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南嶺化工(國際)控股有限公司
Yun Sky Chemical (International) Holdings Limited
(Incorporated in Hong Kong with limited liability)
(Stock code: 00663)

**VERY SUBSTANTIAL ACQUISITION
RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED
SHARE CAPITAL OF TRIUMPH FUND A LIMITED
AND
RESUMPTION OF TRADING**

Financial Adviser to the Company



VERY SUBSTANTIAL ACQUISITION

On 15 September 2009, the Purchaser, a direct wholly-owned subsidiary of the Company and the Vendor, entered into the Sale and Purchase Agreement, whereby the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares for a consideration of HK\$1,855 million, subject to adjustment. The Consideration is to be settled in full by the issue of the Convertible Notes by the Company upon Completion. The Convertible Notes can be converted into Conversion Shares at the initial conversion price of HK\$0.0625 per Share (subject to adjustment).

The Target Group is engaged in the business of coal mining and coal selling, subject to the expansion of the business scope of Hengtai's business licence. Hengtai holds the mining licences for the Coal Mines which are located in Dongsheng District of Ordos City, Inner Mongolia Autonomous Region, the PRC. Details of the Target Group and the Coal Mines are set out, respectively, in the section headed "Information on the Target Group" and "The Coal Mines" below.

Upon full conversion of the Convertible Notes based on the initial conversion price of HK\$0.0625 per Share, in maximum, 29,680,000,000 Conversion Shares will be issued, representing approximately 924.68% of the existing issued share capital of the Company or approximately 90.24% of the enlarged issued share capital of the Company.

Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules exceed 100%, the Acquisition contemplated under the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company and is therefore subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, neither the Vendor nor any of its associates holds any Shares as at the date of this announcement and no Shareholder has a material interest in the Acquisition, and therefore no Shareholder is required to abstain from voting on the resolution to approve the Acquisition and the transactions contemplated thereunder at the EGM.

A circular containing, amongst other things, details of the Acquisition and the transactions contemplated under the Sale and Purchase Agreement including details of the Convertible Notes, financial information of the Group and the Target Group, a technical report on the Coal Mines as required under Chapter 18 of the Listing Rules and a valuation report on the Target Company will be dispatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading of the Shares was suspended with effect from 2:30 pm on Tuesday, 15 September 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 am on 24 September 2009.

Completion of the Acquisition is subject to fulfillment of the Conditions Precedent and therefore the Acquisition may or may not proceed. Shareholders and investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 15 September 2009, the Purchaser, a direct wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, whereby the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares for a consideration of HK\$1,855 million, subject to adjustment.

THE ACQUISITION

The Sale and Purchase Agreement

Date

15 September 2009

Parties

- (i) Mr. Zhao Ming, as the vendor of the Sale Shares;
- (ii) Magic Field International Limited, a direct wholly-owned subsidiary of the Company, as the purchaser of the Sale Shares; and
- (iii) the Company, as the guarantor of the Purchaser

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Zhao Ming is an Independent Third Party.

Asset to be acquired

The Sale Shares, being the entire issued share capital of the Target Company.

Consideration

The Consideration for the sale and purchase of the Sale Shares shall be HK\$1,855 million, subject to adjustment as described in the paragraph headed "Adjustment to Consideration" below, which sum shall be satisfied by the issue of the Convertible Notes by the Company to the Vendor upon Completion.

The Consideration was based on normal commercial terms and determined after arm's length negotiation between the Purchaser and the Vendor and based on 90% of the valuation of the Coal Mines appraised by a professional independent valuer, B.I. Appraisals Limited, appointed by the Company less the total liabilities of Hengtai as recorded in the management accounts as at 30 June 2009. The 10% discount to the valuation of the Coal Mines was a commercial term agreed mutually by the Purchaser and the Vendor. The valuation report relating to the Coal Mines will be included in the circular to be despatched to the Shareholders.

As at the date of this announcement, the aggregate preliminary value indication of the Coal Mines estimated by the professional independent valuer appointed by the Company is approximately RMB3,100 million, and the unaudited total liabilities of Hengtai as at 30 June 2009 (based on management accounts provided by the Vendor) was approximately RMB1,150 million. The preliminary value indication was arrived at based on the market transaction method. As advised by the valuer, the market transaction method determines the fair value of an asset by reference to the transaction price, or "valuation multiples" implicit in the transaction prices, of similar assets in the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar assets by a measurement unit. In working out the valuation multiples for a coal mine, the amounts for resources, reserves or output of transacted coal mines are considered to be appropriate measurement units.

Adjustment to Consideration

The Vendor shall within one month from the Completion Date provide the Completion Accounts to the Purchaser. In the event that the total liabilities as recorded in the Completion Accounts were higher than RMB1,150 million, the Vendor shall pay the Purchaser the amount equivalent to the difference between the total liabilities as recorded and RMB1,150 million. The Purchaser may require the Completion Accounts to be audited by Hong Kong qualified accountants to be appointed by the Purchaser (with the consent of the Vendor, such consent shall not be unreasonably withheld) within a period of three months from the date of provision of the Completion Accounts. If the total liabilities of the Target Group calculated with reference to the audited Completion Accounts exceed that disclosed in the Completion Accounts, the Consideration shall be further reduced by the amount of such excess.

Conditions Precedent

Completion is conditional upon the satisfaction or waiver of the following conditions:

- (a) the passing of the necessary resolution(s) by the Shareholders in a general meeting to approve the Sale and Purchase Agreement and the transactions contemplated thereunder including the issue of the Convertible Notes and the issue and allotment of the Conversion Shares;
- (b) the Purchaser being reasonably satisfied with the results of its due diligence review on the Target Group including but not limited to its affairs, business, assets, performance, group structure as well as legal and financial aspects;
- (c) the Purchaser having obtained a legal opinion (which is in both form and substance reasonably satisfactory to the Purchaser) issued by a PRC legal adviser reasonably acceptable to the Purchaser in respect of the Target Group which includes:
 - (i) the due incorporation and valid subsistence of each member of the Target Group (except the Target Company);
 - (ii) the approval, consent, licence and/or permit which are required by each member of the Target Group (except the Target Company) for its operation, including but not limited to Hengtai having obtained a business licence with the scope of business expanded to include coal mining and selling;
 - (iii) the legality of the operation, business and assets of each member of the Target Group (except the Target Company);
 - (iv) the PRC Acquisition, the Sale and Purchase Agreement and the transactions contemplated thereunder will not be in breach of the Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of Financing and Round Trip Investment Undertaken by Domestic Residents through Overseas Special-Purpose Vehicles issued on 21 October 2005 and the Implementing Rules for the Notice of the State Administration of Foreign Exchange on the Relevant Issues about Foreign Exchange Control over the Financing and Round Trip Investment of Domestic Residents through Overseas Special Purpose Companies issued on 29 May 2007; and other matters as may be reasonably required by the Purchaser;

- (d) the Purchaser having obtained a legal opinion (which is in both form and substance reasonably satisfactory to the Purchaser) issued by a Cayman Islands law firm acceptable to the Purchaser confirming that the Target Company has been duly incorporated and is in good standing together with certificates of incumbency showing the directors and shareholders of the Target Company, and such legal opinion shall be dated no earlier than 7 days prior to the Completion Date;
- (e) the Purchaser having obtained a valuation report on the Coal Mines, which is in both form and substance reasonably satisfactory to the Purchaser, showing that the valuation of the Coal Mines as at the date of the Sale and Purchase Agreement is not less than RMB3,100 million;
- (f) the Purchaser having obtained a report on the Coal Mines issued by a technical adviser, which complies with the relevant requirements of Rule 18.07 of the Listing Rules and is in both form and substance reasonably satisfactory to the Purchaser;
- (g) no material adverse change to the financial position, business, assets, results of operations or prospects of the Target Group having occurred since the date of the Sale and Purchase Agreement;
- (h) the representations and warranties made or given by the Vendor under the Agreement remaining true and accurate, and not misleading, in all material respects as at the Completion Date; and
- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

The Purchaser may in its absolute discretion at any time waive the conditions set out in paragraphs (b), (c), (d), (e), (f), (g) and (h). In the event that the above conditions are not fulfilled (or waived by the Purchaser) on or before Long Stop Date and/or the conditions in paragraphs (g) and (h) do not remain fulfilled on the Completion Date, all rights, obligations and liabilities of the parties under the Sale and Purchase Agreement shall cease and determine and none of the parties shall have any claim against the other save and except any antecedent breach.

Completion

Completion shall take place at 3:00 pm on the date falling three Business Days after the fulfillment (or waiver) of the Conditions Precedent, or such later date as the Purchaser and the Vendor may agree in writing.

Upon Completion, the Purchaser shall own 100% of the equity interest of the Target Company and the financial results of the Target Group will be consolidated into that of the Group.

The Put Option

Under the Sale and Purchase Agreement, the Vendor has (in consideration of HK\$10) granted to the Purchaser the Put Option under which the Purchaser can require the Vendor to buy back the entire issued share capital of the Target company within one year from the Completion Date. The exercise price of the Put Option is equal to (i) the Consideration under the Sale and Purchase Agreement; plus (ii) total fund contributed by the Purchaser to the Target Group from the Completion Date up to the date of the exercise of the Put Option; and minus (iii) total amount received by the Purchaser from the Target Group from the Completion Date up to the date of the exercise of the Put Option, subject to the exercise price shall not be higher than the Consideration under the Sale and Purchase Agreement. The exercise price will be paid by the Vendor by deducting and canceling the equivalent principal amount of the Convertible Notes held by the Vendor and if there is a difference between the exercise price and the principal amount of the Convertible Notes then outstanding, the difference shall be settled by cash between the Purchaser and the Vendor.

The Purchaser is entitled to waive its right under the Put Option within nine months from the Completion Date and in such event, the Consideration under the Sale and Purchase Agreement will be reduced by HK\$50 million and an equivalent principal amount of the Convertible Notes will be cancelled by the Company accordingly. The Company will comply with, among others, Rule 14.75(2) of the Listing Rules, upon exercise of the Put Option.

CONVERTIBLE NOTES

The Consideration is to be satisfied by the issue of the Convertible Notes. The principal terms of the Convertible Notes are as follows:

Issuer:	The Company
Principal amount:	HK\$1,855 million
Maturity date (“Maturity Date”):	the 5th anniversary of the issue date of the Convertible Notes, and if that is not a Business Day, the immediately following Business Day
Interest:	The Convertible Notes shall bear no interest

Conversion price:

HK\$0.0625 per Conversion Share, subject to usual anti-dilution adjustments for, among others, (i) consolidation or subdivision of Shares; (ii) capitalisation of profits or reserves of the Company; (iii) capital distributions by the Company; (iv) rights issues of Shares or grant of warrants or options over Shares at a price which is less than 90% of the then market price of the Shares; (v) issues of securities to all Shareholders by way of rights or grant to all Shareholders by way of rights, options, warrants or other rights to subscribe for or purchase any securities; (vi) issue by the Company wholly for cash Shares at a price which is less than 90% of the then market price of the Shares; (vii) issue by the Company (otherwise than as mentioned in paragraphs (iv), (v) or (vi) above) wholly for cash any securities (other than the Convertible Notes) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares at a price which is less than 90% of the then market price of the Shares and (viii) modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned above so that following such modification the consideration per Share receivable by the Company in respect of such conversion, exchange or subscription is less than 90% of the then market price of the Shares. Each adjustment to the conversion price will be certified either by the auditors of the Company for the time being or by an approved financial adviser.

The initial conversion price of HK\$0.0625 represents:

- (i) a discount of about 69.2% to the closing price of HK\$0.2030 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of about 64.8% to the average of the closing price of HK\$0.1774 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of about 59.7% to the average of the closing price of HK\$0.1550 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

- (iv) a discount of about 59.1% to the average of the closing price of HK\$0.1527 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day; and
- (v) a premium of approximately 285.8% over the audited net assets value per Share attributable to equity shareholders of the Company as at 31 December 2008 of approximately HK\$0.0162 per Share.

The conversion price was determined after arm's length negotiations between the Company and the Vendor with reference to net assets value per Share of the Company as at 31 December 2008 and the Consideration on the basis of the full conversion of the Convertible Notes. Given that the Conversion Price represents a premium of approximately 285.8% over the audited net assets value per Share attributable to equity shareholders of the Company as at 31 December 2008 of approximately HK\$0.0162 per Share, the Directors are of the view that the Conversion Price is fair and reasonable and is in the interest of the Company and its shareholders as a whole.

Commencement date
("Commencement Date")
for conversion and transfer:

The earlier of the first Business Day immediately following (i) 12 months from the date of issue of the Convertible Notes; and (ii) the date on which the Put Option is terminated or cancelled.

Conversion period
("Conversion Period):

The period commencing from the Commencement Date up to 4:00 pm (Hong Kong time) on the Maturity Date.

Conversion:

The holder of Convertible Notes shall have the right to convert at any time during the Conversion Period the whole or part of the principal amount of the Convertible Notes (in minimum amount of HK\$500,000 or integral multiple thereof) into Conversion Shares at the then applicable conversion price save that if the then aggregate outstanding principal amount of the Convertible Notes is less than HK\$500,000, the whole (but not part only) of the outstanding principal amount of the Convertible Notes shall be converted.

The Conversion Rights shall not be exercised by the holder(s) of the Convertible Notes if, immediately following conversion: (i) the relevant holder(s) of the Convertible Notes, together with the parties acting in

concert with it, will hold or control 29.9% or more of the issued share capital of the Company (or such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer), or if the holder(s) of the Convertible Notes would otherwise be obliged to make a mandatory general offer under the Takeovers Code; or (ii) the Company will be unable to meet the public float requirement under the Listing Rules.

The Conversion Shares shall, when issued, rank pari passu in all respects with all the Shares then in issue on the date of conversion including the right to any dividends or distributions.

Status: The obligations of the Company arising under the Convertible Notes constitute general, unconditional, unsecured and unsubordinated obligations of the Company and rank, and shall rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

Redemption: The Company has the right at any time after the 3rd anniversary of the issue date of the Convertible Notes to redeem in whole or in part (in minimum amount of HK\$500,000 or integral multiple thereof) the Convertible Notes at par. Any principal amount of the Convertible Notes which remains outstanding on the Maturity Date shall be redeemed at par.

Transferability: The Convertible Notes cannot be assigned or transferred prior to the Commencement Date but after that the Convertible Notes may be assigned or transferred in minimum amount of HK\$500,000 or integral multiple thereof provided that any transfer or assignment to connected person of the Company shall be subject to the consent of the Company and, if required, the approval of the Stock Exchange.

Voting rights: A holder of the Convertible Notes will not be entitled to attend or vote at any shareholders' meetings of the Company by reason of it being a holder of the Convertible Notes.

Listing: The Convertible Notes will not be listed on the Stock Exchange or any other stock exchange.

Governing Law: Hong Kong

Shareholders' approval will be sought at the EGM for the grant of the specific mandate in respect of the Conversion Shares and the Conversion Shares will be allotted and issued pursuant to such specific mandate. Application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Conversion Shares. Upon full conversion of the Convertible Notes based on the initial conversion price of HK\$0.0625 per Share, in maximum, 29,680,000,000 Conversion Shares will be issued, representing approximately 924.68% of the existing issued share capital of the Company or approximately 90.24% of the enlarged issued share capital of the Company.

EFFECT ON SHAREHOLDING OF THE COMPANY

Set out below is a summary of the shareholding of the Company (i) at the date of this announcement, and (ii) immediately after Completion, assuming full conversion of the Convertible Notes and full exercise of the outstanding share options of the Company, each prepared on the basis that there would be no change in the issued share capital of the Company after the date of this announcement other than as stated in each scenario.

	As at the date of this announcement		Immediately after Completion, assuming conversion of the Convertible Notes to the extent that the holder of the Convertible Notes holds or controls 29.9% of the issued share capital of the Company		Immediately after Completion, assuming full conversion of the Convertible Notes at the initial Conversion price of HK\$0.0625 per Share and full exercise of the outstanding share options of the Company (Note 2)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. Chan Yuen Ming (note 1)	1,647,746,948	51.34	1,647,746,948	35.99	1,647,746,948	5.01
The Vendor	-	-	1,369,063,149	29.90	29,680,000,000	90.21
Holder of outstanding options of the Company	-	-	-	-	12,320,000	0.04
Public Shareholders	1,561,996,422	48.66	1,561,996,422	34.11	1,561,996,422	4.75
Total	3,209,743,370	100.00	4,578,806,519	100.00	32,902,063,370	100.00

Notes:

- Mr. Chan Yuen Ming is the sole shareholder of Sinogreat Limited which owns 1,629,464,158 Shares. Probest Holdings Inc., a company incorporated in the BVI and a wholly-owned subsidiary of Tomorrow International Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange and is controlled by Mr. Chan Yuen Ming, owns 18,282,790 Shares.
- The column in respect of the full conversion of the Convertible Notes is for illustrative purpose only. Pursuant to the terms of the Convertible Notes, the Conversion Rights shall not be exercised by the holder(s) of the Convertible Notes if, immediately following the conversion, (i) the relevant holder(s) of the Convertible Notes, together with the parties acting in concert with it, will hold or control 29.9% or more of the issued share capital of the Company (or such other amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer), or if the holder(s) of the Convertible Notes would otherwise be obliged to make a mandatory general offer under the Takeovers Code; or (ii) the Company will be unable to meet the public float requirement under the Listing Rules.

INFORMATION ON THE TARGET GROUP

The Target Group is engaged in the business of coal mining and coal selling, subject to the expansion of the business scope of Hengtai's business licence, and comprises 4 companies, details of which are set out below. Save for the licences described in the paragraph headed "Hengtai" below for which Hengtai is in the course of applying, the Target Group has obtained all necessary licenses and permits for its operation. The status of license application of Hengtai is set out in the paragraph headed "Hengtai" below.

The Target Company

The Target Company is principally engaged in investment holding. The sole asset of the Target Company is its investment in Shanxi Hengchuang. The Target Company has not commenced any business since its incorporation. Accordingly, no sale or turnover or profit or loss was recorded since its incorporation.

Shanxi Hengchuang

Shanxi Hengchuang is wholly owned by the Target Company and is a wholly foreign owned enterprise established on 31 March 2008 in the PRC. The registered capital of the Shanxi Hengchuang amounts to US\$75,000,000, of which US\$20,000,000 has been paid up.

The business scope of Shanxi Hengchuang is, amongst others, the development and marketing of coal and environmentally friendly energy development technology. Under the Sale and Purchase Agreement, Shanxi Hengchuang will, upon completion of the PRC Acquisition which shall take place prior to Completion, own 99% of the equity interests in Shanxi Puhua. The remaining one percent interest will be held by a PRC citizen who, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, is an Independent Third Party.

As at the date of this announcement, Shanxi Hengchuang has not commenced any business since its incorporation. According to the management accounts of Shanxi Hengchuang, the turnover, net loss before and after taxation of Shanxi Hengchuang for the period from its date of establishment to 31 December 2008 were approximately RMB0, RMB61,484 and RMB61,484 respectively.

Shanxi Puhua

Shanxi Puhua is a limited liability company incorporated in the PRC on 19 June 2003. As at the date of this announcement, the registered capital, which has been fully paid up of Shanxi Puhua amounted to RMB150 million. Under the Sale and Purchase Agreement, Shanxi Puhua will be, upon Completion of the PRC Acquisition which shall take place prior to Completion, owned as to 99% by Shanxi Hengchuang and 1% by a PRC citizen who, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, is an Independent Third Party.

The business scope of Shanxi Puhua is the production of iron, steels, refractory materials, coal products, ferroalloy and pig iron. Shanxi Puhua is an investment holding company and thus has not commenced any business since its incorporation.

According to the management accounts of Shanxi Puhua prepared in accordance with the PRC accounting standards made up to 31 December 2007, the turnover, net loss before and after taxation of Shanxi Puhua for the year ended 31 December 2007 were approximately RMB0, RMB3.2 million and RMB3.2 million respectively. There was no extraordinary item noted for Shanxi Puhua for the year ended 31 December 2007. Since Shanxi Puhua incurred financial expenditure for the acquisition of Hengtai in year 2007, it recorded a net loss of approximately of RMB3.2 million, even Shanxi Puhua has not commenced any business since its incorporation and did not recorded any revenue in year 2007.

According to the management accounts of Shanxi Puhua prepared in accordance with the PRC accounting standards, the total assets and net assets of Shanxi Puhua as at 31 December 2007 under the PRC accounting standards were approximately RMB153.3 million and RMB46.8 million respectively.

According to the management accounts of Shanxi Puhua prepared in accordance with the PRC accounting standards made up to 31 December 2008, the turnover, net profit before and after taxation of Shanxi Puhua for the year ended 31 December 2008 were approximately RMB0, RMB1.4 million and RMB1.4 million respectively. There was no extraordinary item noted for Shanxi Puhua for the year ended 31 December 2008.

According to the management accounts of Shanxi Puhua prepared in accordance with the PRC accounting standards, the total assets and net assets of Shanxi Puhua as at 31 December 2008 under the PRC accounting standards were approximately RMB1,033.9 million and RMB226.8 million respectively. The significant increase in the total assets of Shanxi Puhua in year 2008 was mainly due to the increase in borrowing to finance the acquisition of Hengtai while the increase in the net assets in year 2008 was due to the increase in registered capital and capital reserve.

Hengtai

Hengtai is a limited liability company established in the PRC on 3 June 2005. As at the date of this announcement, the registered capital of Hengtai, which has been fully paid up, amounted to RMB180 million.

As at the date of this announcement, the registered and paid up capital of Hengtai is owned as to 95% by Shanxi Puhua and 5% by Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. (鄂爾多斯市東勝區普華德勤商貿有限公司) which, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, is an Independent Third Party.

The current business scope of Hengtai is the sale of mechanical equipment and accessories in relation to coal. As at the date of this announcement, Hengtai is the registered and beneficial owner of the mining licenses over the Coal Mines. Hengtai is under the testing operation of Coal Mine No.1 and is now applying for a Coal Production Permit (煤炭生產許可證) and a Coal Production Safety Permit (安全生產許可證), and preparing for the joint check and acceptance procedures of the government. It is expected that the whole application process will finish in the near future, and the said permits are expected to be available by October 2009.

According to the audited accounts of Hengtai prepared in accordance with the PRC accounting standards made up to 31 December 2007, the turnover, net loss before and after taxation of Hengtai for the year ended 31 December 2007 were approximately RMB5.0 million, RMB1.5 million and RMB1.5 million respectively. There was no extraordinary item noted for Hengtai for the year ended 31 December 2007.

According to the audited accounts of Hengtai prepared in accordance with the PRC accounting standards, the audited total assets and net assets of Hengtai as at 31 December 2007 under the PRC accounting standards were approximately RMB308.6 million and RMB181.5 million respectively.

According to the management accounts of Hengtai prepared in accordance with the PRC accounting standards made up to 31 December 2008, the turnover, net profit before and after taxation of Hengtai for the year ended 31 December 2008 were approximately RMB11.0 million, RMB8.6 million and RMB6.5 million respectively. There was no extraordinary item noted for Hengtai for the year ended 31 December 2008.

According to the management accounts of Hengtai prepared in accordance with the PRC accounting standards, the total assets and net assets of Hengtai as at 31 December 2008 under the PRC accounting standards were approximately RMB976.0 million and RMB190.1 million respectively. The total assets of Hengtai increased significantly in year 2008 and such increase was mainly attributed to the construction of the Coal Mines which was financed by borrowing.

THE PRC ACQUISITION

The PRC Acquisition shall take place prior to Completion so that Shanxi Hengchuang will own 99% of the equity interest of Shanxi Puhua. The consideration for the PRC Acquisition is equivalent to the net asset value of Shanxi Puhua as at 25 May 2008, which was about RMB26 million, and Shanxi Hengchuang would repay debt of about RMB114 million for Shanxi Puhua. The agreement relating to the sale and purchase of equity interest of Shanxi Puhua was signed by Shanxi Hengchuang on 30 May 2008. The vendors under the PRC Acquisition are two PRC individuals who, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, are Independent Third Parties.

Mr. Zhao Ming and the vendors of the PRC Acquisition have business relationships but save for such relationship and the contractual relationship under the Sale and Purchase Agreement, Mr. Zhao Ming and the vendors under the PRC Acquisition have no business relationship with Mr. Chan Yuen Ming and Mr. Wang An Kang (being the former controlling shareholder of the Company).

The Directors are aware of the considerable premium when comparing the Consideration with the original cost payable by Shanxi Hengchuang in relation to the PRC Acquisition. However, the Directors consider that the Consideration is fair and reasonable as the Consideration was arrived at based on 90% of the valuation of the Coal Mines.

THE COAL MINES

Set out below is the information relating to the Coal Mines and has been extracted from the draft of the technical report prepared by BOYD:

Coal Mines Nos. 1 and 2 cover an area of about 3.6 sq. km. and 3.4 sq. km, respectively. The construction of the Coal Mine No. 1 has been completed and the Coal Mine No. 1 is already in the testing stage of production. It is expected that the testing stage of Coal Mine No.1 will be completed in October 2009 and commercialized production will immediately begin. Construction of the Coal Mine No.2 is in process as at the date of this announcement. The construction of Coal Mine No.2 is expected to be completed by the end of 2010 and the testing production is expected to commence by the end of 2010.

The mining licences of both Coal Mine No.1 and Coal Mine No.2 are held by Hengtai. The mining rights in Coal Mine No.1 and Coal Mine No.2 are for a period of 15 years ending in February 2022. The mining licence of each of the Coal Mine No.1 and Coal Mine No.2 specifies an annual output capacity of 1.2Mtpa. The Coal Industry Bureau of Inner Mongolia has granted a preliminary approval for the expansion of the annual output capacity of the Coal Mine No.1 to 2.4Mtpa with the condition that the mine successfully completes all the procedures required by the government.

The below table sets out the coal resources of the Coal Mines:

Mine No.	Coal Resources > 0.8m Thick		
	Hectares	All Seams	Mt Mineable Seams
1	824.8	89.18	57.83
2	646.8	92.48	75.62
Total	<u>1,471.6</u>	<u>181.66</u>	<u>133.45</u>

The recoverable coal reserves of Coal Mine No. 1 is 30.06Mt and that of Coal Mine No.2 is 41.80 Mt.

Coal resources means a concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction and the location, quantity, quality, geological characteristics and continuity of a coal resource are known, estimated or interpreted from specific geological evidence and knowledge. Recoverable reserves relates to the portion of demonstrated resources that can be recovered economically with the application of extraction technology available currently or in foreseeable future.

The coals are classified as bituminous non-coking long flame coal under the Chinese classification (CY Long Flame designation), and highly suited for the steam coal market.

According to the draft technical report, the capital requirement to complete the production requirements for the Coal Mines is approximately RMB452.9 million, and such capital expenditure is subject to adjustment since assumptions adopted in arriving at such capital expenditure may or may not materialize. The Company intends to apply existing cash on hand to finance such capital requirement, with the difference to be financed by the cash generated from the business of the Company, bank borrowings and/or other financing means. As at the date of this announcement, the Company has no concrete funding plans but, depending on the progress of the construction of the Coal Mines, the Company may formulate appropriate funding plans for such capital requirement purpose.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its subsidiaries are engaged in the trading of optical products and chemical products. In view of the shrinking income from the Group's chemical business segment, the Acquisition represents a valuable opportunity for the Group to diversify its source of income and business risks by investing in the coal mining business as the Target Group is primarily engaged in the mining and selling of coal. Following a series of supportive economic measures introduced and implemented by the Chinese government, the Chinese economy has shown signs of rebounding and recovery. The Target Group is focused on the PRC domestic market in which there is a huge demand for coal in the midst of China's continuous development in economy and industrialization. As such, the Directors believe that the Acquisition furnishes the Group with a unique opportunity to tap into the coal mining and selling business in the PRC and possibly enhances the profitability of the Group in the future. The Company currently intends to continue the existing business of the Group.

The Company currently has no intention to appoint the Vendor as a director of the Company and/or to change the board composition of the Company. While the Group has management expertise in coal related business, the Company may recruit additional professional management team who possess relevant expertise in managing coal mining business. The Vendor does not have any right to nominate any director to the Company pursuant to the Sale and Purchase Agreement and currently he does not have any intention to nominate any director to the Company.

The terms of the Sale and Purchase Agreement have been determined after arm's length negotiation between the Vendor and the Purchaser and on normal commercial terms. Taking into account the above reasons, the Board (including the independent non-executive Directors) is of the view that the terms of the Sale and Purchase Agreement, including the terms of the Convertible Notes, are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Since the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules exceed 100%, the Acquisition contemplated under the Sale and Purchase Agreement constitutes a very substantial acquisition of the Company, the Acquisition is therefore subject to the approval of the Shareholders at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, neither the Vendor nor any of its associates holds any Shares as at the date of this announcement and no Shareholder has a material interest in the Acquisition, and therefore no Shareholder is required to abstain from voting on the resolution to approve the Acquisition at the EGM.

A circular containing, amongst other things, details of the Acquisition and the transactions contemplated under the Sale and Purchase Agreement including details of the Convertible Notes, financial information of the Group and the Target Group, a technical report on the Coal Mines as required under Chapter 18 of the Listing Rules and a valuation report on the Target Company will be dispatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading of the Shares was suspended with effect from 2.30 pm on Tuesday, 15 September 2009 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 am on 24 September 2009.

Completion of the Acquisition is subject to fulfillment of the Conditions Precedent and therefore the Acquisition may or may not proceed. Shareholders and investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

“Acquisition”	the acquisition of the Sale Shares pursuant to the Sale and Purchase Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BOYD”	John T. Boyd Company, an independent coal mine expert
“Business Day”	a day (other than Saturday and Sunday or a day where typhoon number 8 or above or a black rainstorm warning is hoisted during 9.00 am to 5.00 pm) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Coal Mines”	collectively, Coal Mine No.1 and Coal Mine No.2
“Coal Mine No. 1”	the mining area of approximately 3.556 sq. km situated at the northernmost area within the Nianpanliang Project, measuring 1.8 km from east to west and 2.1 km from south to north, in respect of which Mining Right License No. 1 was granted
“Coal Mine No. 2”	the mining area of approximately 3.3911 sq. km situated at the southernmost area within the Nianpanliang Project, measuring 1.9 km from east to west and 1.8 km from south to north, in respect of which Mining Right License No. 2 was granted

“Company”	Yun Sky Chemical (International) Holdings Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement
“Completion Accounts”	the unaudited consolidated balance sheet of the Target Group as at the date of Completion and the unaudited consolidated profit and loss account of the Target Group up to the date of Completion, to be prepared based on Hong Kong generally accepted accounting standards
“Completion Date”	the date on which Completion takes place
“Conditions Precedent”	the conditions that Completion is subject to as set out in the paragraph headed “Conditions Precedent” in this announcement
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Shares, being HK\$1,855 million, subject to adjustment
“Conversion Rights”	the right of the holder(s) of the Convertible Notes to convert the whole or part of the principal amounts of the Convertible Notes into shares in the issued share capital of the Company, as set out in the paragraph headed “Convertible Notes” in this announcement
“Conversion Shares”	the new Shares to be allotted and issued upon exercise of the Convertible Rights
“Convertible Notes”	the convertible notes in principal amount of HK\$1,855 million to be issued by the Company to the Vendor on Completion in settlement of the Consideration
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries

“Hengtai”	Eerduosi Hengtai Coal Company Limited (鄂爾多斯恒泰煤炭有限公司), a company established in the PRC with limited liability and owned as to 95% by Shanxi Puhua and 5% by Eerduosi Dongsheng District Puhua Deqin Trading Co., Ltd. (鄂爾多斯市東勝區普華德勤商貿有限公司) which, to the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, is an Independent Third Party
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Part(ies)”	third party(ies) independent of and not connected or acting in concert with the Company or any of its connected persons, nor are connected persons of the Company
“km”	kilometers
“Last Trading Day”	14 September 2009, being the last trading day of the Shares on the Stock Exchange immediately prior to the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 November 2009 or such later date as the Vendor and the Purchaser may agree in writing
“Mining Right Licence No. 1”	the mining licence (採礦許可證) relating to Coal Mine No.1 granted by Neimeng DLA
“Mining Right Licence No. 2”	the mining licence (採礦許可證) relating to Coal Mine No.2 granted by Neimeng DLA
“Mt”	Million tonnes
“Mtpa”	Million tonnes per annum
“Neimeng DLA”	Neimeng Eerduosi Department of Land and Resources (內蒙古鄂爾多斯市國土資源局)
“Nianpanliang Project”	the Nianpanliang Project is located in the Dongsheng District of Ordos City on the eastern edge of the Maowusu Desert, Inner Mongolia, the PRC, an area covering approximately 10.1 sq. km. measuring approximately 3.0 km from east to west and 5.5 km from north to south

“PRC”	the People’s Republic of China
“PRC Acquisition”	the acquisition by Shanxi Hengchuang of 99% of the equity interest and registered capital of Shanxi Puhua
“Purchaser”	Magic Field International Limited , a company incorporated in the BVI with limited liability, and a direct wholly-owned subsidiary of the Company
“Put Option”	the put option granted by the Vendor to the Purchaser under the Sale and Purchase Agreement as described in the paragraph headed “The Put Option” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 15 September 2009 entered into between the Vendor, the Purchaser and the Company in relation to the Acquisition
“Sale Shares”	50,000 ordinary shares of US\$1.00 each in the capital of the Target Company, constituting the entire issued share capital of Target Company
“Shanxi Hengchuang”	Shanxi Hengchuang Industrial Co., Ltd. (山西恒創實業有限公司), a company established in the PRC with limited liability and wholly-owned by the Target Company
“Shanxi Puhua”	Shanxi Puhua Deqin Metallurgy Technology Co., Ltd. (山西普華德勤冶金科技有限公司), a company established in the PRC with limited liability and, upon completion of the PRC Acquisition which shall take place prior to Completion, will be owned as to 99% by Shangxi Hengchuang and 1% by an Independent Third Party
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“sq. km.”	square kilometers
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Triumph Fund A Limited, a company incorporated in the Cayman Islands with limited liability and wholly-owned by the Vendor

“Target Group”	comprising the Target Company, Shanxi Hengchuang, Shanxi Puhua and Hengtai
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	Mr. Zhao Ming, being the vendor under the Sale and Purchase Agreement
“%”	per cent

For the purpose of this announcement, unless otherwise specified all amounts in RMB are translated into HK\$ at an exchange rate of RMB1:HK\$1.13. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the relevant dates at the above rates or at any other rates at all.

By Order of the Board
Yun Sky Chemical (International) Holdings Limited
Wang Da Yong
Director

Hong Kong, 23 September 2009

As at the date of this announcement, the Board comprises five executive Directors: Ms. Liu Yee Nee, Ms. Louie Mei Po, Mr. Li Wei, Mr. Wang Da Yong and Ms. Zhou Jing and three independent non-executive Directors: Mr. Ng Wai Hung, Mr. Jacobsen William Keith and Mr. Wu Wang Li.