemical and Credit Suisse AG, Singapore branch as security agent, pursuant to which Target HK pledges in favour of Credit Suisse AG, Singapore branch over all the pledged equity held by Target HK in Deyang Chemical;

(f) a debenture dated 9 November 2010 entered into between Target BVI and Credit Suisse AG, Singapore branch as security agent, under which Target BVI agreed to charge its beneficial title and interest in and to the charged property in favour of Credit Suisse AG, Singapore branch;

(g) an issuer account charge dated 9 November 2010 entered into between the Target as chargor and Credit Suisse AG, Singapore branch as security agent, pursuant to which the Target has agreed to charge its legal and beneficial title and interest in and to the interest reserve account in favour of Credit Suisse AG, Singapore branch;

(h) a debenture dated 9 November 2010 entered into between Target HK as company and Credit Suisse AG, Singapore branch as security agent, pursuant to which Target HK agreed to charge its beneficial title and interest in and to the charged property in favour of Credit Suisse AG, Singapore branch;

(i) a share charge in respect of shares of Target BVI dated 9 November 2010 entered into between the Target as chargor and Credit Suisse AG, Singapore branch as security agent, pursuant to which the Target agreed to charge its legal and beneficial interest in all of the shares beneficially owned by the Target in Target BVI to Credit Suisse AG, Singapore branch;

(j) a Haton HK share charge dated 9 November 2010 entered into between Target BVI as chargor and Credit Suisse AG, Singapore branch as security agent, pursuant to which Target BVI agreed to charge its beneficial title and interest in and to the charged portfolio in favour of Credit Suisse AG, Singapore branch; and

(k) a debenture dated 9 November 2010 entered into between the Target as company and Credit Suisse AG, Singapore branch as security agent, pursuant to which the Target agreed to charge its beneficial title and interest in and to the charged property in favour of Credit Suisse AG, Singapore branch.

13. GENERAL

(a) The registered office of the Company is located at Appleby Trust (Cayman) Limited, Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(b) The head office and principal place of business in the PRC of the Company is located at Block 9, Hi-Tech Incubation Park, Tianfu Avenue, Chengdu, Sichuan Province, PRC 610041.

(c) The principal place of business of the Company in Hong Kong is located at Units 7503B, 7504 and 7505, Level 75 International Commerce, Centre, 1 Austin Road West, Kowloon, Hong Kong.

(d) The principal place of business of the Independent Financial Adviser in Hong Kong is located at 36/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(e) The company secretary of the Company is Mr. Wong Kui Tong, who is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(f) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(g) The address of BOCOM is 9th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong. BOCOM is the financial adviser of the Company.

(h) The address of Mr. Suo Lang Duo Ji is at Flat A, 78/F, Moon Tower, The Arch, Kowloon, Hong Kong.

(i) The registered office of Ascend is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owner of Ascend is Mr. Suo Lang Duo Ji. The director of Ascend is Mr. Suo Lang Duo Ji.

(j) The registered office of Nice Ace is at Portcullis TrustNet (BVI) Limited, Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owner of Nice Ace is Mr. Suo Lang Duo Ji. The director of Nice Ace is Mr. Suo Lang Duo Ji.

(k) The registered office of Mandra Esop is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owners of Mandra Esop are Mr. Zhang Songyi and his wife, Ms. Mui Bing How. The director of Mandra Esop is Mr. Zhang Songyi.

(l) The registered office of Mandra Materials is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owners of Mandra Materials are Mr. Zhang Songyi and his wife, Ms. Mui Bing How. The director of Mandra Materials is Mr. Zhang Songyi.

(m) The registered office of Woo Foong Hong is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owner of Woo Foong Hong is Moonchu, a tax exempt charity established by Mr. Zhang Songyi and his family. The directors of Woo Foong Hong are Mr. Zhang Songyi and his wife, Mui Bing How.

(n) The registered office of Mandra Mirabilite Limited is at Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owner of Mandra Mirabilite Limited is Moonchu. The director of Mandra Mirabilite is Mr. Zhang Songyi.

(o) The registered office of Triple A Investments is at Commonwealth Trust Limited, Drake Chambers, Tortola, British Virgin Islands. The ultimate beneficial owners of Triple A Investments are Mr. Wang Chun Lin and his wife, Ms. Caroline Chan Hiu Lai. The directors of Triple A Investments are Mr. Wang Chun Lin and his wife, Caroline Chan Hiu Lai.

(p) The registered office of AAA Mining Limited is at Portcullis TrustNet (BVI) Limited, Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owners of AAA Mining Limited are Mr. Wang Chun Lin and his wife, Ms. Caroline Chan Hiu Lai. The directors of AAA Mining Limited are Mr. Wong Chen Lin and his wife, Caroline Chan Hiu Lai.

(q) The registered office of Sky Success is at P.O. Box 933, 3rd Floor, Omar Hodge Building, Wickhams Cay, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owner of Sky Success is Wan Keung. The director of Sky Success is Wan Keung.

(r) The registered office of Ying Mei is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The ultimate beneficial owners of Ying Mei are Chung Mei Chai and Chu Chuang Chieh. The director of Ying Mei is Chung Mei Chai.

(s) The English text of this circular prevails over its Chinese translation in the case of discrepancy.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at (i) the principal place of business in Hong Kong of the Company at Units 7503B, 7504 and 7505, Level 75 International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, during normal business hours from 10:00 a.m. to 5:00 p.m. on any weekday (except public holidays); and (ii) on the website of the SFC (www.sfc.hk); and (iii) the Company's website (www.lumena.hk) from the date of the circular up to and including the date of the EGM:

(a) the Memorandum and Articles of Association;

(b) the memorandum and articles of association of the Target;

(c) the accountant's report of the Company for the year ended 31 December 2008, the annual report of the Company for the year ended 31 December 2009 and the interim report of the Company for the six months ended 30 June 2010;

(d) the letter from the Board, the text of which is set out on pages 14 to 106 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on page 107 of this circular;

(f) the letter from the Independent Financial Adviser, the text of which is set out on pages 108 to 138 of this circular;

(g) the accountants' report of the Target Group, the text of which is set out in Appendix II;

(h) the accountants' report in respect of the unaudited proforma financial information of the Enlarged Group, the text of which is set out in Appendix V;

(i) the property valuation report relating to the property interests of the Group, the text of which is set out in Appendix VI;

(j) the service contracts of the Directors as set out in the paragraph headed "Service Contracts" in this Appendix VII;

(k) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix VII;

(l) the written consents referred to in the paragraph headed "Consents of Experts" in this Appendix VII; and

(m) the PPS Market Research Report.

LUMENA RESOURCES CORP.
旭光資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 67)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "Meeting") of Lumena Resources Corp. (the "Company") will be held at Bowen Room, 7/F, Conrad Hong Kong, 88 Queensway, Admiralty, Hong Kong on 30 December 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions of the Company:

ORDINARY RESOLUTIONS:

1. "**THAT**

(a) the acquisition of up to 95% but not less than 89.49% of the equity interest in Sino Polymer New Materials Co., Ltd. ("the Target") pursuant to the Sale and Purchase Agreement (as defined in the circular of the Company dated 14 December 2010 (the "Circular")), which has been entered into between the Company (as purchaser) and Mr. Suo Lang Duo Ji, Ascend Concept Technology Limited ("Ascend"), Mandra Esop Limited, Mandra New Materials Limited, Woo Foong Hong Limited, Triple A Investments Limited, MS China 10 Limited, Ying Mei Group Limited, Sky Success Investments Ltd. and all the Other Vendors (as defined in the Circular) (as vendors) ("Vendors"), a copy of which has been produced to the meeting marked "A" and initialled by the chairman of the meeting for the purposes of identification, and all transactions contemplated thereby, including, without limitation, the acquisition of any additional Target Shares (as defined in the Circular) held on Completion by any Warrant Holder, BOCOM or Non-Selling Shareholder (each as defined in the Circular) which has acceded to the Sale and Purchase Agreement pursuant to any accession deed ("Accession Deed") entered into by such Warrant Holder, BOCOM or Non-Selling Shareholder and the Company before Completion (copies of which have been produced to the meeting marked "B" and initialed by the chairman of the meeting for the purposes of identification) in which case the Company will acquire up to 100% of the equity interest in the Target, be and are hereby approved;

(b) the directors of the Company ("Directors") be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Sale and Purchase Agreement and all transactions contemplated thereby, including, without limitation, the execution of any Accession Deed with any Warrant Holder, BOCOM or Non-Selling Shareholder;

(c) the Directors be and are hereby authorised, for and on behalf of the Company, to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Sale and Purchase Agreement including, without limitation, the execution of any Accession Deed with any Warrant Holder, BOCOM or Non-Selling Shareholder and to agree to any amendment to any of the terms of the Sale and Purchase Agreement which in the opinion of the Directors is not of a material nature and is in the interests of the Company;

(d) the increase of the authorised share capital of the Company from USD50,000 to USD100,000 by the creation of an additional 5,000,000,000 shares of USD0.00001 each of the Company, be and is hereby approved; and

(e) the allotment and issue of up to 3,324,214,287 Consideration Shares (as defined in the Circular) as set out in the Circular on and subject to the terms of the Sale and Purchase Agreement (as defined in the Circular), be and are hereby approved."

2. "**THAT** subject to the Executive (as defined in the Circular) granting to Mr. Suo Lang Duo Ji and his associates and parties acting in concert with any of them the Whitewash Waiver (as defined in the Circular) and the satisfaction of any condition(s) attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers ("Takeovers Code") waiving any obligation on Mr. Suo Lang Duo Ji and his associates and parties acting in concert with any of them to make a mandatory general offer to the holders of securities of the Company to acquire securities in the Company other than those already owned by Mr. Suo Lang Duo Ji and his associates and parties acting in concert with any of them which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of the allotment and issue of the Consideration Shares to Mr. Suo Lang Duo Ji and his associates and parties acting in concert with any of them pursuant to the Sale and Purchase Agreement be and is hereby approved."

3. "**THAT** the Directors be and are hereby authorised to allot and issue the Additional Shares (as defined in the Circular) subject to the following:

   (a) the maximum number of Additional Shares which can be allotted and issued pursuant to the New Issue (as defined in the Circular) shall be up to 1,056,372,390 Shares but in no event Shares representing more than 20.00% of the total number of issued Shares if enlarged by the issue of the Consideration Shares;

   (b) any allotment and issue of Additional Shares pursuant to this ordinary resolution shall be made on such terms and conditions as the Directors (or a duly authorised committee thereof) consider to be appropriate and in the best interests of the Company and subject to the other conditions, including size, timing and price, as mentioned in this ordinary resolution;

   (c) the price at which any or all of the Additional Shares may be allotted and issued pursuant to this ordinary resolution shall be determined by reference to the prevailing market price of the Shares at the time of offering and all other relevant market considerations. Such price will in any event not represent a discount of 20% or more to the benchmarked price (as set out in Rule 13.36(5) of the Listing Rules) of the Shares;

   (d) any Additional Shares which may be allotted and issued pursuant to this ordinary resolution shall be offered to investors who are independent of and not connected with the Company and the Directors, chief executive and substantial shareholder of the Company and its subsidiaries and/or any of their respective associates or any connected persons;

   (e) the listing of, and permission to deal in, any Additional Shares to be allotted and issued pursuant to this ordinary resolution shall be granted by the Stock Exchange; and

   (f) the authority to the Directors to allot and issue the Additional Shares pursuant to this ordinary resolution shall lapse on 30 June 2011, being the date falling six months following the passing of this ordinary resolution."

By order of the Board
Lumena Resources Corp.
Zhang Daming
Chief Executive Officer and Executive Director

Hong Kong, 14 December 2010

Notes:

(1) A member entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the Meeting is enclosed.

(2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

(4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(5) As at the Latest Practicable Date, the executive Directors are Mr. Zhang Daming, Mr. Yu Man Chiu Rudolf 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. Koh Tiong Lu, John, Mr. Wong Chun Keung, Mr. Gao Zongze and Mr. Xia Lichuan.